Overview of GASB Pension Statements

The Governmental Accounting Standards Board (GASB) approved two new statements in 2012 that changed the way a public retirement system like the North Dakota Teachers' Fund for Retirement (TFFR) discloses its pension information. All financial disclosures made by TFFR are contained in the audited financial statements in the *Comprehensive Annual Financial Report* (*CAFR)*. TFFR is a cost-sharing multiple-employer defined benefit pension plan and serves as the retirement plan for more than 200 public employers (primarily school districts) in North Dakota.

GASB Statement No. 67, *Financial Reporting for Pension Plans,* affects the financial statements of the TFFR plan. Statement No. 67 replaces the requirements of Statement No. 25, and is effective for fiscal years beginning after June 15, 2013. TFFR began including these new requirements in the June 30, 2014 financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* affects the financial statements of TFFR participating employers. Statement No. 68 replaces the requirements of Statement No. 27, and is effective for fiscal years beginning after June 15, 2014. The majority of TFFR employers began including the new requirements in their June 30, 2015 financial statements.

The GASB statements are a change from the way financial disclosures were made in the past. **TFFR provides much of the required GASB 68 financial reporting information for each employer; however it is the responsibility of the employer and employer auditor to correctly incorporate the information into employer financial statements.**

The GASB standards relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited financial reports. While there has historically been a close relationship between how governments fund, account for, and report pensions, the new guidance establishes a decided shift in financial reporting for pensions from a funding-based approach to an accounting-based approach. This shift was designed to improve pension information and increase transparency, consistency, and comparability of pension information across governments.

Historically, GASB viewed an unfunded pension obligation as a liability to be reported in future financial statements, rather than as an existing liability of the employer or plan. Information about the actuarial accrued liability was disclosed in the plan's footnotes and required supplemental information on an actuarial basis.

GASB has redefined the calculation of a pension liability to value the accumulation of each employee's work to the date of the pension valuation. The total pension liability is offset by the market value of assets in the plan to arrive at the Net Pension Liability.

GASB 68 requires employers to report their proportionate share of the Net Pension Liability on their Statement of Net Position (balance sheet). For TFFR employers, each employer's proportionate share is calculated based upon the employer's payroll divided by the total payroll of all employers reported to TFFR for the past year. This calculation may fluctuate from year to year.

The calculation for pension expense for employers also changed, and deferred inflows and outflows of resources related to pensions are reflected on the financials. There are substantial financial statement note disclosures and additional required supplementary information related to the employer's participation in TFFR.

It is important to note that the GASB 67 & 68 reporting requirements apply only to accounting and financial reporting. They do not apply to funding, and will not be used to determine statutory contribution requirements. The new requirements will not change the actual pension liability - only where and how pension costs are accounted for in financial statements.

The GASB requirements will not necessarily reflect the financial condition of a governmental entity because a pension liability cannot be made immediately due and payable to plan beneficiaries. In an instance where there might be a surplus attributable to the pension plan, the assets ultimately belong to the employees, retirees, and beneficiaries of the plan and not to the governmental employer. The assets cannot be used for any purpose other than to pay retirement distributions to employees once they are eligible to receive them.