

The State of Montana

# Public Employee Retirement Administration (MPERA) Teachers' Retirement System (TRS)



## **GASB 68** **Implementation Series**



Guidance for Employers



# GASB 68: TOPIC 1

## BACKGROUND



### Presentations in the GASB 68 *Implementation Series*

1. Background
2. Types of Plans
3. Measurement & Reporting Dates
4. Net Pension Liability
5. Financial Statements



# Recommendation



If you are new to the **GASB 68** material  
we recommend you view  
the **BACKGROUND** presentation first

# Disclaimer

- This presentation is intended for information and educational purposes only;
  - *it is not a substitute for professional accounting, legal, or other advice*
- Information is based on materials publicly available from the Governmental Accounting Standards Board (GASB)
- We strongly recommend that you seek the advice of a qualified professional



# What is GASB?

- Governmental Accounting Standards Board
  - *Independent organization*
- Establishes standards of accounting and financial reporting for State and Local governments
- Established in 1984 by
  - *National associations of state and local governments*
  - *Financial Accounting Foundation (FAF)*



# What is GASB?

- Recognized as the official source of generally accepted accounting principles (GAAP) for State and Local governments
- Non profit entity
  - *Component of FAF*
  - *Not a government entity*
- Does not have enforcement authority
  - *Compliance is enforced through state laws and the audit process*



# What are GASB Standards?

- GASB determines the standards for financial reporting for entities required by law to follow GAAP including:
  - *Public pension systems*
  - *Employers who participate in public pension systems*
  
- Previous standards were set in 1994
  - *Public pension systems: GASB 25*
  - *Employers: GASB 27*



# Old Standards: GASB 25 & 27

- Accounting and funding liabilities were often the same and interconnected
- Employers recorded the difference between the actuarially required contribution (ARC) versus what the employer actually contributed as a liability
- Actuarial valuation numbers were used for accounting and funding purposes





# New Standards: GASB 67 & 68

- New standards were set in June 2012
- Public pension systems (*TRS & MPERA*)
  - *GASB 67 replaces GASB 25*
  - *Became effective for Fiscal Year 2014*
  - *Does not directly impact employers*
- *Employers* who participate in TRS and/or MPERA
  - *GASB 68 replaces GASB 27*
  - *Becomes effective for Fiscal Year 2015*



# Purpose for Changes

- GASB designed the new standards to:
  - *Shift financial statements from funding approach to accounting approach*
  - *Improve the “decision-usefulness” of reported pension information*
  - *Increase transparency, consistency and comparability of pension information across governments*

# Accounting vs Funding Approach



- New GASB 68 statements relate *only* to accounting and financial reporting, i.e.
  - *How pension costs and obligations are measured and reported in audited external financial reports*
- New statements do not address or change how governments fund public pension systems
  - *GASB states it's "fundamental belief that funding is squarely a policy decision for elected officials to make as part of budget approval process"*



# New Terminology

- Total Pension Liability (TPL)
  - *TPL is the present obligation of pension systems to pay deferred earned benefits (such as pensions)*
  
- Net Plan Position (NPP)
  - *NPP is the assets currently available to pay pension benefits*



# New Terminology



- **Net Pension Liability (NPL)**
  - *If the pension system TPL exceeds the NPP, an NPL arises*
  
- **Net Pension Asset (NPA)**
  - *If the pension system TPL is less than the NPP, an NPA arises*
  
- **$TPL - NPP =$** 
  - ***NPL if negative***
  - ***NPA if positive***



The GASB 68 Implementation Series will discuss only the NPL. At this time, only the Judges' Retirement System has an NPA.

# Net Pension Liability

- Employers will be required to report their share of the NPL on their financial statements
  - *The NPL will be calculated annually by TRS and MPERA actuaries and allocated to participating employers based on each employer's contributions to the pension system(s)*
  - *More details on the NPL are covered in a separate GASB 68 Implementation presentation*



# Impact on Contributions

- Although employers are required to *report* their share of the NPL on their financial statements, be aware that:
  - *Contribution rates are set in statute*
    - ◆ Montana employers are only responsible for payment of their statutorily required pension contributions
  - *NPL is not immediately due and cannot be paid off under an accelerated schedule*



# Impacts of the New Standards



- More prominent disclosures are required, which means:
  - *The liability associated with pension benefits moves to the face of the employer's financial statements*
  - *Additional footnotes and RSI disclosures by employers are required*
- Financial statement focus
  - *Previous: Making adequate actuarially required contributions (ARC)*
  - *Now: Net Pension Liability (NPL) is fully disclosed by each employer*



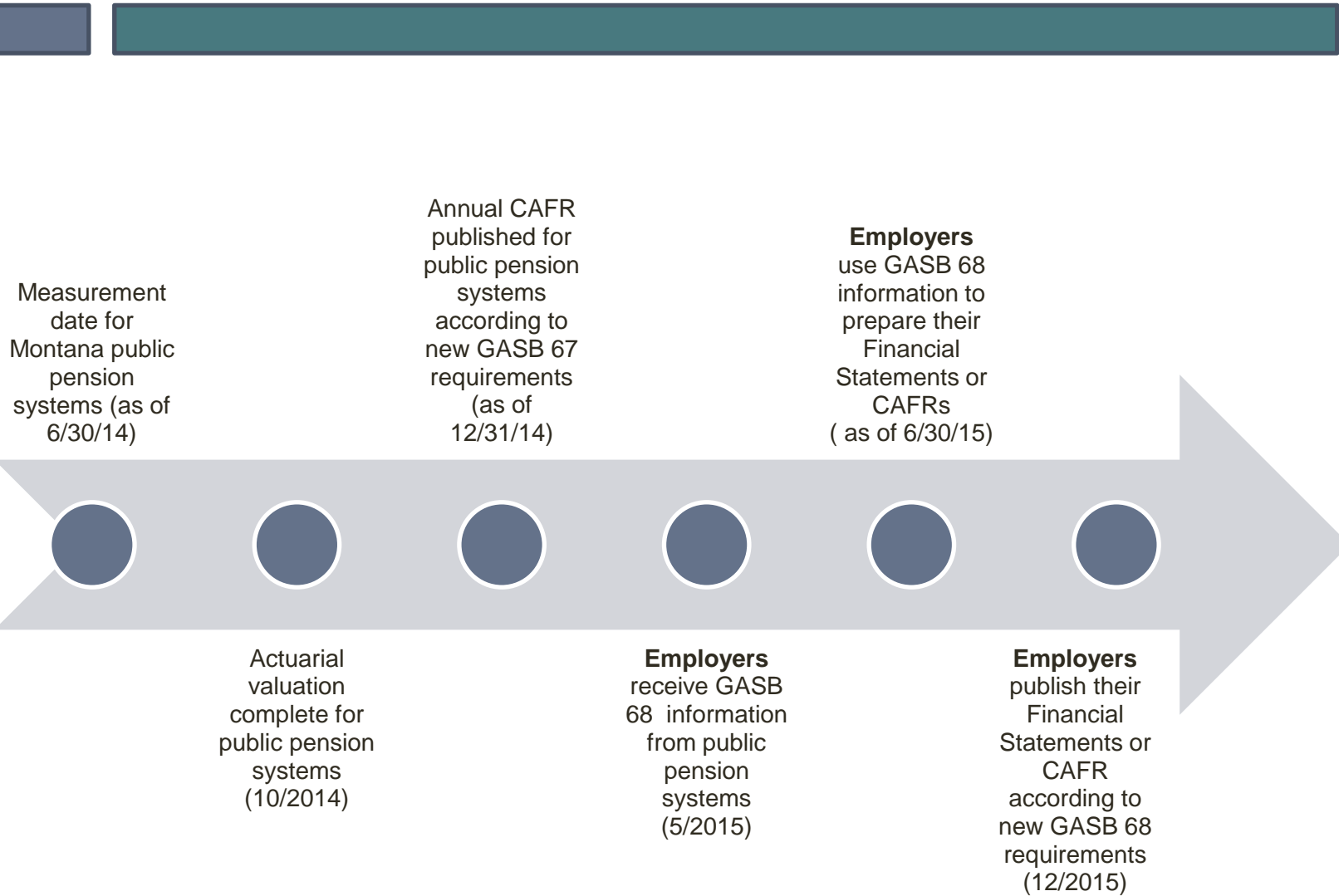


# Impacts of the New Standards

- New reporting requirements do not directly impact employers' contribution rates to the public pension systems
- Administrative expenses for the public pension systems may increase
- Third party fees for employers may increase



# Timeline



# *Your* Next Steps

- Review all the information in the GASB 68 Implementation series
- Take advantage of the resources on the MPERA and TRS websites
- Consult with your financial statement preparer



# Our Next Steps

- Prepare appropriate resources for employers
- Release GASB 68 information to employers
  - *Disclosures*
  - *Schedules*
  - *May / June 2015*

MAY							JUNE						
Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
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4	5	6	7	8	9	10	8	9	10	11	12	13	14
11	12	13	14	15	16	17	15	16	17	18	19	20	21
18	19	20	21	22	23	24	22	23	24	25	26	27	28
25	26	27	28	29	30	31	29	30					



# GASB Implementation Series



- MPERA and TRS have prepared a series of presentations for GASB:

- *Recommended Order*

1. Background
2. Types of Plans
3. Measurement Date v Reporting Date
4. Net Pension Liability Calculations
5. Financial Statements



GASB 68  
IMPLEMENTATION

Guidance for MPERA and TRS Employers

# Additional Resources

- Webpages dedicated to information from the Montana Public Pension systems on GASB
  - [MPERA](#)
  - [TRS](#)
- GASB website including
  - [GASB Statements 67 & 68](#)
  - [Implementation Toolkit](#)
  - [Implementation Guides](#)

