



# **Implementing GASB 68 *Accounting and Financial Reporting for Pensions***

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## KPMG Presenters

**Shelly Stromp** is a partner in the Omaha, Nebraska office and has been with KPMG for over 26 years. She specializes in KPMG's public sector practice, which includes state and local government clients. Shelly has been helping clients across the Midwest implement GASB 67 and GASB 68.

**Julie Barrientos** is a director in KPMG's advisory practice. Julie has been with KPMG for over 19 years, and began her career at KPMG in the audit practice, also specializing in the public sector, state and local government. She has helped several retirement system clients implement GASB 67 and 68.


# Agenda

- Summary of provisions of GASB 68
- Impact of measurement date
- Transition provisions
- Exercises – recording pension amounts
- Special funding situations
- Note disclosures and required supplementary information
- Frequently asked implementation questions
- Wrap-up

# Course Objectives

After completing this course, you will be able to:

- Identify and apply the key provisions of GASB 68 upon implementation
- Prepare the implementation journal entries needed to record the collective pension amounts in accordance with GASB 68
- Prepare financial statement note disclosures and required supplementary information in accordance with GASB 68

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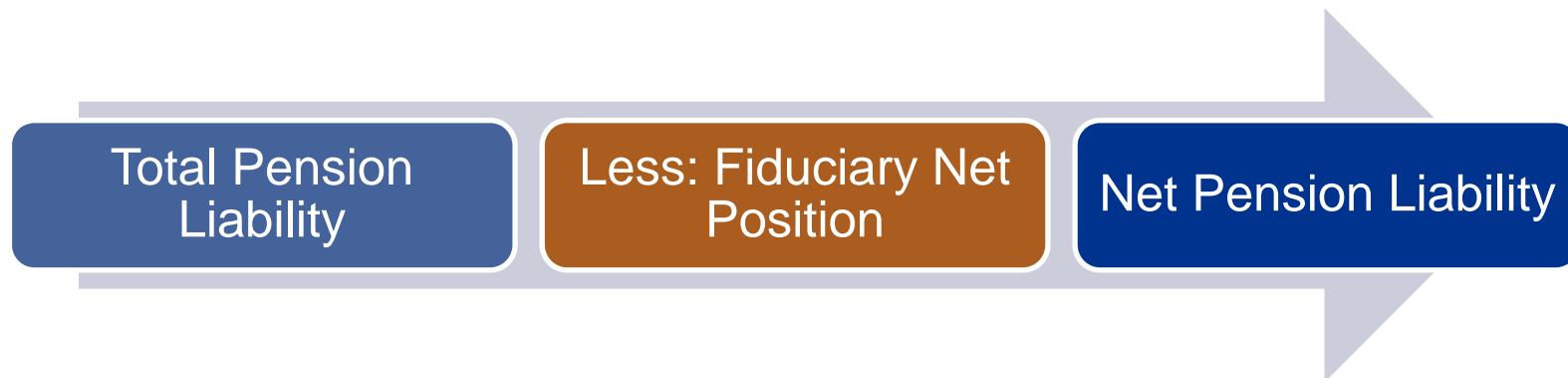
# Summary of GASB 68 Provisions

# Summary of GASB 68 Provisions

- Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*
  - Provides accounting and financial reporting guidance for employers participating in pension plans falling under the guidance of GASB 67
  - KPERS' employers will recognize their proportionate share of the collective pension amounts as of a **measurement date no earlier than the end of the employers prior fiscal year**
    - Net pension liability
    - Pension expense
    - Pension deferred outflows of resources and deferred inflows of resources
  - Applicable to periods beginning after June 15, 2014

# Pension Amounts

- Net pension liability (asset) equals the total pension liability for the pension plan, less the fiduciary net position:
  - Total pension liability is the actuarial present value of projected benefit payments attributed to past employee service
  - Fiduciary net position is determined using same valuation methods as used for plan's GAAP financial reporting



## Pension Expense

- Changes in net pension liability will be immediately recognized as pension expense or reported as deferred outflows/inflows of resources depending on nature of change
- Approach results in reporting of pension liability and expense as employees earn their pension benefits by providing services instead of being based on funding requirements
- No significant changes to accounting for pensions in governmental funds

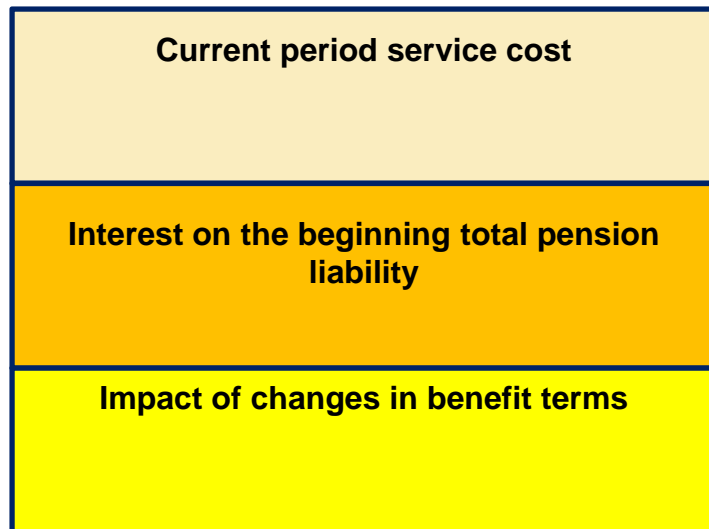


# Deferred Outflows and Inflows of Resources

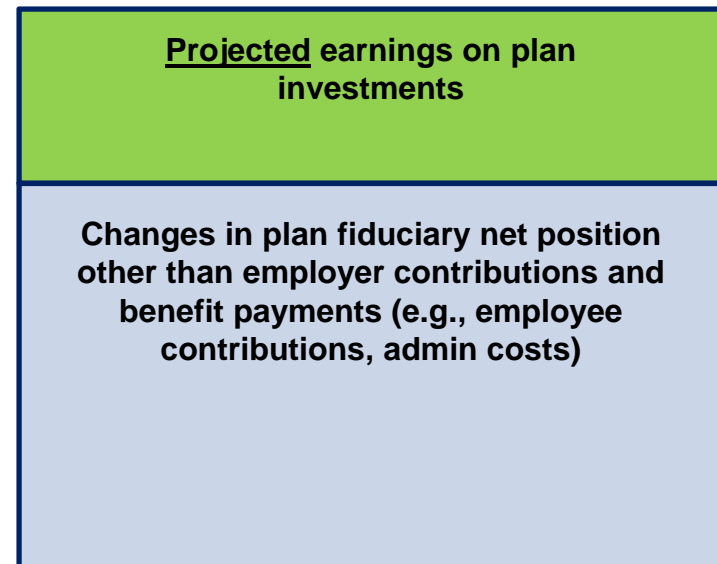
- Differences between expected and actual experience with economic and demographic factors:
  - Mortality
  - Payroll increases
  - Retirements
  - Employee turnover
- Effect of changes in assumptions about future economic and demographic factors:
  - Discount rate
  - Mortality (tables)
  - Future payroll increases
  - Future inflation rate
  - Retirements
  - Employee turnover
- Differences between actual and projected earnings on plan investments

# Changes in Net Pension Liability Immediately Recognized as Pension Expense

## Changes in the Total Pension Liability



## Changes in Plan's Fiduciary Net Position



Conceptually, the effect of employer contributions made directly by the employer should not be recognized as expense.

# Changes in Net Pension Liability Resulting in Deferred Outflows/Inflows of Resources

## Changes in the Total Pension Liability



Effects of actuarial differences and changes in assumptions related to economic or demographic factors attributable to *active and inactive employees, including retirees*



Recognize as deferred inflow/outflow and amortize over a closed period *equal to the average of the expected remaining service lives of all employees (active, inactive, and retirees)*

## Changes in Plan's Fiduciary Net Position



Differences between actual and projected earnings on plan investments



Recognize as deferred inflow/outflow and amortize over a closed five-year period—report amounts from multiple years, net

Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

## How will I know the amounts to report as pension expense, deferred inflows, or deferred outflows?

- KPERS will provide this information for use by its employers, which will include:
  - Audited schedules of employer and nonemployer allocations as of June 30, 2014 and 2013
  - Audited schedules of pension amounts by employer and nonemployer as of and for the years ending June 30, 2013 and 2014
  - Audited notes to the schedules
  - Unaudited schedules of net pension liability, deferred outflows of resources, and deferred inflows of resources by employer
- Schedules **will not include** information on employer contributions made to the plan subsequent to the measurement date (employers must track this information).

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# Impact of Measurement Date

## Why is the measurement date important?

Measurement of the total pension liability is determined through:

- An actuarial valuation performed as of the *measurement date*, or
- The use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's year-end

KPERS is responsible for obtaining the required actuarial valuations as of the measurement date

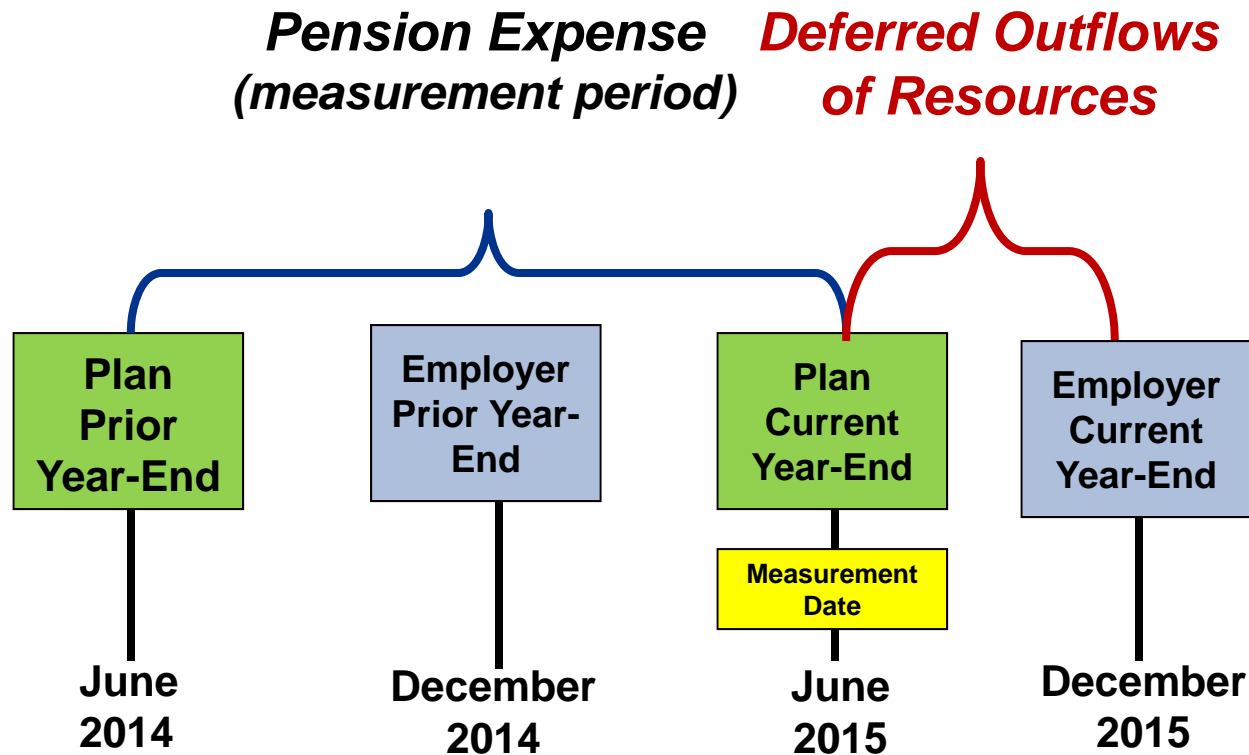
- KPERS obtains an actuarial valuation as of December 31, with updated roll forward amounts to June 30, on an annual basis

The employer is responsible for selecting which measurement date to use to record the pension amounts in its financial statements

The measurement date selected by the employer can be **no earlier** than the employer's previous fiscal year end

Measurement date will correspond to year-end of KPERS. In this case, employers with same year-end as KPERS must choose measurement date as of their prior or current year-end.

# Timing of Measurement of Total Pension Liability



Measurement date will correspond to year-end of KPERS. Employer contributions made directly by the employer subsequent to the measurement date of the net pension liability and before the end of the employer's fiscal year should be recognized as a deferred outflow of resources.

## Example KPERS Employer

KPERS employer is implementing GASB Statement 68 during the year ended June 30, 2015. KPERS also has a fiscal year-end of June 30th and implemented the provisions of GASB Statement 67 during the year ended June 30, 2014. KPERS employer financial statements are a single-year presentation.

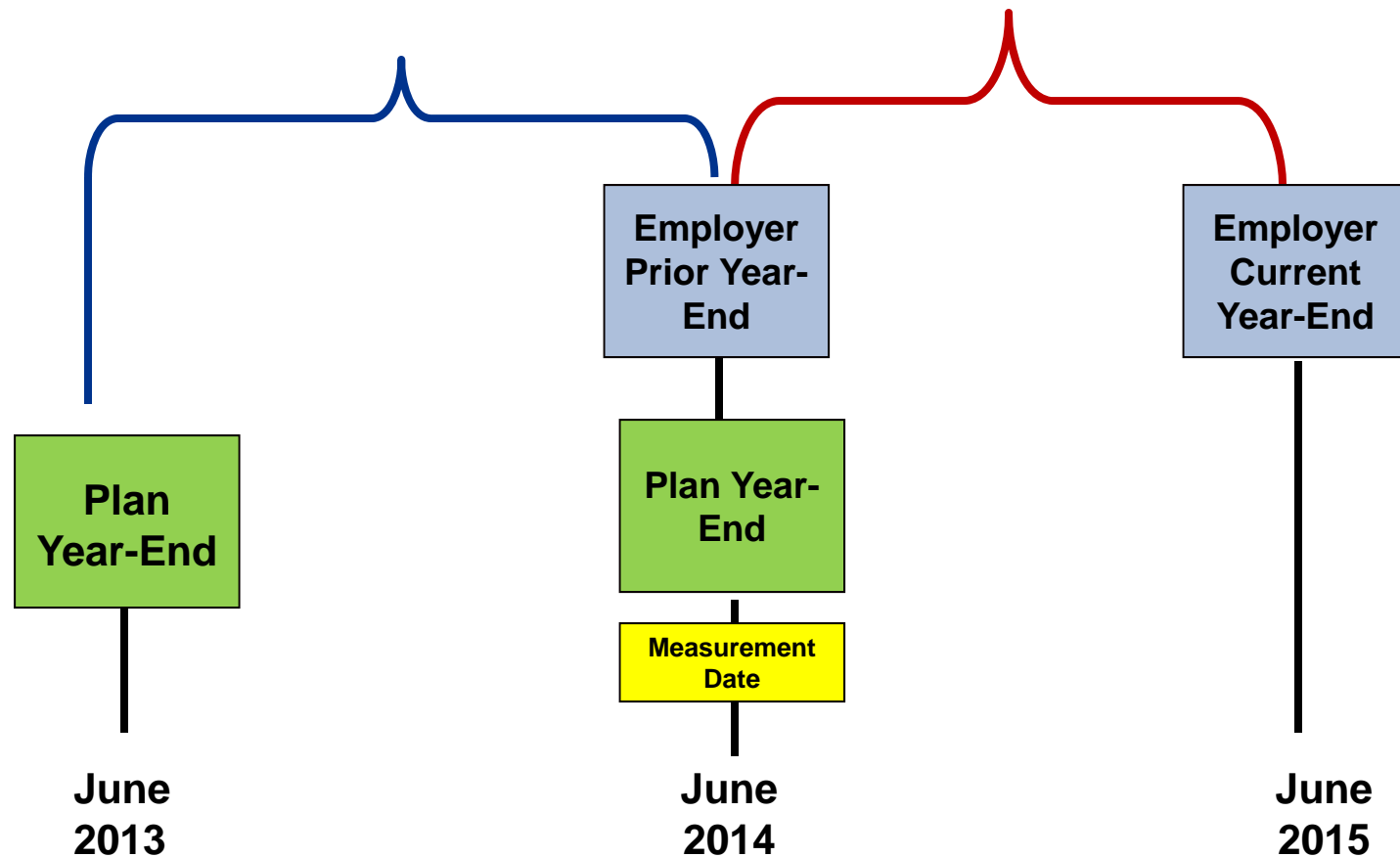
In accordance with GASB Statement 68, the measurement date for the KPERS employer must be as of a date no earlier than the end of its prior fiscal year. Since KPERS employer and KPERS have the same year end, KPERS employer may elect to use June 30, 2014 or June 30, 2015 as the measurement date. However, once selected, the measurement date should be consistently applied from period to period.



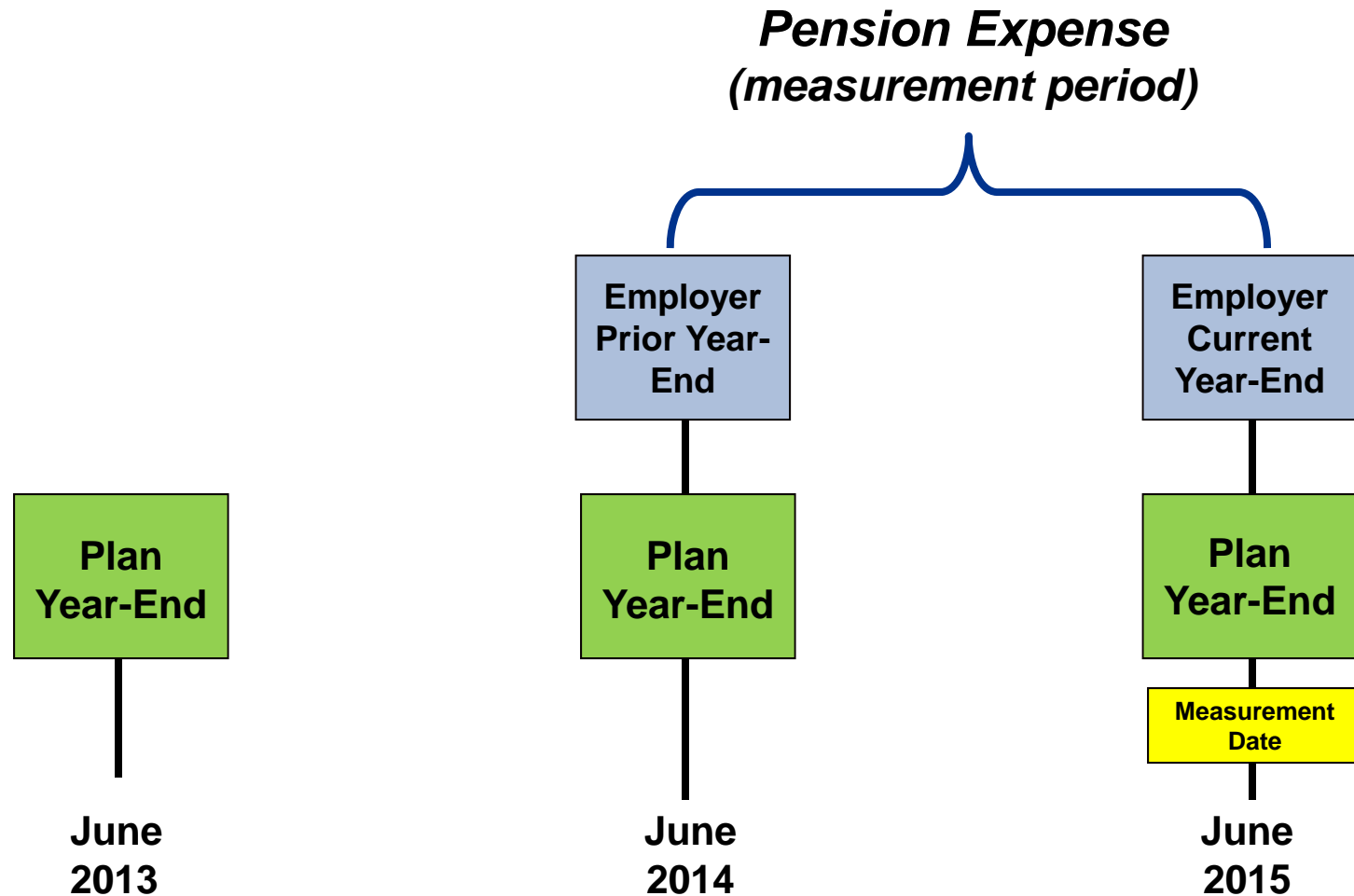
# Example Employer – Impact of Using Prior Year Measurement Date

*Pension Expense  
(measurement period)*

*Deferred Outflows  
of Resources*



# Example Employer – Impact of Using Current Year Measurement Date



# Considerations for Measurement Date

- Potential for multiple measurement dates for entities within the same reporting entity
- Timeliness of information available from pension plans
  - Actuarial valuations
  - Audited financial statements
- Impact on precision of recorded amounts
- Significance of changes since measurement date

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# Transition Provisions

## Transition Provisions

- Changes made to comply with the standards should be treated as an adjustment of prior periods if “practical”, resulting in restatement of those periods
  - Employers should not report beginning balances of deferred outflows/inflows of resources if not practical to determine
- Ten-year RSI schedule related to contributions should be presented in full upon implementation, if applicable.
- Employers will not be able to present all years of other RSI information retrospectively because information is not available
  - Present information for as many years as available until 10 years of information are available.

# Transition Provisions

- Beginning balances of deferred outflows/inflows of resources for KPERS will not be restated, except for deferred outflows related to contributions made after the measurement date
- Not required to restate comparative information in MD&A
- The State of Kansas requires similar GASB 68 information as footnote disclosures for cash-basis employers
- Disclosure requirements include:
  - Plan description
  - Significant assumptions
  - Measurement date
  - Information about plan fiduciary net position
  - Amount of pension expense
  - Balances of deferred outflows and inflows by type



# Exercises – Recording Pension Amounts