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GASB OVERVIEW

New accounting changes for reporting public pension obligations from the Governmental Accounting Standards Board (GASB) were implemented in 2014-15. There is concern that the new accounting rules cause confusion and raise false alarm regarding the financial well-being of public pension plans, including Minnesota's. The new GASB numbers can be misleading and create a distorted picture of the systems' long-term financial soundness. The GASB changes require that school districts and other local governments such as cities and counties show their share of the Teachers Retirement Association (TRA) pension obligations prominently on their balance sheets. Previously, the financial status of Minnesota's pension plans were reported only in TRA's annual financial reports and in other reports to the Legislature.

Here are answers to some frequently asked questions about GASB.

Q. What's new in the GASB rules?

A. Previously, pension liabilities were annually disclosed by the retirement systems on their financial statements and to legislative oversight bodies such as the Legislative Commission on Pensions and Retirement. Now school districts will each have to report their proportionate share of the pension obligation as a liability on financial balance sheets. Under the old accounting rules, those government units only disclosed the annual contribution to the pension systems needed to fund the retirement systems and pay off any pension obligations.

The underlying economics and health of the plans are not affected, but the new standards will require school districts and local governments to report liabilities that had previously not been reported in financial statements. These liabilities have always existed and are not new. Furthermore, the new rules do not change what school districts and local governments owe in annual contributions to the retirement systems. The new disclosures should have no impact on budgeting practices.

Q. Why is GASB requiring employers to show this information?

A. Transparency and disclosure are good, but it's important to provide context for the numbers. The presence on local government or school district balance sheets of a large number representing pension obligations could give the incorrect impression that employers/taxpayers have an immense debt that must be paid immediately. This is not the case. Pension liabilities are amortized or paid off over long periods. The retirement systems plan for this and work to make sure annual contributions are sufficient to pay off any pension liabilities on a schedule. This works much like a homeowner's mortgage. Even though a homeowner might have a $100,000 unpaid mortgage, there is no expectation that this be paid off in one year. The owner makes manageable monthly payments and pays down the mortgage debt over a scheduled time period. This is what governments and school districts do when they make regular contributions to the retirement system.

Q. Will governments and school districts have to pay more for pensions because of GASB?

A. No. GASB statements will not affect what governments and school districts pay to fund the plans.

Q. How will local governments and school districts get the pension liability information?

A. TRA will annually calculate and report to each employer unit that unit's proportionate share of pension liabilities. These pension liabilities will be reported to the government unit or school district so that they can be shown as liabilities on balance sheets. Employers currently have no comparable reporting requirements in statements, footnotes or schedules. Instead, they report only their annual pension contributions.

Q. Do the new standards establish rules for how government units should fund pensions?

A. No. GASB said it is not within its scope to set standards establishing a specific method of funding pensions or to regulate a government unit's compliance with the funding policy or method it adopts. Funding pensions is a policy decision for government officials or other responsible authorities. In 2013 legislature enacted into law the funding standards the retirement systems have historically used.

Q. Won't people be alarmed if pension obligations loom large on employer balance sheets?

A. They shouldn't be. The GASB numbers will be somewhat confusing. The liability amount reported on the employer balance sheet will represent the employer's proportionate share of liabilities and will be paid down by employers' annual contributions and future investment earnings to TRA over many years. A June 2012 report from the Center for Retirement Research stated: "It would be unfortunate if the press and politicians characterized these new numbers as evidence of a worsening of the (pension) crisis when, in fact, states and localities have already taken numerous steps to put their plans on a more secure footing. … Policymakers should not let the new numbers throw them off course."

Q. What do the major bond rating agencies have to say about Minnesota pension obligations and local government units' health?

A. Moody's in August 2016: "Minnesota's retirement liabilities are below average, which affords it more financial flexibility than most other states. Its $10.5 billion adjusted net pension liability was 31% of revenues, which ranks 41st and is a fraction of the 50-state median of 59%, according to Moody's Fiscal 2014 Pension Medians report. During the 2010 legislative session the state enacted pension modifications, increasing employee contributions and reducing pension benefits." S&P, August 2016: "Given that the state's funding is based on a statutory formula, rather than contributing an actuarially determined amount, we could see deterioration of funded levels. In our view, this could place increased pressure on the state to the extent that its liability growth outpaces funding." Fitch in August 2015 offered favorable comments about Minnesota's unfunded pension liability being below average as a percent of personal income compared to other states.