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Governmental Accounting News

Not Worried About the New GASB Pension Standards Until 2015? GASB Statement 67, *Financial Reporting for Pension Plans,* Might Apply to You in 2014!

By: Meredith Lipson

In June 2012, the Government Accounting Standards Board (GASB) issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most governmental pension plans, and is effective for financial statements for periods beginning after June 15, 2013, which includes Plans with a June 30, 2014 or December 31, 2014 year end.

The objectives of the requirements of GASB Statement No. 67 are to improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information. **<u>Even if a plan does not issue stand-alone financial statements, but rather is considered a pension trust fund of a government, it will be subject to GASB 67</u>**. However, if a stand-alone plan financial report is prepared in conformity with the requirements of GASB 67, a government is not required to include the enhanced disclosure information and RSI required by GASB 67 as part of its presentation of the pension plan as a pension trust fund in the government's financial report. In this circumstance, the notes to the financial statements of the government should include information about how to obtain the stand-alone plan financial report, although additional information can be presented in the government's note disclosures if the information is determined to be essential to the fair presentation of the government's basic financial statements. Additionally, even if a defined pension plan is closed to new entrants, the requirements of GASB 67 still apply.

<u>Defined Benefit Pension Plans</u>

<u>Statements</u>

The plan's statement of net position held for pension benefits and the statement of changes in fiduciary net position should <u>not change under the new standards</u>.

<u>Footnote Disclosure</u>

Under GASB 67, note disclosures should include some of the disclosures previously required under GASB 25 and GASB 50. The biggest change in the requirements is that the liability related to the pension plans is calculated, by the actuary, much differently than was done previously. While the requirements to record this liability in the employer financial statements are not effective until 2015, if you have a pension trust fund then you must determine and disclose the liability under the new standards in 2014. The following significant and new information should be disclosed in your financial statements, with all amounts measured as of the pension plan's most recent fiscal year-end:

1. The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. Also, an explanation that a money-weighted rate of return expresses investment performance, net of pension plan expense, adjusted for the changing amounts actually invested.

2. The components of the liability of the employer and non-employer contributing entities (if any) to plan members for benefits provided through the pension plan (net pension liability):

(Cont'd on page 2)

a. The total pension liability
b. The pension plan's fiduciary net position
c. The net pension liability
d. The pension plan's fiduciary net position as a percentage of the total pension liability

3. Significant assumptions and other inputs used to measure the total pension liability, including assumptions about:

    a. Inflation
    b. Salary changes
    c. Ad hoc postemployment benefit changes (including ad hoc COLAs)
    d. Mortality, including the source of the assumptions
    e. Dates of experience studies on which significant assumptions are based
    f. Discount rate applied in the measurement of the total pension liability and the change in the discount rate since the pension plan's prior fiscal year-end, if any.

    The following additional information should be disclosed about the <u>discount rate</u>:

    - Assumptions made about projected cash flows into and out of the pension plan, such as contributions from employers, non-employer contributing entities, and plan members,
    - The long-term expected rate of return on pension plan investments and a description of how it was determined, including significant methods and assumptions used for that purpose,
    - If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate,
    - The period of projected benefit payments to which the long-term expected rate of return, and, if used, the municipal bond rate applied to determine the discount rate,
    - The assumed asset allocation of the pension plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed, and
    - Measures of the net pension liability calculated using (i) a discount rate that is 1-percentage-point higher than that required, and (ii) a discount rate that is 1-percentage point lower than that required.

4. The date of the actuarial valuation on which the total pension liability is based and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the pension plan's fiscal year-end.

<u>Required Supplementary Information (RSI)</u>

In addition, certain required supplementary information (RSI) will be required under GASB 67. Note that the 10-year historical schedules need include only information for years in which the new GASB statements have been implemented; 10 years are not required to be shown in the early years of implementation. (i.e., retroactive calculations are not required). Required RSI is as follows:

1. A 10-year schedule of changes in the net pension liability, presenting for each year (a) the beginning and ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability; and (b) the effects on those items during the year of the following, as applicable:

    a. Service cost
    b. Interest on the total pension liability
    c. Changes of benefit terms
    d. Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability
    e. Changes of assumptions about future economic or demographic factors or of other inputs
    f. Contributions from employers
    g. Contributions from non-employer contributing entities
    h. Contributions from plan members
    i. Pension plan net investment income
    j. Benefit payments, including refunds of plan member contributions
    k. Pension plan administrative expense
    l. Other changes, separately identified if individually significant

2. A 10-year schedule presenting the following for each year:

    a. Total pension liability
    b. Pension plan's fiduciary net position
    c. Net pension liability
    d. Pension plan's fiduciary net position as a percentage of the total pension liability
    e. Covered employee payroll
    f. Net pension liability as a percentage of covered-employee payroll

3. A 10 year schedule presenting for each year the information listed below if an actuarially determined contribution is calculated for employers or non-employer contributing entities, or both.

    a. The actuarially determined contributions of employers or non-employer contributing entities
    b. For cost-sharing plans, the contractually required contribution of employers or non-employer contributing entities, if different from a. above
    c. The amount of contributions recognized during the fiscal year by the plan in relation to the actuarially determined contribution
    d. The difference between the actuarially determined contribution in a. above and the amount of the contributions recognized by the plan in relation to the actuarially determined contribution (item c. above)
    e. Covered-employee payroll
    f. The amounts of contributions recognized by the plan in relation to the actuarially determined contribution as a percentage of covered employee payroll

4. A 10-year schedule presenting each fiscal year the annual money-weighted rate of return on pension plan investments

<u>Defined Contribution Pension Plans</u>

For defined contribution pension plans, the following information should be disclosed in the notes to the financial statements:

1. Identification of the pension plan as a defined contribution pension plan
2. Classes of plan members covered (for example, general employees or public safety employees), the number of plan members, participating employers (if plan is a multiple employer plan) and, if any, non-employer contributing entities.
3. The authority under which the pension plan is established or may be amended.

<u>What do I do now?</u>

While the new disclosures for pension plans are significant, the good news is that the majority of the information will be provided by your actuary. We strongly encourage you to familiarize yourself with the requirements of GASB 67 and discuss them with your actuary to ensure information needed for disclosure will be available. We also encourage you to ensure that your actuary communicates with your auditor to ensure everyone is on the same page regarding certain key assumptions (in particular, the discount rate).

Look for a future newsletter from Mauldin & Jenkins discussing the effects of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* Also be on the lookout for an announcement coming soon for a webcast for Mauldin & Jenkins clients which will cover the basic requirements of both GASB 67 and 68.

Finally, Mauldin & Jenkins has drafted a footnote disclosure for the year of implementation of GASB 67 – assuming the employer has a pension trust fund and is not issuing separate statements. Please contact your Mauldin & Jenkins partner if you'd like a copy of these draft disclosures and RSI.