

# **Accounting and Financial Reporting for Pensions an Amendment of GASB Statement 27**

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# Top 5 Definitions of an Actuary

# 5 A person who expects everybody to be dead on time.

# 4 An “extroverted” actuary is one who looks at your shoes when he talks.

# 3 A place to bury dead actors.

#2 A professional who can solve a problem that you didn't know you had and explain it in a way that you can't understand

#1 A person who wanted to be an accountant but couldn't handle all of the excitement.

# **How the Changes in This Proposed Statement Would Improve Financial Reporting**

Improve the consistency and transparency of the information reported by employers about pension transactions by requiring:

# Improved Financial Reporting Discount Rate

The use of a discount rate that would consider the availability of plan resources associated with the pensions of current and former employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether plan net position is projected to be sufficient to pay pensions and to be invested long-term.

# Improved Financial Reporting

## Discount Rate

24) For each future period, if the amount of plan net position is projected to be sufficient to make the benefit payments that are projected to occur in that period and assets are expected to be invested using a long-term investment strategy, the present value of benefit payments projected to occur in that period should be determined using the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions. The long-term expected rate of return should be based on the nature and mix of current and expected pension plan investments. The municipal bond index rate discussed in paragraph 22 should be used to calculate the present value of all other benefit payments, including those projected to occur in periods in which assets sufficient to make the projected benefit payments are projected to be available in the pension plan but those assets are expected only to be held for a short time such that there would be little or no opportunity to invest them using a long-term investment strategy.

# Improved Financial Reporting Discount Rate

Practical impact : **none** if plan is using a proper funding method and amortization periods.

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It could have been worse. **Much** worse.

Some respondents advocated a liability-based rate.

# Big Changes: Net Pension Liability

## Total Pension Liability-Plan Net Position

### Current

\$0 if funding ARC

### Proposed

AAL-MVA

(TPL-PNP)

As of the period end

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Will lead to a balance sheet liability where none existed before.

B/S liability will be extremely volatile.

# Big Changes: Pension Expense

## Current

ARC = funding

## Proposed

Two separate concepts

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Delinks pension funding and accounting.

More complex.

More costly.



# Big Changes: Pension Expense

## Current

NC

Amortization of UAL

## Proposed

Change in NPL

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Increased up-front expense.

More volatile.

Improved understandability?

# **B/C: Pension Expense**

## **Change in Total Pension Liability**

Service Cost

Interest on NPL

Benefit Changes

Actuarial Gains and Losses

Assumption Changes

Other Changes in TPL

# B/C: Pension Expense Projection of Benefits

## Current and Proposed

Projected salary increases

Projected service credits

Automatic COLAs

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If substantively automatic.

## Proposed

Projected Ad hoc

COLAs

# B/Changes: Pension Expense Funding Method

Current

6 to choose from

Proposed

EANC

.....

Most public entities already use EANC.

# Big Changes: Benefit Changes

Current

Amortized

Proposed

Immediate

.....

A big change in philosophy.

# B/C: Actuarial Gains and Losses

## Current

Amortized over stated  
time period

.....

Will increase volatility.

## Proposed

Amortized for actives  
over future svc. life

Immediate for others

# B/C: Assumption Changes

## Current

Amortized over stated  
time period

.....

Will increase volatility.

## Proposed

Amortized for actives  
over future svc. life

Immediate for others

# **B/C: Pension Expense**

## **Change in Plan Net Position**

Projected earnings

Investment gains and losses amortized using a  
“systematic and rational method over a closed  
five-year period”

All other changes in PNP



# Pension Expense: An Example

Police and Fire plan with 250 actives and 450 retirees  
Plan assets are \$107 million at market value and the  
AAL is \$195 mm

The ARC for 2010 is \$8,490,000

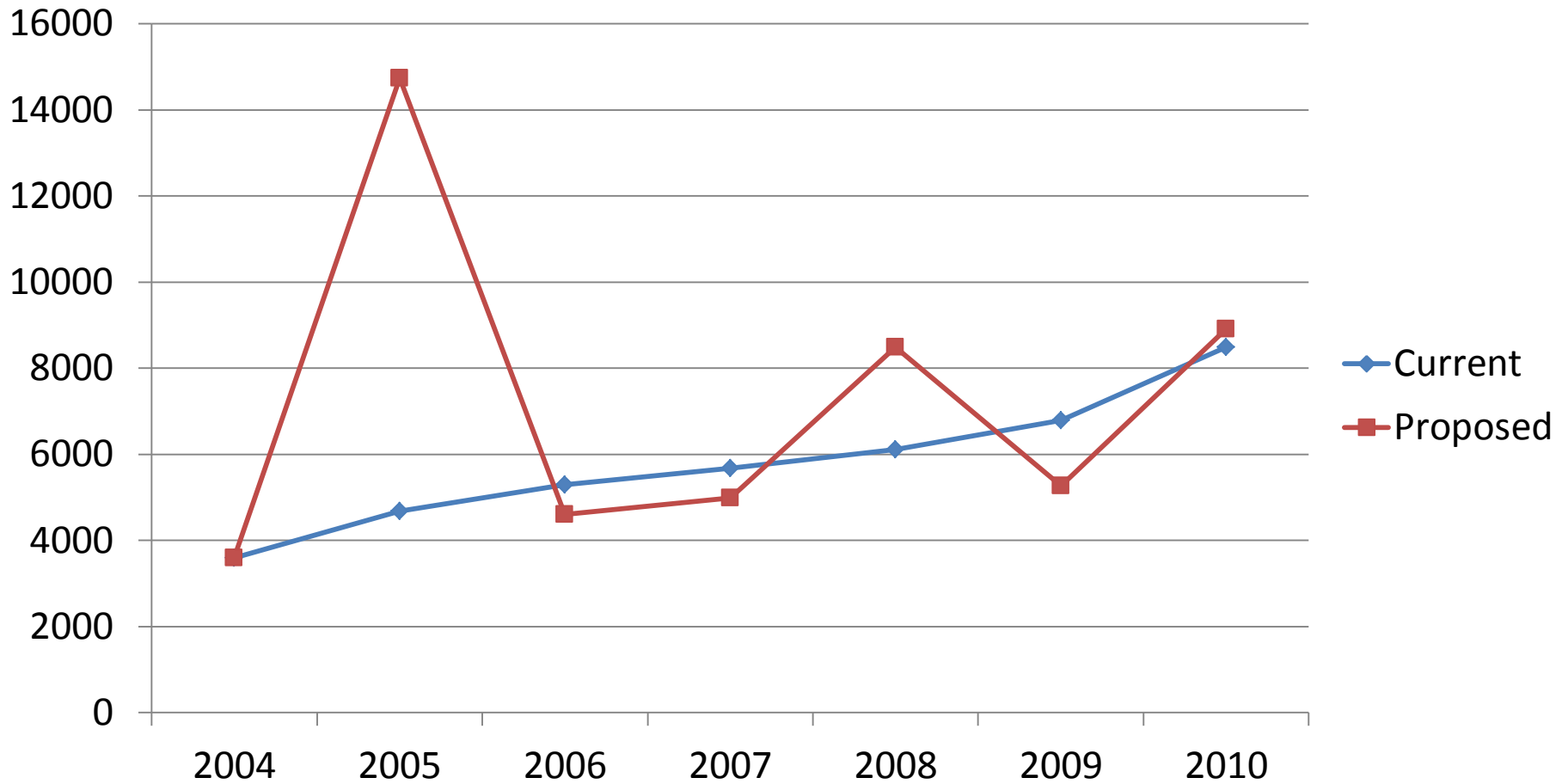
There was a benefit improvement in 2005 that  
increased the AAL by \$10.7 mm

There were assumption changes in 2008 and 2010 that  
increased the AAL by \$5.8 mm and \$4.0 mm

# Pension Expense: An Example

	<u>Current</u>	<u>Proposed</u>
2004	\$3,590	\$3,590
2005	4,680	14,730
2006	5,290	4,600
2007	5,680	4,990
2008	6,110	8,490
2009	6,790	5,270
2010	8,490	8,910

# Pension Expense An Example



# Notes to Financial Statements

NPL, change in NPL, deferred outflows and inflows  
of pension related resources, Pension Expense

Benefits provided, Composition of Ees covered

Assumptions

Plan Net Position

Changes in benefits/assumptions, gains/losses

Er & Ee cont., Benefits paid, Plan admin expenses

RSI [10 year schedules]

# Cost-Sharing Multiple-Employer Plans

## Current

Required contribution  
NC + Amort of UAL  
Usually stated as %  
of payroll

## Proposed

NPL & Pension Expense  
Based on proportionate  
share of collective NPL  
\* Er cont./Total Er cont.

.....

Will lead to a balance sheet liability where none existed before.  
Adds new complexity and loss of control by individual members.

# Comment Letters (193)

## Net Pension Liability

Disproportionate, volatile, inappropriate

Meets the definition of a liability

## Investment Experience

Immediate recognition

Infinite deferral

# Defined Contribution Plans

Pension expense = Required contribution  
net of forfeited amount

Pension liability = Expense - actual contrib.

Minimal disclosure

# Timing

Written Comments by Sept 30, 2011

Public Hearings: October, 2011

Statement Issued: June, 2012

Effective Dates: 1<sup>st</sup> FY beginning after

Very large [PNP > \$1B] plans 6/15/12

All other plans 6/15/13