GASB publishes new accounting and reporting standards for defined benefit pension plans

In 2012, the Governmental Accounting Standards Board (GASB) published Statement No. 67, Financial Reporting for Pension Plans, and Statement No. 68, Accounting and Financial Reporting for Pensions. Statement No. 67 replaces Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans for most public employee pension plans. Statement No. 68 replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers for most government employers. The new statements also replace the requirements of Statement No. 50, Pension Disclosures, for those governments and pension plans.

Background

These new statements establish new accounting and financial reporting requirements for state and local governments that provide pensions. The guidance in these statements will change how governments report and calculate costs and obligations of the pension plans they sponsor. The statements were designed to increase transparency and consistency of pension information. The new statements only address accounting and financial reporting issues and do not relate to the funding of pension plans.

Although the new statements address both defined benefit plans, as well as defined contribution plans, the new standards have a more significant impact on defined benefit plans.

The statements apply to governments and pension plans in which a government’s contributions to the trust used to administer the plan are:

- Irrevocable;
- Restricted to paying pension benefits; and
- Beyond the reach of creditors.

Pension benefits provided through trusts that do not satisfy these three requirements are not addressed in the new statements and should to continue to follow the standards of Statements 25, 27 and 50.

Statement No. 68

Reporting by governments

State and local governments must recognize their pension liability by reporting the “net pension liability” in their financial statements. "Net pension liability" is the amount by which the total pension liability exceeds the pension plan’s net assets (now referred to as a plan net position) available for paying benefits. When a pension plan’s assets are greater than the total pension liability, a “net pension asset” exists. This reporting change will require governments to report their pension liability as part of its financial position.

In measuring pension liability, Statement 68 requires the following:

- Projecting future benefits for current and former employees and their beneficiaries. Statements must project future benefits such as projected salary increases or projected years of service that affect the amount of pension payments. Projections also include automatic cost-of-living adjustments (COLAS) and other automatic benefit changes provided under the terms of the plan. However, benefit changes made at the discretion of the
government, such as ad hoc COLAs and other ad hoc changes, are only included if made so regularly that they are effectively automatic.

- Discounting payments to their present value. The discount rate will depend on the plan’s net position. The long-term expected rate of return will be used if a pension plan’s net position and projected contributions are expected to fully cover projected benefit payments for active and inactive employees (including retirees). However this rate should only be applied to plan assets that expect to be invested to achieve that return. If a plan’s projected net position and contributions to active and inactive employees are not at least equal to the sum of projected benefit payments for those employees plus administrative expenses, then the government must use a municipal borrowing rate to discount the projected benefit payments. A “municipal borrowing rate” is a tax-exempt, high-quality (average rating of AA/Aa or higher) 20-year general obligation bond index rate.
- Allocating present value over past, present and future periods of employee service.

**Determining pension expense**

Statement 68 also revises how a plan’s pension expense is calculated. The following causes of change in net pension liability must be reflected in the calculation of pension expense immediately in the period in which it occurs:

- Annual benefits earned;
- Interest on the total pension liability;
- Changes in benefit terms;
- Projected earnings on plan investments; and
- Changes in plan net position other than from investments.

**Additional reporting requirements**

Statement 68 includes requirements for more extensive note disclosures and Required Supplementary Information (RSI). Plan sponsors must include the following information in their pension plan note disclosures:

- Description of the plan;
- Description of the benefits provided under the plan;
- List of the significant assumptions used to measure the total pension liability such as inflation, salary changes, ad hoc postemployment changes, including COLAs, mortality assumptions and the discount rates;
- Description of any benefit changes;
- Description of any changes in assumptions;
- List of assumptions related to the discount rate and the impact a 1 percentage point increase or decrease in the discount rate has on the total pension liability;
- Deferred outflows and inflows of resources; and
- Changes in the net pension liability.

Governments must also present a RSI schedule with the following information for each of the past 10 years:

- Sources of changes in the net pension liability; and
- Components of the net pension liability and related ratios.

If the plan includes an actuarially or statutorily determined annual pension contribution, the following information for each of the past ten years must be provided:

- The amount of the required pension contribution;
- The amount the employer actually contributed;
- The difference between the amount of the required contribution and the amount of actual contribution;
- The payroll of employees covered by the plan;
- A ratio of the amount of the actual contribution divided by the payroll of employees; and
- Significant methods and assumptions used in calculating the actuarially determined contributions.
Statement No. 67

This statement includes guidance for financial reporting by defined benefit pension plans and requires these plans present the following two financial statements:

- Statement of Fiduciary Net Position; and
- Statement of Changes in Fiduciary Net Position.

Statement 67 also requires enhanced note disclosures and new RSI schedules.

Note disclosures

The enhanced note disclosures must provide the following information:

- Types of benefits provided;
- Classes of plan members covered;
- Composition of the plan’s Board;
- The pension plan’s investment policy and other related investment information;
- Annual money-weighted rate of return;
- Net pension liability details; and
- Significant assumptions used to calculate the total pension liability.

New RSI schedules

The new RSI schedules must include the following information for each of the past 10 years:

- Sources of changes in the net pension liability;
- Components of the net pension liability and related ratios;
- The actuarially determined contribution, contributions to the plan and related ratios; and
- Significant assumptions and methods used in calculating the contributions.

Effective dates

Statement No. 67 is effective for pension plans in fiscal years beginning after June 15, 2013 (i.e., for years ending June 30, 2014 or later). Statement No. 68 is effective for employers in fiscal years beginning after June 15, 2014 (i.e., for years ending June 30, 2015 or later). However, earlier compliance is encouraged.

Next steps

The provisions of Statement Nos. 67 and 68 are very extensive. Therefore it is very important that plan sponsors carefully read the Statements outlined in this publication and determine the impact the new GASB reporting requirements will have on their plans. They should begin to assess whether they have the necessary information to comply with the new reporting requirements. This publication is a summary and is not intended as a substitute to reading the Statements in their entirety.

Plan sponsors should also consult with their plan’s enrolled actuary regarding the effect of the GASB reporting requirements on their plans. Prudential Retirement’s enrolled actuaries are well prepared to respond to your inquiries regarding the effect of this guidance on your plan and assist in providing information to comply with the new reporting standards.