The Governmental Accounting Standards Board (GASB) issued two related statements which substantially change the accounting and financial reporting of pensions for Colorado PERA and PERA employers. GASB Statement No. 67 (GASB 67), Financial Reporting for Pension Plans, affects the financial statements of PERA. GASB Statement No. 68 (GASB 68), Accounting and Financial Reporting for Pensions, affects the government-wide financial statements of PERA employers.

OVERVIEW

GASB 68 replaces the accounting and reporting requirements of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, for PERA employers and is effective for fiscal years beginning after June 15, 2014. The new Statement also replaces the requirements of GASB Statement No. 50, Pension Disclosures.

Each employer’s obligation was simply considered to be the amount that the employer was contributing toward the plan on an annual basis. GASB now will require, for purposes of governmental financial reporting, that a portion of the total Net Pension Liability (unfunded liability) be shown on each employer’s balance sheet even though no employer will be required to pay-off this liability today, or in any accelerated fashion.

It also is important to note that the new Statements no longer require disclosure of funding requirements, but focus only on accounting and financial reporting issues—how pension costs and obligations are measured and reported in financial statements. Although the appropriate portion of the Net Pension Liability will show on each employer’s balance sheet, contribution requirements to PERA are not impacted by this change. Employer contribution rates are set by the Colorado Legislature through statutes that govern PERA.

Previously, there has been a close relationship between how governments fund pensions and how they account and report information. The new guidance is a decided shift from a funding-based approach to an accounting-based approach. According to GASB, this shift will improve the decision-usefulness of employer-level reported pension information and increase the transparency, consistency, and comparability of pension information across governments.

ITEMS REQUIRING DISCLOSURE AND DESCRIPTION

The Total Pension Liability of our pension plan is annually calculated by PERA’s actuaries and accounts for each future benefit payment that will be made, decades into the future, to current employees of all PERA employers. The total Net Pension Liability, as described in the new Statements, is determined by subtracting the Pension Plan’s Fiduciary Net Position from the Total Pension Liability. The Net Pension Liability as defined by GASB, therefore, is the unfunded liability of employers for plan members’ benefits provided through a defined benefit pension plan.

Under the new GASB standards, each employer will be required to report on their financial statements the proportionate share of the overall Net Pension Liability of PERA. An employer’s proportion (a percentage) is determined considering the employer’s contributions for the current year as a percentage of the current year total contributions from all employers to the plan. This percentage is then applied to the major reporting elements, including the Net Pension Liability, deferrals related to pensions, and pension expense, to determine the employer’s proportionate share of each of these items.

(continued on reverse)
Keep in mind that the Net Pension Liability is unlike any of the other liabilities reported on an employer’s balance sheet in that it is not immediately due, nor can it be paid off under any accelerated schedule. Contribution rates are set in statute, so an employer would not be able to remit payment, in addition to their statutory contribution amount, for their proportionate share of the Net Pension Liability in order to remove this liability from their financial statements.

It is important to note that rating agencies have been aware of the funding policies and status of governmental pension plans. They have historically incorporated that information into their analysis of a government’s ability to meet its debt obligations. Standard and Poor’s has stated that it doesn’t anticipate significant revisions to states’ ratings solely based on the GASB changes. Moody’s approach to analyzing pension liabilities does not incorporate GASB 67 and 68, but under its new methodology no state government ratings have been affected by the change in how pension liability is analyzed.

GASB 68 also requires employers to recognize a new measure of the pension expense on their financial statements. The pension expense will no longer be equal to the contribution amount dictated by the contribution rate that is set by statute. Rather, the new pension expense will represent the change in Net Pension Liability from year to year and contain the following items:

» Annual cost of the current service accrual (normal cost); plus
» Interest on the Total Pension Liability; plus
» Amortization of experience gains/losses, changes in assumptions, expected vs. actual investment earnings, and changes in plan benefits; plus
» Employee Contributions; plus
» Administrative Expenses; less
» Expected return on plan assets.

Because this new measure includes items that can change materially from one year to the next, it is imperative to recognize that the amount of the pension expense may be volatile from year to year.

Currently, employers are required to include basic footnote disclosures in their financial statements while expanded information is included in PERA’s financial statements. GASB 68 increases the amount of footnote disclosures that are required in the financial statements of PERA’s affiliated employers. In order to draft the footnote disclosures, PERA employers will be able to utilize some of the extensive disclosures contained in PERA’s financial statements, as well as recommended language PERA intends to make available to all PERA employers.

CONCLUSION

GASB has released two new statements that will substantially change the accounting and financial reporting of pensions for PERA employers and PERA. The key implications of these changes are:

» A new balance sheet liability (the Net Pension Liability)
» A new definition of pension expense (or income)
» Additional disclosures on the financial statements

PERA will continue to work with our affiliated employers and their governing boards to understand and implement the changes required by GASB 68. We encourage all stakeholders to visit PERA’s GASB web page, “GASB Reporting Standards,” at www.copera.org/pera/employer/gasb.htm which contains information related to the impending changes in financial reporting. Questions or comments can also be emailed to GASBM@copera.org.