

An Extraordinarily Brief Overview of the GASB's Pension Proposals

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The opinions expressed in this presentation are those of the presenter. Official positions of the GASB are established only after extensive public due process and deliberation.

Major Provisions

- Governments would report a *net pension liability* in the financial statements (total pension liability minus plan assets held in trust for pension benefits)
- Discount rate would be the long-term expected rate of return for projected benefit payments that will be covered by current and expected plan assets, and a AA or higher tax-exempt 30-year municipal bond index rate for projected benefit payments not covered by current and expected plan assets

Major Provisions

- Governments would use entry age normal method as a level percentage of payroll, rather than have a choice among 6 methods and level % or level \$
- Most causes of change in the pension liability would be reported as expense *immediately*, including changes in benefit terms
- Effect of difference between assumed and actual economic and demographic factors would be deferred and introduced into expense over the average remaining service life of employees

Major Provisions

- The effect of differences between actual and projected earnings on plan investments would be deferred and introduced into pension expense over a five-year, closed period
- A cost-sharing government would report a liability equivalent to its proportionate share of the collective net pension liability of all government in the plan.

Major Provisions

- Projection of expected plan assets available for paying benefits would be based on a government's actual contribution history
- Greatly enhanced note disclosures, including a sensitivity analysis of the effect of the discount rate on the net pension liability

■ 10-year schedule of changes in the net pension liability

	<u>20X1</u>	<u>20X0</u>	<u>20W9</u>
Total pension liabilities—beginning	\$137,924,807	\$130,011,879	\$125,992,884
Service cost	4,098,386	4,155,082	4,280,848
Interest	9,654,736	8,498,979	7,641,320
Benefit changes related to past services	1,263,705	—	—
Experience losses (gains)	(2,600,290)	1,311,323	(1,828,129)
Changes in assumptions	(865,000)	198,154	—
Benefit payments	(6,438,128)	(6,250,610)	(6,068,553)
Refunds of contributions	<u>(23,506)</u>	<u>—</u>	<u>(6,491)</u>
Net change in total pension liabilities	<u>5,089,903</u>	<u>7,912,928</u>	<u>4,018,995</u>
Total pension liabilities—ending (a)	<u>\$143,014,710</u>	<u>\$137,924,807</u>	<u>\$130,011,879</u>
Plan net assets held in trust for pension benefits—beginning	\$115,118,415	\$107,109,313	\$103,447,870
Contributions—employer	4,126,191	4,203,430	4,243,080
Contributions—employees	801,072	816,200	823,899
Net investment income	15,959,909	8,895,937	4,254,365
Benefit payments	(6,438,128)	(5,879,054)	(5,606,934)
Administrative expense	(40,068)	(38,125)	(35,121)
Refunds of contributions	(23,506)	—	(6,491)
Other	—	10,714	(11,355)
Net change in plan net assets held in trust for pension benefits	14,385,470	8,009,102	3,661,443
Plan net assets held in trust for pension benefits—ending (b)	<u>\$129,503,885</u>	<u>\$115,118,415</u>	<u>\$107,109,313</u>
Net pension liabilities—ending (a)–(b)	<u>\$ 13,510,825</u>	<u>\$ 22,806,392</u>	<u>\$ 22,902,566</u>

- 10-year schedule of total liability, plan net position, net liability, net position as a % of the total liability, and net liability as a % of covered payroll

	<u>20X1</u>	<u>20X0</u>	<u>20W9</u>	<u>20W8</u>	<u>20W7</u>
Total pension liabilities	\$143,014,710	\$137,924,807	\$130,011,879	\$125,992,884	\$128,376,254
Plan net assets held in trust for pension benefits	<u>129,503,885</u>	<u>115,118,415</u>	<u>107,109,313</u>	<u>103,447,870</u>	<u>97,861,565</u>
Net pension liabilities	\$ 13,510,825	\$ 22,806,392	\$ 22,902,566	\$ 22,545,014	\$ 30,514,689
Ratio of plan net assets held in trust to total pension liabilities	90.55%	83.46%	82.38%	82.11%	76.23%
Covered payroll	\$40,053,650	\$40,810,000	\$41,194,950	\$40,586,950	\$40,151,100
Net pension liabilities as a percentage of covered payroll	33.73%	55.88%	55.60%	55.55%	76.00%

Analogous to the schedule of funding status

- 10-year schedule of actuarially calculated employer contribution, contributions made, the difference, and contributions made as a % of covered payroll

	20X1	20X0	20W9	20W8	20W7
Actuarially calculated employers' contribution	\$4,126,191	\$4,203,430	\$4,243,080	\$4,182,016	\$4,133,980
Actual employers' contribution	<u>4,126,191</u>	<u>4,203,430</u>	<u>4,243,080</u>	<u>4,182,016</u>	<u>4,133,980</u>
Annual contribution deficiency (excess)	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Covered payroll	\$40,053,650	\$40,810,000	\$41,194,950	\$40,586,950	\$40,151,100
Actual contribution as a percentage of covered payroll	10.30%	10.30%	10.30%	10.30%	10.30%

Analogous to the schedule of employer contributions

Effective Date

- Periods beginning 7-1-12 for some governments with large plans
- Periods beginning 7-1-13 for all other governments
- Earlier application encouraged for all employers