



Communicating Changes in Financial Reporting Requirements to Governing Bodies

Overview

The Governmental Accounting and Standards Board (GASB) released two new standards in June 2012 for revised accounting and financial reporting related to public pension plans. These changes will significantly impact financial reporting requirements for the Montana Public Employee Retirement Administration (MPERA), Teachers' Retirement System (TRS) and employers who report to them.

Statement 68, and its amendment with Statement 71, replaces Statement 27 and sets the standards that will apply to state and local governments that provide pension benefits through public pension plans. This new standard significantly changes financial reporting requirements for MPERA and TRS employers; it is effective for fiscal years beginning after June 15, 2014 (initial implementation will be for the fiscal year ending June 30, 2015).

Accounting vs. Funding

Previous GASB reporting standards required employers to report only the amount that they were contributing toward the plan on an annual basis. The new standards require employers to report a portion of the total Net Pension Liability (NPL) on their balance sheet – even though no employer will be required to pay off this liability immediately, or in any accelerated manner.

The new statements no longer require disclosure of funding requirements; instead, they focus only on accounting and financial reporting issues – in other words, how pension costs and obligations are measured and reported in financial statements. Although the assigned portion of the NPL will be presented on the employer's balance sheet, contributions to MPERA and TRS will not be impacted by this change in reporting requirements. The Montana Legislature sets contribution rates for employers and members of the retirement system.

In the past, there was a close relationship between how governments fund pensions and how they

account for and report information. The new GASB requirements are a significant break away from a **funding-based** approach to an **accounting-based** approach; they are intended to improve accounting and financial reporting by state and local governments for pensions and increase transparency and comparability.

Net Pension Liability

The NPL, as defined by GASB, is the unfunded liability for pension benefits provided to plan members. The plan's NPL is determined by subtracting the plan's Fiduciary Net Position from the plan's Total Pension Liability (TPL), which is calculated each year by the MPERA and TRS actuaries. TPL accounts for all future benefit payments that will be made to all active and inactive plan members entitled to a retirement benefit.

The new GASB standards require each employer to report on their financial statements their proportionate share of the collective NPL of MPERA and TRS. The employer's proportionate share is established by the MPERA and TRS

actuaries by determining their contributions for the current year as a percentage of the current year total contributions from all MPERA and TRS employers. This percentage is then applied to major reporting elements, including the NPL, deferrals related to pensions and pension expense.

The NPL is unlike other liabilities reported on an employer's balance sheet – it is not immediately due and it cannot be paid off under any accelerated schedule. Since contribution rates are set by statute, employers cannot remit payments in addition to their statutory contribution rate and cannot remove the NPL from their financial statements.

New Pension Expense Measures

Employers will no longer report their actual contribution amount, as mandated by statute, as their Pension Expense. Instead, they will report the change in NPL from year to year and will include the following information:

- ♦ Annual cost of the current service accrual (Normal Cost);

- ♦ Interest on the TPL;
- ♦ Amortization of experience gains/losses, changes in assumptions, expected vs. actual investment earnings, and changes in plan benefits;
- ♦ Employee contributions;
- ♦ Administrative expenses;
- ♦ Expected return on plan assets.

This information will be prepared by the plans' actuaries and provided to each employer by TRS and MPERA. Information will be distributed in May 2015.

Footnote Disclosures

Previous GASB standards required employers to include basic footnote disclosures in their financial statements. The new standards will require additional footnote disclosures. Example footnote disclosure language will be provided by Department of Administration Local Government Services Division and the Office of Public Instruction.

Conclusion

If you have questions regarding the new GASB standards, please contact

State Accounting Bureau:
Julie Feldman (406-444-4609)
Anthony Cacace (406-444-4689)

Local Government Services:
Kay Gray (406-841-2903)

Office of Public Instruction:
T. Janelle Mickelson (406-444-3249)
Steve Hamel (406-444-0783)
Jay Phillips (406-444-4523)

MPERA:
Barbara Quinn (406-444-5457)
Diann Levandowski (406-444-3193)

TRS:
Nolan Brilz (406-444-3679)

Information will be provided on the following websites:

www.MPERA.mt.gov or www.TRS.mt.gov