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A NEW GASB APPROACH

GASB STATEMENT NO. 68

EMPLOYER EDUCATIONAL VIDEO SERIES

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What is GASB?

- » The *Governmental Accounting Standards Board* (GASB) is the independent organization that establishes standards of accounting and financial reporting for U.S. state and local governments.

GASB's New Approach for Pension Accounting

“Post employment benefits (including pensions) arise from an exchange between an employer and employees of salaries and benefits for employee service each period...an employer incurs an obligation to its employees for pensions as a result of the employment-exchange transaction.”

GASB's New Approach for Pension Accounting

(continued)

- » According to GASB, reporting the Net Pension Liability on the face of the government's financial statements allows users of the financial statements to better assess
 - The long-term benefit obligations of a governmental entity.
 - The general long-term financial health of a governmental entity.
 - How well a governmental entity has supported and maintained the pension promises made to their employees.

GASB's New Approach for Pension Accounting

(continued)

- » Recognizing the changes in the Net Pension Liability as Pension Expense
 - Allows users to assess the period pension cost for a government's employees since future benefit obligations are viewed as an element of an employee's compensation package.
 - Provides more accurate reporting which recognizes pension costs in the same period as the employee service is rendered.

GASB's New Approach for Pension Accounting

(continued)

- » Consistency and transparency of employer reporting will be improved by requiring
 - More uniform rules surrounding the determination of the discount rate used to value the pension plan's obligation.
 - The use of a single method used to determine the cost of the benefits each period (i.e., the actuarial cost method).
 - Rules regarding the timing of recognition of certain items as pension expense.

GASB's New Approach for Pension Accounting

(continued)

- » Enhanced accountability through new note disclosures and required supplementary information (RSI)
 - More disclosures about the pension plan.
 - Explanations of how and why the net pension liability changed from period to period.
 - A summary schedule regarding net pension liability information.
 - More detailed contribution schedules.

Scope of New Pension Accounting Standards

- » Statement 68 prescribes reporting standards for defined benefit (DB) and defined contribution (DC) pension plans provided to state and local government employees which meet the following criteria:
 - Contributions to these plans are irrevocable.
 - Plan assets are dedicated to providing pension benefits to plan members according to the benefit terms of the plan.
 - Assets are legally protected from creditors.
- » In this context, the term *pension plan* includes plans set up to provide employees or volunteers with retirement income, death benefits, life insurance, or disability benefits.

Scope of New Pension Accounting Standards

(continued)

- » DC plans are pension plans which meet the following criteria:
 - An individual account is maintained for each employee.
 - The plan defines the contribution the employer is required to remit on behalf of each active employee.
 - The pension an employee receives is only based on contributions, investment earnings, forfeitures on behalf of other employees, and investment and administrative fees.
- » Plans which do not meet all three criteria listed above are considered DB plans.

Scope of New Pension Accounting Standards

(continued)

- » DB pension plans administered by Colorado PERA fall within the scope of the new reporting standards.
- » The new reporting standards do not apply to the following postemployment healthcare benefit funds administered by Colorado PERA:
 - Health Care Trust Fund
 - Denver Public Schools Health Care Trust Fund

Scope of New Pension Accounting Standards

(continued)

- » The new reporting standard applies to any governmental entity responsible for:
 - Providing its employees with a pension.
 - Remitting contributions to the plan.

Scope of New Pension Accounting Standards

(continued)

- » State and local governments will need to comply with these new standards if they issue financial statements prepared in accordance with *Generally Accepted Accounting Principles* (GAAP).

Additional Information

- » Information discussed in this topic is referenced in paragraphs 1, 4, 5, 8, 10, 158, and 306 in GASB Statement No. 68
- » Please visit Colorado PERA's GASB web page, ***GASB Reporting Standards***, which contains information related to the impending changes.
- » Please feel free to email Colorado PERA's GASB work group at: GASBMail@copera.org.