Muni-*news*

a newsletter for Rhode Island municipalities

April 2014

Issued jointly by the:

- *Division of Municipal Finance, Department of Revenue*
- *Office of the Auditor General*

Planning for GASB's New Pension Accounting Standards

Two accounting pronouncements issued by the Governmental Accounting Standards Board (GASB) - Statements No. 67 and 68 - will have a significant impact on government financial statements beginning in fiscal 2014. For separately issued plan financial statements and municipalities with locally administered pension plans, changes will be required in 2014. In fiscal 2015, all government employers participating in a defined benefit pension plan will be required to make changes in their financial reporting.

The following is a brief summary of:

- the likely impact on fiscal 2014 and 2015 financial reporting depending upon which defined benefit pension plans (ERS, MERS, or locally-administered plans) cover a municipality's employees;
- ongoing planning activities at the State level to assist employers that participate in the state-administered ERS and MERS plans to implement the new standards;
- recommended planning activities if the municipality administers its own pension plan (a locally-administered pension plan); and
- resources available to help with the implementation of these new pension accounting standards and explain the impact of these standards on the financial reporting of governments to elected officials and citizens.

The new standards –

Statement No. 67 – *Financial Reporting for Pension Plans* (an amendment of GASB Statement No. 25) – effective for fiscal 2014 financial statements – generally impacts separately issued plan financial statements and governments that include a locally-administered pension plan as a pension trust fund within its financial statements.

Statement No. 68 – *Accounting and Financial Reporting for Pensions* (an amendment of GASB Statement No. 27) – effective for fiscal 2015 financial statements – applicable to the financial statements of any governmental employer contributing to a defined benefit pension plan for its employees.

Fiscal 2014 financial reporting –

If the municipality only participates in the state-administered ERS (teachers) or MERS plans and does not have a locally-administered defined benefit plan there will be no impact due to the new standards on a municipality's fiscal 2014 financial statements. However, significant financial reporting changes will occur in fiscal 2015 as described below.

If the municipality has a locally-administered pension plan(s), which is included as a pension trust fund within the financial statements, new note disclosures and required supplementary information (RSI) are required to be included within the financial statements **for fiscal** 2014. This information needs to be provided by the plan's actuary. Advance planning with the actuary to ensure this new data is available to meet the fiscal 2014 financial reporting/audit timeline is critical. GASB has outlined requirements regarding when the actuarial data must be measured. For locally-administered plans, a municipality and its actuary need to coordinate the measurement dates, any required changes in actuarial assumptions, and the timing of data provided to and from the actuary. GASB requires that decisions regarding measurement dates be consistently observed in future periods. This requires advance planning to ensure the new actuarial schedule is workable and can be adhered to going forward. When a municipality has a locally-administered plan, the fiscal 2014 financial reporting impact is limited to the inclusion of new note disclosures and RSI. Further financial reporting changes occur in fiscal 2015.

> Muni-*news* *is a new joint effort between the Department of Revenue and the Office of the Auditor General to communicate matters of interest to municipalities. This first newsletter, prepared by the OAG, highlights recommended planning considerations for the financial reporting impact of the new GASB pension accounting standards.*

Fiscal 2015 financial reporting –

For all government employers with employees participating in a defined benefit plan, the **net pension liability** will be recorded on the government-wide financial statements at June 30, 2015. The net pension liability will be calculated in accordance with the new GASB requirements and reflects the market or fair value of assets accumulated as of the measurement date. Under current accounting standards, a liability was recorded on the financial statements only when a government contributed less than the annual required contribution. The recording of the new net pension liability (for all defined benefit pension plans) will likely be a material liability on a government's financial statements.

Annual pension expense is generally the change in the net pension liability between years – this amount is different from the previous recognition of annual pension cost based on the annual required contribution. Certain actuarial gains and losses are deferred and amortized over a defined period as outlined in the standard rather than recognized immediately. The governmental fund level financial statements will still include contribution or funding based amounts as expenditures as opposed to the new pension expense amounts described above.

For employers who participate in multiple plans (e.g., a combination of state-administered and locally-administered plans) – the net pension liability and pension expense recorded on the government-wide financial statements will be a composite of all the defined benefit plans. For a cost-sharing plan, such as ERS which includes teachers, the municipality will recognize their proportionate share of the ERS plan's net pension liability and pension expense.

For employers participating in the state-administered ERS and MERS plans, the data needed to meet the new net pension liability, pension expense, and note disclosure requirements will be provided by the Employees' Retirement System of Rhode Island (ERSRI) and the Office of the Auditor General (OAG). ERSRI's actuary will calculate and provide the new GASB required information including each participating employer's proportionate amounts. ERSRI's actuary will also provide the new information for each participating employer in the MERS plan (an agent plan). The OAG will audit and opine on the data provided by ERSRI's actuary. This will allow the auditor of a municipality's financial statements to rely on the audited data provided by ERSRI with only minimal tests of the data.

Planning between ERSRI, ERSRI's actuary, and the OAG is underway to coordinate specific responsibilities and the timeline to ensure that employers participating in plans administered by ERSRI have GASB compliant, audited data available to meet their financial reporting needs for fiscal 2015.

For locally-administered plans, the data needed for fiscal 2015 financial reporting will again largely be provided by the plan's actuary. Planning decisions made to meet the fiscal 2014 financial reporting considerations for a municipality with a locally-administered plan should facilitate obtaining the information needed to record the net pension liability and pension expense.

Conclusion -

Due to the complexity of these new pension accounting standards, municipalities should immediately begin planning with their actuary and auditor to ensure all the necessary information will be available for inclusion in their financial statements.

The significant changes in financial reporting and actuarial information provided for pension plans should be discussed in advance with elected officials and those charged with governance.

Additional training opportunities are planned to assist Rhode Island municipalities in meeting the new pension accounting standards. These future training events will include detail about the nature and timing of information for the state-administered ERS and MERS plans.

Technical Resources -

GASB has good implementation guidance on its website at gasb.org . Copies of the statements, implementation guides in a Q&A format, podcasts, and other related guidance materials are available at no cost. *Links to guidance materials:*

- About the new standards

http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163528472

- Implementation toolkit

http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163527940

The Government Finance Officers Association (GFOA) has the following document available for purchase:

An Elected Official's Guide: The New Pension Accounting

http://gfoa.org/downloads/GFOA2013EOGNewPensionAccounting.pdf

Newlsetter policy: This newsletter is intended to provide municipal officials and other interested parties with general information on matters of interest to municipalities. It is neither designed nor intended to address complex issues in detail. Accordingly, guidance provided in this newsletter cannot replace specific guidance provided to a municipality.

This newsletter will typically be published quarterly.

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