WHAT NEW REQUIREMENTS REGARDING FINANCIAL REPORTING WILL STATE AND LOCAL GOVERNMENT PENSION PLANS BE IMPLEMENTING?

The Governmental Accounting Standards Board (GASB) approved Statement No. 67, Financial Reporting for Pension Plans, in June 2012. The Statement is available free of charge at www.gasb.org. (Separate fact sheets describe the GASB’s new pension standards for government employers that provide pension benefits to their employees.) Statement 67 contains guidance for pension plans that prepare and issue their own financial reports, as well as for plans that are reported as a fiduciary fund by a government.

WHICH PENSION PLANS WILL BE REQUIRED TO IMPLEMENT THE NEW STATEMENT?

The new Statement specifically applies to pension plans that administer benefits through trusts that meet all three of the following criteria:

• Contributions from employers (and by other governments and entities on behalf of the employers) are irrevocable
• Assets in the trust are dedicated to providing pension benefits to the plan members
• Assets in the trust are protected from the creditors of the employers (and other contributing governments and entities), the plan administrator, and the plan members (for defined benefit pensions).

The vast majority of government pensions are administered through trusts meeting these requirements. The GASB is currently deliberating proposals regarding pensions that are outside scope of these Statements.

The new Statement applies primarily to defined benefit pension plans, which are used to administer pensions that specify the benefits to be provided to the employees after the end of their employment. By contrast, defined contribution plans administer benefits that stipulate only the contributions to an active employee’s account each year. Statement 67 applies to both single-employer defined benefit plans and multiple-employer defined benefit plans.

The assets administered by an agent multiple-employer plan are pooled for investment purposes but separate accounts are maintained for each individual participating employer. As a result, each participating employer’s share of the pooled assets is legally available to pay the defined benefit pensions of only its retirees.

In a cost-sharing multiple-employer plan, on the other hand, the participating employers pool both their assets and their obligations to provide pension benefits—meaning that plan assets can be used to pay the defined benefit pensions of the retirees of any participating employer.

WHAT FINANCIAL STATEMENTS WILL A DEFINED BENEFIT PENSION PLAN PRESENT?

In most respects, the requirements for pension plan financial statements remain unchanged from the prior standards. A defined benefit pension plan will present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position.
The statement of fiduciary net position reports on a pension plan’s financial position as of the end of the fiscal year and contains the following information:

- Assets, such as cash, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in pension plan operations
- Deferred outflows of resources
- Liabilities, such as benefit payments due to plan members
- Deferred inflows of resources
- Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources.

The statement of changes in fiduciary net position reports on the inflows and outflows of resources that increased and decreased its net position, respectively, and contains the following information:

- Additions, such as contributions from employers and plan members, and net investment income
- Deductions, such as benefit payments and administrative expense
- Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions.

**WHAT DOES STATEMENT 67 REQUIRE DEFINED BENEFIT PENSION PLANS TO DISCLOSE IN THE NOTES TO THEIR FINANCIAL STATEMENTS?**

All defined benefit pension plans will disclose information that includes the following:

- Descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan’s board
- Pension plan investment information, such as the pension plan’s investment policies, how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan’s fiduciary net position, and the annual money-weighted rate of return on pension plan investments
- Other information, such as contributions, reserves, and allocated insurance contracts.

Single-employer and cost-sharing plans will disclose additional information, such as:

- The total pension liability of the participating employers, the pension plan’s fiduciary net position, the net pension liability, and the pension plan’s fiduciary net position as a percentage of the total pension liability
- Significant assumptions used to measure the total pension liability, such as inflation, salary changes, discount rate, and mortality.

Agent plans will not make these latter disclosures because separate measures of each participating employer’s total pension liability, share of plan net position, and net pension liability are determined.

Aggregated information about these measures for all employers obscures the information about an individual employer, yet it would not be practical to make disclosures for each one.

**WHAT DOES STATEMENT 67 REQUIRE DEFINED BENEFIT PENSION PLANS TO PRESENT AS REQUIRED SUPPLEMENTARY INFORMATION?**

Single-employer and cost-sharing plans will present schedules of required supplementary information following the notes. The schedules will contain the following information for each of the past 10 years:

- The beginning and ending balances of the total pension liability, the plan’s net position, and the net pension liability, as well as the change in those amounts during the year presented by cause (for example, service cost)
- A ratio of plan net position divided by the total pension liability, the payroll amount for current employees in the plan (covered-employee payroll), and a ratio of the net pension liability divided by covered-employee payroll
- If contributions to the plan are actuarially determined: the employers actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.
All defined benefit pension plans will present a 10-year schedule containing the annual money-weighted rate of return on pension plan investments for each year.

WHAT DOES STATEMENT 67 REQUIRE DEFINED CONTRIBUTION PENSION PLANS TO DISCLOSE?

Statement 67 requires defined contribution plans to present a less extensive set of note disclosures containing the classes of plan members covered, the number of plan members, participating employers, and nonemployer contributing entities, and the authority under which the pension plan is established and may be amended.

WHEN WILL PENSION PLANS BEGIN REPORTING UNDER THE NEW STANDARDS?

Pension plans are required to put the new standards into effect beginning in fiscal years ending June 30, 2014, and later. The GASB does, however, encourage plans to implement the new standards sooner.