GASB FOR TRA AND PERA EMPLOYERS

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments and school districts. Recently, GASB fundamentally changed those standards as they apply to employers that offer pension benefits, including employers participating in TRA and PERA that must produce GAAP-compliant financial statements. Here are some frequently asked questions about the new requirements:

Q. What are the main GASB 68 requirements for me as an employer?

A. GASB 68 significantly changes pension accounting and financial reporting for state and local governments and school districts that prepare a separate summary set of financial statements on the accrual basis called “government-wide” financial statements by separating pension accounting methodology from pension funding methodology. GASB 68:

- Requires employers to include a portion of TRA’s and PERA's unfunded liability, called the “net pension liability” or “NPL” on the face of their government-wide financial statements.
- Changes the amount employers report as pension expense and defers some expenses to future years by using accounts called “deferred inflows and outflows of resources.”
- Requires pension costs to be calculated by an actuary. In the past, pension costs were equal to the amount of employer contributions that were sent to TRA and PERA during the year.
- Replaces most of the current footnote disclosures and required supplementary information with information based on new accounting measures.
- Changes the amortization periods that can be used for the different components that affect the pension plan’s total pension liability.

Q. How are the new pension costs determined?

A. Pension plan actuaries will calculate the pension costs (NPL, pension expense, deferred inflows and outflows of resources) collectively. TRA and PERA accountants will determine each employer's proportionate share of those costs and develop schedules that supply employers with the information they need to complete their financial statements. Each employer's proportionate share is determined based on the employer’s contributions for the year as a percentage of total contributions.

Q. What is the difference between “accounting” costs and “funding” costs?

A. Pension funding and pension accounting have two different objectives. The retirement systems’ funding objective is to maintain reasonably stable contribution rates and to achieve an ultimate funded status of 100 percent over time. To achieve stable contribution rates, our actuarial funding methodology “smooths” out the effects of market fluctuations and amortizes the resulting unfunded pension liability over a longer time horizon. The objective of pension accounting is to record the financial events that affect the total pension liability when they occur. Thus pension accounting calculates the total pension liability using the fair value of investments at a point in time and uses a short-term amortization period for components of the total pension liability.

Q. Will the implementation of GASB 68 cause contribution rates to increase?

A. No. GASB 68 amounts recorded in your financial statements are “paper” entries used for accounting purposes only. Employer contribution requirements will continue to be based on TRA’s and PERA’s actuarial funding methodology, the objective of which is to maintain reasonably stable contribution rates and to achieve an ultimate funded status of 100 percent over time.

Q. Am I really liable for the net pension liability that will be on my books under GASB 68?

A. No. The net pension liability that will be recorded in your financial statements is an accounting estimate of your proportionate share of TRA’s and PERA's pension liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary raises, and how well pension trust investments will do. Actuarially-determined amounts are subject to continual revision. In addition, pension plan boards and the legislature historically have worked together to lower liabilities by “sharing the pain” among employers, active members and retirees.

Q. Will GASB 68 change the amount of contributions I make?

A. No. While your pension expense amount will change on your financial statements, it will no longer be the same amount as the actual contributions you pay, as it has been in the past. You will continue to be responsible to pay only your required contribution amount, which is set in statute.

Q. Will this new GASB standard affect our bond ratings?

A. While we cannot speak for rating agencies, 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 new approach to analyzing pension liabilities does not include liabilities calculated using the GASB 67 and 68 methodology. Please see the agency websites for more information: Fitch Ratings (http://www.fitchratings.com/web/en/dynamic/articles/GASB-Rules-Generally-Positive-for-U.S.-States-and-Locals.jsp) discusses their approach to pension liabilities in light of GASB 67 and 68. Moody’s (https://www.moodys.com/research/Moodys-announces-new-approach-to-analyzing-state-local-government-pensions--PR_271186) discusses its new approach to analyzing state and local government pensions. Moody’s approach does not take GASB 67 or 68 into account.

Q. Why are some people concerned about the new accounting costs?

A. There are two concerns. The first is that employers will soon be including their proportional share of TRA’s and PERA’s unfunded liabilities on their balance sheets, even though it’s not a liability that they are solely responsible for paying off, and that may be difficult to explain to the public. The second concern is that we will now have two sets of numbers, which may be confusing to those who set policies. The true health of a pension plan is determined by the funding costs and funding policy (which will not change), not by the new accounting costs, but seeing two sets of numbers will be confusing.