

GASB 67 and 68  
Department of Administration  
Draft Implementation Proposal  
November 2013

**BACKGROUND**

The Governmental Accounting Standards Board has issued two new statements, GASB 67 and 68, that impact how public pension plans and government employers, respectively, account for pension liabilities. The statements provide a consistent way for plans and employers to report pension liabilities.

GASB 67 and 68 adopt new terminology and methods for measuring public pension liabilities. In lieu of measuring the “unfunded actuarial accrued liability,” the GASB statements measure the “Net Pension Liability.” Actuarial smoothing is eliminated from the Net Pension Liability calculation, which requires use of mark-to-market fair valuation of assets.

For cost-sharing multiple employer pension plans, GASB 67 requires public pension plans to report the Net Pension Liability for the pension plan. GASB 68 requires that the Net Pension Liability be allocated to participating employers and that those employers book the allocated Net Pension Liability on their balance sheet.

In cases where a “non-employer” governmental entity is “legally responsible for making contributions directly to a pension plan” and such contributions are not dependent on certain factors unrelated to pensions,<sup>1</sup> the non-employer entity must report the portion of the Net Pension Liability attributable to such special funding on its balance sheet.

GASB 67 takes effect for public pension plans for the FY 2014 CAFR. GASB 68 takes effect for government employers for the FY 2015 CAFR.

Note: GASB 67 and 68 apply only to accounting for liabilities associated with pension benefits, and do not apply to liabilities associated with “other post-employment benefits,” i.e., health and life insurance benefits. GASB will likely release similar statements governing OPEB liabilities at some point in the foreseeable future.

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<sup>1</sup> The additional factors are (1) the amount of contributions for which the non-employer entity legally is responsible is not dependent upon one or more events unrelated to pensions or (2) the non-employer is the only entity with a legal obligation to make contributions directly to a pension plan.

**We understand that GASB intends to issue a GASB 68 implementation guidance document sometime in the next few months. Any final State decision on implementation must therefore await this GASB guidance.**

### **GASB Reporting Measures Allocation Methodology Proposal**

**Historical Contribution Allocation Method.** GASB now requires that cost-sharing multiple employer pension systems like Alaska PERS and TRS allocate to each participating employer a proportionate share of the GASB Reporting Measures. The GASB Reporting Measures include Total Pension Liability, Net Pension Liability, Fair Value of Assets, Pension Expense, and Deferred Inflows and Outflows.

The Department of Administration proposes to use the Historical Contribution Allocation Method for this purpose.

Under the Historical Contribution Allocation Method, the proportion of GASB Measures (including Net Pension Liability) that will be allocated to each participating employer is based on the ratio of that employer's most recent annual employer contribution amount to the total annual employer contribution amounts paid to the pension system during that year.

Where contributions are made as a percentage of payroll, and that percentage is the same for all participating employers, the allocation of GASB Measures (or portions thereof) may be based on the ratio of an employer's most recent total annual member payroll amount to the total annual member payroll amounts for all employers participating in the pension system during that year. For purposes of allocating the GASB Measures (including the Net Pension Liability) to employers attributable to on-behalf-of-payments, a ratio of the employers total annual member payroll to the total annual member payroll of all participating employers during the most recent year will be used.

Each employer shall include the GASB Reporting Measures so allocated in the employer's financial statements as of the employer's Reporting Date. The employer's Reporting Date is at the end of the employer's fiscal year which is not more than 12 months after the Measurement Date.

**Measurement Date Roll Forward Methodology.** Under GASB 67, the actuarial values must be adjusted for timing purposes. The roll forward methodology to do so is discussed in paragraph 37 of GASB 67.<sup>2</sup> We summarize it here:

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<sup>2</sup> Information regarding GASB Statement 68 can be found online at: [http://www.gasb.org/jsp/GASB/Pronouncement\\_C/GASBSummaryPage&cid=1176160219492](http://www.gasb.org/jsp/GASB/Pronouncement_C/GASBSummaryPage&cid=1176160219492)

The Measurement Date is the date as of which the required GASB Reporting Measures will be determined and reported by public pension plans at the pension plan's fiscal year end. The GASB Statements allow these measures to be determined using an actuarial valuation as of the measurement date, or up to 24 months before the measurement date. If the Actuarial Valuation Date precedes the Measurement Date, then the liability measurements are rolled-forward from the Actuarial Valuation Date to the Measurement Date.

In a roll-forward, the Total Pension Liability at the Measurement Date is equal to:

- (1) the Total Pension Liability at the Actuarial Valuation Date, *plus*
- (2) interest on the Total Pension Liability from the Actuarial Valuation Date to the Measurement Date, *plus*
- (3) the Service Cost for the year, *plus*
- (4) interest on the Service Cost from the Actuarial Valuation Date to the Measurement Date, *minus*
- (5) the expected benefit payments made from the Actuarial Valuation Date to the Measurement Date, *minus*
- (6) interest from the portion of the year the benefit payments are made that precede the Measurement Date.

In a roll forward, the Net Pension Liability at the Measurement Date is equal to:

- (1) the rolled-forward Total Pension Liability at the Measurement Date, *minus*
- (2) the Fair Value of Assets as of the Measurement Date.

The State of Alaska proposes to use a roll-forward of the GASB liabilities made during the actuarial valuation performed one year before the Measurement Date. This means the FY 2014 GASB Reporting Measures will be calculated as of the Actuarial Valuation Date of 06/30/2013 and rolled-forward to the GASB Measurement Date of 06/30/2014. This roll-forward procedure will continue for each GASB Measurement Date beyond 06/30/2014.

### **Special Funding**

As noted above, if a non-employer governmental entity is "legally responsible for making contributions directly to a pension plan," GASB 68 requires that such entity reflect the portion of the Net Pension Liability for which the entity is legally responsible on its balance sheet.

Following consultation with the Department of Law, the State of Alaska is not legally responsible for PERS and TRS employer Net Pension Liabilities other than the allocated Net Pension Liability for the State of Alaska as an employer.

The State of Alaska recognizes, however, that some PERS and TRS employers may contend that AS 14.25.085 and AS 39.35.280 (providing for additional general fund contributions to the PERS and TRS trusts on behalf of PERS and TRS employers) create such legal responsibility. Under the Alaska Constitution, the Legislature may not enact a substantive law that restrains a future Legislature's plenary power to appropriate funds. To avoid this constitutional infirmity, AS 14.25.085 and AS 39.35.280 are interpreted as budget recommendations for the Legislature to consider in crafting the budget for the State of Alaska. These statutes suggest discretionary funding, but do not impose legal responsibility on the State of Alaska for the pension liabilities of participating PERS and TRS employers.

As noted above, we are awaiting further GASB implementation guidance on implementation of GASB 68. In the meantime, in light of the potential disagreement regarding the legal significance of AS 14.25.085 and AS 39.35.280, we perceive two implementation options for special funding:

**Option A:**

The State of Alaska proposes to include in a footnote to its balance sheet the allocated Net Pension Liability amount that is attributable to the funding that is provided pursuant to AS 14.25.085 and AS 39.35.280. Under this option, the State would not report this amount on its balance sheet. PERS and TRS employers can then work with their auditors to decide whether or how to reflect their allocable share of the footnoted amount on their respective balance sheets.

**Option B:**

In recognition of the apparent GASB intent that the entire Net Pension Liability be allocated and reported on the collective balance sheets of participating employers, the State of Alaska proposes to include on its balance sheet the allocated Net Pension Liability amount that is attributable to the funding that is provided pursuant to AS 14.25.085 and AS 39.35.280. The State will include a footnote to its balance sheet disclaiming legal responsibility for participating employer Net Pension Liability.

**Example of GASB 67 and 68 Methodology**  
**Roll Forward and Allocation of Net Pension Liability Under a Cost-Share Plan**

**PERS Example** (All numbers are hypothetical and for example purposes only)

**(1) Roll Forward of Total Pension Liability**

FY 2013 Total Pension Liability per actuarial valuation	\$11,500,000
FY 2014 Total Pension Liability Interest	\$920,000
FY 2013 Service Cost	\$170,000
FY 2014 Interest on Service Cost	\$13,600
FY 2014 Expected Benefit Payments	(\$580,000)
FY 2014 Interest on Expected Benefit Payments	(\$23,600)
FY 2014 Rolled Forward Total Pension Liability	\$12,000,000

**(2) Net Pension Liability**

FY 2014 Rolled Forward Total Pension Liability	\$12,000,000
Fair Value of Assets on 6/30/2014	(\$7,700,000)
Net Pension Liability	\$4,300,000

FY 2014 Total Employer Contributions	\$190,000	58.46%
FY 2014 SB 125 On-Behalf-Of Contribution	\$135,000	41.54%
FY 2014 Total Pension Contributions	\$325,000	

FY 2014 Total Employer Contribution-Based Net Pension Liability	\$2,513,846	58.46%
FY 2014 SB 125 On-Behalf-Of-Based Net Pension Liability	\$1,786,154	41.54%
Net Pension Liability	\$4,300,000	

**(3) State of Alaska Share of Net Pension Liability on SOA Balance Sheet**

FY 2014 Total Employer Contributions	\$190,000
FY 2014 SOA Employer Contribution	\$108,000
FY 2014 SOA Pro-Rata Share of Total Employer Contributions	56.84%
FY 2014 Total Employer Contribution-Based Net Pension Liability	\$2,513,846
FY 2014 SOA Share of Total Employer Contribution-Based Net Pension Liability	\$1,428,923

FY 2014 Total Employer Payroll	\$2,245,000
FY 2014 SOA Employer Payroll	\$1,374,000
FY 2014 SOA Pro-Rata Share of Total Employer Payroll	61.20%
FY 2014 SB 125 On-Behalf-Of-Based Net Pension Liability	\$1,786,154
FY 2014 SOA Share of SB 125 On-Behalf-Of-Based Net Pension Liability	\$1,093,174
FY 2014 SOA Share of Total Employer Contribution-Based Net Pension Liability	\$1,428,923
FY 2014 SOA Share of SB 125 On-Behalf-Of-Based Net Pension Liability	\$1,093,174
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FY 2014 SOA Share of Net Pension Liability on SOA Balance Sheet	\$2,522,097
Expressed as a Percentage of Net Pension Liability	58.65%

**(4) Remaining Amount of SB 125 On-Behalf-Of-Based Net Pension Liability**

FY 2014 SB 125 On-Behalf-Of-Based Net Pension Liability	\$1,786,154
FY 2014 SOA Share of SB 125 On-Behalf-Of-Based Net Pension Liability	(\$1,093,174)
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FY 2014 Remaining Amount of SB 125 On-Behalf-Of-Based Net Pension Liability	\$692,980

**Option A: Footnote Only**

**Option B: Reported on SOA Balance Sheet**

**(5) Employer X Share of Net Pension Liability**

FY 2014 Total Employer Contributions	\$190,000
FY 2014 Employer X Contribution	\$18,000
FY 2014 Employer X Pro-Rata Share of Total Employer Contributions	9.47%
FY 2014 Total Employer Contribution-Based Net Pension Liability	\$2,513,846
FY 2014 Employer X Share of Total Employer Contribution-Based Net Pension Liability	\$238,154
FY 2014 Total Employer Payroll	\$2,245,000
FY 2014 Employer X Payroll	\$183,500
FY 2014 Employer X Pro-Rata Share of Total Employer Payroll	8.17%
FY 2014 SB 125 On-Behalf-Of-Based Net Pension Liability	\$1,786,154
FY 2014 Employer X Share of SB 125 On-Behalf-Of-Based Net Pension Liability	\$145,995

**(6) Summary of Net Pension Liability Allocation**

FY 2014 SOA Share of Net Pension Liability on SOA Balance Sheet	\$2,522,097	58.65%
FY 2014 Share of NPL to be Allocated Amongst Non-SOA Participating Employers	\$1,084,923	25.23%
FY 2014 Remaining Amount of SB 125 On-Behalf-Of-Based Net Pension Liability	\$692,980	16.12%
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Net Pension Liability	\$4,300,000	