BARTEL ASSOCIATES, LLC

GASB Approves New Pension Accounting Standards

On June 25, 2012, the Governmental Accounting Standards Board approved 2 new standards designed to improve accounting and financial reporting for state and local government pension plans. The final statements are available on the GASB website.

GASB 68 (Accounting and Financial Reporting for Pensions; effective for fiscal years starting after 6/15/14)

This statement sets new accounting and financial reporting requirements for government employer plans administered through irrevocable trusts. (This replaces GASB 27 and 50, which remain applicable for plans without trusts or equivalent arrangements.)

GASB 68 is an *accounting* standard and does not dictate methods and assumptions for determining pension contribution amounts. Many plans that used GASB 27's ARC for financial reporting and calculating contributions may now apply different methods and assumptions for those separate purposes.

A summary of GASB 68's requirements follows:

- **Net Pension Liability on the Balance Sheet**
  - Government employers that sponsor DB plans will now recognize a net pension liability (unfunded accrued liability) in their statement of net position (balance sheet). This is the difference between total pension liability (actuarial accrued liability) and plan assets (at fair value). The entry age normal actuarial cost method must be used to calculate total pension liability.
  - As under GASB 27, future salary increases, expected future service, and automatic COLAs must be included in the liability calculation. Unlike current rules, GASB 68 requires that ad hoc postretirement benefit increases, including ad hoc COLAs, also be included if considered substantively automatic.
- **New Discount Rate**
  - The discount rate can continue to be the expected long-term rate of return on plan investments where current assets plus future contributions are projected to cover all future benefit payments. We expect this requirement will be met if the employer funds the actuarially determined contribution, provided it pays off the unfunded liability over a reasonable period. However, plans where current assets plus future contributions are projected not to cover all future benefit payments must use a municipal bond rate to discount the noncovered payments.
  - The municipal bond rate is a yield or index rate for 20-year, tax-exempt general obligation bonds with an average rating of AA/Aa or higher (currently below 4%). Including a municipal bond rate as part of the discount rate increases liabilities. In addition, changes in the municipal bond rate or assumed rate of return on plan investments between measurement dates introduce more volatility into calculating liabilities and expense.
- **More Variable Pension Expense**
  - Pension expense will now be based on the net pension liability change between reporting dates, with some sources of the change recognized immediately in expense and others amortized over years. Service cost, interest on net pension liability, and expected investment earnings — as well as liability for any plan benefit change related to past service since the last reporting period — must also be expensed immediately.

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- Changes in actuarial assumptions and experience gains and losses must be amortized over a closed period equal to the average remaining service of active and inactive plan members (who have no future service) — a much shorter than typical period. Investment gains and losses must be recognized in pension expense over closed 5-year periods.

- **Cost-sharing Employers (those in plans where assets are pooled and can be used to pay benefits of any employer in the pool) Report a Proportionate Liability**
  - These employers will now report a net pension liability and pension expense equal to their proportionate share of the cost-sharing plan. Among others, this may affect California '37 Act County Retirement Systems and government employers that participate in CalPERS pooled plans.

- **Special Funding Situation**
  - This occurs when a government entity is legally responsible for contributing directly to a plan for employees of another government entity, with the amount fixed by statute or plan provisions. An example would be a state that's legally required to contribute to a plan for local school districts' teachers. Under GASB 68, the nonemployer contributing entity must recognize a proportionate share of the plan's net pension liability and pension expense.

- **More Extensive Disclosures and Required Supplementary Information**
  - More extensive note disclosures are required, including types of benefits and covered employees, how plan contributions are determined, and assumptions/methods used to calculate the pension liability. Employers in single-employer or agent employer pension plans must report each source of the change in net pension liability from the prior reporting period, with a schedule of those changes for the last 10 years in the Required Supplementary Information (RSI). This will affect California government employers that maintain their own plan or participate in CalPERS nonpooled plans. Employers in cost-sharing plans will report RSI in addition to more extensive note disclosures.

- **DC Plan Accounting Unchanged**
  - As under current accounting standards, a DC plan's pension expense equals contributions or credits for employee service in the current period reduced by any forfeited amounts not reallocated to other participants. A pension liability is recognized for any difference between the pension expense and actual employer contributions.

GASB 67 (Financial Reporting for Pension Plans; effective for fiscal years starting after 6/15/13)

GASB 67 includes many of GASB 68's changes, but for pension plans rather than employers. Replacing GASB 25 and 50, for plans administered through irrevocable trusts, it enhances note disclosures and RSI for DB and DC plans.

- **New Required Disclosures**

These include the money-weighted rate of return (rather than the more common time-weighted rate) on plan investments (net of expenses) and more details on DROP programs (including total value of DROP accounts). Disclosures regarding the plan's net pension liability are not required for agent multiple-employer plans.

OPEB

The Board is revising GASB 43 and 45, with expected completion in June 2014.

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Bartel Associates looks forward to clarifying your responsibilities under these new pension accounting standards. **Contact us at: gasb68@bartel-associates.com**

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