

Update on the GASB Pension Accounting Project

City of Alexandria
Ad Hoc Retirement Benefit Advisory Group

June 15, 2011

Steve McElhaney, FSA





Area	GASB 27	Preliminary Views	Exposure Draft (as currently expected)
Accounting vs. Funding	Funding results can generally be used for accounting disclosures.	Accounting is distinct from funding. For almost all plans, the calculation of the actuarially determined contribution will differ from the pension expense calculation.	No change from PV
Balance sheet liability	Net pension obligation (NPO), which is cumulative difference between the ARC and the actual contributions made.	The net pension liability (i.e., unfunded actuarial liability) will go on the employer's balance sheet, rather than being disclosed in notes. No longer a need to determine NPO.	No change from PV.



Area	GASB 27	Preliminary Views	Exposure Draft (as currently expected)
Discount rate	Long term rate of return.	For benefits expected to be paid from current and projected assets, discount by using plan's long term rate of return. For benefits not expected to be covered use a government bond index. Projected assets include future contributions for current active employees.	Generally the same requirements. Will likely specify using a tax-exempt 30-year government bond index, rated AA or better. Most plans paying full actuarial contribution will probably be able to use long term rate of return. Plans would be required to disclose their asset allocation and the expected real rate of return for each asset class.



Area	GASB 27	Preliminary Views	Exposure Draft (as currently expected)
Cost method	Any of six methods permitted.	Entry age normal (EAN) must be used.	Still will specify EAN, but more specific in description of particular EAN variation.
COLAs	Automatic COLAs must be recognized. Regular ad hoc COLAs recognized at the option of the employer.	Would require inclusion of automatic COLAs plus ad hoc COLAs where a regular pattern has been established.	No change from PV.
Pension expense calculation	Based on ARC, which is generally the normal cost plus amortization of the UAL over not greater than 30 years.	Very much different from current ARC calculation. In general: Normal cost, + (Interest on AL) - (Expected earnings) + or – (Effects of gains/losses, changes in assumptions or plan changes)	No change from PV.



Area	GASB 27	Preliminary Views	Exposure Draft (as currently expected)
Investment gains and losses	Wide choice of smoothing methods. Amortization of gains and losses done as part of UAL amortization. (30 year maximum)	No gains or losses recognized while still within 15% corridor around market value. Once outside of corridor, full recognition of investment gains or losses.	5 year smoothing of investment gains or losses.
Liability gains or losses	Part of UAL amortization. (30 year maximum)	For active participants, over expected working lifetime. For inactive participants, immediate recognition.	No change from PV.
Changes in actuarial assumptions	Part of UAL amortization. (30 year maximum)	For active participants, over expected working lifetime. For inactive participants, immediate recognition.	No change from PV.
Plan amendments	Part of UAL amortization. (30 year maximum)	For active participants, over expected working lifetime. For inactive participants, immediate recognition.	Immediate recognition for all plan amendments.



Area	GASB 27	Preliminary Views	Exposure Draft (as currently expected)
Disclosure of ARC vs. actual contributions	Must disclose percentage of ARC being contributed.	No comparable disclosure since ARC as we know it would be eliminated.	If an actuarially calculated employer contribution has been determined, show the difference between this and the actual contributions made.
Disclosure date	Generally employers could disclose liabilities as of the most recent actuarial valuation date.	Liabilities must be disclosed as of the last day of the employer's fiscal year.	No change from PV.
Effective date	Fiscal years beginning after June 15, 1997.	Not mentioned.	For sole employer plans with over \$1 billion in assets, fiscal years beginning after June 15, 2012. For all others, fiscal years beginning after June 15, 2013.



Area	GASB 27	Preliminary Views	Exposure Draft (as currently expected)
Transition		Not mentioned	To extent practical, changes reported as adjustments to prior periods.
Schedule of events	Originally issued in November 1994.	Issued in June 2010. Comments were due in September 2010 and public meetings were held in October 2010.	ED expected approximately at end of June. If so, comment period would likely end in September and public meetings held in October. Final statement in June 2012.
OPEB schedule of events (i.e., replacement of GASB 45)		.	Exposure draft expected in June 2012. Final statement in June 2013. Note that this means for one year, employers may be disclosing pension plans under the new requirements and OPEB plans under the old requirements.