

# Congressional City Conference

## National League of Cities

### ***Pensions & More: What City Officials Need to Know***

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*The views expressed in this presentation are those of Mr. Vaudt. Official positions of the GASB on accounting and financial reporting matters are determined only after extensive due process and deliberation.*

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# Pensions—GASB Statements 67 & 68

- **What:** significantly revises pension accounting & financial reporting standards.
- **Why:** review of effectiveness found significant room for improvement
- **When:**
  - Plans—fiscal years ending ***June 30, 2014*** & later
  - Employers—fiscal years ending ***June 30, 2015*** & later



# What are the Fundamental Principles of the New Pension Standards?

- Views the cost of pensions within the context of an ongoing, career-long employment relationship
- Uses an accounting-based versus funding-based approach to measure and report any net pension liability on the statement of net position
- Requires effective communication and coordination efforts between the pension plan, the employers, the actuary, and the auditor to effectively implement.

## Scope of Pension Standards

- Defined benefit and defined contribution pensions provided through trusts that meet the following criteria:
  - Employer / nonemployer contributions irrevocable
  - Plan assets dedicated to providing pensions
  - Plan assets legally protected from creditors
- Excludes all OPEB

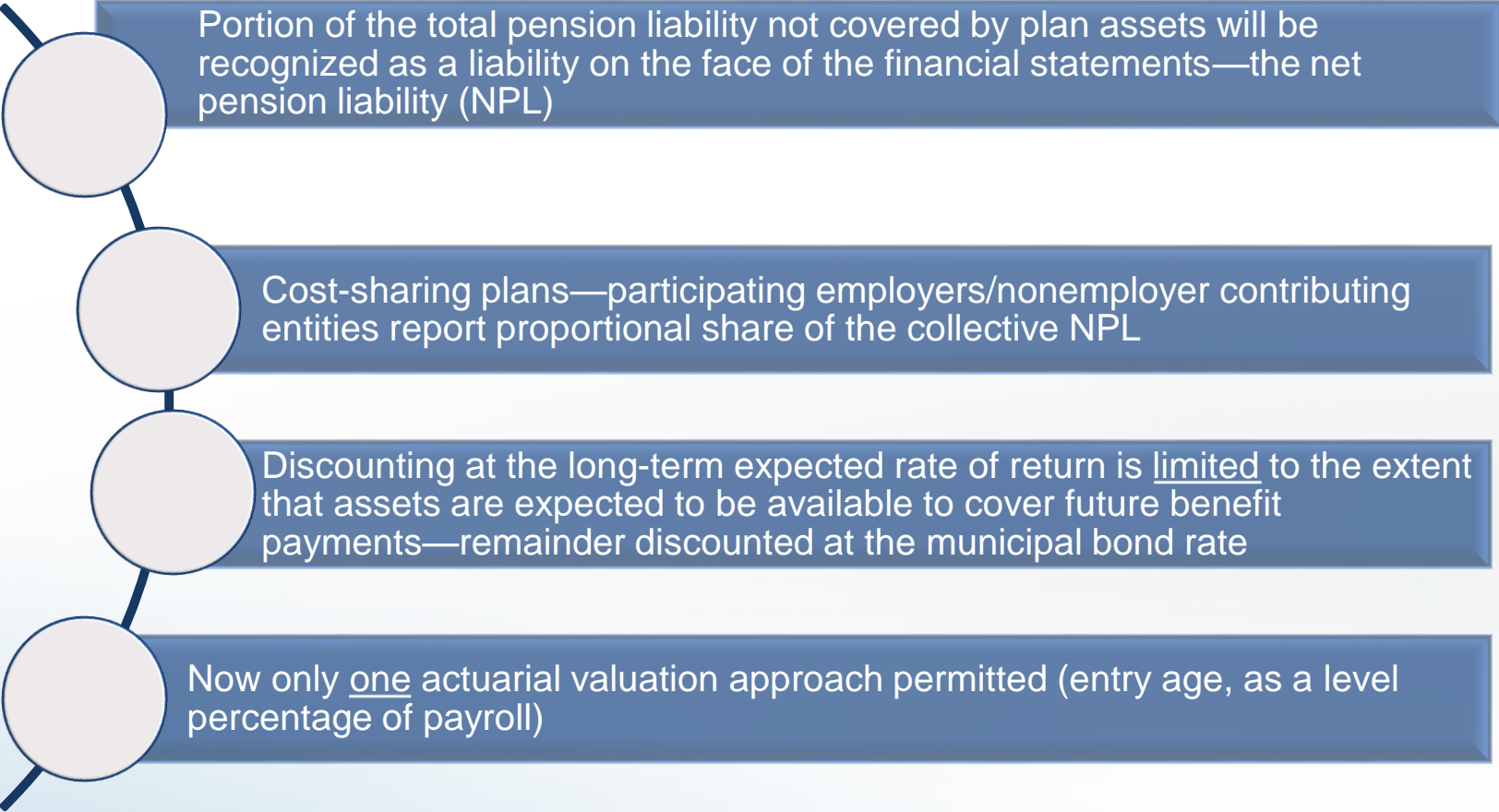


# Applicability of Pension Standards

Applies to employers and nonemployer contributing entities that have a legal obligation to make contributions directly to a pension plan



# Pension Standards - The Big Changes



Portion of the total pension liability not covered by plan assets will be recognized as a liability on the face of the financial statements—the net pension liability (NPL)

Cost-sharing plans—participating employers/nonemployer contributing entities report proportional share of the collective NPL

Discounting at the long-term expected rate of return is limited to the extent that assets are expected to be available to cover future benefit payments—remainder discounted at the municipal bond rate

Now only one actuarial valuation approach permitted (entry age, as a level percentage of payroll)

# Pension Standards - The Big Changes



Asset smoothing is eliminated from the measurement of the liability

Amortization is eliminated for most changes in the net pension liability and greatly shortened for others

More robust note disclosures

Much more extensive required supplementary information (RSI) schedules

# Efforts to Support Pension Implementation

- Two Implementation Guides
  - Pension plan implementation guide released 6/13
  - Employer implementation guide released 1/14
- Outreach to all 50 states
  - Identify implementation issues
  - Provide technical support
- Pension Communication Resources Group
  - Learning curve to understanding standards
  - Equip S&L governments with roadmap and resources



## *What is OPEB?*

- Other postemployment benefits – all postemployment benefits promised to employees other than pensions
- Principally, retiree health insurance – but also life insurance, disability, legal services, and other benefits
- Includes payments made to insurance companies on behalf of retirees, payments to retirees, and subsidizing retiree premiums by allowing them to be insured in the same group as active employees



# OPEB Reporting—Key Provisions

- Proposed changes in measurement may increase size of long-term obligation and annual cost for OPEB
- Proposed requirement to recognize the net liability on the face of the financial statements
- Proposed requirement to present more extensive note disclosures and supporting schedules
- Exposure Drafts issued June 2014



# OPEB Exposure Drafts

- ED--*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- ED--*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

# OPEB Reporting—Looking Ahead

- Redeliberation of due process comments will continue through March 2015
- Final Statement expected mid-year



# External Investment Pools

- Current agenda project added December 2014





# External Investment Pools

- Exposure Draft scheduled for 2<sup>nd</sup> Quarter 2015
- Final Statement expected 4<sup>th</sup> Quarter 2015



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