



New Pension Accounting Standards

OVERVIEW

You may have heard that the standards for the reporting of pension obligations by government entities are changing. The change getting the most attention is "GASB 68."

WHAT IS GASB?

The Governmental Accounting Standards Board (GASB) is an influential organization whose mission is to "...establish and improve standards of state and local governmental accounting and financial reporting."

WHAT IS GASB 68?

GASB 68 represents a change in pension reporting, not pension funding. It will change how pension obligations appear on the financial statements of state and local governments. The new standards address numerous technical issues, but the "inclusion" of "pension debt" on government financial statements has received much attention.

WILL THESE NEW STANDARDS CHANGE STATE AND LOCAL GOVERNMENTS' PENSION COSTS?

No. As GASB states, "the Statements do not address how governments approach pension funding – a government's policy regarding how much money it will contribute to its pension plan..."

GASB Standards are about reporting. The funding of pensions is determined in various ways by different pensions. In the case of HMEPS, the amounts and manner of the City's funding are set by agreement between the City and the pension Board of Trustees (the "Meet & Confer" process).

Information about public pensions will be reported differently, but this doesn't change anything about the underlying obligations. Furthermore, these underlying obligations had been well understood prior to the recent accounting changes.

HOW DOES GASB 68 CHANGE PENSION REPORTING STANDARDS?

The new standards may improve the clarity of pension obligation information. Detailed information on pension obligations has always been available to those seeking it, often appearing in the notes section of government financial statements. Additionally, core financial statements reflected an important part of a pension's overall unfunded obligation – the portion showing the effect of previous underpayments.

DOES GASB 68 EXPOSE HIDDEN PENSION LIABILITIES?

No. Some anti-pension advocates give the impression that the new standards are going to expose previously hidden liabilities, threatening the solvency of many states and localities. But this is false.

The Government Finance Officers Association (GFOA) describes the reporting change as follows: "(The traditional approach might be compared to a homeowner reporting a liability for arrears in monthly house payments (for example, \$3,000), but not for the unpaid balance of the mortgage itself (for example, \$150,000)." In this example, the underpayments would show up as a liability, and the \$150,000 mortgage would be in the "notes." In the new approach, the entire \$150,000 goes on the liability statement rather than the cumulative underpayments.

CONCLUSION

New GASB standards related to pensions are designed to improve clarity in reporting. They have no impact on a pension fund's bottom line.

