Important Changes in Pension Accounting and Financial Reporting

The Governmental Accounting Standards Board (GASB) has approved two new accounting and financial reporting standards for public pension plans that will affect KPERS and its affiliated employers.

GASB Statement 67, "Financial Reporting for Pension Plans," contains standards for the financial statement of retirement plans that administer benefits, like KPERS. The new standard changes the method KPERS uses to calculate and report the costs and obligations of the plans. It's important to remember that this is for financial reporting standards, not funding standards.

GASB Statement 68, "Accounting and Financial Reporting for Pensions," contains standards for state and local government employers that provide pension benefits, like KPERS affiliated employers. Under GASB Statement 68, KPERS is a cost-sharing multiple-employer plan. Participating employers pool or share their obligations to provide pensions to their employees. Plan assets can be used to pay the pensions of the employees of any participating employer. The changes require employers using GASB standards to report in their financial statements their share of the costs and obligations for the governmental pension plans provided to their employees. Until now they have only reported contribution obligations.

GASB Statement 67 and KPERS' 7.75% Investment Return Assumption

Under current GASB standards, KPERS' liabilities are calculated using its long-term investment return assumption (currently 7.75%). The new standards require KPERS to calculate liabilities using a rate based on a projection of future assets and benefit payments. If the cash flow projection indicates that current and expected future plan assets will cover future benefit payments, as we expect they will, KPERS can continue using the 7.75% return assumption as the discount rate for financial reporting.

However, if assets are not sufficient to cover future benefit payments, the 7.75% rate can be applied only to the period where plan assets are sufficient to pay benefits. A high-quality, tax-exempt municipal bond rate must be used for projected benefit payments not covered by plan assets, and the two rates would be blended together to calculate KPERS' liabilities. This change would only affect financial reporting and not funding standards. In this circumstance, the liability on the actuarial valuation for financial statement purposes would look different from the actuarial valuation for funding purposes.

KPERS

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What Are GASB Standards?

The Governmental Accounting Standards Board (GASB) establishes standards to be used by governmental entities in their accounting practices and preparing financial statements. It is the official source of generally accepted accounting principles (GAAP) for state and local governments and affects their ability to have an unqualified financial audit. GASB does not establish funding standards for governmental retirement plans.

Who Is Affected?

Changes affect employers using GASB standards to produce their annual financial statements. KPERS encourages employers to consult their external auditors, even those that operate on a cash basis.

Effective Dates

Local employers
CY 2015 financial statements

School employers and State
FY 2015 financial statements

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How GASB Statement 68 Affects Employers

New standards significantly change current pension accounting and financial reporting for state and local governments.

- Disconnect pension accounting measurements from pension funding measurements.
- Require employers who prepare GAAP-compliant financial statements to recognize a proportionate share of the plan's net pension liability on their balance sheets rather than less prominently in the supplemental notes of their financial statements.
- Require employers to use a new measure of pension expense on their income statements. With the change, they will recognize the total pension expense rather than only the amount paid into the system. This more closely aligns pension expenses with the period in which the related benefits are earned.

  Pension expenses reported on financial statements will have the potential to be significantly different from the actuarially determined contributions and are likely to be more volatile.
- Replace most of the current disclosures and required supplementary information with information on the new measurement basis and descriptive information about the pension plan and benefits provided.
- May impact the information necessary for employers issuing bonds and associated bond statements.

In order for employers to comply with new requirements, they will need to report their "proportionate share" of the KPERS unfunded pension liability (the net pension liability), as well as most annual changes in the net pension liability (reported as pension expense) as they occur.

KPERS will calculate and provide employers with their allocation percentage, as well as the dollar amount of their share of the net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources (for differences between expected and actual experience, changes in assumptions, differences between projected and actual earnings on investments, changes in proportion).

KPERS is working with an actuarial firm and accounting consultants that specialize in governmental pensions to develop information for employers.

Employers will be responsible for determining what applies to them for their financial statements and what accounting standards they use. On a state level, it will be up to the State of Kansas to decide what is included on the State's financial statements.

Special Funding Situations for Non-Unified School District (USD) Schools

Special funding situations are circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan to provide benefits for employees of another entity or entities to provide benefits for employees of the other entity. It has been determined that the funding provided by the State of Kansas to non-USDs as defined under K.S.A. 74-4931 (2) and (3) are a special funding situation. These non-USDs are area vocational-technical schools and community colleges.

Kansas Municipal Accounting and Auditing Guide (KMAAG)

For KPERS municipal employers who prepare their financial statements on a regulatory basis, please see Appendix D in the 2017 KMAAG for the note disclosure regarding net pension liability.

According to GASB Statement 68, employers will recognize their proportionate share of the collective pension amounts no earlier than the end of the employer's previous fiscal year.

- Employers with a fiscal year ending June 30, 2017, use the GASB Statement 68 report dated June 30, 2016 (available now).
- Employers with a fiscal year ending December 31, 2017, use the GASB Statement 68 report dated June 30, 2017 (not yet published).

See **gasb.org** for background information, fact sheets, podcasts and other educational resources.