# GASB Pension Reporting Questions and Answers

## Changes to GASB Pension Reporting Standards Impact Employers' Financial Statements and Disclosure for 2015

The Governmental Accounting Standards Board (GASB) has issued public pension accounting standards that take effect in fiscal year 2015 for all state and local governments. The new standards include GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* These new standards apply to employers participating in the following defined benefit pension plans: Arizona State Retirement System (ASRS), Public Safety Personnel Retirement System plan (PSPRS plan), Corrections Officer Retirement Plan (CORP), Corrections Officer Administrative Office of the Courts Retirement Plan (CORP AOC), and Elected Officials Retirement Plan (EORP). The Public Safety Personnel Retirement System (PSPRS) administers all of the plans except the ASRS.

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

It is important to note that these new GASB statements apply only to accounting and financial reporting. They do not apply to a plan's funding methodologies and will not be used to determine contribution requirements. Despite the new accounting and reporting requirements, the actual cost of providing pension benefits will not change.

### Overview and reporting

#### What will change for employers?

GASB Statement No. 68 will have a significant impact on financial statements. It requires employers to report their net pension liabilities (unfunded liabilities) in the financial statements, along with the corresponding calculated pension expense and deferred outflows/inflows of resources related to pensions. There will be extensive footnote disclosures and additional required supplementary information.

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**How is the Net Pension Liability (NPL) determined?**
The net pension liability is equal to the difference between the total pension liability and the fair value of pension plan assets (the fiduciary net position) as determined by each pension plan. If the fair value of pension plan assets exceeds the total pension liability, the employer government would report a net pension asset.

**How will the Net Pension Liability be reported in the employer's financial statements?**
Employers will report the net pension liability in the government-wide financial statements within the category noncurrent liabilities due in more than 1 year. If the employer has a net pension asset, it may not combine the asset with other plans' net pension liabilities. The government would report the net pension asset as a separate line on the financial statements.

Also, following the guidance in the GASB 68 Implementation Guide and NCGA Statement No. 1, paragraph 24, if long-term liabilities are directly related and expected to be paid from proprietary funds, they should be allocated to the business-type activities and reported in the proprietary fund statements. Employers may always consider materiality in determining allocations. Accordingly, all amounts related to pensions, including the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, should be allocated to the business-type activities and reported in the proprietary fund statements.

**What is the measurement date for reporting the net pension liability in the employer's 2015 financial statements?**
The measurement date of the net pension liability for the state pension plans is June 30, 2014. Because it would be difficult to obtain an actuarial valuation of the net pension liability as of the employer's fiscal year-end and issue timely financial statements, GASB made such an accommodation.

**How will pension expense be calculated and reported?**
Pension expense is the change in the net pension liability adjusted for changes in deferred outflows and inflows of resources related to pensions. Employers will report pension expense in the government-wide financial statements in the same manner as other employee benefit expenses. GASB Statement No. 68 does not change the calculation and reporting of pension expenditures, employer contributions, in the governmental fund statements.

**If the employer has multiple PSPRS plan or CORP plans, does the employer need to report each pension plan separately?**
GASB Statement No. 68 requires employers to report a separate defined benefit pension plan if the plans assets are accumulated solely for the payment of benefits to a certain group of employees and may not legally be used to pay benefits of other groups. Accordingly, PSPRS plan and CORP plans for different employee groups should be reported as separate

plans in the notes to the financial statements. However, all pension plans' pension amounts may be combined on the face of the financial statements. Also, the employer may choose to exclude certain plans because of their insignificance to the financial statements and note disclosures.

**Are sample financial statements and disclosures available?**
Yes, the Office of the Auditor General's (Office) 2015 reporting guidelines include example financial statements, footnote disclosures, and required supplementary information that address the reporting requirements of GASB Statement Nos. 68 and 71 and include the required specific information for Arizona's pension plans. These reporting guidelines are available at www.azauditor.gov/reports-publications/reporting-guidelines.

Also available at the above link, the Office has developed sample journal entries showing how employers will record the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense as well as the beginning net positon adjustment.

## Where to obtain the pension amounts

**What pension data will the retirement plans provide?**
The plans will provide each employer with its net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense. Also, plans will provide the data required for the footnote disclosures and required supplementary information, except for fiscal year 2015 employer contributions and covered-employee payroll amounts.

**When will employers receive actual data from the pension plans?**
The ASRS employer schedules are available at this link: Schedules of Employer Allocations and Pension Amounts by Employer. The ASRS also has other GASB Statement No. 68 implementation information available on its Web site at www.azasrs.gov/content/gasb-information.

The PSPRS plan and CORP actuarial reports and schedules are available at this link: Actuarial Report and Schedule of Changes in Fiduciary Net Position by Employer.

The PSPRS anticipates providing actual data for CORP AOC and EORP in September or October 2015.

# GASB Pension Reporting Questions and Answers

## Using Plan-Provided Data

### ASRS

**Which documents should ASRS employers use to obtain amounts for their financial statements?**

Employers should obtain required information from the following ASRS-provided documents:

- Audited *Schedule of Employer Allocations*
- Audited *Schedule of Pension Amounts by Employer*
- *Schedule of Net Deferred Outflows and Inflows of Resources by Employer to be Recognized in Pension Expense, Five Years and in Aggregate Thereafter*.

**Are the ASRS employer schedules by reporting entity?**

No, the ASRS schedules are by the ASRS employer number. A government's reporting entity may have multiple ASRS employer numbers. Amounts on the ASRS employer schedules for all of the reporting entity's employer numbers should be combined and reported as a single plan.

**How are the contributions in the ASRS *Schedule of Employer Allocations* determined?**

The *Schedule of Employer Allocations* reflects the employer portion of retirement contributions for pay periods ending in the fiscal year. Employer retirement contributions include the active member rate and the Alternative Contribution Rate (ACR). The *Schedule of Employer Allocations* contribution amount excludes employee contributions, as well as employer contributions for the health benefit supplement (HBS) and long-term disability (LTD).

The employer contribution rates for fiscal years 2013 through 2015 were:

| | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|
| **Total Active Member** | **11.14%** | **11.54%** | **11.60%** |
| Retirement Rate | 10.25 | 10.70 | 10.89 |
| HBS Rate | 0.65 | 0.60 | 0.59 |
| LTD Rate | 0.24 | 0.24 | 0.12 |
| **Total ACR** | **8.64%** | **9.20%** | **9.57%** |
| Retirement Rate | 8.23 | 8.82 | 9.31 |
| HBS Rate | 0.23 | 0.20 | 0.20 |
| LTD Rate | 0.18 | 0.18 | 0.06 |

# GASB Pension Reporting Questions and Answers

**Is the ASRS-provided deferred outflows and inflows amortization schedules by measurement year or reporting year?**

The ASRS' amortization schedule of deferred outflows/inflows is by measurement year. The ASRS schedule's measurement year 2015 would correspond to fiscal year 2016 for reporting these amounts in the employer's footnotes.

## PSPRS plan and CORP

**Which documents should PSPRS plan and CORP employers use to obtain amounts for their financial statements?**

In this first year, the employers will need to obtain required amounts from a few sources and make some mathematical adjustments for their financial statements, note disclosures, and required supplementary information. The mathematical adjustments are needed because of differences between the audited and actuarial amounts as explained in PSPRS' *Crosswalk between Financial Actuary Report, CAFR and Schedule of Changes in Fiduciary Net Position by Employer* (Page 38 – PSPRS and Page 12 - CORP). An Excel document with an example of how to perform the mathematical adjustments described below is attached and may be opened by clicking the following icon:

Employers will need the following PSPRS-provided documents:

- Employer's individual *GASB Statement No. 68 Employer Reporting Accounting Schedules—Actuarial Report (Actuarial Report)*
- Audited *Schedule of Changes in Fiduciary Net Position* by individual employer

Employers should obtain the following required pension information from the noted documents and make any needed mathematical adjustments, as follows:

1. Total pension liability, changes in the total pension liability, deferred outflows of resources, and deferred inflows of resources for the
   - Differences between expected and actual experience and
   - Changes of assumption or other inputs.

   *Obtain from the Actuarial Report.*

2. Fiduciary net position and changes in the fiduciary net position.
   *Obtain from the Schedule of Changes in Fiduciary Net Position.*

3. Beginning and ending net pension liability.
   *Obtain the total beginning/ending pension liability amounts from the Actuarial Report and the beginning/ending fiduciary net position amounts from the Schedule of Changes in Fiduciary Net Position. Subtract the beginning/ending fiduciary net position from the beginning/ending total pension liability.*

4. Deferred inflows of resources for the net difference between projected and actual earnings on pension plan investments.

   *Calculate as follows because this deferred inflow amount reported in the Actuarial Report was improperly reduced by administrative expenses:*

   a) *Obtain the administrative expenses from the Schedule of Changes in Fiduciary Net Position and divide it by 5. This provides the annual amortization of administrative expenses that was used in the Actuarial Report.*
   b) *Multiply the annual amortization of administrative expenses by 4. Add this amount to the Actuarial Report's deferred inflows of resources for the net difference between projected and actual earnings on pension plan investments. This adjustment is needed because the Actuarial Report's 2014 deferred inflows amount was reduced for 4/5 of the administrative expenses, and pension expense included 1/5 of the administrative expenses.*

5. Amortization of deferred outflows and inflows to be recognized in future periods and included in the schedule in the notes to the financial statements.

   a) *For fiscal years 2016 through 2019: Obtain the amortization schedule of deferred outflows and inflows for future periods reported in the Actuarial Report and subtract the annual amortization (1/5) of administrative expenses calculated in 4.a above from each annual amount.*
   b) *For fiscal years 2020 and thereafter: Obtain annual amortization amounts from the Actuarial Report.*

6. Pension expense.

   *Pension expense in the Actuarial Report includes the transfer of assets from the pension fund to the health insurance fund at July 1, 2013, and does not include the 4/5 of administrative expenses that reduced the deferred inflows described in 4 above. Therefore the following adjustments are needed to determine pension expense:*

   a) *Obtain the beginning fiduciary net position from the Schedule of Changes in Fiduciary Net Position and obtain the beginning fiduciary net position from the Actuarial Report. The difference between these amounts is the health insurance fund transfer amount.*
   b) *Obtain the pension expense from the Actuarial Report and perform the following:*
      - *Subtract the health insurance fund transfer amount calculated in 6.a above.*
      - *Add 4/5 of the administrative expenses calculated in 4.b above.*

If employers choose to use all amounts from the *Actuarial Report* without adjustments, it may not materially misstate their financial statements and note disclosures. However, in future years, the System's actuary will report each plan consistently with the audited amounts. Accordingly, because the actuaries' reporting of administrative expenses at the 2014 measurement date affects multiple years, if an employer does not make these adjustments for administrative expenses, the employer will need to make adjustments in future years. In addition, please note that the *Schedule of Changes in Fiduciary Net Position* includes an audit opinion for each employer that the employer and its auditor may rely on under the audit guidance discussed below. Employers choosing to not use this report and to not make these adjustments should discuss this with their auditors.

**What is the difference between covered valuation payroll reported in the PSPRS plan and CORP Actuarial Reports and covered-employee payroll that is required to be disclosed in the required supplementary information?**
Covered valuation payroll included in the Actuarial Report is an estimate of payroll subject to pension contributions that is calculated based on employer contributions during the year for active members at June 30. Covered-employee payroll is the total payroll, whether or not subject to pension contributions, of all employees during the year that are provided with pensions through the pension plan.

# Suggested Evidence and Audit Guidance for Employer-Reported Pension Amounts and Disclosures

The American Institute of Certified Public Accountants' (AICPA) March 2015 Audit and Accounting Guide, *State and Local Governments* (AICPA Audit Guide), includes guidance related to accounting, financial reporting, and auditing considerations for governmental defined benefit pension plans and participating employers in those plans. Chapter 13, Parts II and III, provides specific accounting, financial reporting, and auditing considerations for agent and cost-sharing plans, respectively. In addition, Chapter 13, Appendices A and B, mostly reiterate what was in the AICPA pension whitepapers issued in 2014 and include further guidance for agent and cost-sharing plans, respectively. Employer governments and their auditors will need to understand the AICPA's guidance to help ensure that they have sufficient and appropriate evidence to support the reported pension amounts and disclosures.

**Why do employers need pension plan information and auditor reports other than a plan's audited financial statements and its actuarial report?**
The reasons differ for agent and cost-sharing plans. However, in both cases, a plan's audited financial statements do not include all the information needed and do not include any information at an individual employer level.

**Will the State's pension plans follow the recommended guidance for employers and their auditors?**
Yes, the State's pension plans have followed specific options recommended in the original AICPA whitepapers. These options differ for agent and cost-sharing plans. The information needed by employers and their auditors is already available on the ASRS Web site. The PSPRS will provide information for all the other State's plans that will also be available through its Web site.

# GASB Pension Reporting Questions and Answers

## ASRS—Cost-sharing multiple-employer plan

**What specific guidance has the ASRS followed and what information has it provided for employers and their auditors?**

As mentioned above, the ASRS has provided a schedule of all required pension amounts allocated to individual employer accounts and has included further information for employer note disclosures. The ASRS auditors issued an unqualified opinion on the collective pension amounts and the allocation schedules. The auditors' report is important for employers because the AICPA issued an interpretation that an employer and its auditor may rely on the plan auditors' reports as evidence over the allocated pension amounts. However, the AICPA Audit Guide, Chapter 13, includes suggested procedures that each employer auditor should perform to evaluate the plan's allocation of pension amounts and the auditors' competence.

Lastly, to opine on the ASRS schedules and CAFR, specifically because the collective net pension liability is disclosed in the notes to the CAFR, the ASRS auditors needed evidence over active members' census data that the actuary used in calculating total pension liability. Because active members' census data evidence is maintained by each employer, to gain appropriate evidence, the ASRS auditors chose the suggested option of sampling employers' active members and obtaining certain census data supporting records from each sampled employer. In future years, the ASRS has stated that it plans to continue to provide the pension allocation schedules and exercise the option of testing active members' census data.

## PSPRS plan and CORP—Agent multiple-employer plans

**What specific guidance has the PSPRS followed and what information will it provide for employers and their auditors?**

Agent plans differ from cost-sharing in that each individual participating employer has essentially its own single pension plan with its own fiduciary net position, pension liability, and required contributions. All participating employers' assets are pooled for investment purposes only. Therefore, each employer and its auditor needs sufficient evidence over pension information, including the fiduciary net position, total pension liability, deferred outflows/inflows of resources, and pension expense, along with note disclosure information.

For individual fiduciary net positions, the PSPRS will prepare a spreadsheet of individual employer schedules of changes in fiduciary net position for both the PSPRS plan and CORP, and the auditors will issue an opinion on each individual employer's schedule. For evidence over pension amounts, the plans' actuaries have prepared individual employer actuarial reports with certification letters to each employer. Those reports include the employer plan's total pension liability, deferred outflows/inflows of resources, and pension expense, along with information employers will need to disclose in their financial statements. The AICPA issued interpretations that employers and their auditors may rely on the auditor's opinion over the fiduciary net position and may also rely on the work of the actuary as a management specialist. However, the AICPA Audit Guide, Chapter 13, includes suggested procedures that each employer auditor should perform to evaluate the plan's schedules and actuarial reports, including discount rate calculations, along with the auditor's and actuary's competencies.

Finally, for agent plans, because the total pension liability amounts are only available in the actuarial reports and are never opined on, the underlying census data needs additional work so that employers and their auditors have sufficient evidence over the total liability. For the retired and inactive members' census data, the plan auditors have performed work and will issue an attestation report with assertions indicating steps performed so that employer auditors have evidence over the accuracy of that census data. However, because each employer government maintains the active members' census data evidence, the employer's auditor needs to audit active members' census data, and the AICPA Audit Guide provides guidance.

## EORP and CORP-AOC—Cost-sharing multiple-employer plans

**What specific guidance has the PSPRS followed and what information will it provide for employers and their auditors?**

Both of these plans are cost-sharing plans like the ASRS, except much smaller. These plans are administered by the PSPRS, and the information that it will provide and the process used are very similar to the ASRS' process as described above.