Pension Accounting Issues

Impact on State and Local Government Employers

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May 2015

Accounting Standards

Financial statements issued by state and local governments follow standards issued by the Governmental Accounting Standards Board (GASB). In June 2012, GASB approved a pair of related Statements that changed the accounting and financial reporting of pensions by state and local governments and pension plans.

GASB Statement No. 67 addressed financial reporting for state and local government pension plans and was effective for the Plan statements for the fiscal year ended June 30, 2014.

GASB Statement No. 68 established new accounting and financial reporting requirements for governments that provide their employees with pensions and is effective for the Employer statements for the fiscal year ended June 30, 2015.

These new standards only address accounting and financial reporting issues—how pension costs and obligations are measured and reported in audited external financial reports. The standards do not address how governments approach pension plan funding. Funding is a policy decision for elected officials to make as a part of the budget approval process.

Responsibilities of the Actuary

The actuary values the pension benefits and prepares exhibits to be disclosed on employer's financial statements (both state and local governments). The new standards require disclosure of:

- *Net Pension Liability (NPL) – The total pension liability (TPL) as of the measurement date offset by the fiduciary net position (i.e., market value of assets)*
- *Pension Expense – Recognition of current period changes in the TPL.*
  - *Changes in TPL not fully recognized in current period will be tracked and reported as deferred inflows and deferred outflows and recognized incrementally as future pension expense.*
- *Proportionate share of NPL and Pension Expense for Cost-Sharing Plans.*
- *Schedule of Changes in NPL from one year to the next.*

Various other required supplementary schedules will also be provided.

Single Employer Plans

Single employer plans provide pension benefits to the employees of only one employer. A few localities in Virginia operate a single employer plan. VRS and APA will not be assisting with these plans.

Cost-Sharing Employers

Cost-sharing employers share their assets and their obligations to provide pension benefits to their employees. Plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan. An example in Virginia is the Teachers Plan.

Agent Multiple-Employer Plans

Multiple–employer plans provide pension benefits to the employees of more than one employer. Under an agent multiple-employer pension plan, the assets of the plan are pooled for investment purposes but separate "accounts" are maintained for each employer. Each employer's share of the pooled assets is legally available to pay the pensions of only its employees. Most Virginia localities and political subdivisions participate in an agent multiple-employer plan.

Responsibilities of Employers

The employer is solely responsible for its financial statements and; therefore, employer management is responsible for establishing financial reporting processes and controls over the measurement of its pension amounts (NPL and TPL).

- *Management will often rely on external specialists who will provide an actuarial report specific to their entity.*

The employer must be able to support underlying data used by the actuary.

The employer must be able to support the assumptions with appropriate, reliable, and verifiable information.

- *Many of the assumptions are supported by census data.*

Responsibilities of Locality Auditors

APA issues Specifications for Audits of Counties, Cities, and Towns. For fiscal year 2014, APA expanded the required procedures for the locality auditors to include testing of employee census data (e.g. age, gender, VRS join date), creditable compensation for selected employees (including any purchased service), and reconciliation of the locality's records to VRS. The locality auditors reported the results of their testing to APA. This expanded testing will continue to be done annually by the locality auditors.

Responsibilities of VRS

VRS contracts with an actuary and provides information to the actuary, including its audited financial statements and census data. As described on page 1, the actuary uses this information for calculations needed by the employers (state and localities) to prepare their financial statements. The actuary provides schedules with the required data elements to VRS, which VRS reviews and in turn provides to APA for our audit. There are separate schedules for cost-sharing plans and agent multiple-employer plans.

After the APA audit of the schedules is complete, VRS makes the schedules available to the localities and their auditors. In addition, VRS provides examples of the required disclosures and guidance on how the information on the schedule should be recorded for financial reporting purposes. In addition, VRS has a dedicated webpage, http://www.varetire.org/reporting, that provides examples of required disclosures and guidance on how the information on the schedule should be recorded for financial reporting purposes.

Responsibilities of APA

APA audited VRS under the new standards for plans for the fiscal year ended June 30, 2014. Beginning in fiscal year 2015, APA is also responsible for auditing the schedules prepared by the actuary. The audit encompasses testing the following:

- *Testing of census data maintained by VRS*
- *Allocation of data elements for cost sharing plans to employers*
- *Schedule of Changes in Fiduciary Net Position by Employer for agent multiple-employer plans*

APA issues reports on those schedules for VRS to include when it provides the information to the localities and their auditors. APA's goal is to have this information audited so that VRS can make it available in the mid-summer to the localities and their auditors.

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