GASB Q&A

Q. What is GASB?

A. The Governmental Accounting Standards Board (GASB) is an independent organization responsible for developing standards for accounting and financial reporting by state and local governments. GASB works to improve governmental accounting and is recognized as the official source of generally accepted accounting principles (GAAP) for state and local governments. In June 2012, GASB issued two pension reporting standards that impact accounting and financial reporting requirements for pension plans and employers participating in the plans.

Q. Who do the new pension reporting standards impact and when are they required to be implemented?

A. GASB Statement No. 67 impacts reporting by public pension plans that administer benefits and was effective for fiscal periods beginning after June 15, 2013. PEBA, administrator for the South Carolina Retirement Systems (Systems), implemented the requirements of this statement in the Systems' June 30, 2014, Comprehensive Annual Financial Report.

GASB Statement No. 68 impacts reporting by employers participating in the Systems that issue GAAP-based financial statements and is effective for fiscal periods beginning after June 15, 2014.

Q. How exactly do the new GASB 68 requirements impact participating employers?

A. GASB 68 has a significant impact on accounting and financial reporting of pension costs and obligations for employers participating in the Systems that prepare GAAP-based financial statements in that it separates the accounting for pension costs and obligations from the funding of pension costs and obligations. GASB 68 requires participating employers to:

- Recognize and report in their financial statements a proportionate share of the plan's net pension liability (NPL) on the face of their government-wide financial statements.
- Record pension expense in accordance with an actuarially determined pension expense rather than in accordance with actual contributions remitted to the plans based on rates established by state law.
- Record deferred inflows and outflows for some of the changes in the NPL, which defers a portion of the change to future periods.
- Include significantly expanded note disclosures and required supplementary information as it relates to the employer's participation in the plans.

Q. How are pension costs determined?

A. For GASB reporting purposes, external consulting actuaries for the Systems will calculate the pension costs for each plan (NPL, pension expense, deferred inflows and outflows of resources) as part of an annual engagement which is separate from and in addition to the normal annual actuarial valuation which is performed for funding purposes. They will provide schedules containing the information required for reporting purposes, along with the employer's proportionate share of the costs using contribution data supplied by PEBA. The information will be used to develop schedules which will also be audited and provided to employers.

Q. How is each employer's proportionate share determined?

A. An employer's proportionate share is based on employer contributions remitted by the employer relative to total employer contributions remitted to the plan by all participating employers. Employers that participate in more than one plan (i.e. the South Carolina Retirement System and the Police Officers Retirement System) will receive a proportionate share for each plan in which they participate.

Q. What is the difference between the actuarial valuation performed annually for funding purposes and the valuation work performed by the actuary for pension accounting purposes?

A. Actuarial valuations are performed annually by an external consulting actuary for the systems to ensure the applicable contribution rates satisfy the funding parameters specified in Title 9 of the South Carolina State Code of Laws (valuation for funding purposes). Under these provisions, contribution requirements must be sufficient to maintain an amortization schedule for financing the unfunded actuarial accrued liability over a period that does not exceed 30 years. However, the requirements of GASB 68 for pension reporting purposes do not specify a required funding period.

In addition, the method used in determining the net pension liability is different from the method used in the determination of the actuarial funded status of the plans where fluctuations in market value are recognized using actuarial smoothing methods. Smoothing techniques defer investment gains and losses to dampen the short-term volatility inherent in investment markets by allowing only a portion of investment gains and losses to be recognized each year. This helps mitigate sharply fluctuating market returns over a long-term period and is intended to produce an actuarial asset value that is fairly consistent with market values during periods of ordinary investment returns. Smoothing is intended to result in more stable contribution rates and a more level funded status, and is also a valuable methodology for governmental entities because it permits budgetary planning over more than one fiscal year. This objective is much different than the objective of the valuation work performed by the actuary for pension reporting purposes, which is to record the financial events that affect the total pension liability when they occur. As a result, pension accounting calculates the total pension liability using the fair market value of investments at a point in time and uses a short-term amortization period for components of the total pension liability. This may result in a larger liability in the financial statements than amounts disclosed using the previous calculation method for actuarial funding purposes. The GASB requirement of determining the value of assets on hand to cover benefits is tied more closely to "fair market value," and as a result of unpredictable changes in investment market values, may result in more frequent and larger fluctuations in the amount of the pension plan's NPL for reporting purposes.

Q. How will the implementation of GASB 68 impact contribution rates?

A. The implementation of GASB 68 will not directly impact contribution rates. The amounts being recorded by participating employers in order to comply with the requirements of GASB 68 are for accounting/reporting purposes only and are completely separate from the funding calculation. The new GASB requirements completely disconnect the accounting for pensions from the funding of pensions. Contribution requirements will continue to be set in accordance with Title 9 of the South Carolina Code of Laws, whereby rates are either set in statute or calculated as part of the annual actuarial valuation for funding purposes and voted on by the PEBA Board and the Budget & Control Board (State Fiscal Accountability Authority as of July 1, 2015).

Q. What is the meaning of the NPL that will be reflected in participating employers' financial statements under GASB 68?

A. The NPL required to be recorded in participating employer financial statements is an accounting estimate of the employer's proportionate share of the plan's unfunded portion of the total pension liability at a specific point in time. The unfunded portion will change from one year to the next and is based on assumptions about the probability of the occurrence of events far into the future. Those assumptions include life expectancy, anticipated length of covered service, projected salaries, and expected pension trust fund investment returns. It is important to point out that participating employers are not allowed to make additional contributions in an attempt to pay down or pay off their proportionate share of the NPL. In addition, employers cannot discontinue their participation in the plan as the election to participate is irrevocable.

Q. Why doesn't pension expense calculated under GASB 68 agree with contributions remitted to the plans?

A. Previously, an employer's pension expense would have consisted of employer contributions actually paid as required by state law to help fund the pension plan; however, the new standards require the recognition of additional items as pension expense on the financial statements in order to record the change in the NPL from the previous period. Under GASB 68, pension expense is an actuarially calculated figure that will not agree with actual contributions remitted. Employers will continue to be responsible for paying only the required contribution amount in accordance with state law with contribution rates also approved by the PEBA Board and Budget & Control Board (State Fiscal Accountability Authority as of July 1, 2015).

Q. Is PEBA planning to provide schedules that show an employer's proportionate share of the net pension liability at any period other than June 30?

A. No, PEBA will not provide information regarding the net pension liability for any other fiscal period end (e.g., September 30, December 31, or March 31) since the measurement date must align with the Systems' year end, which is June 30. This is the measurement date determined by PEBA and for which the information will be provided to participating employers annually.

Q. Is PEBA engaging an external audit firm to report on the schedules containing pension costs?

A. Yes, PEBA worked with the State Auditor's Office to engage CliftonLarsonAllen to audit the underlying employer census data and actuarial schedules in order to provide a separate audit opinion for each fiscal year. The schedules and related opinion will be as of the June 30 measurement date (June 30, 2014, will be the first measurement date for which the schedules and opinion will be provided and the audit report is expected to be available before June 30, 2015).

Q. Does PEBA have a June 30 schedule showing the allocation of proportionate share by employer?

A. Yes, PEBA currently has an unaudited workbook containing schedules for the June 30, 2014, measurement date, which is an acceptable measurement date for employers to use for implementation at June 30, 2015. This workbook lists the liability under SCRS & PORS individually, so employers who report contributions under each will have to pull their proportionate share of the NPL for each plan separately. The schedules are available here. The schedules list the information by the Retirement System employer code under which retirement contributions are remitted to PEBA (XXX.XX).

Q. I am an employer with a fiscal year end other than June 30 (September 30, for example). What should I expect as it relates to obtaining pension cost information that can be utilized in our initial implementation period?

A. Employers with fiscal periods ending after June 30, 2015, will be required to use the June 30, 2015, measurement date for their initial measurement period. The June 30, 2015, audited financial statements of the Retirement Systems are not required to be completed until October 15, 2015. Although PEBA will finish the statements as quickly as possible, we cannot guarantee that they will be completed before this date. Once the financial statements are completed, PEBA will provide its consulting actuary with the information needed to complete the valuation work and report on the Total Pension Liability and Net Pension Liability as of June 30, 2015. Once that information is completed and made available to PEBA, it will be provided to employers in an unaudited format; however, the schedules will not be considered final until the audit of the schedules and underlying census data is completed and the audit report is issued. The annual audit process will begin as soon as possible after the schedules are provided by the actuary. For the June 30, 2014, measurement date, PEBA posted the unaudited information on its website by October 19th; however, because this was the initial year of implementation, the audit engagement did not begin until January 2015, and the audit is not expected to be completed until May 29, 2015. While PEBA does not anticipate this much of a delay going forward, we do not know the exact timeline for the audit, and therefore, the audit opinion for the June 30, 2015, measurement date.