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GASB Q&A FOR TRA EMPLOYERS

The Governmental Accounting Standards Board (GASB) is the independent organization that establishes standards of accounting and financial reporting for state and local governments and school districts. Recently, GASB fundamentally changed those standards as they apply to employers that offer pension benefits, including employers participating in TRA that must produce GAAP-compliant financial statements. Here are some frequently asked questions about the new requirements:

Q. What are the main GASB 68 requirements for me as an employer?

A. GASB 68 significantly changes pension accounting and financial reporting for state and local governments and school districts that prepare a separate summary set of financial statements on the accrual basis called “government-wide” financial statements by separating pension accounting methodology from pension funding methodology. GASB 68:

- Requires employers to include a portion of TRA’s “net pension liability” or “NPL” on the face of their government-wide financial statements.
- Changes the amount employers report as pension expense and defers some expenses or income to future years by using accounts called “deferred inflows of resources” and “deferred outflows of resources.”
- Requires pension costs to be calculated by an actuary. In the past, pension costs were equal to the amount of employer contributions that were sent to TRA during the year.
- Replaces most of the current footnote disclosures and required supplementary information with information based on new accounting measures.
- Changes the amortization periods that can be used for the different components that affect the pension plan’s total pension liability.

Q. How are the new pension costs determined?

A. Pension plan actuaries will calculate the NPL, pension expense, deferred inflows and outflows of resources, collectively. TRA accountants will determine each employer's proportionate share of those costs and develop schedules that supply employers with the information they need to complete their financial statements. Each employer's proportionate share is determined based on the employer’s and non-employer’s contributions for the year as a percentage of total contributions.

Q. What is the difference between “accounting” costs and “funding” costs?

A. Pension funding and pension accounting have different objectives. Separate actuarial valuations are performed annually to address each objective. The funding objective is to maintain reasonably stable contribution rates and to achieve an ultimate funded status of 100 percent over time. To achieve stable contribution rates, our actuarial funding methodology “smooths” out the effects of market fluctuations and amortizes the resulting pension liability over a longer time horizon. The objective of pension accounting is to record the financial events that affect the total pension liability when they occur. Thus pension accounting calculates the total pension liability using the fair value of investments at a single point in time and uses a short-term amortization period for components of the total pension liability.

Q. Will the implementation of GASB 68 cause contribution rates to increase?

A. No. GASB 68 amounts recorded in your financial statements are "paper" entries used for accounting purposes only. The legislature will continue to base employer contribution requirements on TRA's actuarial funding methodology, the objective of which is to maintain reasonably stable contribution rates and to achieve an ultimate funded status of 100 percent over time.

Q. Am I really liable for the net pension liability that will be on my books under GASB 68?

A. No. The net pension liability is recorded in your financial statements is an accounting estimate of your proportionate share of TRA's net pension liability at a specific point in time. That number will change from year to year, and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include how long people will live, how long they will continue to work, projected salary raises, and how well pension trust investments will perform. Actuarially-determined amounts are subject to continual revision. In addition, TRA and the legislature historically have worked together to lower liabilities by "sharing the pain" among employers, active members and retirees.

Q. Will GASB 68 change the amount of contributions I make?

A. No. While your pension expense amount will change on your financial statements, it will no longer be the same amount as the actual contributions you pay, as it has been in the past. You will continue to be responsible to pay only your required contribution amount, a rate that's set in statute.

Q. Why did the net pension liability (NPL) for fiscal year 2017 GASB 68 reporting more than triple from the NPL our school district reported in fiscal year 2016 financial statements?

A. The fiscal year 2017 GASB 68 reporting for employers was heavily influenced by a fiscal year 2016 investment return for TRA of only -0.10 percent, meaning TRA lost about $1 billion of its fair value of assets from the previous GASB 67 valuation. In addition, TRA adopted new mortality tables to the RP-2014 tables, with future generational improvements incorporated. Finally, TRA's actuary discovered that the Single-Equivalent Interest Rate (SEIR) under GASB 68, paragraph 78 was triggered in TRA's fiscal year 2016 GASB 67 valuation. It results in TRA's actuarial liabilities being discounted at 8.00 percent through the year 2052, and then at 3.01 percent from fiscal year 2052 into the future. (The 3.01 percent was the tax-exempt June 2016 Municipal Bond 20-year rate.) The SEIR of those two values is the 4.66 percent used in the GASB 68 results TRA has sent to all employer units. The results one year from now could swing into more favorable territory if fiscal year 2017 investment returns are in the double-digits. Fiscal year 2017 results, and the determination of whether the SEIR will be triggered for the 2017 GASB 68 report, will be available in December 2017.

Q. Why are some people concerned about the new accounting costs?

A. There are two concerns. The first is that employers must include their proportional share of TRA's liabilities on their balance sheets, even though it's not a liability that they are solely responsible for paying off, and that may be difficult to explain to the public. The second concern is that TRA has two actuarial valuation reports (funding and accounting), which may be confusing to those who set policies. The true health of a pension plan is determined by the funding costs and funding policy (which will not change), not by the new accounting valuation report used for GASB 68 reporting.