



Governmental Accounting Standards Board  
of the Financial Accounting Foundation

June 2007

## **GASB Reconciles Disclosure Requirements for Governmental Pension and OPEB Reporting**

In view of progress made in disclosure requirements for state and local governments on retiree health insurance and other postemployment benefits (OPEB), the Governmental Accounting Standards Board (GASB) has brought those same improvements to reporting for pension costs and obligations. The GASB recently issued Statement No. 50, *Pension Disclosures*, in order to more closely align financial reporting requirements for pensions with those for OPEB and to provide enhanced information in the notes to financial statements and required supplementary information (RSI) for users of government financial statements.

The reporting changes amend GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers* to conform their note disclosure and RSI requirements to those of the GASB's OPEB standards—Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

Most notably, Statement 50 requires:

- Disclosure of the current funded status of the plan as of the most recent actuarial valuation date in the notes to the financial statements of pension plans and certain employer governments
- Governments that use the aggregate actuarial cost method to determine their annual required contribution for financial reporting purposes to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate.

### **The Importance of Funding Information to Financial Statement Users**

Users of governmental financial information have widely found information about the funded status of pensions—the degree to which sufficient resources have been set aside to pay future benefits when they come due—to be highly valuable.

The GASB's pension standards require defined benefit plans and governments participating in single-employer and agent multiple-employer plans to present a *schedule of funding progress* that shows whether funded status is improving or worsening over time. This schedule compares a pension plan's actuarially calculated total obligation with the value of assets that have been accumulated to pay benefits. The schedule presents two ratios that many financial statement readers—ranging from bond raters to city council members and taxpayer associations—use to assess progress toward funding and the magnitude of a government's obligation, respectively:

- Actuarial value of assets divided by the actuarial accrued liability (the total obligation), called the *funded ratio*
- Unfunded actuarial accrued liability (the difference between the total obligation and the actuarial value of assets) divided by the total payroll of employees covered by the plan.

### **Ensuring the Presentation of Funding Information**

Recognizing the importance of the information in the schedule of funding progress, the GASB's OPEB standards require that the funded status information for the most recent actuarial valuation be presented in the notes as well. The same is now required for pensions under Statement 50.

There are two direct benefits of this requirement. First, including funded status information in the notes will ensure that financial statement users always receive it. As RSI, the schedule of funding progress is required to accompany the basic financial statements and notes. However, in some presentations—such as bond offering documents—the RSI may not be included. Second, including the information in the notes will subject it to the same audit attention given to the financial statements.

Statement 50 also replicates an OPEB requirement to ensure that financial statement users see funded status information, regardless of the actuarial methods used to measure pension obligations. At present, plans and governments using the aggregate actuarial cost method in their actuarial calculations do not present funded status or funding progress information because the aggregate method does not produce that information. Under the new requirements, these governments and plans may continue to use the aggregate method to determine the annual required contribution for financial reporting purposes, but they will be required to use another method, the entry age method, as a surrogate to produce funded status and funding progress information.

### **Incorporating Feedback**

Gathering, evaluating, and incorporating comments and feedback from constituents regarding proposed standards is a critical part of the standards-setting process. While the GASB retained most of its original proposal in the final Statement, in

response to respondents' comments it reconsidered the portion that would have required the inclusion of explanatory narrative disclosures regarding certain aspects of the nature of the actuarial methodology used in the measurement process. Ultimately, the Board concluded that the proposed explanatory disclosures did not meet the criteria of Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, for disclosure in notes to the financial statements.

Additionally, a transition provision was eased in the final Statement regarding preparation of funded status and funding progress information using the aggregate actuarial cost method. These requirements should be met no later than the financial report that contains information from the first actuarial valuation on or after June 15, 2007. Otherwise, requirements of the Statement are effective for financial reports covering periods beginning after June 15, 2007. Early implementation is encouraged.

### **The GASB's Pension Standards Review**

While this standard is limited to disclosures, the GASB has begun a separate, more comprehensive research project to evaluate the effectiveness of its pension accounting and reporting standards. That project will entail an extensive review of the actual experience of governments and plans employing the standards, as well as an exploration of how the resulting pension information has been used by bond raters, taxpayer groups, legislators, and others. The research is expected to continue into 2008, at which time the GASB members will consider whether to add a project to its current technical agenda to explore if further amendments, if any, need to be made to the standards.

- [Order Statement 50](#)
- [Read the news release](#)
- [Read more about the pension disclosures project](#)