GASB Encourages Planning, Preparation, and Collaboration On New Pension Statements

With new public pension accounting and financial reporting standards set to take effect in 2013 and 2014, state and local public officials and pension plan administrators should take steps now to ensure that they are well prepared to implement those requirements.
The Governmental Accounting Standards Board (GASB), which issued the new standards, has identified several areas that public officials and plan administrators should consider as they prepare for implementation.

Those areas include:

- Pension funding policy
- Selection of assumptions
- Timing of measurements
- Timing of actuarial valuations
- Development of information for employer reporting.

The GASB recently approved Statement No. 67, *Financial Reporting for Pension Plans*, which applies to pension plans that administer pension benefits, and Statement No. 68, *Accounting and Financial Reporting for Pensions,* which applies to governments that provide pension benefits to their employees. The new pension standards introduce a wide array of enhancements to financial reporting that will result in significant changes in the type and form of information collected and reported by pension plans and governmental employers.

To prepare for these upcoming financial reporting changes, the GASB encourages pension plans and governmental employers that have not yet begun the implementation process to become familiar with the new standards and to initiate discussions that address the key implementation issues highlighted below.

GASB Chairman Robert H. Attmore noted that "based on constituent feedback received during the Board's extensive public due process, the need for all parties involved to engage in significant coordination and collaboration became quite evident to the GASB. Due to the significant efforts that are needed to successfully implement the new pension standards, the Board extended the transition period for most governments to allow for a reasonable time for transition," the chairman added.

Challenges facing pension plans and employers that provide pensions through those plans may vary depending upon whether the plan is a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan. However, certain common issues also exist for all types of plans and employers. Key areas to be considered by all types of plans and employers include the following:

- *Funding policy.* Statements 67 and 68 remove the direct link between measurements for funding purposes and measurement of pension expense for accounting and financial reporting purposes. For governments that have actuarially based funding policies, the measurement requirements of the new Statements for financial reporting purposes will include an actuarial valuation likely different from (and in addition to) the actuarial valuation that is used for funding purposes.

For governments whose funding policies are defined relative to the requirements for determination of an annual required contribution (also referred to as an ARC) in Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers,* consideration will need to be given to whether funding policies should continue to be based on the Statements 25 and 27 ARC or whether they should be defined independently.

Further, for certain measurements required by Statement 68—for example, determination of the discount rate to be used for purposes of measuring an employer's total pension liability (discussed further below)—the employer's funding policy has an impact, and a clearly expressed funding policy will facilitate implementation of those requirements.

- *Selection of assumptions.* Similar to the requirements of earlier pension standards, Statement 68 requires that when the same or similar measures are required to be reported by both the pension plan and employers that provide benefits through that plan, the assumptions used to determine those measures be the same. Therefore, coordination will be necessary between pension plans and employers when measurements of the net pension liability of the employers are made. Assumptions integral to the measurement of an employer's pension liability include the long-term expected rate of return on pension plan investments, which plays a potentially significant role in the determination of the discount rate.

- *Timing of measurements.* To meet the requirements of the new Statements, single-employer pension plans, cost-sharing multiple-employer pension plans, and single, agent, and cost-sharing employers will need to report information about the net pension liabilities of the employers. For pension plans that are required to present information about the liabilities of the employers, the net pension liability is required to be measured as of the end of the pension plan's fiscal year. Employers, however, are provided with additional flexibility with regard to the "as of" (or "measurement") date of the net pension liability reported in its financial statements each period. That is, an employer may report a pension liability measured between the end of the employer's prior fiscal year and its current fiscal year-end (for example, as of the pension plan's fiscal year-end). Because information about pension plan net position is needed to measure the employer's net pension liability, in pension plans in which the same fiscal year-end is not shared among the employers and the plan itself, coordination of the employers' measurement date will be necessary.

- *Timing of actuarial valuations.* Statements 67 and 68 require that actuarial valuations for financial reporting purposes be prepared at least every two years; however, the timing of the actuarial valuation relative to the fiscal year-end for which information based on the results of that valuation is reported might differ for plans and employers. For pension plans, the actuarial valuation date can be no more than 24 months prior to the plan's fiscal year-end, and for employers, the actuarial valuation date can be no more than 30 months earlier than the employer's fiscal year-end. In circumstances in which pension plan and employer fiscal year-ends are different, attention to the timing of the actuarial valuation date relative to those fiscal year-ends will be necessary to ensure that the actuarial valuation date, in conjunction with the measurement date (discussed above), will fall within the timing requirements of the new Statements.

- *Development of information for employer reporting.* Statement 68 requires some employers to report certain information that also is required by Statement 67 to be reported by the pension plan (for example, single employers will disclose information about the sources of change in the net pension liability in the current period—information that also will be presented in a schedule of required supplementary information by the single-employer pension plan). Other information that will be reported by certain employers will be *derived from* information that will be reported by the pension plan but will not itself be reported by the pension plan (for example, single-employer and cost-sharing employer pension expense). Key considerations relative to the information needed for employer financial statements will be which entity will prepare the information, which entity will incur the cost to develop this information, and the roles that each entity's auditors will play in providing appropriate assurance on that information.

Additional considerations that might be primarily relevant to cost-sharing pension plans and employers include the following:

- *Information to determine employers' proportionate shares.* Financial reporting by cost-sharing employers will require the determination of each employer's proportionate share of the pension liability associated with all employees provided with benefits through the pension plan (the collective net pension liability). Statement 68 encourages the use of each employer's projected long-term relative share of contributions to the plan as the basis for establishing each employer's proportion for this purpose. However, the Statement also provides flexibility, noting that any measure associated with the manner in which contributions are assessed may be used as the basis for an employer's proportion. Because an employer's proportion is a measure of its contribution responsibility relative to all contributing governments, regardless of the basis that is selected, information about the plan as a whole will be needed to meet the Statement 68 requirements.

  As discussed more broadly above, pension plans and employers, in consultation with the plan's actuary and the plan and employer auditors, also will need to evaluate the role that the pension plan and its actuary will take in several areas, including determining each employer's proportion, measurement of collective pension expense and collective deferred outflows of resources and deferred inflows of resources, and calculations that are necessary for each employer individually. (For example, each employer is required to identify the effects of changes in its individual proportion from period to period.) If information for employer reporting purposes will be provided by the pension plan and its actuary, another key consideration will be the establishment of procedures that will support the needs of auditors of the employers' financial statements to ensure that they can express an opinion on that information.

  In circumstances in which the pension plan does not currently interact directly with the employers (for example, when a separate intermediary agency coordinates collection of contributions from individual employers and the transmission of those contributions to the pension plan), the pension plan might not have information to identify the activities of any one individual employer. Coordination among the pension plan, intermediaries, and individual employers will be necessary to ensure that information is available to employers to meet the new requirements.

- *Identification of the reporting responsibility for pensions in circumstances in which a nonemployer entity is involved.* Statement 68 differentiates financial reporting requirements for employers and nonemployer entities depending upon the form the nonemployer entity's involvement takes. In certain circumstances in which a nonemployer entity has a legal requirement to make contributions to support pensions, the nonemployer entity will be required to recognize a proportionate share of the employer's pension liability, and the employer's recognized liability will be reduced. These situations will need to be evaluated to appropriately classify the arrangements for financial reporting purposes.

Additional information about the new pension Statements, including a series of fact sheets, the full text of the documents, an article providing a high-level overview of key provisions of the Statements, and information on how to order hard copies, is available on the GASB website, gasb.org.