

Illustration - Note Disclosures and Required Supplementary Information for an employer in ERS without any nonemployer contributing entity (no special funding situation)

[Note: This illustration includes only note disclosures and required supplementary information required by GASB Statement 68. The circumstances of this example employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]

**ERS Employer Agency
Notes to the Financial Statements
For the Year Ended June 30, 2018
(Dollar amounts in thousands)**

Note X - Summary of Significant Accounting Policies

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X – Retirement Benefits

[This illustration provides an example of note disclosures of an employer participating only in ERS. If employees were provided with benefits through more than one defined benefit pension plan, the employer should disclose information required by paragraph 74 of Statement 68 and should apply the requirements of paragraph 75 of Statement 68.]

General Information about the Employees' Retirement System

Plan description: ERS is a cost-sharing multiple-employer defined benefit pension plan established by the Georgia General Assembly during the 1949 Legislative Session for the purpose of providing retirement allowances for employees of the State of Georgia and its political subdivisions. ERS is directed by a Board of Trustees. Title 47 of the O.C.G.A. assigns the authority to establish and amend the benefit provisions to the State Legislature. ERS issues a publicly available financial report that can be obtained at www.ers.ga.gov/financials.

Benefits provided: The ERS Plan supports three benefit tiers: Old Plan, New Plan, and Georgia State Employees' Pension and Savings Plan (GSEPS). Employees under the old plan started membership prior to July 1, 1982 and are subject to plan provisions in effect prior to July 1, 1982. Members hired on or after July 1, 1982 but prior to January 1, 2009 are new plan members subject to modified plan provisions. Effective January 1, 2009, new state employees and rehired state employees who did not retain membership rights under the Old or New Plans are members of GSEPS. ERS members hired prior to January 1, 2009 also have the option to irrevocably change their membership to GSEPS.

Under the old plan, the new plan, and GSEPS, a member may retire and receive normal retirement benefits after completion of 10 years of creditable service and attainment of age 60 or 30 years of creditable service regardless of age. Additionally, there are some provisions allowing for early retirement after 25 years of creditable service for members under age 60.

Retirement benefits paid to members are based upon the monthly average of the member's highest 24 consecutive calendar months, multiplied by the number of years of creditable service, multiplied by the applicable benefit factor. Annually, postretirement cost-of-living adjustments may also be made to

members' benefits, provided the members were hired prior to July 1, 2009. The normal retirement pension is payable monthly for life; however, options are available for distribution of the member's monthly pension, at reduced rates, to a designated beneficiary upon the member's death. Death and disability benefits are also available through ERS.

Contributions: Member contributions under the old plan are 4% of annual compensation, up to \$4,200, plus 6% of annual compensation in excess of \$4,200. Under the old plan, the state pays member contributions in excess of 1.25% of annual compensation. Under the old plan, these state contributions are included in the members' accounts for refund purposes and are used in the computation of the members' earnable compensation for the purpose of computing retirement benefits. Member contributions under the new plan and GSEPS are 1.25% of annual compensation. The Agency's total required contribution rate for the year ended June 30, 2018 was 24.81% of annual covered payroll for old and new plan members and 21.78% for GSEPS members. The rates include the annual actuarially determined employer contribution rate of 24.69% of annual covered payroll for old and new plan members and 21.66% for GSEPS members, plus a 0.12% adjustment for the HB 751 one-time benefit adjustment of 3% to retired state employees. The Agency's contributions to ERS totaled \$xx,xxx for the year ended June 30, 2018. Contributions are expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Agency reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was based on an actuarial valuation as of June 30, 2016. An expected total pension liability as of June 30, 2017 was determined using standard roll-forward techniques. The Agency's proportion of the net pension liability was based on contributions to ERS during the fiscal year ended June 30, 2017. At June 30 2017, the Employer's proportion was X.XXXXXXXX%, which was an increase (decrease) of X.XX % from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Agency recognized pension expense of \$X,XXX. At June 30, 2018, the Agency reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ X,XXX | \$ X,XXX |
| Changes of assumptions | X,XXX | X,XXX |
| Net difference between projected and actual earnings on pension plan investments | X,XXX | X,XXX |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | X,XXX | X,XXX |
| Employer contributions subsequent to the measurement date | <u>X,XXX</u> | <u>-</u> |
| Total | <u>\$ X,XXX</u> | <u>\$ X,XXX</u> |

Agency contributions subsequent to the measurement date of \$X,XXX are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | | |
|------------|----|-------|
| 2019 | \$ | X,XXX |
| 2020 | | X,XXX |
| 2021 | | X,XXX |
| 2022 | | X,XXX |
| 2023 | | X,XXX |
| Thereafter | | X,XXX |

Actuarial assumptions: The total pension liability as of June 30, 2017 was determined by an actuarial valuation as of June 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 2.75% |
| Salary increases | 3.25 – 7.00%, including inflation |
| Investment rate of return | 7.50%, net of pension plan investment expense, including inflation |

Postretirement mortality rates were based on the RP-2000 Combined Mortality Table with future mortality improvement projected to 2025 with the Society of Actuaries' projection scale BB and set forward 2 years for both males and females for service retirements and dependent beneficiaries. The RP-2000 Disabled Mortality Table with future mortality improvement projected to 2025 with Society of Actuaries' projection scale BB and set back 7 years for males and set forward 3 years for females was used for death after disability retirement. There is a margin for future mortality improvement in the tables used by the System. Based on the results of the most recent experience study adopted by the Board on December 17, 2015, the numbers of expected future deaths are 9-12% less than the actual number of deaths that occurred during the study period for service retirements and beneficiaries and for disability retirements. Rates of mortality in active service were based on the RP-2000 Employee Mortality Table projected to 2025 with projection scale BB.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset class | Target allocation | Long-term expected real rate of return* |
|---|-------------------|---|
| Fixed income | 30.00% | (0.50)% |
| Domestic large equities | 37.20 | 9.00 |
| Domestic mid equities | 3.40 | 12.00 |
| Domestic small equities | 1.40 | 13.50 |
| International developed market equities | 17.80 | 8.00 |
| International emerging market equities | 5.20 | 12.00 |
| Alternatives | 5.00 | 10.50 |
| Total | 100.00% | |

* Rates shown are net of the 2.75% assumed rate of inflation

Discount rate: The discount rate used to measure the total pension liability was 7.50 %. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer and State of Georgia contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's proportionate share of the net pension liability to changes in the discount rate: The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50 %, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 %) or 1-percentage-point higher (8.50 %) than the current rate:

| | 1% Decrease (6.50%) | Current discount rate (7.50%) | 1% Increase (8.50%) |
|---|---------------------------|-------------------------------------|---------------------------|
| Employer's proportionate share of the net pension liability | \$ XXX,XXX | \$ XXX,XXX | \$ XXX,XXX |

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report which is publically available at www.ers.ga.gov/financials.

Payables to the pension plan

[If the Agency reported payables to the defined benefit pension plan, it should disclose information required by paragraph 122 of Statement 68.]

ERS Employer Agency
Required Supplementary Information
Schedule of Proportionate Share of the Net Pension Liability
Employees' Retirement System
For the Year Ended June 30
(Dollar amounts in thousands)

| | 2018 | 2017 | 2016 | 2015 |
|---|-------------|-------------|-------------|-------------|
| Agency's proportion of the net pension liability | X.XXX% | X.XXX% | X.XXX% | X.XXX% |
| Agency's proportionate share of the net pension liability | \$ XX,XXX | XX,XXX | XX,XXX | XX,XXX |
| Agency's covered-employee payroll | \$ XX,XXX | XX,XXX | XX,XXX | XX,XXX |
| Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll | X.XX% | X.XX% | X.XX% | X.XX% |
| Plan fiduciary net position as a percentage of the total pension liability | 76.33% | 72.34% | 76.20% | 77.99% |

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

ERS Employer Agency
Notes to Required Supplementary Information
For the Year Ended June 30, 2018
(Dollar amounts in thousands)

Changes of assumptions: On December 17, 2015, the Board adopted recommended changes to the economic and demographic assumptions utilized by the System. Primary among the changes were the updates to rates of mortality, retirement, disability, withdrawal and salary increases.