About the GASB accounting changes

Fast Facts

New accounting changes drafted by the Governmental Accounting Standards Board (GASB) are raising false alarm in the press and among members of the public regarding the financial well-being of public pension plans, including PERSI.

Information on the costs and financial status of PERSI has always been readily available in the systems' annual reports and in regular reports to the Legislature. But beginning in 2015, the GASB changes will require that employers participating in PERSI show their share of the net pension liability (NPL) prominently on their balance sheets. These numbers can be misleading and do not necessarily reflect the systems' long-term financial sustainability. Here are answers to some frequently asked questions about GASB:

Q. Who serves on this accounting standards group?

A. GASB is an independent, non-profit organization that sets financial accounting and reporting standards for state and local governments. Its seven members include preparers and auditors of government financial statements, users of those statements, and members of the academic community. More information about GASB can be found at www.gasb.org .

Q. What was GASB's goal with these changes?

A. To separate pension-plan accounting from decisions on how to fund them, and to increase transparency. Previous GASB rules provided a standard that measured funding ratios and defined annual contributions needed to maintain healthy funding. New rules no longer provide that funding standard but merely tell governments how to account for and report pension costs.

Q. What's new in the GASB rules?

A. Previously, unfunded liabilities were disclosed by the pension systems – in Idaho, annually disclosed as part of PERSI's Comprehensive Annual Financial Report, which is filed with the State of Idaho and published on the PERSI website (www.persi.idaho.gov). What's new is that these unfunded liabilities now have to be reported as a liability on financial balance sheets of state and local governments. Previously, those governments disclosed the annual contribution to the pension systems needed to pay off the unfunded liability.

Q. How will these changes affect local government units and school districts?

A. GASB's new rules will apply to fiscal year 2014 for pension system (PERSI) accounting and to FY 2015 for governments' (employers) financial reports. These rules will be dramatically different for pension funds and their employer units from what they are now. Pension costs will be more prominent on employer balance sheets – each employer's share of the PERSI unfunded liability will have to be shown on the face of financial statements. Previously those employers showed annual contributions they paid to the pension systems to pay down that unfunded liability.

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Q. What's wrong with showing this information more prominently?

A. Transparency and disclosure are good, but it's important to provide context for the numbers. The presence on local government or school district balance sheets of a large number representing unfunded pension costs could give the incorrect impression that employers/taxpayers have an immense debt that must be paid immediately, in one year. This is not the case. Pension costs are amortized or paid off over long periods – much like home mortgages.

Q. Can you give an example?

A. Even though a homeowner might have a $100,000 unpaid mortgage, there is no expectation that this be paid off in one year. The owner makes manageable monthly payments and pays down the mortgage debt over time. This is what governments do when they make regular contributions to the retirement system.

Q. Won't people be alarmed if pension costs loom large on employer balance sheets?

A. They shouldn't be. The GASB reporting requirements will be somewhat misleading. The number on employer balance sheets will reflect a liability that's amortized or paid down over many years and therefore not "due in full" in the fiscal year during which the number is reported. The liability amount reported on the employer balance sheet will represent the employer's proportionate share of liabilities and will be paid down by employers' annual contributions to the pension funds over many years.

Q. How do the new GASB standards affect a pension plan's funded ratio?

A. They don't. GASB is getting out of the business of setting funding standards or measuring funded ratios for public pension plans. The new rules only address *accounting* for pension costs, not how to fund them.

Q. How will PERSI, lawmakers and the public know whether the plans are adequately funded?

A. While GASB is giving us new standards for calculating pension costs, it is abandoning the standards it had used to measure the financial health of the pension funds. Fortunately for Idaho, PERSI's funding standards have always been sound. In fact the significant pension reforms PERSI's peer systems around the country are experiencing are actually bringing them in line with the way PERSI has been operating since 1991.

Q. Is it true that GASB changes will force pension funds to use more conservative assumptions to forecast their costs?

A. Yes; however, PERSI had already been applying these assumptions prior to the GASB rule change. The assumptions will not necessarily be used to determine how well-funded the plan is.