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GASB vote places unfunded pension liabilities on government balance sheets

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Unfunded pension liabilities will begin appearing on the balance sheets of U.S. state and local governments that provide defined benefit pensions under provisions of two GASB standards approved Monday.

GASB on Monday [approved](#) Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Financial Reporting for Pensions*. Statement No. 68 will require governments with defined benefit pension plans to disclose a “net pension liability” on their balance sheets.

That liability equals the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits. The statement calls for immediate recognition of more pension expense than is currently required. This includes immediate recognition of annual service cost and interest on the pension liability, plus the effect of changes in benefit terms on the net pension liability.

Existing standards for governments that provide defined contribution pensions are largely carried forward by the new standard. These governments will recognize pension expenses equal to the amount of contributions or credits to employees’ accounts, absent forfeited amounts. They will recognize a liability for the difference between amounts recognized as expense and actual contributions made to a defined contribution plan.

State and local governments will have to comply with the new standards if they prepare financial statements in conformity with generally accepted accounting principles in order to receive clean opinions from auditors on their financial statements.

The statements will be formally published within two months and will be available for download at [GASB's website](#) in early August.

Statement No. 68, which primarily relates to reporting by governments that provide pensions to their employees, is effective for fiscal years beginning after June 15, 2014.

Currently, the pension liability on a government’s balance sheet is based on the difference between the contributions they are required to make to a pension plan in a given year versus what they actually funded. The change reflects the view that pension costs and obligations should be recorded as employees earn them, rather than when the government contributes to a pension plan or when retirees receive benefits.

The pension obligation will take into account cost-of-living increases, future salary increases, and future service credits. The effects on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed, five-year period.

One actuarial method—“entry age”—will be used as a basis for the allocation of the present value to past and future years during which employees are expected to work; in the past, standards allowed a choice of six methods.

More extensive note disclosures and required supplementary information (RSI) also will be required of employers with defined benefit plans.

Statement No. 67 addresses reporting by pension plans that administer benefits for governments, and is effective for financial statements for periods beginning after June 15, 2013.

Statement No. 67 outlines the basic framework for the separately issued financial reports of defined benefit pension plans and details note-disclosure requirements for defined benefit and defined contribution pension plans.

“The new standards will improve the way state and local governments report their pension liabilities and expenses, resulting in a more faithful representation of the full impact of these obligations,” GASB Chairman Robert Attmore said in a statement.

The AICPA issued a news release supporting the new standards.

“The new GASB standards will benefit users of these financial statements, as well as taxpayers, since state and local governments for the first time will have to report unfunded pension liabilities in their balance sheets, providing a clearer view of pension obligations,” AICPA President and CEO Barry Melancon, CPA, CGMA, said in the release.

\$1.38 trillion funding gap

Pensions for public employees have been a controversial topic in recent years as local and state governments have struggled with costs in an economic downturn. A [report](#) by the Pew Center on the States, a national public policy think tank, indicates that the gap between states’ public employee retirement benefit obligations and the funds set aside to pay those benefits was approximately \$1.38 trillion in fiscal year 2010. That’s a 9% increase from the gap the previous year.

The report used the states’ own actuarial assumptions and did not reflect benefit cuts many state legislatures enacted in 2010 and 2011 to shore up their pension funds. Between 2009 and 2011, 43 states enacted benefit cuts, increased employee contributions, or both, according to the report.

In response to the Pew report, the National Public Pension Coalition (NPPC), which represents public-sector employees, criticized states’ pension-slashing policies.

GASB’s changes, however, relate only to accounting and financial reporting, not to how governments approach the funding of their pension plans. Attmore has said pension funding is a policy decision made by government officials.

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