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Government Accounting Standards Board (GASB) Statements No. 68 and 71 implementation guide

This technical guide is intended for single employer and agent multiple employer defined benefit pension plans. To illustrate key points, this guide uses an Illinois local government that participates in the Illinois Municipal Retirement Fund (IMRF) and sponsors a Police or Firefighters' pension as an example.

Contact your audit team with specific questions on the impact of implementing GASB Statements No. 68 and 71 in your government.

If you participate in a single employer pension plan with a fiscal year end of June 30, 2014 or later you have already seen significant changes to the notes to financial statements and required supplementary information in either the pension plan's financial statements or your entity's financial statements. This was due to the adoption of GASB Statement No. 67. GASB Statements No. 68 and 71 will take pension reporting a step further, affecting note disclosures and required supplementary information for all employers participating in a defined benefit pension plan. For governments reporting on the modified accrual and full accrual basis of accounting, you will also see an impact on your full accrual financial statements.

Full accrual financial statement items

The following explains some of the financial statement line items you will see, where they are derived, and how they are recorded:

- **Deferred outflows and deferred inflows related to pensions**
  - Comprised of amounts from the actuarial valuation, and in some cases your general ledger, these items are included in the full accrual statement of net position.
  - The differences between expected and actual experience; assumption changes; and net difference between projected and actual earnings on pension plan investments are derived from the actuarial valuation.
    - Baker Tilly professionals have seen actuarial valuations that include schedules of deferred outflows and deferred inflows and others where the amounts need to be derived from the schedule of changes in the employer's net pension liability and related ratios that is included in the actuarial valuation.
    - Differences between expected and actual experience and assumption changes are amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. Illinois Municipal Retirement Fund (IMRF) is using a five year period for this amortization.
    - The net difference between projected and actual earnings on pension plan investments are amortized over a closed five year period beginning with the current reporting period.

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- Employer pension contributions paid from the measurement date of the actuarial valuation to your fiscal year end are derived from amounts in your general ledger.
  - For example, an employer with a December 31, 2015 fiscal year end using the December 31, 2014 IMRF actuarial valuation will have deferred outflows for all employer contributions expensed to IMRF during fiscal year 2015.
  - This deferred outflow will be recognized as a reduction in the net pension liability in the following fiscal year.
  - In the year of adopting GASB Statements No. 68 and 71, beginning net position will be restated for this deferred outflow. Using the dates from the previous example, beginning net position would increase by the amount of employer contributions expensed to IMRF during fiscal year 2014.
- The entry to record these deferred outflows and inflows of resources:
  - Employer contributions paid from the measurement date of the actuarial valuation to your fiscal year end will have a debit balance and be a deferred outflow of resources. The other items could be a deferred outflow or deferred inflow depending on the circumstances in the actuarial valuation.
  - The sum of every item with a debit balance will be recorded as a deferred outflow of resources related to pensions on the Statement of Net Position.
  - The sum of every item with a credit balance will be recorded as a deferred inflow of resources related to pensions on the Statement of Net Position.
  - The other side of each of those journal entries to record deferred outflows and inflows related to pensions is pension expense.
  - Deferred outflow balances and deferred inflow balances are not netted together for presentation on the Statement of Net Position.
- There is another potential deferred outflow and inflow of resources for the change in proportion and differences between employer contributions and proportionate share of contributions discussed in the following allocations section.

> Net Pension Asset/Liability

- The net pension asset/liability is calculated as the total pension liability less the plan's fiduciary net position.
  - The total pension liability is the amount estimated by the actuary.
  - The plan's fiduciary net position and amounts comprising the net position should agree to the audited financial statements of the plan. If the amount reported as plan net position in the actuarial valuation does not agree to the plan's audited net position, consider the need to adjust the amount in the actuarial valuation to arrive at an adjusted net pension asset/liability.
  - If the total pension liability exceeds the plan's fiduciary net position you have a net pension liability. If the plan's fiduciary net position exceeds the total pension liability you have a net pension asset. When adjusting for this balance the other side of the entry is pension expense.
- Net pension assets are a separate line item on your Statement of Net Position and net pension liabilities are included in long-term liabilities due after one year on the Statement of Net Position.
- In the year of adopting GASB Statements No. 68 and 71, beginning of the year net position will be restated for the beginning of year net pension asset/liability. The beginning of year balance will either be clearly shown in the actuarial valuation or it can be derived by taking beginning of year total pension liability less beginning of year plan fiduciary net position.

For entities participating in multiple pension plans, each deferred outflow, deferred inflow, and net pension asset or liability of each plan are grossed up to derive the amounts included in the Statement of Net Position. For example, if one plan has a $3 million net pension asset and another has a $1 million net pension liability they are shown separately and not netted as a $2 million net pension asset. If both were net pension assets you would show a $4 million net pension asset.

Allocations

To complicate matters further, the financial statement items previously mentioned should be allocated to funds, departments, component units, and other organizations, where applicable. If any of the following are expected to pay for retirement costs, either directly or indirectly, in future periods they should be allocated a portion of the financial statement items previously discussed:

- Governmental activities
- Enterprise funds rolling up to business-type activities
- Component units
- Separate organizations, like village libraries, that are not included in your audited financial statements

The basis for the employer's allocation should be consistent with the manner in which contributions to the pension plan are determined. GASB Statement No. 68 encourages the actuarial method for this basis which uses the projected long-term contribution efforts of the entities. Another allowable, and perhaps less complicated, method is to allocate amounts based on historical measures. For example, a Village has IMRF creditable salaries in the Corporate Fund (governmental activities), in the Water Fund (business-type activities), and in the Library (a separate organization under the Village's IMRF employer ID, but not included in the Village's financial statements). Assume the Water Fund and Library contribute to IMRF based on a percentage of salaries consistent with employer contributions paid out of the IMRF Fund. In that scenario, an allocation of a $500,000 net pension liability would occur as follows:

	Average IMRF contributions for the last five years	Allocation of Net Pension Liability ($500,000)
Corporate Fund	$1,000,000	$434,783
Water Fund	$100,000	$43,478
Village Library	$50,000	$21,739
Total	**$1,150,000**	**$500,000**

The other financial statement line items (deferred outflows, deferred inflows, and pension expense) would be allocated in the same manner.

If the allocation percentage changes in the following year, the net effect of that change on the GASB 68 amounts should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in pension expense in the current year is recorded as a deferred outflow or a deferred inflow.

The GASB Statements No. 68 and 71 adjustments impacting expense accounts will further need to be broken down by function (general government, public safety, public works, etc.) for proper presentation of the Statement of Activities and the Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position. This allocation would be completed in the same manner as shown above for the net pension liability.

The adjustments for GASB 68 and 71 relating to Illinois Police and Firefighters' pension plans would only impact the public safety function in Governmental Activities.

Minimizing the impact on your organization

The implementation of GASB Statements No. 68 and 71 will be a difficult task for most governments. To minimize the impact on your government, proper planning, templates, and early discussions with your audit team are highly recommended. We also recommend early communication with your actuaries to develop a timeline that ensures valuation delivery prior to the beginning of audit fieldwork.