GASB Issues New Pension Standards

On June 25, 2012, the Governmental Accounting Standards Board (GASB) approved two pronouncements that will significantly impact nearly every governmental entity. These standards were published on August 2, 2012, and are "intended to improve the accounting and financial reporting of public employee pensions by state and local governments." How will these standards do that? The main intent is to have more clarification by showing the liability for pensions on the balance sheet rather than in the notes to the financial statements.

So what exactly does that mean? It means that state and municipal governments must not only report as a liability the difference between "the contributions they are required to make to a pension plan in a given year versus what is actually funded" (the current requirement), but governments must also report the net pension liability, which is the difference between the "total' pension liability (the present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value set aside to pay current employees, retirees, and beneficiaries.)

You may be thinking that does not seem like a very big deal. Well, according to the Pew Center on the States, "the gap between the promises states have made for public employees' retirement benefits and the money they have set aside to pay these bills was at least $1.38 trillion in fiscal year 2010" for states and municipal governments. Some believe the idea is that financial users will get a better grasp of how future proposed benefit increases really effect the next generation. In addition, governments need to keep better track of the annual costs of pension benefits so that they can be measured "comprehensively and comparably."

The two statements that are being changed are the following: Statement No. 67, *Financial Reporting for Pension Plans* (which is the change discussed above) and Statement No. 68, *Accounting and Financial Reporting for Pensions*. The adjustments required to conform to Statement No. 68 can be summarized as follows:

Note Disclosures and Supplementary Information

Statement 68 requires employers to present more extensive note disclosures and RSI, including:

- Descriptive information about the types of benefits provided.
- How contributions to the pension plan are determined.
- Assumptions and methods used to calculate the pension liability.

Single and agent employers will disclose additional information, such as:

- Composition of the employees covered by the benefit terms.
- Sources of changes in the components of the net pension liability for the current year.

A single or agent employer also will present required supplementary information (RSI) schedules covering the past ten years regarding:

- Sources of changes in the components of the net pension liability.
- Ratios that assist in assessing the magnitude of the net pension liability.
- Comparisons of actual employer contributions to the pension plan with actuarially determined contribution requirements, if an employer has actuarially determined contributions.

Statement 67 is effective for periods beginning after June 15, 2013, while Statement 68 is effective for fiscal years beginning after June 15, 2014. Early application is permitted and encouraged for both statements.

Compiled by David J. Fitch, CPA of Stone, Rudolph & Henry, PLC from the publication "GASB's New Pension Standards Now Available" published in August 2012 by Accountingweb.com.