



Jeffrey L. Ezell  
Executive Director

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To: (Reporting Employer's Name)  
From: Jeffrey L. Ezell  
Executive Director  
Subject: Estimated Impact of New GASB Pension Statements

I would like to make you aware of new accounting standards that will impact the way pension plans are reported by plan administrators like the Teachers Retirement System of Georgia (TRS) and reporting employers, such as local school boards, colleges, etc. While the underlying economics and health of the plan are not impacted, the new standards will result in the recognition of liabilities that had previously not been reported in your financial statements. To be clear, these liabilities have always existed and are not new. Further, these new standards will not change how TRS is funded. TRS will continue to set funding requirements in accordance with generally accepted actuarial standards just as it has always done. These new disclosures on your financial statements should have no impact on your current budgeting practices.

The Governmental Accounting Standards Board (GASB) issued new accounting and financial reporting standards in June 2012 for pension plans provided through state and local retirement systems and their sponsoring employers. GASB Statement 67, *Financial Reporting for Pension Plans*, will impact TRS and is effective for the fiscal year ending June 30, 2014. GASB Statement 68, *Accounting and Financial Reporting for Pensions*, will impact our reporting employers and is effective for the fiscal year ending June 30, 2015.

GASB Statement 67 requires pension plans, such as TRS, to disclose its net pension liability by calculating the difference between its total pension liability (the present value of projected benefit payments to employees based on their past service) and its fiduciary net position (market value of net plan assets). This Statement also requires TRS to present more extensive note disclosures and supplementary information.

GASB Statement 68 requires cost-sharing employers, such as your organization, to record a liability and expense on their full accrual basis financial statements equal to their proportionate share of the net pension liability and expense for the cost-sharing plan (TRS). This Statement further requires TRS employers to present more extensive note disclosures, including descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the total pension liability. TRS employers will also be required to present "required supplementary information" schedules for their proportionate share of the net pension liability and for their contractually required contributions (currently called the ARC).

TRS is working to implement the requirements of these new GASB Statements for plan reporting purposes and to assist our reporting employers with the information needed for their financial reports. During fiscal year 2015, TRS will provide to you the calculation of your share of the net pension liability, as well as any additional information necessary to assist you in preparing the note disclosures required under GASB Statement 68. For informational purposes only, TRS has estimated your proportionate share of the net pension liability as of a June 30, 2013 measurement date to be \$x,xxx,xxx based on your annual covered payroll of \$xxx,xxx,xxx as reported by you for fiscal year 2013.

Please refer to the State Accounting Office (SAO) website at [www.sao.georgia.gov/pension-accounting-changes](http://www.sao.georgia.gov/pension-accounting-changes) for additional information and resources designed to support the understanding of the new GASB Statements. If you have any questions specific to the implementation of the new GASB Statements, please contact our office.

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## **GASB 67/68: Pension Accounting and Reporting FAQs**

**Q: What is the GASB, and why does the State of Georgia comply with GASB standards?**

**A:** The GASB is the Governmental Accounting Standards Board. It establishes standards for accounting and financial reporting by state and local governments and is the recognized, authoritative source for generally accepted accounting principles (GAAP) used by state and local governments to prepare their financial reports. Some of the State's key stakeholders are its citizens, bond rating agencies, and public bond markets. These financial statement users have more confidence that the information reported by the State is consistent, comprehensive, and fairly presented when prepared in compliance with GAAP. Bond stakeholders, in particular, expect the State's financial reports to be prepared in compliance with GAAP.

**Q: What's new in the GASB pension rules?**

**A:** The primary change is that accounting for pensions will no longer be based on contribution or funding levels. For accrual basis GAAP statements, employers in multiple employer, cost-sharing plans (such as TRS) will be required to record a liability and expense equal to their proportionate share of the collective net pension liability and expense.

The net pension liability will be the difference between the total pension liability (the present value of projected benefit payments to employees based on their past service) and the plan's fiduciary net position (mostly investments reported at fair value) set aside in a trust and restricted to paying benefits to current employees, retirees, and their beneficiaries. The new rules also require cost-sharing employers (such as local school boards, colleges, etc.) to present more extensive note disclosures, including descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Employers will also present required supplementary information schedules with multiple years of information about their proportionate share of the net pension liability and their contractually required contributions.

These changes are effective for plan financial statements (TRS) in fiscal year 2014 and for employer financial statements (TRS reporting employers) in fiscal year 2015.

**Q: Do the new GASB standards establish requirements for how governments should fund their pensions?**

**A:** No, the GASB concluded that it is not within its scope to set standards that establish a specific method of funding pensions or to regulate a government's compliance with the funding policy or method it adopts. Funding pensions is a policy decision for government officials or other responsible authorities to make. Therefore, the GASB established standards only within the context of accounting and financial reporting, not within the context of funding pensions.

**Q: Will governments have to pay more each year for pensions because of the GASB's new statements?**

**A:** No, as mentioned above funding pensions is a policy decision for government officials or other responsible authorities to make. Therefore, the GASB statements will not affect what governments pay to fund the plans.

**Q: How will these changes affect TRS reporting employers?**

**A:** TRS reporting employers (such as local school boards, colleges, etc.) will be required to record and disclose their share of pension expenses, liabilities and deferred items to the extent that the activity relates to their employees. Special rules apply if another non-employer entity is legally obligated to contribute directly to the pension plan on behalf of the employer government, but only if specifically defined special funding situation criteria are met.

**Q: How will TRS reporting employers get the information required to be reported?**

**A:** Multiple employer pension plans sponsored by the State of Georgia (such as TRS) are currently working with their actuaries to develop a process for calculating proportionate shares for employers (such as local school boards, colleges, etc.) and non-employers with special funding situations. The plans are also working with their auditors to develop a plan for auditing the proportionate information so the auditors of TRS reporting employers may rely on it and will communicate employer and non-employer activity beginning with fiscal year 2015.

## **GASB 67/68: Pension Accounting and Reporting FAQs**

**Q: How will retirement plans, participating employers, lawmakers, and the public know whether the plans are adequately funded?**

**A:** Now that GASB reporting is de-linked from funding, Georgia pension plans are working with their actuaries to develop a funding policy which will be adopted by the plan's board. TRS adopted a funding policy in November, 2013. The funding policy outlines the methodology for future funding. Georgia's largest plans have, and will continue to have, annual actuarial valuations of funding status performed by certified independent actuaries.

The following factors, calculated by the actuaries, can be used to assess the sustainability of a defined benefit pension plan:

1. The employer's funding progress, and
2. Actual employer contributions as a percentage of actuarially determined employer contributions.

The goal is to accumulate enough assets in the trust fund during an employee's active service life to pay promised benefits during retirement. The funded ratio is a key measure of funding progress to date. It reflects a comparison of the assets held in trust to the present value of promised benefits. The higher the ratio the better the plan is funded. Additionally, consistently funding the full amount of actuarially determined employer contributions should lead to accumulation of sufficient resources to pay promised benefits. Both of these factors, when monitored over multiple years, will help stakeholders assess whether the funded status and contribution trends indicate that a plan will meet its funding goal. Georgia has always funded the actuarially determined employer contributions.

**Q: There is speculation in the media that the new GASB statements will show that public pension funds are financially worse than realized. Is this an accurate statement?**

**A:** No. Each plan must be assessed individually based on the design of its benefit structure and the adequacy of its funding policy. Although the new GASB requirements may result in changes to liability measurements for some plans to achieve more consistency in reporting, the funded status of defined benefit plans has been calculated through the normal actuarial valuation process and disclosed in the notes to governmental financial reports for a number of years. Therefore, knowledgeable readers should already be aware of the fundamental financial status of many plans. The requirement to record unfunded liabilities on accrual basis financial statements, in addition to making note disclosures, should highlight the financial impact of pension plans in a more transparent manner.

Keep in mind that the amount reported on the employer's balance sheet will reflect a long-term liability of many years and therefore is not "due in full" in the current fiscal year, similar to a home mortgage. For example, even though a homeowner may have a \$200,000 unpaid mortgage, there is no expectation that the homeowner pay the mortgage in a single year or have funds available to pay the mortgage off in a single payment. The liability reported on the employer's balance sheet will represent the employer's proportionate share and will be paid down by the employers' annual contributions to the plan over many years.

Plans and employers can help alleviate stakeholder concerns by ensuring a sound funding policy, maintaining funding discipline, and providing accurate and transparent financial information to allow stakeholders to assess progress towards the funding of promised benefits.

### **FOR MORE INFORMATION**

**Q: Where can I find more information about the GASB changes?**

**A:** Refer to the State Accounting Office (SAO) website at [www.sao.georgia.gov/pension-accounting-changes](http://www.sao.georgia.gov/pension-accounting-changes) for additional information and resources designed to support the understanding of the new GASB statements.