

# **GASB 27 Proposed Changes**

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# OVERVIEW

- **Proposed Pension Accounting and Financial Reporting Reform**
  - GASB 25: Applies to pension plans
  - GASB 27: Applies to governmental employers
- **Implications of proposed changes**
  - A new and very large balance sheet liability
  - Employers required to report proportionate share of pension liability and pension expense
  - A volatile pension expense (or pension income)
  - Divorce of employer contributions matching GASB expense
  - Additional disclosures to financial documents
  - Communication challenges with employers, auditors, actuaries

# **Current Employer Standards**

- **For employers in cost-sharing plans:**
  - **Pension Expense = Annual Required Contribution**
    - Reflects the statutorily required contribution of the employer to the cost-sharing pension plan
    - It does not necessarily reflect the actuarially determined contribution to the plan
  - **Pension Liability = the difference between the employer's annual required contributions and contributions actually made**
  - **Financial Statements:**
    - Employers include basic footnote disclosures
    - Expanded information is included in the plan administrator's financial statements (OPERS)

# **Proposed Employer Standards**

- **Balance Sheet:**
  - ✓ Employers will record a liability for their proportionate share of the cost-sharing plan's collective net pension liability.
  - ✓ Employers will record deferred outflow / inflow for the difference between actual contributions made and the employer's proportionate share of collective contributions.
- **Income Statement** – Employers will recognize their proportionate share of an actuarially calculated pension expense, which will not match their contributions paid.
- **Footnotes** – Expanded footnote disclosures are required.
- **Require Supplementary Information** – Three separate schedules are required.

## **Net Pension Liability**

- **The net pension liability** is the difference between the total pension liability and the net plan position available to pay that liability
- **Total pension liability** is the present value of future benefits earned as of the reporting date. Includes projected salary increases and years of service for current employees.
- **Net plan position** is a new term used to refer to the fair value of assets available to pay benefits at the end of the year.

## **Net Pension Liability – Who is Responsible per the GASB?**

- The pension plan is primarily responsible for paying the pension benefit to the extent the plan has accumulated sufficient assets.
- The employer is secondarily responsible to the extent the plan has sufficient assets.
- The employer is primarily responsible to the extent the plan does not have sufficient assets.

OPERS Note – GASB's perspective assumes that all pension plans operate on a similar basis. This generalization does not consider the effect of individual state statutes on pension plan operations.

## **Proportionate Share**

- **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.
- OPERS provides contribution history by member by employer to the OPERS actuary.
- The actuary determines the long-term contribution efforts by employer and calculates the proportionate share accordingly.

# Pension Expense

- **Pension expense** will no longer equal the statutorily required contribution, and it may be volatile from year to year.
- **New pension expense** is actuarially calculated containing the following main components:
  - Normal cost (annual cost of current service), plus
  - Interest on total actuarial liability, plus
  - Amortization of experience gains/losses, changes in assumptions, and changes in plan benefits, less
  - Expected return on plan assets.



# Footnote Disclosures

- **Information provided by OPERS for the Employer footnotes:**
  - Basic information about the benefits provided
  - Classes of employees covered
  - Significant assumptions including salary increase, inflation, discount rate including target allocations and projected rate of return by asset class, sensitivity of the net pension liability to the discount rate, retired life mortality, and experience studies
  - Information about funding policy (contributions)
  - Breakdown of the components of the net pension liability
  - Breakdown of the components of pension expense

# Require Supplementary Information

- 10 Year Schedule of Changes in the Net Pension Liability
  - Collective level for all employers
  - As of the Individual Employer's year end
- 10 Year Schedule of the Net Pension Liability
  - Collective level for all employers
  - Individual Employer's share
- Schedule of Employer Contributions
  - Collective level for all employers
  - Individual Employer's share

# **GASB FIELD TEST SITE**

- **OPERS has volunteered to be a field test site for GASB**
- **As a test site, OPERS will be:**
  - Working with actuaries to calculate the proportionate share of each of our 3,700+ employers' net pension liability.
  - Testing results through the restatement of previous years actuarial documents and financial statements using the new GASB standards
  - Working with auditors to identify financial reporting standards and potential auditing procedures
  - Surveying our 3,700+ employers to gather data necessary to implement these standards
  - Identifying and documenting issues and challenges related to the implementation
    - Data Collection, Liabilities, Disclosure Statements, others
  - Tracking time and costs to implement new standards
  - Providing feedback and suggestions to GASB

# TIMELINE

- **Important Dates**
  - **June 2010**
    - GASB issues Preliminary Views (PV)
  - **July 8, 2011**
    - GASB issues two Exposure Drafts
      - Accounting & Financial Reporting for Pensions (replaces GASB 27)
      - Financial Reporting for Pension Plans (replaces GASB 25)
  - **Now**
    - **Field testing by selected Pension Organizations**
  - **September 30, 2011**
    - Deadline for completion of field tests
    - Deadline for comments to GASB on exposure drafts
  - **June 2012:**
    - Proposed date for final statement adoption
  - **June 15, 2013**
    - Proposed effective date for beginning new method.

## Heard Enough?



## Call to Action – What Can OPERS Employers Do?

- Download the exposure draft or plain language version from the GASB website at [www.gasb.org](http://www.gasb.org) and become familiar with how the requirements will impact your operations.
- Ask your auditors what issues/concerns they might have with the proposed changes. Example:
  - ✓ How will they audit the proportionate share of pension expense and net pension liability supplied by OPERS?
  - ✓ What impact will these liabilities have on your bond rating?
- Check out the information posted on the OPERS website at <https://www.opers.org/employers/GASB/index.shtml>
- **And.....**

## **Provide Your Feedback to the GASB**

- **Written comments can be submitted:**
  - **By e-mail** – send your comments to [director@gasb.org](mailto:director@gasb.org)
  - **By traditional mail** – includes comments in a letter and mail to:

Director of Research and Technical Activities  
Project No. E-34  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

- **OPERS will be creating a generic letter to assist employers in responding to GASB. Your individual perspective of the impact of these standards to your operations is critical to GASB's final assessment.**