MEMORANDUM

Subject: Reports for June 30, 2018, Measurement Date

In 2017, the South Carolina General assembly created a separate line item in the annual appropriations bill to fund approximately 1% of a legislatively required 2% increase in retirement contributions. These funds were submitted directly to PEBA and a credit was issued for each employer to use when submitting their quarterly remittances to PEBA. In November of 2017, the Comptroller General's office issued guidance advising that the additional funding be treated as a Special Funding Situation, as defined by GASB. This guidance was reiterated in guidance from the Comptroller General's office in September 2018. PEBA concurred with the determination as the funds appeared to meet the requirements of a Special Funding Situation in accordance with paragraph 15 of Statement 68 in that –

- the State was legally responsible for making the contributions;
- funds were appropriated directly to PEBA for the Plans; and
- the amount of the contributions for which the State was legally responsible was *not* dependent upon one or more events or circumstances *unrelated* to the pensions.

The proportionate share of the net pension liability and pension expense recognized by employers varies depending on whether or not the funding is considered a special funding situation. Based on further clarification received from GASB in February 2019, the Comptroller General's office has reversed their earlier position and has determined that this additional funding does not constitute a Special Funding Situation (see below for specific direction from the Comptroller General's office). As such, the GASB 68 actuarial valuation and GASB 68 audit report are being provided on the basis of the appropriated funds not qualifying as a Special Funding Situation.

From: Barfield, John
Date: February 4, 2019
Subject: Additional Funding Provided by General Assembly for FY18 and FY19

During our call with GASB staff this morning, we discussed the requirements and guidance of *GASB Statement 68* and the corresponding *Comprehensive Implementation Guide* relating to whether the additional funding, which PEBA received from the General Assembly in FY18 (in proviso 117.151) and FY19 (in proviso 117.139) on behalf of participating SCRS and PORS employers, creates a "special funding situation."

In short, the conclusion reached was that a special funding situation does not exist in this instance because state government -- a nonemployer entity within the meaning of GASB 68 -- is not legally required under permanent state law to contribute a statutorily-defined proportion of an employer's required additional contribution to the pension plan.

Accordingly, our office advises that participating employers providing pension benefits through the state's affected plans should apply the requirements of:

- GASB 68, *Accounting and Financial Reporting for Pensions*, relating specifically to employers that are not in special funding situations, and
- GASB 24, *Accounting and Financial Reporting for Certain Grants and other Financial Assistance*, relating specifically to on-behalf of payments that are not legally required to be made by a nonemployer contributing entity.

Following are sections from GASB 68 and the aforementioned Implementation Guide which support this conclusion:

GASB 68, *Accounting and Financial Reporting for Pensions*
Special Funding Situations

15. Special funding situations are circumstances in which a nonemployer entity is legally responsible for making contributions *directly to* a pension plan that is used to provide pensions to the employees of another entity or entities *and* either of the following conditions exists:

a. The amount of contributions for which the nonemployer entity legally is responsible is *not* dependent upon one or more events or circumstances unrelated to the pensions. Examples of conditions that meet this criterion include

- (1) a circumstance in which the nonemployer entity is required by statute to contribute a defined percentage of an employer's covered employee payroll directly to the pension plan

  and

- (2) a circumstance in which the nonemployer entity is required by the terms of a pension plan to contribute directly to the pension plan a statutorily defined proportion of the employer's required contributions to the pension plan.

In contrast, examples of situations in which the amount of contributions is dependent upon an event or circumstance that is unrelated to pensions include (i) a circumstance in which the nonemployer entity is required to make contributions to the pension plan based on a specified percentage of a given revenue source and (ii) a circumstance in which the nonemployer entity is required to make contributions to the pension plan equal to the amount by which the nonemployer entity's ending fund balance exceeds a defined threshold amount.

b. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.

GASB Comprehensive Implementation Guide

5.122 Special Funding Situations—Defined

5.122.3. Q—In the past, a governmental nonemployer entity that is not otherwise identified as being responsible for making contributions to a defined benefit pension plan has made contributions directly to the pension plan as a nonemployer entity. Should the nonemployer entity's involvement be accounted for as a special funding situation? If not, which accounting and financial reporting standards apply?

A—No. The first characteristic of a special funding situation as described in paragraph 15 of Statement 68 is that the nonemployer entity is legally responsible for making contributions directly to the pension plan. A historical pattern of appropriating resources to make contributions directly to the pension plan is not equivalent to a legal obligation for the nonemployer entity to make contributions to the pension plan. Therefore, in this circumstance, the nonemployer entity's involvement should not be accounted for as a special funding situation. The employers that provide benefits through the plan should apply the requirements of Statement 68, as amended, for employers that are not in special funding situations and the requirements of Statement No. 24, Accounting and Financial Reporting for Certain Grants and Other Financial Assistance, as amended, for on-behalf payments that are not legally required to be made by a nonemployer contributing entity. In periods in which it makes contributions, the nonemployer entity should apply the requirements of paragraph 13, as amended, for on-behalf payments of fringe benefits.

5.122.4. Q—Would the answer to Question 5.122.3 be different if the governmental nonemployer contributing entity's resources have been appropriated specifically for the purpose of making the contributions to the pension plan?

A—No. An appropriation of resources for purposes of making a contribution to the pension plan is not, by itself, sufficient to create a legal requirement for the contributions for purposes of applying paragraph 15 of Statement 68.

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South Carolina Office of the Comptroller General