# GASB 67& 68 Disclosures

New GASB 67& 68 Accounting and Financial Reporting for Pensions

## URS

In 2006, GASB embarked on a project to review its accounting standards for pensions. The resulting project resulted in two new statements (67 and 68) released in June 2012, they encompass a host of reforms pertaining to virtually every aspect of pension accounting.

## URS

The proposed accounting changes will not alter the underlying fundamentals; $1,000 owed to a retired employee in ten years under the current standards will remain $1,000 owed in ten years under the new standards.

## URS

Disconnect between pension accounting measurements and pension funding measurements.

Employers will record a liability for their proportionate share of the cost-sharing plan's collective net pension liability (NPL) as a liability on their balance sheets, rather than less prominently in the notes of the financial statements.

## URS

Employers will be required to use market value of assets to report NPL in their financial statements, unlike the actuarial value of assets URS currently uses to disclose the unfunded pension liability.

Employers will recognize their proportionate share of an actuarially calculated pension expense, which will no longer equal the statutorily required contribution, and it may be very volatile from year to year.

## URS

The new employer pension expense will contain the following main components:

Normal cost (annual cost of current service), plus

Interest on total pension liability, plus

Amortization of experience gains/losses, changes in assumptions, and changes in plan benefits, less

Expected return on plan assets.

## URS

Will replace most of the current employer disclosures and required supplementary information with information on the new measurement basis.

## URS

Expand employer footnote disclosures will include:

Basic information about the pension plans.

Classes of employees covered.

Information regarding pension liabilities, pension expense and deferred outflows and inflows of recourses related to pensions.

Significant assumptions including salary increase, inflation, discount rate, mortality, and experience studies.

Target asset allocations and projected rate of return by asset class.

Sensitivity of the net pension liability to the discount rate.

## URS

Require Supplementary Information
Two or three separate schedules are going to be required

1. Schedule of The Net Pension Liability (for ten years)
2. Schedule of Employer Contributions (for ten years)
3. Schedule of changes in Net Pension Liability (for single employer and agent plans only)

## URS

In order for employers to comply with new requirements, they will need to recognize their "proportionate share" of the URS net pension liability, as well as most annual changes in the NPL (reported as pension expense) as they occur.

## URS

The employer's proportionate share will be based on the employer's long-term contributions relative to the long-term contributions of all employers in the plan (i.e. payroll or actual contributions).

## URS

RECOMENDATIONS

It's recommended that employers review their debt covenants for possible violations after the accounting change.

Employer's will need to report their proportionate share of the Net Pension Liability (at market value).

## URS

RECOMENDATIONS

It’s recommended that you review the reporting changes with your governing body to ensure they understand the new pension expense number vs. the contributions being remitted to URS (disconnect between reporting and funding).

## URS

TIMELINE

GASB 67 (Plan’s Accounting)
Statement Adoption Fiscal Year Beginning After June 15, 2013

GASB 68 (Employer’s Financial Accounting)
Statement Adoption Fiscal Year Beginning After June 15, 2014

## URS

## URS

**Current GASB Standard**

**GASB 67 and 68  New Standard**

**Implications**

## URS

**Current GASB Standard**
Pension expense reported by employers is equal to the URS contribution rate.

**GASB 68  New Standard**
Pension expense is the change in net pension liability each year with some deferral on certain items.

**Implications**
Employers who never had a pension liability on their books will now have to report one.

## URS

**Current GASB Standard**
Unfunded actuarial liability does not impact individual employers' financial statements.

**GASB 68  New Standard**
Employer is responsible for net pension liability and must show proportionate share on its individual balance sheet.

**Implications**
Employers go from no liability on their books to potentially large liability. Potential for confusion and misunderstanding by financial statement readers. Real impact is unclear at this time.

## URS

**Current GASB Standard**

Actuarial cost method used by plan for funding calculations is used for ARC (accounting) calculations.

**GASB 68 New Standard**

All plans must use Entry Age Normal actuarial cost method.

**Implications**

No real impact for URS as Entry Age Normal already used for valuation.

## URS

**Current GASB Standard**

Expense based on UAL using actuarial value of assets.

**GASB 68 New Standard**

NPL is calculated using fair market value of plan net assets.

**Implications**

Will likely add volatility to both the NPL and pension expense.

**Current GASB Standard**

All projected benefit payments are discounted using one rate – the long term expected investment rate of return.

**GASB 68 New Standard**

Blended rate consisting of:

1. Investment return assumption
2. Municipal bond rate

Higher rate (assumed rate of return) can be used only for period during which assets are sufficient to cover benefit payments (prior to projected exhaustion date).

Lower municipal bond rate must be used to discount benefit payments after projected exhaustion date.

**Implications**

Use of lower discount rate would mean higher liabilities and pension expense on employer's financial statements.

Most troublesome for plans with fixed contribution rate or plans contributing less than the full actuarial contribution rate.

Requires a projection of assets to determine exhaustion date if any.

## URS

**Current GASB Standard**

Unfunded liabilities can be amortized over a maximum of 30 years which may be an “open” amortization period

- Unfunded liabilities created by plan changes that affect active liabilities, such as benefit improvements, can be amortized over a maximum of 30 years.
- Unfunded liabilities created by plan changes that affect retirees, such as mortality assumptions, can also be amortized over a maximum of 30 years.

## URS

**GASB 68 New Standard**

Amortization periods will be significantly shorter (average remaining working lifetime of active employees) so cost recognized more quickly.

Actuarial gains and losses and changes in actuarial assumptions will be amortized over the expected remaining working lifetime of active employees.

Investment gains or losses will be amortized over 5 years.

## URS

**Implications**

More volatile pension expense.

Benefit changes may be more difficult to enact since immediate/near term expense will be much higher.

URS