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NHRS Frequently Asked Questions Concerning GASB 67 and 68 Reporting

Two recent accounting standards issued by the Governmental Accounting Standards Board (GASB) will affect the New Hampshire Retirement System (NHRS, the retirement system) and/or its participating employers:

- GASB 67 impacts the accounting and financial reporting of NHRS beginning in fiscal years commencing after June 15, 2013 (i.e. fiscal years ending June 30, 2014, or later).
- GASB 68 impacts financial reporting of participating state and local governments beginning in fiscal years commencing after June 15, 2014 (i.e. fiscal years ending June 30, 2015, or later).

In an effort to assist employers with the implementation of GASB 68, NHRS has created this list of frequently asked questions (FAQ), which will be updated as additional information becomes available.

EMPLOYER RESOURCES

In an effort to assist employers with the implementation of GASB 68, NHRS has created a web page that which includes NHRS employer communications and links to additional resources. The page can be accessed at: http://www.nhrs.org/Employers/GASBReportingChanges.aspx

Q. What is GASB?

A. The Governmental Accounting Standards Board 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. GASB is the source of generally accepted accounting principles (GAAP) used by state and local governments in the United States.

While GASB has no enforcement authority, public employee pension plans – including NHRS – typically follow GASB rules in order to obtain unmodified opinions from their auditors. Adhering to GASB standards is also an important consideration for the bond rating agencies. For more information, see: www.gasb.org

Q. What is changing? What isn't?

A. The new standards will change the way pension plans report financial information for accounting purposes, but do not force pension plans to change their funding policies, which are typically defined by statute. This has been referred to as "divorcing accounting from funding."

According to GASB, "While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed." (GASB Letter 2012)

Q. Why is GASB changing the financial reporting rules?

A. GASB's stated intent in developing the standards is to increase the transparency, consistency, and comparability of pension information across governments.

GASB's position is that pension costs and obligations should be recorded as employees earn them, not when the government contributes or when a retiree receives benefits. Previous GASB rules provided a standard that measured funded ratios and defined annual contributions needed to maintain healthy funding of public pensions. The new rules no longer provide that funding standard, but merely tell governments how to account for and report pension costs.

Q. What do GASB 67 and 68 standards require?

A. A pension plan's net liability will be calculated differently as a result of GASB 67; this new liability will begin being reported as part of individual employer's financial statements as a result of GASB 68.

Under GASB 67, NHRS will report two different pension liability numbers in its comprehensive annual financial report (CAFR):

- the liability for accounting purposes, referred to as the Net Pension Liability (NPL), calculated according to GASB 67; and
- the liability for funding purposes, referred to as the Unfunded Actuarial Accrued Liability (UAAL) calculated by the NHRS' independent actuary. The current method of calculating the UAAL is not affected by GASB 67.

In addition, the GASB 67 requirement to use the year-to-year fair market value of assets to calculate the retirement system's funded ratio – as opposed to NHRS' current actuarial method of "smoothing" investment gains and losses over a five-year period – may lead to greater annual fluctuations in NHRS' reported NPL as compared to the UAAL.

As a result of GASB 68, individual employers must report a proportionate share of the NPL on their balance sheet. Previously, employers reported the annual contributions they made to the retirement system and employer pension liabilities were only reported in the footnotes.

Q. Will GASB 68 impact employer contribution rates to NHRS?

A. No. Employers are currently paying down the NHRS UAAL through employer contribution rates. This funding schedule, which pays down the UAAL through 2039, is set in state law and is not affected by GASB 68.

Q. Will reporting the NPL on an employer's financial statements impact the property tax rate?

A. No. This is because the pension liability will be presented in the "government-wide financial statement," not the "fund financial statement" that is used by the state Department of Revenue Administration for tax rate setting purposes.

Q. While transparency and disclosure are good, is there a concern that these changes will cause confusion for taxpayers, lawmakers, and other interested parties?

A. Absolutely. The presence of a large number representing unfunded pension costs on local government or school district balance sheets could give the incorrect impression that employers/taxpayers have an immense debt that must be paid immediately, which is not the case. As noted above, NHRS employers will continue to pay down the retirement system's unfunded liability through 2039 exactly the same way they were doing prior to the implementation of GASB 68.

The GASB reporting requirements are likely going to be somewhat misleading to a layperson. While employer balance sheets typically reflect year-to-year assets and expenditures, the pension number on the balance sheets will reflect a liability that's being paid down ("amortized") over many years.

Q. Is there a simple way to explain this to a concerned taxpayer?

A. Yes. Using the analogy of a home mortgage, the previous GASB reporting standard required employers to report how much they paid toward their mortgage each year; under the new GASB standard, employers now have to report the outstanding balance of their mortgage.

And just like a homeowner with a $200,000 unpaid mortgage, there is no expectation that this amount must be paid off in one year. The owner – just as NHRS employers currently do – makes manageable monthly payments and pays down the debt over time.

Q. Will NHRS assist employers in complying with GASB 68 requirements?

A. Yes. The retirement system is currently developing informational materials for employers, as well as a mechanism for determining the proportionate shares of the NPL, pension expense and other financial disclosures, and providing it to employers.

NHRS has set up a GASB implementation page for employers on our website. The page can be found at: http://www.nhrs.org/Employers/GASBReportingChanges.aspx

In addition, NHRS has set up a special email address – GASB@nhrs.org – for employers to send questions related to GASB 68 implementation.

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