

GASB – A New Approach to Accounting for Retirement Plans

Objective

New accounting Standard to replace GASB 25 and 27 for pension plans **and to be a template for OPEB (retiree medical and life plans) rewrite as well**

Key Concepts

- **Place the Unfunded Actuarial Liability on the employer's balance sheet.** (Very different from current GASB 27 which only puts the contribution deficiencies relative to an expense policy on the balance sheet – often zero liability if plan is properly funded).
- Net Pension Liability is Actuarial Liability under the **Entry Age Normal** method less market value of assets.
- **Potentially two discount rates** – one for the funded (pre depletion date) benefits and a lower discount rate for benefits not covered by projected assets. In practice the actuary is asked to develop a single equivalent rate. May be different for different plans or different years for the same plan.

Pension Expense is

Service Cost (entry age normal), plus

Interest on the Accrued Actuarial Liability (called TPL)

Less **expected return** on Market Value of assets

Plus **amortization** over varying periods:

Immediately for

The implementation obligation

Plan amendments for nonactive participants

Assumption changes for nonactive participants

Experience gains/losses for nonactive participants

Over the weighted average work life (approx 10 years) for

Plan amendments for active participants

Assumption changes for active participants

Experience gains/losses for active participants

Over 5 years for investment gains or losses relative to the actuarial discount rate

The Schedule

June 2010

Preliminary Views published

June 2011

Exposure Draft published

June 2012

Final Standard to be published

2013

Effective dates and perhaps a phase-in period

The GASB Exposure Draft adds new requirements for Public Retirement Plans

The new actuarial requirements starting for fiscal years beginning after June 15, 2013 include:

- The Total Pension Liability must be shown as of the last day of the fiscal year (which will generally not be a last valuation date).
- The actuary may roll forward the TPL from a valuation date not older than 24 months. Effectively, actuarial valuations must be made annually or biannually.
- Assets must be shown at market value as of the last date of the fiscal year.
- The actuarial valuation must use a pure version of entry age normal cost method (individual entry age normal for all plan benefits).
- The plan must justify the discount rate used based on the asset allocation of the plan (inflation plus weighted real rates of return).
- Multiple amortization schedules must be maintained for the investment gains or losses arising over each fiscal year and for the experience gains and losses arising as of each valuation date. Additional amortization schedules are needed for each plan amendment.
- The Total Pension Liability must be calculated at three interest rates: the valuation rate and that rate plus one percent and minus one percent
- The discount rate to be used is a blended rate based on the long term anticipated rate under the plan's asset allocation policy and a municipal bond index rate (MBI). The MBI rate is only needed if the current contributions will not be sufficient to fund the current plan participants over their full lifetimes.

	Current Funding	Current GASB (25 and 27)	New GASB approach
Plan liability	AAL - Actuarial Accrued Liability	Same	TPL - Total Pension Liability
Unfunded liability	UAAL - Unfunded Actuarial Accrued Liability	Same	NPL - Net Pension Obligation
Actuarial Cost Method	Choice of methods (Entry Age Normal is the most common)	Same as funding	Pure Entry Age Normal
Current service	Normal Cost	Same	Service Cost
Discount rate	Expected return on assets	Same	Expected return on assets, if City contributes actuarial requirement. Blend rate (expected return and municipal bond index) otherwise.
Asset Value	Market value or smoothed (Actuarial) value	Market Value	Market Value
Amortization of Unfunded Obligation	Usually 30 years or less	Same	Immediate for implementation date Ave work life for amendments (active lives) Immediate for amendments (Nonactives)
Amortization of Investment G/L	Usually 30 years or less	Same	5 years
Amortization of Experience G/L	Usually 30 years or less	Same	Immediate for nonactive lives Average work life for active lives
What is put on the balance sheet	NA	Cumulative deficiency, if any, of employer contributions	Entire NPL (i.e., the Unfunded Actuarial Liability)

For more information on any of this topic contact Chuck Dean, FSA or Sean Sullivan, FSA

DEAN ACTUARIES, LLC
5646 MILTON STREET, SUITE 210
DALLAS, TX 75206
214-891-0990