TRA | TEACHERS RETIREMENT ASSOCIATION

60 Empire Drive • Suite 400
Saint Paul Minnesota 55103
800 657 3669 • fax 651 297 5999

GASB OVERVIEW

Without understanding the underlying framework, the GASB accounting valuation results can be misleading and create a distorted picture of pension systems' long-term financial health. GASB 68 requires 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 was 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 does GASB 68 require of school's financial reporting?
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 have to report their employer proportionate share of the pension obligation as a long-term liability on financial balance sheets. Under the old accounting rules, those government units only disclosed the annual contributions made 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 GASB 68 standards 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, GASB rules do not change what school districts and local governments owe in annual contributions to the retirement systems. The 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 home mortgage. Even though a homeowner might have a $100,000

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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 pay more for pensions because of GASB?
A. No. GASB statements will not affect what governments and school districts pay to fund the plans. A separate actuarial valuation report is prepared to assist Minnesota legislators in the setting of employee and employer contribution rates and benefit levels.

Q. How will local governments and school districts get the pension liability information?
A. TRA annually calculates and reports 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. TRA also prepares recommended footnote disclosures for the employer to include in the financial section of their Comprehensive Annual Financial Report (CAFR).

Q. Do the GASB 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, the Minnesota 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 balance sheets?
A. They shouldn't be. GASB numbers will be somewhat confusing. The liability amount reported on the employer balance sheet represents 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 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

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numerous steps to put their plans on a more secure footing. … Policymakers should not let the new numbers throw them off course.” The GASB typically reviews their pronouncements about 10 years after implementation to evaluate their effectiveness and document any weaknesses that should be corrected.

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

A. Fitch (July 2020) said that the state's AAA bond rating reflects Minnesota's solid and broad-based economy and the state's “low long-term liability burden”—including pension obligations. Moody’s (July 2020) assigned the state an Aa1 bond rating and reported that the state’s financial outlook is stable. Moody’s looks for, among other things, “a continuation of pension contributions that remain above the tread-water level.”