

The GASB's Exposure Drafts on Pension Accounting and Financial Reporting. What does it mean to an OPERS employer?

Background: The Governmental Accounting Standards Board (GASB) recently issued two exposure drafts after a lengthy deliberation process:

- Financial Reporting for Pension Plans (amending GASB Statement No. 25), details proposed standards for the financial statements of plans, such as OPERS, that administer the benefits.
- Accounting and Financial Reporting for Pensions (amending GASB Statement No. 27), details proposed standards that would apply to state and local governments that provide pension benefits through plans such as those administered by OPERS. This proposed standard will significantly change the financial reporting requirements of the 3,700 employer units participating in the OPERS cost-sharing plan.

Q: As a participating employer in the OPERS cost-sharing plan, what do the proposed standards mean to me?

A: It will significantly change pension accounting and financial reporting for state and local governments:

- Disconnects pension accounting measures from the funding measures.
- Require employers to recognize an unfunded pension obligation on their balance sheets. This value will be provided by OPERS and will represent the employer's proportionate share of the OPERS total unfunded accrued actuarial liability.
- Require employers to recognize a new measure of the pension expense in their income statements, which could be significantly different from their annual required contributions.
- Replace most of the current note disclosures and required supplementary information with information based on new measures.

Q: I've paid the contributions you required me to pay. Why do I now have to record a liability on my balance sheet?

A: The current measure of pension expense is the employer's annual required contributions to the plan. If you paid your required contributions, you had no additional liability to OPERS. GASB's new financial reporting framework includes the following concepts:

- The employer incurs a pension obligation as a result of the exchange of employee service for compensation (referred to as the "employment exchange"). Compensation includes the future cost of pension benefits earned as a result of current service.
- The pension plan (OPERS) is primarily responsible for the cost of pension benefits to the extent it has sufficient assets.

- The employer is primarily responsible for the cost of pension benefits to the extent the plan does not have sufficient assets.
- The unfunded pension obligation meets the definition of liability under GASB Concepts Statement No. 4 and is measurable with sufficient reliability to be recognized in the basic financial statements.

Q: If the exposure drafts are approved as written, how will it change my financial statements?

A: Your basic financial statements and footnotes will change significantly:

- Balance Sheet – You will recognize a liability for your “proportionate share” of the cost-sharing plan’s collective net pension liability as well as deferred outflows and inflows of resources. Each employer’s proportionate share will be based on the employer’s long-term contributions for active employees relative to the total long-term contributions of all employers in the plan.
- Income Statement – You will recognize pension expense for your proportionate share of the cost-sharing plan’s total pension expense. The pension expense could vary significantly from year-to-year and will be different than the expense currently reported based on contractually required contributions.
- Footnotes – You will include footnote disclosures about the OPERS pension plan including:
 - Basic information about the benefits provided
 - Classes of employees covered
 - Whether stand-alone financial statements are available and how to get them
 - Significant assumptions such as salary increases, inflation, discount rate, sensitivity of the net pension liability to the discount rate, retiree life mortality, and experience studies
 - Information about the employer’s funding policy
 - Break down of the components of pension expense
- Required Supplementary Information (RSI) – Your financial statements will include three pension related schedules:
 - Schedule of Changes in the Net Pension Liability – All Employers
 - Schedule of the Net Pension Liability including the ratio of plan net position to the total pension liability and the net pension liability as a percentage of covered-employee payroll
 - Schedule of Employer Contributions displaying the amount of employer contributions made and the difference between the amount paid and the actuarially required employer contribution
- These new schedules will contain 10 years of historical data to the extent the historical information is available, and may be built up prospectively over time.

Q: Where will I get the information to record the net pension liability and pension expense? Where will the information for the footnote disclosures and RSI come from?

A: OPERS is currently working with its actuaries to determine how the proportionate share of pension expense and net pension liability will be calculated in accordance with the GASB proposals. OPERS will be responsible for providing all of this information to employers as of your fiscal year end.

Q: How is the net pension liability calculated?

A: The net pension liability represents the difference between the Plan's total pension liability and the assets available within the plan to pay that liability.

The total pension liability projection is based on the total member population at fiscal year end and the benefits earned by these members for their service to date. The present value of these future benefits is compared to the market value of available assets in the plan. A net pension liability exists if the value of future benefits exceeds the available assets.

The net pension liability will be calculated as of the employer's fiscal year end, and will be allocated to employers based on the ratio of the employer's long term contributions to the total long term contributions of all employers in the plan.

Q: My organization prepares financial statements on a cash basis. How does this affect me?

A: The expanded footnote and required supplementary information schedules still apply. We urge you to review these exposure drafts with your auditors to determine the specific impact on your financial reports.

Q: These are significant changes and I have some concerns. What should I do?

A: We urge you to review the exposure drafts carefully and discuss the impact of the proposed pronouncements on your financial statements with your auditors. These are proposed standards. The GASB is accepting comments until Sept. 30, 2011. Given that this is likely the last opportunity to comment on the GASB's proposed changes to public pension accounting and financial reporting standards, it is important for stakeholders to review the proposed changes, consider their impact, and provide written comments to GASB.

Written comments can be submitted:

- By e-mail – send your comments to 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

After the comment period ends, the GASB has scheduled three public forums in October.