NO. 34-E | JUNE 27, 2011

Governmental Accounting Standards Series

EXPOSURE DRAFT

Proposed Statement of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 34-E

Comment Deadline: September 30, 2011

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

Notice of Public Hearings, User Forums, and Request for Written Comments

Public hearings and user forums:

- October 3, 2011 (public hearing) and October 4, 2011 (user forum) at LaGuardia Plaza Hotel, 104-04 Ditmars Blvd., East Elmhurst, NY
- October 13, 2011 (public hearing) and October 14, 2011 (user forum) at Sir Francis Drake Hotel, 450 Powell Street, San Francisco, CA
- October 20, 2011 (public hearing) and October 21, 2011 (user forum) at Renaissance Chicago O'Hare, 8500 West Bryn Mawr Avenue, Chicago, IL.

The public hearings are scheduled to begin at 8:30 a.m. local time. The user forums are scheduled to begin at 1:00 p.m. local time.

PUBLIC HEARINGS AND USER FORUMS

Deadline for notice of intent to participate in public hearings and user forums:

- October 3 and 4, 2011 public hearing and user forum: September 20, 2011
- October 13 and 14, 2011 public hearing and user forum: September 30, 2011
- October 20 and 21, 2011 public hearing and user forum: September 30, 2011

Basis for public hearings and user forums. The GASB has scheduled the public hearings and user forums to obtain information from interested individuals and organizations about the issues discussed in this Exposure Draft. The hearings and forums will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate at the hearings or forums and through written response.

Public hearing oral presentation requirements. Individuals or organizations that want to make an oral presentation in person or by telephone at a public hearing are required to provide, **by the deadline for notice of intent to participate,** a written notification of that intent and a copy of written comments addressing the issues discussed in this Exposure Draft. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 34-E, and emailed to director@gasb.org or mailed to the address below. The notification should indicate a preference for participating in person or via telephone. The public hearings may be canceled if sufficient interest is not expressed by the deadline.

The Board intends to schedule all respondents that want to make oral presentations and will notify each individual or organization of the expected time of the presentation. The time allotted each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

User forum participation requirements. Participation in the user forums is limited to external financial statement users, including financial statement analysts and legislators. All participants are asked to engage in a discussion of the Exposure Draft, including issues raised in the Plain-Language Supplement; additional issues raised by the Board members and staff; and issues raised by other participants. Every participant will be provided with the opportunity to express his or her views.

Observers. Observers are welcome at the public hearings and user forums and are urged to submit written comments.

REQUEST FOR WRITTEN COMMENTS

Requirements for written comments. Any individual or organization that wants to provide written comments but does not intend to participate in the public hearings or user forums should provide those comments by **September 30, 2011.** Comments should be addressed to the Director of Research and Technical Activities, Project No. 34-E, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public files. Written comments and transcripts of the public hearings will become part of the Board's public file and will be available for inspection at the Board's offices. Photocopies of those materials may be obtained for a specified charge. The GASB will make all comments publicly available by posting them to the Projects portion of its website.

Orders. Any individual or organization may obtain one photocopy of this Exposure Draft on request without charge until September 30, 2011, by writing or phoning the GASB Order Department. For information on prices for additional copies and copies requested after that date, please contact the Order Department. The Exposure Draft also may be downloaded from the GASB's website at www.gasb.org.

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GASB publications also may be ordered at www.gasb.org.

Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would result in new standards for accounting for pensions by employers whose employees are provided with pensions through pension plans administered through trusts, or equivalent arrangements, that meet the characteristics defined in this proposal. It also would address accounting and financial reporting issues of certain nonemployer entities that contribute to such plans. The proposed Statement would amend Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to those governments. The requirements of Statements 27 and 50 would remain effective for pensions that are not included in the scope of this Exposure Draft. A related Exposure Draft, *Financial Reporting for Pension Plans*, proposes revisions to existing standards for financial reporting of pension plans that are used to provide benefits that are within the scope of this Exposure Draft.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered and modifications, if any, have been made, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

The primary objective of this proposed Statement is to improve accounting and financial reporting by state and local governments whose employees are provided with pensions. It also aims to improve information provided by state and local governments about financial support for pensions that is provided on their behalf by other entities. It is the result of a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This proposed Statement specifically would amend the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements, that meet certain criteria. Requirements of those Statements would remain applicable to employers whose pensions are not covered by the scope of this proposed Statement.

A related proposed Statement, *Financial Reporting for Pension Plans* (the related proposed Statement), would revise existing standards of financial reporting for most pension plans.

This proposed Statement and the related proposed Statement would establish a definition of pension plan that reflects the primary activities of a fund that is used to provide pensions—the accumulation and management of assets dedicated for pensions and the payment of pensions to plan members as the benefits come due. A trust, or equivalent arrangement, that is used to administer a pension plan and that has the following characteristics is referred to as a qualified trust:

1. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a nonemployer contributing entity, and earnings on those contributions are irrevocable.
2. Plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
3. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

This proposed Statement would establish standards for accounting and financial reporting by governments whose employees are provided with defined benefit pensions through qualified trusts. These standards would establish the procedures for measuring and recognizing the obligations associated with pensions as liabilities and the costs of pensions as expenses, deferred outflows of resources, or deferred inflows of resources. This proposed Statement identifies the methods and assumptions that would be used to project pension payments, discount projected payments to their present values, and attribute those present values to periods of employee service.

The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with

pensions through the plan and whether pension assets and obligations are shared. Employers are classified in one of the following categories for purposes of this proposed Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—plans in which pensions are provided to the employees of only one employer.
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—plans in which plan assets are pooled for investment purposes but are legally segregated to pay the pensions of each employer's employees.
- Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—plans in which the participating employers pool or share their obligations to provide pensions to their employees and plan assets can be used to pay the pensions of any participating employer's employees.

In addition, the proposed Statement details the recognition and disclosure requirements for employers with liabilities to a pension plan administered through a qualified trust and those whose employees are provided with defined contribution pensions through a qualified trust. This proposed Statement also addresses special funding situations.

Defined Benefit Pensions

Single and Agent Employer Liabilities to Employees for Defined Benefit Pensions

A single or agent employer whose employees are provided with defined benefit pensions through a qualified trust would be required to recognize a net pension liability in financial statements prepared using the economic resources measurement focus and accrual basis of accounting. The net pension liability would equal the employer's total pension liability less the amount of plan net position restricted for pensions (plan net position), as of the end of the employer's reporting period. The total pension liability would be the portion of the present value of projected benefit payments that is attributed to employees' past periods of service. Actuarial valuations of the total pension liability would be required to be conducted at least every two years under the proposed Statement, with more frequent valuation encouraged. If a valuation is not conducted as of the end of the employer's reporting period, measurement of the total pension liability would be based on update procedures to roll forward amounts from the most recent actuarial valuation conducted as of a date no more than 24 months prior to the employer's most recent year-end.

Selection of Assumptions

Unless otherwise specified by this proposed Statement, all assumptions underlying measurements required by this proposed Statement would be made in conformity with

Actuarial Standards of Practice issued by the Actuarial Standards Board of the American Academy of Actuaries.

Projections of Benefit Payments

Projections of benefit payments to employees would be based on the then-existing benefit terms and legal agreements and would incorporate projected salary increases (if the pension formula is based on compensation levels) and service credits (if the pension formula is based on periods of service), as well as projected automatic cost-of-living-adjustments (COLAs) and other automatic postemployment benefit changes. Projections also would include ad hoc COLAs and other ad hoc postemployment benefit changes, if they are considered to be substantively automatic.

Discount Rate

Projected benefit payments would be discounted to their present value using the single rate that would reflect (1) a long-term expected rate of return on plan investments to the extent that plan net position is projected to be sufficient to pay pensions and the net position projected to remain after each benefit payment can be invested long-term and (2) a tax-exempt, high-quality municipal bond index rate to the extent that the conditions in (1) are not met.

Attribution Method

The attribution of the actuarial present value of benefit payments would be accomplished using the entry age normal actuarial cost method as a level percentage of pay. The actuarial present value would be attributed for each employee individually, from the period when the employee first accrues pensions through the period when the employee retires.

Measurement of Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that would be recognized in the financial statements of an employer whose employees are provided with defined benefit pensions through a qualified trust would result from changes in the net pension liability—that is, changes in the employer’s total pension liability and the pension plan’s net position.

Changes in the total pension liability relating to current-period service cost, interest on the total pension liability, and benefit changes would be included in pension expense immediately. With regard to the effects on the total pension liability of changes of economic and demographic assumptions and of differences between expected and actual experience, the portion related to inactive employees would be included in pension expense immediately. The portion related to active employees would be recognized as deferred outflows of resources or deferred inflows of resources related to pensions and included in pension expense in a systematic and rational manner over a closed period that is representative of the expected remaining service lives of active employees, beginning with the current period.

Changes in plan net position resulting from projected earnings on the plan's investments would be included in pension expense immediately. The effect of differences between the projected earnings and actual experience would be recognized as deferred outflows of resources or deferred inflows of resources related to pensions and included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period.

All other changes would be included in pension expense in the period in which they occur.

Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting

In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a net pension liability would be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures would be recognized equal to the total of amounts contributed to the pension plan and amounts normally expected to be liquidated with expendable available financial resources.

Notes to Financial Statements of Single and Agent Employers

The notes to financial statements of single and agent employers whose employees are provided with pensions through a qualified trust would provide descriptive information, such as the types of benefits provided and the composition of the employees covered by the benefit terms. Single and agent employers also would disclose the following:

- For the current year, changes in the net pension liability
- Significant assumptions used to calculate the total pension liability, including assumptions used in calculating the discount rate
- The date of the underlying actuarial valuation, information about changes of assumptions and benefit terms, the basis for determining employer contributions to the plan, and information about the purchase of allocated insurance contracts, if any
- The individual components of the current-period pension expense
- Explanations of the changes in the deferred outflows of resources and deferred inflows of resources related to pensions during the current period.

Required Supplementary Information of Single and Agent Employers

The proposed Statement would require single and agent employers whose employees are provided with pensions through a qualified trust to present the following schedules covering each of the past 10 years as required supplementary information:

- Changes in the net pension liability
- Information about the components of the net pension liability and related ratios as of the employer's year-end that presents (1) the total pension liability, (2) the amount of plan net position, (3) the net pension liability, (4) plan net position as a percentage of the total pension liability, (5) the amount of covered-employee payroll, and (6) net pension liability as a percentage of covered-employee payroll.

If the employer(s) contributions are actuarially determined, the employer would present in required supplementary information a schedule covering each of the past 10 years that includes (1) the actuarially calculated employer contribution, (2) the amount of employer contributions made, (3) the difference between 1 and 2, (4) the amount of covered-employee payroll, and (5) employer contributions made as a percentage of covered-employee payroll.

The employers also would identify significant methods and assumptions used in determining the actuarially calculated contributions as notes to the schedules, if not disclosed elsewhere, and would explain factors that significantly affect the identification of trends in the amounts reported in the schedules, such as changes in benefit provisions, the size or composition of the population covered by the benefit terms, or assumptions used.

Cost-Sharing Employers

A cost-sharing employer whose employees are provided with pensions through a qualified trust would report a net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense based on its proportionate share of the *collective* net pension liability of all employers in the plan. The collective net pension liability would equal the collective total pension liability less plan net position. The share of the collective net pension liability recognized by an individual employer would be based on its expected long-term contribution effort to the plan as a proportion of all expected employer-related contributions.

The measurement of the collective net pension liability, pension expense, and other key information would follow the same standards that apply to single and agent employers. The effects of a change in an employer's expected proportion of total employer-related contributions (as well as the effects of differences between the expected and actual proportionate share of total employer-related contributions each period) would be reported as a deferred outflow of resources or deferred inflow of resources and recognized in the employer's pension expense in a systematic and rational manner over a closed period that is representative of the expected remaining service lives of employees, beginning with the current period.

Cost-sharing employers whose employees are provided with pensions through a qualified trust would disclose in the notes to financial statements descriptive information about the pensions they provide and would identify the discount rate and other assumptions made in the measurement of their net pension liabilities, similar to the disclosures about those items that would be required to be made by single and agent employers. Cost-sharing employers, like single and agent employers, also would disclose information about how their actual contributions to the plan are determined.

Required supplementary information presented by cost-sharing employers whose employees are provided with pensions through a qualified trust would include 10-year schedules of (1) changes in the *collective* net pension liability, (2) information about the components of the *collective* net pension liability and related ratios, (3) information about the components of the net pension liability and related ratios *for the individual employer*, and (4) if the employers' contributions are actuarially determined, *collective* employer contribution information and contribution information *for the individual employer*, all as of the employer's year-end.

Defined Contribution Pensions

An employer whose employees are provided with defined contribution pensions would recognize pension expense equal to the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A pension liability would be recognized for the difference between amounts recognized as expense and actual contributions made to a pension plan. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer would recognize pension expenditures equal to the total of (1) amounts contributed to a pension plan and (2) amounts normally expected to be liquidated with expendable available financial resources, and a liability to the extent the liability is normally expected to be liquidated with expendable available financial resources. In notes to financial statements, an employer would describe the plan and benefit provisions, the contribution rates and how they are determined, and the amounts attributed to employee service and forfeitures in the current period.

Special Funding Situations

Special funding situations are circumstances in which an entity other than the employer (nonemployer contributing entity) is legally required to contribute to the employer's pension plan. If a governmental nonemployer contributing entity is required to make contributions to a defined benefit pension plan administered through a qualified trust for the employees of another government and its contribution is conditional on one or more events or circumstances unrelated to the pensions, then the governmental nonemployer contributing entity would report the contribution as an on-behalf payment and the employer would recognize the contribution as revenue.

If a governmental nonemployer contributing entity is required to make contributions to a defined benefit pension plan administered through a qualified trust for the employees of another government and its contribution is unconditional, it would recognize its proportionate share of the employer's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense. The effects of a change in the proportion used by a governmental nonemployer contributing entity to calculate its share of collective amounts, as well as differences between its actual contributions and its share of total employer contributions recognized by the plan (including contributions made on behalf of the employer by nonemployer contributing entities), each would be recognized as a deferred outflow of resources or a deferred inflow of resources and introduced into the governmental nonemployer contributing entity's pension expense calculation in a systematic and rational manner over a closed period that is representative of the expected remaining service lives of active employees covered by the benefit terms, beginning with the current period.

The information that would be required to be disclosed in notes and presented in required supplementary information by a governmental nonemployer contributing entity would depend on the proportion of the total net pension liability (of all employers in the plan) that it recognizes. If the governmental nonemployer contributing entity recognizes a substantial proportion of the total net pension liability, it would disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, the discount rate and other assumptions made, and certain other pension disclosures required of an employer. The governmental nonemployer contributing entity also would present schedules of required supplementary information similar to those required of a cost-sharing employer.

If the proportion of the total net pension liability recognized by the governmental nonemployer contributing entity is less than substantial, it would disclose the name and type of plan through which pensions are provided; the basis for determination of its contributions to the plan; the amount of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense it recognized; and the proportion used to determine its recognized amounts. The governmental nonemployer contributing entity also would present a 10-year required supplementary information schedule containing the amount of the net pension liabilities it recognized and the amount of the contributions it made as support for the pensions of other governments.

An employer would calculate its net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense prior to the nonemployer contributing entity's support. However, the employer would recognize all amounts, except for pension expense, net of the nonemployer contributing entity's proportionate share. The employer would recognize revenue for the pension support of the nonemployer contributing entity. The employer also would disclose in the notes to its financial statements information about the amounts assumed by the nonemployer contributing entity and would present additional information in schedules of required supplementary information about the involvement of the nonemployer contributing entity.

The Statement also would establish requirements related to special funding situations for defined contribution pensions.

Effective Date and Transition

A single employer that participates in a single-employer defined benefit pension plan that has plan net position of $1 billion or more in the first fiscal year ending after June 15, 2010, would be required to implement the requirements of the proposed Statement in periods beginning after June 15, 2012, if the employer meets specific criteria. For all other employers and for governmental nonemployer contributing entities, this proposed Statement would be effective for periods beginning after June 15, 2013. Earlier application would be encouraged.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would improve the decision-usefulness of information in employer financial reports and enhance its value for assessing accountability and interperiod equity by requiring recognition of:

- The entire net pension liability
- A more comprehensive measure of pension expense.

Decision-usefulness and accountability also would be enhanced through new note disclosures and required supplementary information:

- More robust disclosures of assumptions would allow better informed assessments of the reasonableness of pension measurements.
- Explanations of how and why the net pension liability changed from year to year would improve transparency.
- The summary net pension liability information, including ratios, would offer an up-to-date indication of the extent to which the total pension liability is covered by resources held by the plan.
- The employer contribution schedule would provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. It also would provide information about whether employers are keeping pace with actuarially calculated pension contributions.

The consistency and transparency of the information reported by employers about pension transactions would be improved by requiring:

- The incorporation into benefit projections of ad hoc COLAs and other ad hoc postemployment benefit changes that are considered substantively the same as automatic COLAs and other automatic postemployment benefit changes
- The use of a discount rate that would consider the availability of plan resources associated with the pensions of current and former employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether plan net position is projected to be sufficient to pay pensions and to be invested long-term
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with variations
- Recognition of pension expense that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a closed period, rather than a choice between an open or closed period

- Immediate recognition in pension expense, rather than a choice of recognition periods, of the effects of:
  - Benefit changes
  - Effects of changes of economic and demographic assumptions and differences between those assumptions and actual experience on the pension liability related to inactive employees
  - Changes in plan net position due to projected investment earnings
- Measurement based on either a current actuarial valuation or an update that rolls forward the results of a valuation conducted as of a date no more than 24 months prior to the employer's most recent year-end.

The comparability of the reported pension information also would be improved by the changes related to the attribution method used to determine service cost and the total pension liability, the establishment of standardized recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions, requirements for immediate recognition in pension expense of certain items, and the changes in requirements related to the timing of measurement and actuarial valuations.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 5 and 7–12 discuss the applicability of this Statement.

Proposed Statement of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

June 27, 2011

CONTENTS

Paragraph Numbers

Paragraph Numbers

Paragraph Numbers

Proposed Statement of the Governmental Accounting Standards Board

Accounting and Financial Reporting for Pensions

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June 27, 2011

INTRODUCTION

1. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both **active employees** and **inactive employees**—are provided with **pensions.**[1] One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations and the assets available to satisfy those obligations.

2. An additional objective of this Statement is to improve the information provided in government financial reports about financial support for pensions provided by nonemployer entities that make contributions to **pension plans** on behalf of governmental employers **(nonemployer contributing entities).**

3. A related Statement, *Financial Reporting for Pension Plans* (the related Statement), establishes standards of financial reporting for **defined benefit pension plans** and **defined contribution pension plans** that are used to provide pensions that are within the scope of this Statement. The two Statements are closely related in some areas, and certain provisions of this Statement refer to the related Statement.

[1]Terms defined in the Glossary are shown in **boldface type** the first time they appear in this Statement.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

4. This Statement establishes standards of accounting and financial reporting for **defined benefit pensions** and **defined contribution pensions** provided to the employees of state and local governmental employers through pension plans that are administered through trusts, or equivalent arrangements, in which:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a nonemployer contributing entity, and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing pensions to **plan members** in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

A trust, or equivalent arrangement, that is used to administer a pension plan and that has these characteristics is referred to in this Statement as a **qualified trust.**

5. The requirements of this Statement apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through qualified trusts and of state and local governmental nonemployer contributing entities in **special funding situations** for such pensions. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

6. This Statement amends paragraph 2 of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues;* footnote 7 of Statement No. 16, *Accounting for Compensated Absences;* paragraph 63 of Statement No. 14, *The Financial Reporting Entity;* paragraph 4 of Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance;* paragraph 3 of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers;* paragraph 129 and footnote 47 of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments;* paragraph 13 of Statement No. 38, *Certain Financial Statement Note Disclosures;* paragraphs 4, 17, and 19 of Statement No. 47, *Accounting for Termination Benefits;* paragraph 3 of Statement No. 50, *Pension Disclosures;* paragraph 157 of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles;* paragraph 4 of NCGA Interpretation 6, *Notes to the Financial Statements Disclosure;* and paragraph 1 of Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.*

Types of Pensions

7. As used in this Statement, the term *pensions* includes retirement income, as well as postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits) that are provided through a defined benefit pension plan. Pensions do not include **postemployment healthcare benefits** and **termination benefits.** However, the effects of a termination benefit on an employer's liability for defined benefit pensions that are within the scope of this Statement should be accounted for in accordance with this Statement.[2] Postemployment benefits other than retirement income that are provided separately from a defined benefit pension plan and postemployment healthcare benefits should be accounted for and reported as **other postemployment benefits.**[3]

8. The requirements of paragraphs 13–95 of this Statement address accounting and financial reporting for defined benefit pensions provided through a qualified trust. Accounting and financial reporting requirements for defined contribution pensions provided through a qualified trust are in paragraphs 96–106. Defined benefit pensions are those for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The benefits may be stated as a specified dollar amount or an amount that is calculated based on one or more factors such as age, years of service, and compensation. In contrast, defined contribution pensions have terms that (a) provide an individual account for each employee; (b) define the contributions (or credits) that an employer is required to make to an active employee's account for periods in which that employee renders services; and (c) provide that the benefits an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and forfeitures of contributions (or credits) made for other employees or plan administrative costs that may be allocated to the employee's account. If the benefit to be provided is a function of factors other than the amounts contributed (or credited) and amounts earned on contributed (or credited) assets, the requirements of this Statement related to defined benefit pensions apply. Otherwise, the requirements for defined contribution pensions apply.

Types of Defined Benefit Plans and Employers

9. Defined benefit pension plans are classified according to the number of employers whose employees are provided with pensions through the plan and whether pension obligations and assets are shared. For purposes of this classification, a primary government and its component unit(s) are considered to be one employer. If a defined benefit pension plan is used to provide pensions to the employees of only one employer,

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[2]Termination benefits primarily are addressed in Statement 47, as amended. Statement 47 includes disclosure requirements applicable to all termination benefits, regardless of the manner in which they are provided.

[3]Employer accounting for other postemployment benefits primarily is addressed in Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended.

the plan should be classified for financial reporting purposes as a **single-employer defined benefit pension plan (single-employer pension plan),** and the employer generally should apply the requirements of this Statement for a **single employer.** The requirements for a single employer are in paragraphs 16–43 of this Statement.

10. If a defined benefit pension plan is used to provide pensions to the employees of more than one employer, the plan is classified for financial reporting purposes as a **multiple-employer defined benefit pension plan.** If the assets of a multiple-employer defined benefit pension plan are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the pensions of only its employees, the plan should be classified as an **agent multiple-employer defined benefit pension plan (agent pension plan).** Each employer that provides pensions through such a plan should apply the requirements of paragraphs 16–43 of this Statement for an **agent employer.** For agent employers, the provisions of this Statement apply to the pensions provided to the employer's own employees.

11. If the employers in a multiple-employer defined benefit pension plan pool or share their obligations to provide pensions to their employees and plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan, the plan is considered to be a **cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan).** Each employer that provides pensions through such a plan should apply the requirements of paragraphs 44–71 of this Statement for a **cost-sharing employer.**

Special Funding Situations

12. In a special funding situation, a nonemployer contributing entity is legally responsible for contributions to a pension plan that is used to provide pensions to the employees of a government. For example, a state government may be legally responsible for all or a portion of the annual employer contributions to a pension plan that covers employees of school districts within the state. The amount of the on-behalf contributions for which the nonemployer contributing entity is legally responsible is either (a) conditional on one or more events or circumstances unrelated to the pensions (for example, the nonemployer contributing entity is required to make contributions based on a specified percentage of a given revenue source) or (b) unconditional (for example, the nonemployer entity is legally required to contribute a defined percentage of covered-employee payroll to the pension plan or the nonemployer entity is required to contribute to the pension plan a defined proportion of the employer's required contributions). Both conditional and unconditional contributions are forms of on-behalf payments for pensions, as defined in Statement 24. Requirements for accounting and financial reporting by employers and by governmental nonemployer contributing entities for defined benefit pensions with special funding situations that are provided through qualified trusts are presented in paragraphs 74–95 of this Statement. Requirements for accounting and financial reporting by employers and by governmental nonemployer contributing entities for defined contribution pensions with special funding situations that are provided through qualified trusts are presented in paragraphs 100–106.

Defined Benefit Pensions

13. An employer whose employees are provided with defined benefit pensions through a qualified trust should recognize pension-related liabilities, expense/expenditures, deferred outflows of resources, and deferred inflows of resources as required by this Statement for the following, as applicable:

a. Liabilities to employees for pensions (paragraphs 14–71)
b. Liabilities to a defined benefit pension plan (paragraphs 72 and 73).

Governmental nonemployer contributing entities in special funding situations should apply the requirements of paragraphs 74, 75, and 79–95, as applicable.

Liabilities to Employees for Pensions

14. An employer should apply the requirements of paragraphs 15–71, as applicable, separately to the pensions provided through each of the defined benefit pension plans used to provide benefits to its employees. For employers that have special funding situations, additional requirements are presented in paragraphs 74–78.

15. In circumstances in which a primary government and its component unit(s) provide pensions through the same single-employer or agent pension plan (a) in their stand-alone financial statements, the primary government and its component unit(s) should account for and report their participation in the single-employer or agent pension plan as if they were cost-sharing employers and should apply the requirements of paragraphs 44–71 of this Statement and (b) in the reporting entity's financial report, the requirements of paragraphs 30–43 of this Statement for note disclosures and required supplementary information for a single or agent employer should be applied instead of the disclosure and required supplementary information requirements for cost-sharing employers.

Single and Agent Employers

Measurement and recognition in financial statements prepared using the economic resources measurement focus and accrual basis of accounting

Net pension liability[4]

16. A single or agent employer should recognize in its financial statements a **net pension liability** equal to its **total pension liability,** net of the amount of plan net position restricted for pensions (plan net position). The components of the net pension liability should be measured as required by paragraphs 17–27. Separate display in the financial statements of each net pension liability of an employer is not required.

Total Pension Liability

[4]The related Statement includes the same requirements for measuring the net pension liability of the employer.

17. The total pension liability is the portion of the **actuarial present value of projected benefit payments** that is attributed to past periods of employee services in accordance with the requirements of paragraphs 18–26.

Timing and Frequency of Measurement

18. The employer's total pension liability should be measured as of the end of the employer's reporting period. Measurement of the total pension liability as of the end of the employer's reporting period can be determined by (a) an **actuarial valuation** as of that date or (b) the use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 24 months earlier than the employer's most recent year-end. If update procedures are used and significant changes occur between the **actuarial valuation date** and the employer's year-end, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement to the end of the employer's reporting period, and consideration should be given to whether a new actuarial valuation is needed. For accounting and financial reporting purposes, an actuarial valuation of an employer's total pension liability should be performed at least biennially. More frequent actuarial valuations are encouraged.

Selection of Assumptions

19. Unless otherwise specified by this Statement, the selection of all assumptions should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board of the American Academy of Actuaries. The pension plan and an employer that provides pensions through the plan should use the same assumptions when measuring similar or related pension information.

Projection of Benefit Payments

20. **Projected benefit payments** should include all pensions to be provided to employees in accordance with (a) the benefit terms and (b) any additional legal agreement(s) to provide pensions that are in force at the actuarial valuation date. Projected benefit payments should include the effects of **automatic cost-of-living adjustments (COLAs)** and other **automatic postemployment benefit changes.** In addition, projected benefit payments should include the effects of (1) projected **ad hoc COLAs** and other **ad hoc postemployment benefit changes,** to the extent that they are considered to be substantively automatic,[5] (2) projected salary increases in circumstances in which the pension formula is based on future compensation levels, and (3) projected service credits both in determining an employee's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the pension formula is based on years of service.

[5]Considerations that might be relevant in determining whether such changes are substantively automatic include the historical pattern of granting the changes, the consistency in the amounts of the changes or in the amounts of the changes relative to a defined cost-of-living or inflation index, and whether there is evidence to conclude that changes might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such changes are substantively automatic.

21. Benefit payments to be provided by means of an **allocated insurance contract** should be excluded from projected benefit payments if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contract have been made, and (c) the likelihood is remote that the employer or plan will be required to make additional payments to satisfy the benefit payments covered by the contract.

Discount Rate

22. The discount rate should be the single rate that reflects (a) the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions to the extent that (1) plan net position is projected to be sufficient to make the benefit payments that are projected to occur in a period and (2) assets are expected to be invested using a long-term investment strategy and (b) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) to the extent that the conditions in (a) are not met.

23. Determination of the discount rate requires projection of cash flows into and out of the pension plan. For each future period, the amount of projected benefit payments should be compared to projected plan net position. For this purpose, projected plan net position should incorporate, based on current contribution policies and practices, all employer contributions (including on-behalf contributions from nonemployer contributing entities, if any) intended to fund benefits of current and former employees and all contributions from current employees. However, it should not include (a) employer contributions intended to fund the **service costs** of future employees or (b) contributions of future employees.

24. For each future period, if the amount of plan net position is projected to be sufficient to make the benefit payments that are projected to occur in that period and assets are expected to be invested using a long-term investment strategy, the present value of benefit payments projected to occur in that period should be determined using the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions. The long-term expected rate of return should be based on the nature and mix of current and expected pension plan investments. The municipal bond index rate discussed in paragraph 22 should be used to calculate the present value of all other benefit payments, including those projected to occur in periods in which assets sufficient to make the projected benefit payments are projected to be available in the pension plan but those assets are expected only to be held for a short time such that there would be little or no opportunity to invest them using a long-term investment strategy.

25. The single rate of return that, when applied to all projected benefit payments, results in a present value of projected benefit payments equal to the total of the present values determined under paragraph 24 is the discount rate for purposes of this Statement.

Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

26. The **entry age normal actuarial cost method** should be used to attribute the actuarial present value of projected benefit payments of each employee to periods in accordance with the following:

a. Attribution should be made on an individual employee-by-employee basis.
b. Each employee's service costs should be level as a percentage of that employee's projected pay. For purposes of this calculation, if an employee does not have projected pay, the projected inflation rate should be used in place of the projected salary increase rate.
c. The beginning of the attribution period should be the first period in which the employee's service accrues pensions under the benefit terms, notwithstanding vesting or other similar provisions.
d. The service costs of all pensions should be attributed through all assumed exit ages, through retirement.
e. Each employee's service costs should be determined based on the same benefit provisions reflected in that employee's actuarial present value of benefit payments.

Plan Net Position

27. Plan net position should be measured as of the end of each employer's reporting period, using the same valuation methods that are used by the defined benefit pension plan for purposes of preparing its statement of net position.

Deferred outflows of resources and deferred inflows of resources related to pensions and pension expense

28. Changes in the employer's net pension liability should be included in measures of deferred outflows of resources and deferred inflows of resources related to pensions and pension expense as follows:

a. Changes in the total pension liability:
    (1) Service cost attributed to the current period under the requirements of paragraph 26 should be included in current-period pension expense.
    (2) Interest on the total pension liability should be included in current-period pension expense. Interest should be calculated using the discount rate used in calculating the beginning total pension liability (as identified in paragraph 25).
    (3) The effects of a change of benefit terms on the total pension liability should be included in pension expense in the period of the change.
    (4) The effects of differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) and the effects of changes of assumptions about future economic or demographic factors (changes of assumptions) should be recognized as follows:
        (a) To the extent that the effects relate to the total pension liabilities of inactive (including retired) employees, the effects should be included in pension expense in the period of the change.

(b) To the extent that the effects relate to the total pension liabilities of active employees, the effects should be recognized as deferred outflows of resources or deferred inflows of resources, with a portion included in pension expense beginning in the period in which the change occurred. Recognition in pension expense should be accomplished using a systematic and rational method over a **closed period** that is representative of employees' expected remaining service lives as of the beginning of the period in which the change occurred. For this purpose, the length of the period should be an average expected remaining service life of the active employees with which the change is associated, with weighting to approximate the aggregate result that would be obtained if such changes in each active employee's total pension liability were recognized separately over that employee's expected remaining service life.

(5) All other changes in the total pension liability should be included in pension expense in the period of the change.

b. Changes in plan net position:

(1) Projected earnings on plan investments should be included in pension expense in the period in which the earnings are projected to occur.

(2) Differences between projected and actual earnings on plan investments should be recognized as deferred outflows of resources or deferred inflows of resources, with a portion included in pension expense. Recognition in pension expense should be accomplished using a systematic and rational method over a closed five-year period, beginning in the period in which the difference occurred.

(3) All other changes in plan net position should be included in pension expense in the period of the change.

Recognition of the net pension liability and pension expenditures in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting

29. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (a) amounts contributed to the pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources.

Notes to financial statements[6]

30. A single or agent employer that recognizes one or more net pension liabilities should disclose the total (aggregate for all pensions) net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period, if those amounts are not separately displayed in the financial statements. The employer also should disclose the information identified in paragraphs 32–41 about each net pension liability that it recognizes for the pensions provided through a single-employer or agent pension plan. Disclosures about more than one liability should be combined in a manner that avoids unnecessary duplication.

31. In circumstances in which a primary government and its component unit(s) provide pensions through the same single-employer or agent pension plan, the note disclosures in the reporting entity's financial statements should separately identify amounts associated with the primary government (including its blended component units) and those associated with its discretely presented component units.

Description of the benefits

32. The employer should disclose the following information about the benefits:

a. The name of the pension plan through which benefits are provided, identification of the **public employee retirement system** or other government that administers the plan, and identification of the plan as a single-employer or agent pension plan. In circumstances in which a primary government and its component unit(s) provide pensions through the same single-employer or agent pension plan, the number of governments that participate in the plan should be disclosed.
b. A brief description of the benefit provisions, including the types of benefits, the key elements of the pension formula(s), provisions or policies with respect to automatic COLAs and other automatic postemployment benefit increases and ad hoc COLAs and other ad hoc postemployment benefit increases, and the authority under which benefit provisions are established or may be amended. If the plan is closed to new entrants, that fact also should be disclosed.
c. Classes of employees covered (for example, general employees and public safety employees) and the number of employees covered by the benefit terms, separately identifying numbers of the following:
    (1) Retired employees (or their beneficiaries) currently receiving benefits
    (2) Inactive employees entitled to but not yet receiving benefits
    (3) Active employees.
d. Whether the pension plan that is used to provide the pensions issues a stand-alone financial report (or is included in the report of a public employee retirement system or another government) that is available to the public, and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

[6]When similar information is required by this Statement and the related Statement, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

Information about the net pension liability

Assumptions

33. The employer should disclose significant assumptions used to measure its total pension liability, including assumptions about salary increases, inflation, mortality, COLAs and other postemployment benefit changes, and the discount rate, as well as the date(s) of experience studies and published sources, such as mortality tables, on which significant assumptions are based. If an assumption uses different rates for different periods, information should be disclosed about what rates were applied to the different periods of the measurement.

34. With regard to the discount rate, disclosures should include:

a. Assumptions made about contributions of the employer (including those of nonemployer contributing entities on behalf of the employer(s)) and employees and about other projected cash flows into and out of the plan
b. The long-term expected rate of return on plan investments and a description of how the long-term expected rate of return on plan investments was determined, including the assumed asset allocation of the portfolio, the best estimate of the long-term expected **real rate of return** for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means
c. The municipal bond index rate, the index selected, and the reasons for selection of that index, if the discount rate incorporates a municipal bond index rate
d. The periods of projected benefit payments to which the long-term expected rate of return and the municipal bond index rate, if used, were applied to determine the discount rate
e. The effects on the current-period net pension liability of a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate.

Plan Net Position

35. The employer should disclose all information required by other standards about the elements of the plan's basic financial statements. However, if (a) a plan financial report that includes disclosure about the elements of the plan's basic financial statements is publicly available, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government, and (b) the employer provides information about how to obtain the report, the employer may refer to the plan report for these disclosures. In this circumstance, the employer also should disclose that these elements of the plan's basic financial statements have been determined on the same basis used by the plan and provide a brief disclosure of the plan's basis of accounting, including the policies with respect to benefits and refunds paid and the valuation of investments. If significant changes have occurred that indicate that the disclosures included in the plan's financial report generally do not reflect the facts and circumstances at the end of the employer's reporting period, the employer should disclose information about the substance and magnitude of the changes.

Changes in the Net Pension Liability

36. For the current period, the employer should include in note disclosures a schedule of changes in its net pension liability that separately discloses the following:

a. The beginning balances of the total pension liability, plan net position, and the net pension liability. If the employer has an **unconditional special funding situation,** the amounts should be measured before nonemployer-contributing-entity support.
b. The effects during the period of the following items, if applicable, on the balances in subparagraph a:
   (1) Service cost
   (2) Interest on the total pension liability
   (3) Changes of benefit terms
   (4) Differences between expected and actual experience in the measurement of the total pension liability
   (5) Changes of assumptions
   (6) Contributions—employer (If a nonemployer contributing entity made contributions on behalf of the employer, the schedule should separately identify the amount of employer contributions made directly by the employer and the amount of employer contributions made by the nonemployer contributing entity on behalf of the employer.)
   (7) Contributions—employees
   (8) Net investment income
   (9) Refunds of contributions
   (10) Benefits paid
   (11) Plan administrative expenses
   (12) Other changes, separately identified if individually significant.
c. The ending balances of the total pension liability, plan net position, and the net pension liability. If the employer has an unconditional special funding situation, the amounts should be measured before nonemployer-contributing-entity support.
d. The amount of the net pension liability assumed by the nonemployer contributing entity and the amount of the net pension liability recognized by the employer, if the employer has an unconditional special funding situation.

37. In addition to the information required by paragraph 36, the employer should disclose the following, if applicable:

a. The date of the actuarial valuation on which recognized information is based and, if the recognized amounts are the result of the use of update procedures to roll forward amounts to the end of the employer's reporting period, identification of that fact
b. A brief description of changes of assumptions that affect measurement of the total pension liability
c. A brief description of changes of benefit terms that affect measurement of the total pension liability
d. The basis for determining employer contributions to the plan (the employer's contribution policy), including identification of the authority under which employer contribution requirements are established or may be amended, and significant methods and assumptions used in the calculation of current-period contributions, if actual contributions are determined on an actuarial basis

e. The amounts in the current period attributable to the purchase of allocated insurance contracts reflected in (1) the change in the total pension liability and (2) benefit payments.

Information about pension expense

38. The employer should disclose the amount of pension expense recognized in the period, with separate identification of the following components, if applicable:

a. Service cost
b. Interest on the total pension liability
c. Current-period changes of benefit terms
d. Current-period differences between expected and actual experience in the measurement of the total pension liability recognized in pension expense
e. Current-period changes of assumptions recognized in pension expense
f. Employee contributions
g. Current-period projected earnings on plan investments
h. Current-period differences between projected and actual investment earnings recognized in pension expense
i. Beginning deferred outflows of resources recognized in pension expense
j. Beginning deferred inflows of resources recognized in pension expense
k. Other components, separately identified if individually significant.

The period or periods over which different types of changes in the net pension liability that occurred in the current period are being recognized in pension expense also should be disclosed.

Information about deferred outflows of resources and deferred inflows of resources related to pensions

39. The employer should disclose separate reconciliations of beginning and ending balances of deferred outflows of resources and deferred inflows of resources related to pensions, each with separate identification of the following categories of changes, if applicable:

a. Deferred portion of current-period differences between expected and actual experience in the measurement of the total pension liability
b. Deferred portion of current-period changes of assumptions
c. Deferred portion of current-period earnings on plan investments above (below) projection
d. Beginning deferred outflows of resources and deferred inflows of resources recognized as pension expense.

If the employer has an unconditional special funding situation, these amounts should be measured before nonemployer-contributing-entity support.

40. In addition to the information required by paragraph 39, an employer that has an unconditional special funding situation should disclose (a) the amounts of the deferred

outflows of resources and deferred inflows of resources related to pensions assumed by the nonemployer contributing entity, (b) the amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at the end of the employer's reporting period, and (c) the amount of on-behalf revenue recognized as a result of the support provided by the nonemployer contributing entity (see paragraph 77).

Allocated insurance contracts

41. The employer should disclose the following information about pensions provided by means of allocated insurance contracts:

a. A brief description of the pensions for which allocated insurance contracts were purchased in the current period
b. The fact that the obligation for the payment of pensions covered by allocated insurance contracts has been transferred from the employer to one or more insurance companies.

Required supplementary information[7]

42. For each net pension liability it recognizes for pensions provided through a single-employer or agent pension plan, a single or agent employer should present in required supplementary information the information indicated in subparagraphs a–c, below, as applicable, measured as of the employer's most recent year-end. In circumstances in which a primary government and its component unit(s) provide pensions through the same single-employer or agent pension plan, required supplementary information in the reporting entity's financial statements should present information for the reporting entity as a whole.

a. A 10-year schedule of changes in the net pension liability presenting the following for each year:
    (1) The beginning balances of the total pension liability, plan net position, and the net pension liability. If the employer has an unconditional special funding situation, the amounts should be measured before nonemployer-contributing-entity support.
    (2) The effects during the period of the following items, if applicable, on the balances in paragraph 42a(1):
        (a) Service cost
        (b) Interest on the total pension liability
        (c) Changes in benefit terms
        (d) Differences between expected and actual experience in the measurement of the total pension liability
        (e) Changes of assumptions
        (f) Contributions—employer (If a nonemployer contributing entity made contributions on behalf of the employer, the schedule should separately identify the amount of employer contributions made directly by the

[7]See footnote 6.

employer and the amount of contributions made by the nonemployer contributing entity on behalf of the employer.)

(g) Contributions—employees

(h) Net investment income

(i) Refunds of contributions

(j) Benefits paid

(k) Plan administrative expenses

(l) Other changes, separately identified if individually significant.

(3) The ending balances of the total pension liability, plan net position, and the net pension liability. If the employer has an unconditional special funding situation, the amounts should be measured before nonemployer-contributing-entity support.

(4) The amount of the net pension liability assumed by the nonemployer contributing entity and the amount of the net pension liability reported by the employer as of its year-end, if the employer has an unconditional special funding situation.

b. A 10-year schedule presenting the following for each year:

(1) If the employer does not have an unconditional special funding situation:

(a) The total pension liability

(b) The amount of plan net position

(c) The net pension liability

(d) The ratio of plan net position to the total pension liability

(e) The amount of **covered-employee payroll**

(f) The net pension liability as a percentage of covered-employee payroll.

(2) If the employer has an unconditional special funding situation:

(a) Amounts measured before nonemployer-contributing-entity support:

(i) The total pension liability

(ii) The amount of plan net position

(iii) The net pension liability

(b) The amount of the net pension liability that is assumed by the nonemployer contributing entity

(c) The net pension liability recognized by the employer

(d) The ratio of plan net position to the total pension liability

(e) The employer's covered-employee payroll

(f) The employer's recognized net pension liability as a percentage of the employer's covered-employee payroll.

c. A 10-year schedule presenting the following for each year, if an **actuarially calculated employer contribution** is determined:

(1) The actuarially calculated employer contribution. If the employer has an unconditional special funding situation, the actuarially calculated employer contribution should be the total of the amount associated with the employer's direct contribution and the amount associated with the contribution of the nonemployer contributing entity.

(2) The amount of employer contributions made. The schedule should separately identify the amount of employer contributions made directly by the employer, employer contributions made on behalf of the employer by nonemployer

contributing entities, and the total contributions made by the employer directly and by nonemployer contributing entities, if applicable.

(3) The difference between the actuarially calculated employer contribution and the amount of employer contributions made.

(4) The amount of covered-employee payroll.

(5) Employer contributions made as a percentage of covered-employee payroll.

Notes to required schedules

43. If not otherwise disclosed, significant methods and assumptions used in determining the actuarially calculated employer contributions, if any, should be presented as notes to the schedule required by paragraph 42c. For each of the schedules required by paragraph 42, an employer should disclose in notes to required supplementary information, information about factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the benefit terms, or assumptions used. (The amounts reported for prior years should not be restated.)

Cost-Sharing Employers

Measurement and recognition in financial statements prepared using the economic resources measurement focus and accrual basis of accounting

Net pension liability

44. A cost-sharing employer should recognize in its financial statements its proportionate share of the collective (all employers) net pension liability, collective pension expense, and collective deferred outflows of resources and collective deferred inflows of resources related to pensions. An employer's proportionate share is calculated as the employer's proportion, measured as required by paragraph 46, multiplied by the collective net pension liability, collective pension expense, and collective deferred outflows of resources and collective deferred inflows of resources related to pensions, measured as required by paragraphs 47–59. In addition, the employer should follow the requirements of paragraph 60 with regard to recognition of the effects of a change in the proportion used to calculate its share of collective amounts and the requirements of paragraph 61 with regard to recognition of differences between the amount recognized by the cost-sharing pension plan as a contribution from the employer and the amount of the employer's proportionate share of collective employer contributions recognized by the pension plan.

45. Separate display in the employer's financial statements of each net pension liability is not required.

Determining the Employer's Proportion

46. The proportion used to calculate the employer's share of the collective totals should be a measure of the employer's projected long-term contribution effort to the pension plan as compared to the total of all projected contributions of the employers. For this purpose,

expected employer contributions should include contributions expected to be made on behalf of the employers by nonemployer contributing entities. The employer's proportion should be established at the actuarial valuation date and may be used to roll forward measures to the end of the employer's reporting period if there has not been a significant change in the employer's projected proportion between the actuarial valuation date and the employer's most recent year-end.

Calculation of the Collective Net Pension Liability[8]

47. The collective net pension liability is equal to the total pension liability calculated for all employers in the cost-sharing pension plan, net of plan net position. The components of the collective net pension liability should be measured as discussed in paragraphs 48–58.

Collective Total Pension Liability

48. The collective total pension liability is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee services in accordance with the requirements of paragraphs 49–57.

Timing and frequency of measurement

49. The collective total pension liability should be measured as of the end of each cost-sharing employer's reporting period. Measurement of the collective total pension liability as of the end of the employer's reporting period can be determined by (a) an actuarial valuation as of that date or (b) the use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 24 months earlier than the employer's most recent year-end. If update procedures are used and significant changes occur between the actuarial valuation date and the employer's year-end, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement to the end of the employer's reporting period, and consideration should be given to whether a new actuarial valuation is needed. For accounting and financial reporting purposes, an actuarial valuation of the collective total pension liability should be performed at least biennially. More frequent actuarial valuations are encouraged.

Selection of assumptions

50. Unless otherwise specified by this Statement, the selection of all assumptions should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board of the American Academy of Actuaries. The pension plan and the employers that provide pensions through the plan should use the same assumptions when measuring similar or related pension information.

[8]The related Statement includes the same requirements for measuring the net pension liability of the employers.

Projection of benefit payments

51. Projected benefit payments should include all pensions to be provided to the employees of all employers in accordance with (a) the benefit terms and (b) any additional legal agreement(s) to provide pensions that are in force at the actuarial valuation date. Projected benefit payments should include the effects of automatic COLAs and other automatic postemployment benefit changes. In addition, projected benefit payments should include the effects of (1) projected ad hoc COLAs and other ad hoc postemployment benefit changes, to the extent that they are considered to be substantively automatic,[9] (2) projected salary increases in circumstances in which the pension formula is based on future compensation levels, and (3) projected service credits both in determining an employee's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the pension formula is based on years of service.

52. Benefit payments to be provided by means of an allocated insurance contract should be excluded from projected benefit payments if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contract have been made, and (c) the likelihood is remote that the employers or plan will be required to make additional payments to satisfy the benefit payments covered by the contract.

Discount rate

53. The discount rate should be the single rate that reflects (a) the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions to the extent that (1) plan net position is projected to be sufficient to make the benefit payments that are projected to occur in a period and (2) assets are expected to be invested using a long-term investment strategy and (b) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) to the extent that the conditions in (a) are not met.

54. Determination of the discount rate requires projection of cash flows into and out of the pension plan. For each future period, the amount of projected benefit payments should be compared to projected plan net position. For this purpose, projected plan net position should incorporate, based on current contribution policies and practices, all employer contributions (including on-behalf contributions from nonemployer contributing entities, if any) intended to fund benefits of current and former employees and all contributions from current employees. However, it should not include (a) employer contributions intended to fund the service costs of future employees or (b) contributions of future employees.

[9]Considerations that might be relevant in determining whether such changes are substantively automatic include the historical pattern of granting the changes, the consistency in the amounts of the changes or in the amounts of the changes relative to a defined cost-of-living or inflation index, and whether there is evidence to conclude that changes might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such changes are substantively automatic.

55. For each future period, if the amount of plan net position is projected to be sufficient to make the benefit payments that are projected to occur in that period and assets are expected to be invested using a long-term investment strategy, the present value of benefit payments projected to occur in that period should be determined using the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions. The long-term expected rate of return should be based on the nature and mix of current and expected pension plan investments. The municipal bond index rate discussed in paragraph 53 should be used to calculate the present value of all other benefit payments, including those projected to occur in periods in which assets sufficient to make the projected benefit payments are projected to be available in the pension plan but those assets are expected only to be held for a short time such that there would be little or no opportunity to invest them using a long-term investment strategy.

56. The single rate of return that, when applied to all projected benefit payments, results in a present value of projected benefit payments equal to the total of the present values determined under paragraph 55 is the discount rate for purposes of this Statement.

Attribution of the actuarial present value of projected benefit payments to periods

57. The entry age normal actuarial cost method should be used to attribute the actuarial present value of projected benefit payments of each employee to periods in accordance with the following:

a. Attribution should be made on an individual employee-by-employee basis.
b. Each employee's service costs should be level as a percentage of that employee's projected pay. For purposes of this calculation, if an employee does not have projected pay, the projected inflation rate should be used in place of the projected salary increase rate.
c. The beginning of the attribution period should be the first period in which the employee's service accrues pensions under the benefit terms, notwithstanding vesting or other similar provisions.
d. The service costs of all pensions should be attributed through all assumed exit ages, through retirement.
e. Each employee's service costs should be determined based on the same benefit provisions reflected in that employee's actuarial present value of benefit payments.

Plan Net Position

58. Plan net position should be measured as of the end of each employer's reporting period, using the same valuation methods that are used by the defined benefit pension plan for purposes of preparing its statement of net position.

Collective deferred outflows of resources and collective deferred inflows of resources related to pensions and collective pension expense

59. Changes in the collective net pension liability should be included in measures of collective deferred outflows of resources and collective deferred inflows of resources related to pensions and collective pension expense as follows:

a. Changes in the collective total pension liability:
   (1) Service cost attributed to the current period under the requirements of paragraph 57 should be included in current-period collective pension expense.
   (2) Interest on the collective total pension liability should be included in current-period collective pension expense. Interest should be calculated using the discount rate used in calculating the beginning collective total pension liability (as identified in paragraph 56).
   (3) The effects of a change of benefit terms on the collective total pension liability should be included in collective pension expense in the period of the change.
   (4) The effects of differences between expected and actual experience and the effects of changes of assumptions should be recognized as follows:
      (a) To the extent that the effects relate to the total pension liabilities of inactive (including retired) employees, the effects should be included in collective pension expense in the period of the change.
      (b) To the extent that the effects relate to the total pension liabilities of active employees, the effects should be recognized as deferred outflows of resources or deferred inflows of resources, with a portion included in collective pension expense beginning in the period in which the change occurred. Recognition in collective pension expense should be accomplished using a systematic and rational method over a closed period that is representative of employees' expected remaining service lives as of the beginning of the period in which the change occurred. For this purpose, the length of the period should be an average expected remaining service life of the active employees with which the change is associated, with weighting to approximate the aggregate result that would be obtained if such changes in each active employee's total pension liability were recognized separately over that employee's expected remaining service life.
   (5) All other changes in the collective total pension liability should be included in collective pension expense in the period of the change.

b. Changes in plan net position:
   (1) Projected earnings on plan investments should be included in collective pension expense in the period in which the earnings are projected to occur.
   (2) Differences between projected and actual earnings on plan investments should be recognized as collective deferred outflows of resources or collective deferred inflows of resources, with a portion included in collective pension expense. Recognition in collective pension expense should be accomplished using a systematic and rational method over a closed five-year period, beginning in the period in which the difference occurred.
   (3) All other changes in plan net position should be included in collective pension expense in the period of the change.

Accounting for a change in proportion

60. The net effect of a change in the proportion used to calculate the employer's share of the collective net pension liability and collective deferred outflows of resources and collective deferred inflows of resources related to pensions is the aggregate difference

between (a) those collective balances as of the beginning of the employer's financial reporting period, multiplied by the proportion assumed in the prior period and (b) those collective balances as of the beginning of the period, multiplied by the proportion assumed in the current period. The net effect should be recognized by the employer as a deferred outflow of resources or deferred inflow of resources in the period of the change, with a portion included in the employer's pension expense beginning in the period in which the change occurred. Recognition in pension expense should be accomplished using a systematic and rational method over a closed period. For this purpose, the length of the period should be the same as that used to attribute current-period collective deferred outflows of resources and collective deferred inflows of resources resulting from the effects of changes of assumptions that affect the collective total pension liability.

Accounting for a difference between actual employer contributions and the employer's proportionate share of collective employer contributions

61. The difference between (a) the amount recognized by the cost-sharing pension plan as a contribution from the employer (including contributions, if any, made by a nonemployer contributing entity on the employer's behalf) and (b) the amount of the employer's proportionate share of collective employer contributions (including contributions, if any, made by a nonemployer contributing entity on the employer's behalf) recognized by the pension plan should be recognized by the cost-sharing employer as a deferred outflow of resources or deferred inflow of resources in the period of the difference, with a portion included in the employer's pension expense beginning in the period in which the difference occurred. Recognition in pension expense should be accomplished using a systematic and rational method over a closed period that is representative of employees' expected remaining service lives as of the beginning of the period in which the difference occurred. For this purpose, the length of the period should be the same as that used to attribute current-period collective deferred outflows of resources and collective deferred inflows of resources resulting from differences between expected and actual experience that affect the collective total pension liability.

Recognition of the net pension liability and pension expenditures in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting

62. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a cost-sharing employer's net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (a) amounts contributed to the pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources.

Notes to financial statements[10]

63. A cost-sharing employer that recognizes one or more net pension liabilities should disclose the total (aggregate for all pensions) net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period, if those amounts are not separately displayed in the financial statements.

64. The employer also should disclose the information identified in paragraphs 65–69 about each net pension liability that it recognizes for pensions provided through a cost-sharing pension plan. Disclosures about more than one liability should be combined in a manner that avoids unnecessary duplication.

Description of the benefits

65. The employer should disclose the following information about the benefits:

a. The name of the pension plan through which benefits are provided, identification of the public employee retirement system or other government that administers the plan, and identification of the plan as a cost-sharing pension plan.
b. A brief description of the benefit provisions, including the types of benefits, the key elements of the pension formula(s), provisions or policies with respect to automatic COLAs and other automatic postemployment benefit increases and ad hoc COLAs and other ad hoc postemployment benefit increases, and the authority under which benefit provisions are established or may be amended. If the plan is closed to new entrants, that fact also should be disclosed.
c. Classes of employees covered (for example, general employees and public safety employees) and the number of employees covered by the benefit terms, separately identifying numbers of the following:
   (1) Retired employees (or their beneficiaries) currently receiving benefits
   (2) Inactive employees entitled to but not yet receiving benefits
   (3) Active employees.
d. Whether the pension plan that is used to provide the benefits issues a stand-alone financial report (or is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the net pension liability

Assumptions

66. The employer should disclose significant assumptions used to measure the collective total pension liability, including assumptions about salary increases, inflation, mortality,

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[10]When similar information is required by this Statement and the related Statement, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

COLAs and other postemployment benefit changes, and the discount rate, as well as the date(s) of experience studies and published sources, such as mortality tables, on which significant assumptions are based. In addition, the employer should disclose the proportion used to determine its recognized amounts of the collective net pension liability, collective pension expense, and collective deferred outflows of resources and deferred inflows of resources related to pensions. If the employer has an unconditional special funding situation, the proportion disclosed should be the proportion determined before the support of the nonemployer contributing entity. If an assumption uses different rates for different periods, information should be disclosed about what rates were applied to the different periods of the measurement.

67. With regard to the discount rate, disclosures should include:

a. Assumptions made about contributions of the employers (including those of nonemployer contributing entities on behalf of the employer(s)) and employees and about other projected cash flows into and out of the plan
b. The long-term expected rate of return on plan investments and a description of how the long-term expected rate of return on plan investments was determined, including the assumed asset allocation of the portfolio, the best estimate of the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means
c. The municipal bond index rate, the index selected, and the reasons for selection of that index, if the discount rate incorporates a municipal bond index rate
d. The periods of projected benefit payments to which the long-term expected rate of return and the municipal bond index rate, if used, were applied to determine the discount rate
e. The effects on the current-period net pension liability recognized by the employer of a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate.

Plan Net Position

68. The employer should disclose all information required by other standards about the elements of the plan's basic financial statements. However, if (a) a plan financial report that includes disclosure about the elements of the plan's basic financial statements is publicly available, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government and (b) the employer provides information about how to obtain the report, the employer may refer to the plan report for these disclosures. In this circumstance, the employer also should disclose that these elements have been determined on the same basis used by the plan and provide a brief disclosure of the plan's basis of accounting, including the policies with respect to benefits and refunds paid and the valuation of investments. If significant changes have occurred that indicate that the disclosures included in the plan's financial report generally do not reflect the facts and circumstances at the end of the employer's reporting period, the employer should disclose information about the substance and magnitude of the changes.

Other Information

69. The employer should disclose the following information about amounts recognized in its financial statements:

a. The basis for determination of the employer's contributions to the pension plan (the employer's contribution policy), including identification of the authority under which employer contribution requirements are established or may be amended, and significant methods and assumptions used in the calculation of current period contributions, if actual contributions are determined on an actuarial basis.
b. The net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures recognized by the employer. If the employer has an unconditional special funding situation, also (1) the amount of net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions that were assumed by the nonemployer contributing entity and (2) the amount of net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions that would have been recognized by the employer if a portion of those amounts had not been assumed by the nonemployer contributing entity.
c. The date of the actuarial valuation on which recognized information is based and, if the recognized amounts are the result of the use of update procedures to roll forward amounts to the end of the employer's reporting period, identification of that fact.
d. A brief description of changes of assumptions that affect measurement of the collective total pension liability.
e. A brief description of changes of benefit terms that affect measurement of the collective total pension liability.
f. The amount of the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense recognized by the employer that is attributable to (1) the net effect of a current-period change in the proportion used to calculate the employer's share of collective amounts and (2) the current-period difference between (a) the amount of contributions recognized by the cost-sharing pension plan as a contribution from the employer (including those made on behalf of the employer by nonemployer contributing entities) and (b) the amount of the employer's proportionate share of collective employer contributions (including those made on behalf of the employer by nonemployer contributing entities) recognized by the pension plan. The number of periods over which the employer is recognizing those amounts in pension expense also should be disclosed.
g. The amount of current-period pension expense resulting from recognition of the portion(s) of beginning deferred outflows of resources and deferred inflows of resources associated with (1) changes in the proportion used to calculate the employer's share of collective amounts and (2) differences between the amount recognized by the cost-sharing pension plan as a contribution from the employer and the amount of the employer's proportionate share of those contributions recognized by the pension plan.
h. The amount of on-behalf revenue recognized as a result of the support provided by the nonemployer contributing entity, if the employer has a special funding situation.

Required supplementary information[11]

70. For each net pension liability that it recognizes for pensions provided through a cost-sharing pension plan, a cost-sharing employer should present in required supplementary information the information indicated in subparagraphs a–e, below, as applicable, measured as of the employer's most recent year-end.

a. A 10-year schedule of changes in the collective net pension liability presenting for each year, as of the employer's year-end:
   (1) The beginning balances of the collective total pension liability, plan net position, and the collective net pension liability. If an employer has an unconditional special funding situation, the amounts should be measured before nonemployer-contributing-entity support.
   (2) The effects during the period of the following items, if applicable, on the balances in subparagraph (1), measured at the collective level:
      (a) Service cost
      (b) Interest on the total pension liability
      (c) Changes in terms
      (d) Differences between actual and expected experience in the measurement of the total pension liability
      (e) Changes of assumptions
      (f) Contributions—employer (If a nonemployer contributing entity also made contributions on behalf of the employer(s), the schedule should separately identify the amount of employer contributions made directly by the employer(s) and the amount of employer contributions made by the nonemployer contributing entity on behalf of the employer.)
      (g) Contributions—employees
      (h) Net investment income
      (i) Refunds of contributions
      (j) Benefits paid
      (k) Plan administrative expenses
      (l) Other changes, separately identified if individually significant.
   (3) The ending balances of the collective total pension liability, plan net position, and the collective net pension liability. If an employer has an unconditional special funding situation, the amounts should be measured before nonemployer-contributing-entity support.
b. A 10-year schedule presenting the following for each year, measured at the collective level (with all amounts measured before nonemployer-contributing-entity support if an employer has an unconditional special funding situation):
   (1) The total pension liability
   (2) The amount of plan net position
   (3) The net pension liability
   (4) The ratio of plan net position to the total pension liability
   (5) The amount of covered-employee payroll
   (6) The net pension liability as a percentage of covered-employee payroll.

[11]See footnote 10.

c. A 10-year schedule presenting the following for each year, measured at the individual-employer level:
  (1) If the employer does not have an unconditional special funding situation:
    (a) The proportion (percentage) used to calculate the employer's share of collective amounts
    (b) The employer's share (amount) of the collective total pension liability
    (c) The employer's share (amount) of the collective amount of plan net position
    (d) The employer's share (amount) of the collective net pension liability
    (e) The employer's covered-employee payroll
    (f) The employer's share of the collective net pension liability as a percentage of the employer's covered-employee payroll.
  (2) If the employer has an unconditional special funding situation:
    (a) Amounts measured before nonemployer-contributing-entity support:
      (i) The proportion (percentage) used to calculate the employer's share of collective amounts
      (ii) The employer's share (amount) of the collective total pension liability
      (iii) The employer's share (amount) of the amount of collective plan net position
      (iv) The employer's share (amount) of the collective net pension liability
    (b) The reduction in the employer's share (amount) of the collective net pension liability for the portion that is assumed by the nonemployer contributing entity
    (c) The net pension liability (amount) recognized by the employer
    (d) The proportion (percentage) of the collective net pension liability recognized by the employer
    (e) The employer's covered-employee payroll
    (f) The employer's recognized net pension liability as a percentage of the employer's covered-employee payroll.

d. A 10-year schedule presenting the following for each year, measured at the collective level, if an actuarially calculated employer contribution is determined:
  (1) The actuarially calculated employer contribution. If an employer has an unconditional special funding situation, the amount of the actuarially calculated employer contribution should be the total of the amount associated with the employers' direct contributions and the amount associated with the contributions of nonemployer contributing entities.
  (2) The contractually required contribution, if different from (1). If an employer has an unconditional special funding situation, the amount of the contractually required contribution should be the total of the amount associated with the employers' direct contributions and the amount associated with the contributions of nonemployer contributing entities.
  (3) The amount of employer contributions made. The schedule should separately identify the amount of employer contributions made directly by the employers, employer contributions made on behalf of the employers by nonemployer

contributing entities, and the total contributions made by employers directly and by nonemployer contributing entities, if applicable.

(4) The difference between the actuarially calculated employer contribution and the amount of employer contributions made.

(5) The amount of covered-employee payroll.

(6) Employer contributions made as a percentage of covered-employee payroll.

e. A 10-year schedule presenting the following for each year, measured at the individual-employer level, if an actuarially calculated employer contribution is determined:

(1) The actuarially calculated employer contribution. If the employer has an unconditional special funding situation, the amount of the actuarially calculated employer contribution should be the total of the amount associated with the employer's direct contribution and the amount associated with the contribution of the nonemployer contributing entity.

(2) The contractually required contribution, if different from (1). If the employer has an unconditional special funding situation, the amount of the contractually required contribution should be the total of the amount associated with the employer's direct contribution and the amount associated with the contribution of the nonemployer contributing entity.

(3) The amount of employer contributions made. The schedule should separately identify the amount of employer contributions made directly by the employer, employer contributions made on behalf of the employer by nonemployer contributing entities, and the total contributions made by the employer directly and by nonemployer contributing entities, if applicable.

(4) The difference between the actuarially calculated employer contribution and the amount of employer contributions made.

(5) The amount of covered-employee payroll.

(6) Contributions made as a percentage of covered-employee payroll.

Notes to required schedules

71. If not otherwise disclosed, significant methods and assumptions used in determining the actuarially calculated employer contribution, if any, should be presented as notes to the schedules required by paragraphs 70(d) and 70(e). For each of the schedules required by paragraph 70, an employer should disclose in notes to required supplementary information, information about factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the benefit terms, or assumptions used. (The amounts reported for prior years should not be restated.)

Liabilities to a Defined Benefit Pension Plan

72. Liabilities to a defined benefit pension plan include short-term payables to a pension plan for legally or contractually required contributions outstanding as of the end of the employer's reporting period, as well as long-term liabilities such as those arising from, for example, amounts assessed to an individual employer upon joining a multiple-employer pension plan. In financial statements prepared using the economic resources measurement

focus and accrual basis of accounting, an employer should recognize a liability to a defined benefit pension plan separately from its net pension liability and should recognize pension expense for liabilities incurred during the period. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer should recognize a liability to a defined benefit pension plan to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (a) amounts paid to the pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources.

Note Disclosures

73. An employer that has a liability to a defined benefit pension plan at the end of its reporting period should disclose the amount outstanding at the end of the period and significant terms related to that amount, as well as information about what gave rise to the liability (for example, legally required contributions to the pension plan, a contractual arrangement for contributions to a cost-sharing pension plan related to past service cost upon entrance into the arrangement, or a contractual arrangement for contributions to the pension plan related to a benefit change enacted by an individual cost-sharing employer).

Special Funding Situations

74. In a **conditional special funding situation** (the amount of the on-behalf contributions for which the nonemployer contributing entity is legally responsible is conditional on one or more events or circumstances unrelated to the pensions), the employer should apply the requirements of paragraphs 16–71 of this Statement, as applicable, and recognize revenue for the pension support provided by the nonemployer contributing entity equal to the amount of contributions recognized by the pension plan from the nonemployer contributing entity for pensions of that employer. In this circumstance, a governmental nonemployer contributing entity should classify its expense/expenditures for the on-behalf payment it makes in the same manner as it classifies similar grants to other entities. In addition, the governmental nonemployer contributing entity should apply the requirements of paragraphs 94 and 95 if it has a liability to a defined benefit pension plan as a result of a conditional special funding situation.

75. In an unconditional special funding situation (the legal responsibility of the nonemployer contributing entity to contribute is unconditional), the employer should apply the requirements of paragraphs 76–78 of this Statement, as applicable. In this circumstance, a governmental nonemployer contributing entity should apply the requirements of paragraphs 79–95 of this Statement, as applicable. A governmental nonemployer contributing entity should classify its expense/expenditures as a result of an unconditional special funding situation in the same manner as it classifies similar grants to other entities.

Employers

76. An employer that has an unconditional special funding situation for its defined benefit pensions should determine its pension expense as required by paragraphs 16–28 or 44–61 of this Statement, as applicable, prior to the support of the nonemployer contributing entity. The net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions that the employer should recognize in its financial statements are (a) the amounts determined as required by paragraphs 16–28 or 44–61 of this Statement, as applicable, measured prior to the support of the nonemployer contributing entity, net of (b) the nonemployer contributing entity's proportionate share of those measures as determined by paragraphs 79–82.

77. An employer that has an unconditional special funding situation also should recognize revenue for the pension support provided by the nonemployer contributing entity equal to the amount of pension expense associated with the employer's pensions that was reported by the nonemployer contributing entity, in conformity with paragraphs 79–82.[12]

78. An employer that has an unconditional special funding situation should follow the requirements for note disclosures and required supplementary information in paragraphs 30–43 and 63–71, as applicable.

Governmental Nonemployer Contributing Entities

Net pension liability

Measurement and recognition in financial statements prepared using the economic resources measurement focus and accrual basis of accounting

79. A governmental nonemployer contributing entity that has an unconditional legal requirement to contribute to a defined benefit pension plan on behalf of a governmental employer should recognize its proportionate share of the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense of the employer on behalf of whose employees the contributions are made. For this purpose, the governmental nonemployer contributing entity should apply the requirements of paragraph 80 to determine the proportion used to calculate its share of employer amounts. To determine the amounts to recognize in its financial statements, the governmental nonemployer contributing entity's proportion determined by paragraph 80

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[12]Alternatively, this amount can be calculated as the sum of the following:

a. The difference between (1) the net effect of the nonemployer contributing entity's assumption of the employer's *beginning* net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions and (2) the net effect of the nonemployer contributing entity's assumption of the employer's *ending* net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions. For a cost-sharing employer, the net effect on beginning balances should be determined after adjustment for a change in the employer's proportionate share, if any.

b. The amount of contributions recognized by the pension plan from the nonemployer contributing entity for benefits of that employer.

should be multiplied by the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense of the employer(s), each measured under the requirements of paragraphs 16–28 or paragraphs 44–59, as applicable, at the end of the governmental nonemployer contributing entity's reporting period and prior to adjustment for the involvement of the nonemployer contributing entity or entities. A governmental nonemployer contributing entity should classify expenses for on-behalf payments in the same manner that it classifies similar grants to other entities.

Determining the Governmental Nonemployer Contributing Entity's Proportion

80. The proportion used to calculate a governmental nonemployer contributing entity's share of an employer's net pension liability and related measures should be a measure of its projected long-term contribution effort to the pension plan as compared to the total of all projected contributions of the employer on behalf of whose employees the contributions are made. For this purpose, projected employer contributions should include contributions expected to be made on behalf of the employer by nonemployer contributing entities. The governmental nonemployer contributing entity's proportion should be established at the actuarial valuation date and may be used to roll forward measures to the end of the governmental nonemployer contributing entity's reporting period if there has not been a significant change in its projected proportion between the actuarial valuation date and the governmental nonemployer contributing entity's most recent year-end.

Accounting for a Change in Proportion

81. The net effect of a change in the proportion used to calculate the governmental nonemployer contributing entity's share of an employer's net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions is the aggregate difference between (a) those employer balances as of the beginning of the governmental nonemployer contributing entity's financial reporting period, multiplied by the proportion assumed in the prior period and (b) those employer balances as of the beginning of the period, multiplied by the proportion assumed in the current period. The net effect should be recognized by the governmental nonemployer contributing entity as a deferred outflow of resources or deferred inflow of resources in the period of the change, with a portion included in the governmental nonemployer contributing entity's expense beginning in the period in which the change occurred. Recognition in expense should be accomplished using a systematic and rational method over a closed period. For this purpose, the length of the period should be the same as that used by the employer to attribute current-period deferred outflows of resources and deferred inflows of resources resulting from the effects of changes of assumptions that affect the employer's total pension liability. For governmental nonemployer contributing entities that contribute to a cost-sharing pension plan, the period should be the same as that used to attribute the current-period collective deferred outflows of resources and collective deferred inflows of resources resulting from the effects of changes of assumptions in the collective total pension liability.

Accounting for a Difference between a Governmental Nonemployer Contributing Entity's Actual Contributions and Its Proportionate Share of Employer Contributions

82. The difference between (a) the amount recognized by the defined benefit pension plan as a contribution from the governmental nonemployer contributing entity and (b) the amount of the governmental nonemployer contributing entity's proportionate share of employer contributions (including contributions made by nonemployer contributing entities on behalf of the employer) recognized by the pension plan should be recognized by the governmental nonemployer contributing entity as a deferred outflow of resources or deferred inflow of resources in the period of the difference, with a portion included in the governmental nonemployer contributing entity's expense beginning in the period in which the difference occurred. Recognition in expense should be accomplished using a systematic and rational method over a closed period. For this purpose, the length of the period should be the same as that used by the employer to attribute current-period deferred outflows of resources and deferred inflows of resources resulting from differences between expected and actual experience in the measurement of the employer's total pension liability. For governmental nonemployer contributing entities that contribute to a cost-sharing pension plan, the period should be the same as that used to attribute the current-period collective deferred outflows of resources and collective deferred inflows of resources resulting from the differences between expected and actual experience in the measurement of the collective total pension liability.

Recognition of the net pension liability and expenditures in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting

83. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a governmental nonemployer contributing entity that has an unconditional legal requirement to contribute to a defined benefit pension plan on behalf of a governmental employer should recognize a net pension liability to the extent the liability is normally expected to be liquidated with expendable available financial resources. Expenditures should be recognized equal to the total of (a) amounts contributed to the pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources. A governmental nonemployer contributing entity should classify expenditures for on-behalf payments in the same manner that it classifies similar grants to other entities.

Notes to financial statements and required supplementary information[13]

Governmental Nonemployer Contributing Entities That Recognize a Substantial Proportion of the Total Net Pension Liability

84. A governmental nonemployer contributing entity should disclose in notes to financial statements the information identified in paragraphs 85–89 and present information required in paragraphs 90 and 91 as required supplementary information about each net pension liability for defined benefit pensions for which it (a) has an

[13]When similar information is required by this Statement and the related Statement, a governmental nonemployer contributing entity that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present the information in a manner that avoids unnecessary duplication.

unconditional special funding situation and (b) recognizes a substantial proportion of the net pension liability of all employers that provide benefits through the pension plan. Disclosures about more than one liability may be combined in a manner that avoids unnecessary duplication.

Notes to Financial Statements

Description of the benefits

85. A governmental nonemployer contributing entity should disclose the following information about the benefits:

a. The name of the pension plan through which benefits are provided, identification of the public employee retirement system or other government that administers the plan, and identification of the plan as a single-employer, agent, or cost-sharing pension plan.
b. A brief description of the benefit provisions, including the types of benefits, the key elements of the pension formula(s), provisions or policies with respect to automatic COLAs and other automatic postemployment benefit changes and ad hoc COLAs and other ad hoc postemployment benefit changes, and the authority under which benefit provisions are established or may be amended. If the plan is closed to new entrants, that fact should be disclosed.
c. Classes of employees covered (for example, general employees and public safety employees) and the number of employees covered by the benefit terms, separately identifying numbers of the following:
   (1) Retired employees (or their beneficiaries) currently receiving benefits
   (2) Inactive employees entitled to but not yet receiving benefits
   (3) Active employees.
d. Whether the pension plan that is used to provide the benefits issues a stand-alone financial report (or is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the net pension liability

Assumptions

86. The governmental nonemployer contributing entity should disclose significant assumptions used to measure the employer's total pension liability, including assumptions about salary increases, inflation, mortality, COLAs and other postemployment benefit changes, and the discount rate, and the date(s) of experience studies and published sources, such as mortality tables, on which significant assumptions are based. In addition, the governmental nonemployer contributing entity should disclose the proportion used to determine its recognized amounts of the net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions of the employer. If an assumption uses different rates for different periods, information should be disclosed about what rates were applied to the different periods of the measurement.

87. With regard to the discount rate, disclosures should include:

a. Assumptions made about contributions of the employer(s) (including those of nonemployer contributing entities on behalf of the employer(s)) and employees and about other projected cash flows into and out of the plan
b. The long-term expected rate of return on plan investments and a description of how the long-term expected rate of return on plan investments was determined, including the assumed asset allocation of the portfolio, the best estimate of the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means
c. The municipal bond index rate, the index selected, and the reasons for selection of that index, if the discount rate incorporates a municipal bond index rate
d. The periods of projected benefit payments to which the long-term expected rate of return and the municipal bond index rate, if used, were applied to determine the discount rate
e. The effects on the current-period net pension liability recognized by the governmental nonemployer contributing entity of a 1-percentage-point increase and 1-percentage-point decrease in the discount rate.

Plan net position

88. A governmental nonemployer contributing entity should disclose all information required by other standards about the elements of the plan's basic financial statements. However, if (a) a plan financial report that includes disclosure about the elements of the plan's basic financial statements is publicly available, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government and (b) the governmental nonemployer contributing entity provides information about how to obtain the report, the entity may refer to the plan report for these disclosures. In this circumstance, the governmental nonemployer contributing entity also should disclose that these elements of plan net position and changes in plan net position have been determined on the same basis used by the plan and provide a brief disclosure of the plan's basis of accounting, including the policies with respect to benefits and refunds paid and the valuation of investments. If significant changes have occurred that indicate that the disclosures included in the plan's financial report generally do not reflect the facts and circumstances at the end of the governmental nonemployer contributing entity's reporting period, the governmental nonemployer contributing entity should disclose information about the substance and the magnitude of the changes.

Other information

89. A governmental nonemployer contributing entity should disclose the following information about amounts recognized in its financial statements as a result of its legal requirement to make on-behalf contributions for pensions:

a. The basis for determining its actual contributions to the pension plan, including identification of the authority under which its contribution requirements are established or may be amended, and significant methods and assumptions used in the calculation of current-period contributions if actual contributions are determined on an actuarial basis.

b. The amount of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and expense/expenditures recognized by the governmental nonemployer contributing entity.

c. The date of the actuarial valuation on which recognized information is based and, if the recognized amounts are the result of the use of update procedures to roll forward amounts to the end of the governmental nonemployer contributing entity's reporting period, identification of that fact.

d. A brief description of changes of assumptions that affect measurement of the employer's total pension liability.

e. A brief description of changes of benefit terms that affect measurement of the employer's total pension liability.

f. The amount of the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and expense recognized by the governmental nonemployer contributing entity that is attributable to (1) the net effect of a current-period change in the proportion used to calculate the governmental nonemployer contributing entity's share of employer amounts and (2) the current-period difference between (a) the amount recognized by the defined benefit pension plan as a contribution from the governmental nonemployer contributing entity and (b) the amount of the governmental nonemployer contributing entity's proportionate share of employer contributions (including those made by nonemployer contributing entities) recognized by the pension plan. The number of periods over which the governmental nonemployer contributing entity is recognizing (1) and (2) in expense also should be disclosed.

g. The amount of current-period expense resulting from recognition of the portion(s) of beginning deferred outflows of resources and deferred inflows of resources associated with (1) changes in the proportion used to calculate the governmental nonemployer contributing entity's share of employer amounts and (2) differences between the amount recognized by the defined benefit pension plan as a contribution from the governmental nonemployer contributing entity and the amount of the governmental nonemployer contributing entity's proportionate share of employer contributions (including those made by nonemployer contributing entities) recognized by the plan.

Required Supplementary Information

90. For each net pension liability for defined benefit pensions for which it (a) has an unconditional special funding situation and (b) recognizes a substantial proportion of the net pension liability of all employers that provide pensions through the plan, a governmental nonemployer contributing entity should present in required supplementary information the information indicated in subparagraphs a–e, below, as applicable, measured as of the nonemployer contributing entity's year-end.

a. A 10-year schedule of changes in the total net pension liability of all employers that provide benefits through the plan presenting the following for each year:

(1) The beginning balances of the total pension liability, plan net position, and net pension liability, measured for the employers in the aggregate prior to adjustment for the support provided by nonemployer contributing entities.

(2) The effects during the period of the following items, if applicable, on the balances in subparagraph (1), measured for the employers in the aggregate:

(a) Service cost

(b) Interest on the total pension liability

(c) Changes in benefit terms

(d) Differences between actual and expected experience in the measurement of the total pension liability

(e) Changes of assumptions

(f) Contributions—employer(s), separately identifying the amount of employer contributions made directly by the employer(s) and the amount of employer contributions made by the nonemployer contributing entity on behalf of the employer(s)

(g) Contributions—employees

(h) Net investment income

(i) Refunds of contributions

(j) Benefits paid

(k) Plan administrative expenses

(l) Other changes, separately identified if individually significant.

(3) The ending balances of the total pension liability, plan net position, and the net pension liability, measured for the employers in the aggregate prior to adjustment for the support provided by nonemployer contributing entities.

b. A 10-year schedule presenting the following for each year, measured for the employers in the aggregate prior to adjustment for the support provided by nonemployer contributing entities:

(1) The total pension liability

(2) The amount of plan net position

(3) The net pension liability

(4) The ratio of plan net position to the total pension liability

(5) The amount of covered-employee payroll

(6) The net pension liability as a percentage of covered-employee payroll.

c. A 10-year schedule presenting the following for each year, measured at the nonemployer-contributing-entity level:

(1) The proportion (percentage) used to calculate the nonemployer contributing entity's share of aggregate employer amounts

(2) The nonemployer contributing entity's share (amount) of the total pension liability of the employers in the aggregate

(3) The nonemployer contributing entity's share (amount) of the amount of plan net position of the employers in the aggregate

(4) The nonemployer contributing entity's share (amount) of the net pension liability of the employers in the aggregate.

d. A 10-year schedule presenting the following for each year, measured for the employers in the aggregate, if an actuarially calculated employer contribution is determined:

(1) The actuarially calculated employer contribution, equal to the amount associated with the employers' direct contributions and the amount associated with the contributions of nonemployer contributing entities
(2) The contractually required contribution, equal to the amount associated with the employers' direct contributions and the amount associated with the contributions of the nonemployer contributing entities, if different from (1) and if the pension plan is cost-sharing
(3) The amount of employer contributions made, separately identifying the amount of employer contributions made directly by the employers, employer contributions made on behalf of the employers by nonemployer contributing entities, and the total contributions made by employers directly and by nonemployer contributing entities
(4) The difference between the actuarially calculated employer contribution and the amount of employer contributions made
(5) The amount of covered-employee payroll
(6) Employer contributions made as a percentage of covered-employee payroll.

e. A 10-year schedule presenting the following for each year, measured at the nonemployer-contributing-entity level, if an actuarially calculated employer contribution is determined:
(1) The actuarially calculated employer contribution associated with the governmental nonemployer contributing entity's obligation to contribute
(2) The contractually required contribution associated with the governmental nonemployer contributing entity's obligation to contribute, if different from (1) and if the pension plan is cost-sharing
(3) The amount of the governmental nonemployer contributing entity's contributions
(4) The difference between the actuarially calculated employer contribution associated with the governmental nonemployer contributing entity's obligation to contribute and the amount of contributions made by the governmental nonemployer contributing entity.

Notes to required schedules

91. If not otherwise disclosed, significant methods and assumptions used in determining the actuarially calculated employer contribution, if any, should be presented as notes to the schedules required by paragraphs 90d and 90e. For each of the schedules required by paragraph 90, a governmental nonemployer contributing entity should disclose in notes to required supplementary information, information about factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by benefit terms, or assumptions used. (The amounts reported for prior years should not be restated.)

Governmental Nonemployer Contributing Entities That Recognize a Less-Than-Substantial Proportion of the Total Net Pension Liability

Notes to Financial Statements

92. A governmental nonemployer contributing entity should disclose in notes to financial statements the information required by this paragraph about each net pension liability for defined benefit pensions for which it (a) has an unconditional special funding situation and (b) does not recognize a substantial proportion of the net pension liability of all employers that provide benefits through the pension plan. If a governmental nonemployer contributing entity recognizes more than one such pension liability, information may be presented in the aggregate for all such liabilities.

a. The name of the pension plan through which benefits are provided, identification of the public employee retirement system or other government that administers the plan, and identification of the plan as a single-employer, agent, or cost-sharing pension plan
b. The basis for determination of its contributions to the pension plan, including identification of the authority under which its contribution requirements are established or may be amended
c. The amount of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and expense/expenditures recognized by the governmental nonemployer contributing entity and the proportion (percentage) of the total (employers in the aggregate) net pension liability used to determine its recognized amounts.

Required Supplementary Information

93. For defined benefit pensions for which a governmental nonemployer contributing entity has an unconditional special funding situation and does not recognize a substantial portion of the total net pension liability of all participating employers, the governmental nonemployer contributing entity should present in required supplementary information a 10-year schedule that includes the following information for each year: (a) the amount of the net pension liabilities recognized by the governmental nonemployer contributing entity and (b) the amount of the contributions made by the governmental nonemployer contributing entity as support for the pensions of other governments. If a governmental nonemployer contributing entity contributes to more than one pension plan, the information for each year may be presented in the aggregate for all pensions about which this paragraph requires that information be presented.

Liabilities to a defined benefit pension plan

94. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a governmental nonemployer contributing entity should recognize a liability to a defined benefit pension plan, if one is incurred, separately from its net pension liability and should recognize expense for liabilities incurred during the period. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a governmental nonemployer contributing

entity should recognize a liability to a defined benefit pension plan to the extent the liability is normally expected to be liquidated with expendable available financial resources. Expenditures should be recognized equal to the total of (a) amounts paid to the pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources.

Note disclosures[14]

95. A governmental nonemployer contributing entity that has a liability to a defined benefit pension plan at the end of its reporting period should disclose the amount outstanding at the end of the period and significant terms related to that amount, as well as information about what gave rise to the liability.

Defined Contribution Pensions

96. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, an employer that provides defined contribution pensions should recognize pension expense for those benefits equal to the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose. A pension liability should be recognized for the difference between amounts recognized as expense and actual contributions made to a pension plan. An employer that has an unconditional special funding situation should apply the requirements of paragraph 102. Governmental nonemployer contributing entities should apply the requirements of paragraphs 100, 101, and 103–105, as applicable.

97. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer should recognize pension expenditures equal to the total of (a) amounts contributed to a pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources. A liability for defined contribution benefits should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.

98. Separate display in the financial statements of the pension liabilities for benefits provided through each defined contribution pension plan used by an employer is not required.

[14]When similar information is required by this Statement and the related Statement, a governmental nonemployer contributing entity that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

99. An employer should disclose the following in the notes to financial statements for each defined contribution pension plan to which it is required to contribute:[15]

a. Name of the plan, identification of the public employee retirement system or other entity that administers the plan, and identification of the plan as a defined contribution pension plan
b. A brief description of benefit provisions, including provisions related to vesting and forfeitures and the policy related to the use of forfeited amounts, and the authority under which benefit provisions are established or may be amended
c. The rates (in dollars or as a percentage of salary) used to determine amounts that are attributed to employees' periods of service, including the rates for employees, the employer, and nonemployer contributing entities, and the authority under which those rates are established or may be amended
d. The total dollar amounts attributed to the employees' services in the period, separately identifying amounts from employees, the employer (directly), and, if the employer has a special funding situation, the nonemployer contributing entities
e. The amount of forfeitures reflected in net pension expense recognized in the period.

Special Funding Situations

100. In a conditional special funding situation, the employer should apply the requirements of paragraphs 96–99 of this Statement and recognize revenue for the pension support provided by the nonemployer contributing entity equal to the amount of contributions recognized by the pension plan from the nonemployer contributing entity for benefits of that employer. In this circumstance, a governmental nonemployer contributing entity should classify its expense/expenditures for the on-behalf payment it makes in the same manner as it classifies similar grants to other entities.

101. In an unconditional special funding situation, the employer should apply the requirements of paragraph 102 of this Statement. In this circumstance, a governmental nonemployer contributing entity should apply the requirements of paragraphs 103–105 of this Statement, as applicable. A governmental nonemployer contributing entity should classify its expense/expenditures as a result of an unconditional special funding situation in the same manner as it classifies similar grants to other entities.

Employers

102. An employer that has an unconditional special funding situation for its defined contribution pensions should determine its pension expense and pension liability as required by paragraphs 96–98 of this Statement, prior to the support of the nonemployer contributing entity. To determine the amount of pension liability the employer should recognize in its financial statements, the employer should reduce the pension liability, calculated prior to the support of the nonemployer contributing entity, by the portion of

[15]When similar information is required by this Statement and the related Statement, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

the liability recognized by the nonemployer contributing entity under paragraph 103. The employer also should disclose the amount of on-behalf revenue recognized as a result of the support provided by the nonemployer contributing entity and the information required by paragraph 99.

Governmental Nonemployer Contributing Entities

103. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a governmental nonemployer contributing entity that has an unconditional legal requirement to contribute to a defined contribution pension plan on behalf of another government should recognize expense for those benefits equal to its share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributed to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose. A pension liability should be recognized equal to the difference between amounts recognized as expense and actual contributions made to a pension plan.

104. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a governmental nonemployer contributing entity should recognize pension expenditures equal to the total of (a) amounts contributed to a defined contribution pension plan and (b) amounts normally expected to be liquidated with expendable available financial resources. A liability for defined contribution benefits should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Separate display in the financial statements of the pension liabilities for each defined contribution liability of an employer is not required.

Note disclosures[16]

105. A governmental nonemployer contributing entity that has an unconditional legal requirement to contribute to a defined contribution pension plan on behalf of another government should disclose the following in the notes to financial statements for each defined contribution pension plan to which it is required to contribute a substantial proportion of the total employer contributions (including contributions of nonemployer contributing entities on behalf of the employer):

a. Name of the plan, identification of the public employee retirement system or other entity that administers the plan, and identification of the plan as a defined contribution plan
b. A brief description of benefit provisions, including provisions related to vesting and forfeitures and the policy related to the use of forfeited amounts, and the authority under which benefit provisions are established or may be amended

[16]When similar information is required by this Statement and the related Statement, a governmental nonemployer contributing entity that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

c. The rates (in dollars or as a percentage of salary) used to determine amounts that are attributed to employees' periods of service, including the rates for employees, the employer, and nonemployer contributing entities, and the authority under which those rates are established or may be amended
d. The total dollar amounts attributed to the employees' services in the period, separately identifying amounts from employees, the employer (directly), and the nonemployer contributing entities, and the proportion of the total represented by the governmental nonemployer contributing entity's recognized amount
e. The amount of forfeitures reflected in net expense recognized in the period.

106. A governmental nonemployer contributing entity that has an unconditional legal requirement to contribute to a defined contribution pension plan on behalf of another government should disclose the following in the notes to financial statements for each defined contribution plan to which it is required to contribute a less-than-substantial proportion of the total employer contributions (including contributions of nonemployer contributing entities on behalf of the employer):

a. Name of the plan, identification of the public employee retirement system or other entity that administers the plan, and identification of the plan as a defined contribution plan
b. The rates (in dollars or as a percentage of salary) used to determine amounts that are attributed to employees' periods of service for the governmental nonemployer contributing entity and the authority under which those rates are established or may be amended
c. The amount that the governmental nonemployer contributing entity recognized in net expense in the period as a result of its legal requirement to contribute to the defined contribution plan and the proportion of the total pension expense recognized by the employer (including the nonemployer contributing entities) represented by the governmental nonemployer contributing entity's recognized amount.

EFFECTIVE DATE AND TRANSITION

107. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2012, for employers that meet all of the following criteria:

a. With regard to the requirements for defined benefit pensions, the employer is required to apply only the requirements of this Statement for single employers.
b. The employer does not have an unconditional special funding situation for any of its defined benefit pensions provided through a plan administered through a qualified trust.
c. One or more of the employer's defined benefit pensions is provided through a pension plan administered through a qualified trust that has net position of $1 billion or more in the plan's first fiscal year ended after June 15, 2010.[17]

[17]If a plan has not implemented the requirements of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* as of its first fiscal year ending after June 15, 2010, the effective date of this Statement would be determined based on reported plan net assets.

d. None of the employer's defined benefit pensions are provided through a pension plan administered through a qualified trust that is reported in the financial report of an entity that also reports (1) a single-employer pension plan administered through a qualified trust in which the employer has an unconditional special funding situation or (2) an agent or a cost-sharing pension plan administered through a qualified trust.

For all other employers and for governmental nonemployer contributing entities, the requirements of this Statement are effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged.

108. To the extent practical, accounting changes made to comply with this Statement should be reported as adjustments of prior periods, and financial statements presented for the periods affected should be restated. It may not be practical for some governments to determine the amounts of deferred inflows of resources and deferred outflows of resources, as applicable, at the beginning of the period when the provisions of this Statement are adopted. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources should not be reported. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect, including whether the restatement of beginning balances included deferred inflows of resources or deferred outflows of resources, as applicable. Also, the reason for not restating prior periods presented should be explained.

109. The information for all periods for the 10-year schedules that should be presented as required supplementary information may not be available initially. In these cases, that information should be presented for those years for which information is available. The schedules should not include information not measured in accordance with the requirements of this Statement.

The provisions of this Statement need
not be applied to immaterial items.

GLOSSARY

110. This paragraph contains definitions of certain terms *as they are used in this Statement;* the terms may have different meanings in other contexts.

Active employees
Individuals employed at the end of the reporting period.

Actuarial present value of projected benefit payments
Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

Actuarial valuation
The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability of the employer(s), and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial valuation date
The date as of which an actuarial valuation is performed.

Actuarially calculated employer contribution
An employer’s target or recommended contribution to a defined benefit pension plan for the reporting period, determined in accordance with Actuarial Standards of Practice by the most recent measurement available when the contribution for the reporting period was adopted.

Ad hoc cost-of-living adjustments (COLAs) or other postemployment benefit changes
COLAs or other postemployment benefit changes that require a decision to grant by a responsible authority.

Agent employer
An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.

Agent multiple-employer defined benefit pension plan (agent pension plan)
A multiple-employer defined benefit pension plan in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer’s share of the pooled assets is legally available to pay the pensions of only its employees.

Allocated insurance contract
A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual members. Also may be referred to as an annuity contract.

Automatic COLAs or other postemployment benefit changes

COLAs or other postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the plan) or to another variable (such as an increase in the consumer price index).

Closed period

A specific number of periods that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

Cost-of-living adjustments (COLAs)

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

Conditional special funding situation

A special funding situation in which the amount of on-behalf contributions for which the nonemployer contributing entity is legally responsible is conditional on one or more events or circumstances unrelated to the pensions (for example, the nonemployer contributing entity is required to make contributions based on a specified percentage of a given revenue source).

Cost-sharing employer

An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.

Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan)

A multiple-employer defined benefit pension plan in which the participating employers pool or share their obligations to provide pensions to their employees, and plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan.

Covered-employee payroll

The payroll of employees that are provided with pensions under the benefit terms.

Defined benefit pension plans

Pension plans that are used to provide defined benefit pensions.

Defined benefit pensions

Pensions in which the benefits that the plan member will receive at or after separation from employment are stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation.

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (a) provide an individual account for each employee; (b) define the contributions (or credits) that an employer is required to make to an active employee's account for periods in which that employee renders services; and (c) provide that the benefits an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees and plan administrative costs that may be allocated to the employee's account.

Entry age normal actuarial cost method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost.* The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *actuarial accrued liability*.[18]

[For purposes of application to the requirements of this Statement, the term *normal cost* is the equivalent of *service cost*, and the term *actuarial accrued liability* is the equivalent of *total pension liability*.]

Inactive employees

Terminated individuals who have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries.

Multiple-employer defined benefit pension plan

A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.

Net pension liability

The total pension liability of the employer(s), net of plan net position.

Nonemployer contributing entities

Entities that make contributions to a pension plan on behalf of another entity or entities. For purposes of this Statement, employees are not considered nonemployer contributing entities.

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[18]"Definitions from ASOPs and ACGs of the ASB (including those from current exposure drafts) February 2011." Actuarial Standards Board of the American Academy of Actuaries, http://www.actuarialstandardsboard.org/pdf/definitions.pdf.

Other postemployment benefits

Postemployment benefits other than pensions. Other postemployment benefits are all postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include benefits defined as termination benefits.[19]

Pension plans

Trusts or other funds through which assets dedicated to the payment of pensions are accumulated and managed, and pensions are paid as they come due in accordance with the benefit terms.

Pensions

All retirement income, as well as postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits) that are provided through a defined benefit pension plan. Pensions do not include postemployment healthcare benefits and termination benefits.[20]

Plan members

Individuals that are covered under the terms of a pension provided through a pension plan. Plan members generally include employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees or their beneficiaries currently receiving benefits.

Postemployment

The period after employment.

Postemployment benefit changes

Adjustments to the pension of an inactive employee.

Postemployment healthcare benefits

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees (or their beneficiaries) and their dependents.

Projected benefit payments

All benefits estimated to be payable to employees as a result of their service through the valuation date and their expected future service.

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[19]The effects of a termination benefit on an employer's defined benefit obligations for other postemployment benefits should be accounted for and reported in accordance with the requirements for defined benefit OPEB.

[20]The effects of a termination benefit on an employer's defined benefit obligations for pensions should be accounted for and reported in accordance with the requirements for defined benefit pensions.

Public employee retirement system

A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.

Qualified trust

A trust, or equivalent arrangement, that is used to administer a pension plan and that has the following characteristics:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a nonemployer contributing entity, and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

Real rate of return

The rate of return on an investment after adjustment to eliminate inflation.

Service cost

The portion of the actuarial present value of projected benefit payments that is allocated to a valuation year.

Single employer

An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.

Single-employer defined benefit pension plan (single-employer pension plan)

A defined benefit pension plan that is used to provide pensions to employees of only one employer.

Special funding situation

A circumstance in which an entity is legally responsible for contributions to pension plans that are used to provide pensions to the employees of another entity or entities.

Termination benefits

Inducements offered by employers to employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

Total pension liability

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee services in accordance with the requirements of this Statement.

Unconditional special funding situation

A special funding situation in which the legal responsibility of a nonemployer contributing entity to make on-behalf contributions is unconditional (for example, the nonemployer contributing entity is legally required to contribute a defined percentage of covered-employee payroll to the pension plan or the nonemployer contributing entity is required to contribute to the pension plan a defined proportion of the employer's required contributions).

Appendix A

BACKGROUND

111. This Statement was preceded by Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* which was issued in November 1994 and was effective for financial reporting periods beginning after June 15, 1997. Since its issuance, various provisions of Statement 27 have been updated or amended, and the GASB considered accounting and financial reporting issues similar to those for pensions during the development of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which was issued in June 2004. The approach taken in Statement 45 was to model accounting and financial reporting by employers for postemployment benefits other than pensions on Statement 27, with adaptations only as necessary to accommodate differences between other postemployment benefits and pensions. The use of this approach allowed for the adoption of a common overall approach applicable to all postemployment benefits. Accordingly, the employer pension accounting and financial reporting approach originally established in Statement 27 has continued in effect with no fundamental changes since its issuance.

112. Significant work has been completed on the GASB's conceptual framework since the issuance of Statement 27. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* issued in April 2005, and Concepts Statement No. 4, *Elements of Financial Statements,* issued in June 2007, were of particular significance for considering pension accounting and financial reporting issues. Concepts Statement 3 established criteria for selection of the appropriate method of communication for items of reportable financial information—recognition in basic financial statements, disclosure in notes to the basic financial statements, or presentation as required supplementary information or supplementary information. Concepts Statement 4 established definitions and characteristics of elements of financial statements.

113. Consistent with the GASB's commitment to periodically reexamine its standards, in January 2006, the Board approved a research project to gather information regarding how effective Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement 27 had been in meeting financial reporting objectives, and to determine whether opportunities for improvement existed. The staff prepared a research report describing the research efforts and related findings, and presented it to the Board in April 2008.

114. In light of the issues identified in the research project and the conceptual developments that had taken place since the issuance of Statements 25 and 27, the postemployment benefit accounting and financial reporting project was added to the GASB's current technical agenda in April 2008. Work was initiated at that time to develop the project's initial public comment document—the Invitation to Comment, *Pension Accounting and Financial Reporting*—which was issued in March 2009.

115. The Invitation to Comment solicited constituent views on issues and questions related to (a) the focus of accounting and financial reporting for pensions; (b) single-employer and agent-employer pension expense and liability recognition and measurement, including the use of actuarial methods; and (c) accounting by employers in cost-sharing pension plans. In addition, the Invitation to Comment presented issues and questions specific to financial reporting by pension plans. The Board received 117 written responses to the Invitation to Comment from organizations and individuals. In addition, the Board received oral responses from, and had the opportunity to further explore the views of, 17 individuals or groups at 2 public hearings.

116. From October 2009 through June 2010, the Board discussed and reached tentative conclusions on the basic employer accounting and financial reporting issues presented for public comment in the Invitation to Comment. In June 2010, the Board issued a Preliminary Views, *Pension Accounting and Financial Reporting by Employers*, which presented the Board's tentative decisions on issues related to employer accounting and financial reporting, including issues previously presented in the Invitation to Comment. The Board received 193 written responses to the Preliminary Views from organizations and individuals. In addition, the Board received oral testimony from 29 individuals or groups at three public hearings.

117. During the comment period on the Preliminary Views, the Board began its initial deliberations of issues related to employer note disclosures and presentation of information in required supplementary information. It also began discussion of issues related to accounting and financial reporting by pension plans. Deliberation of issues related to employers and pension plans included consideration of the views and suggestions expressed by respondents to the Preliminary Views. The tentative conclusions reached by the Board on employer accounting and financial reporting issues as a result of those deliberations are presented in this Statement.

118. In addition, the Board received feedback from members of a project task force—comprising 18 experts broadly representative of the GASB's constituency—at a meeting of that group in December 2009 and throughout the Board's discussions. The Board also regularly updated the members of the Governmental Accounting Standards Advisory Council (GASAC) on project developments and heard feedback from GASAC members as part of that organization's periodic meetings.

Appendix B

BASIS FOR CONCLUSIONS AND ALTERNATIVE VIEW

CONTENTS

Paragraph Numbers

Paragraph
Numbers

Paragraph
Numbers

Appendix B

BASIS FOR CONCLUSIONS AND ALTERNATIVE VIEW

Introduction

119. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others. It also includes an alternative view presented by one Board member.

120. As described in Appendix A, the reexamination project that has led to the issuance of this Statement included consideration of issues related to accounting and financial reporting by employers and by governmental nonemployer entities that are responsible for contributions to pension plans, as well as those related to financial reporting by pension plans. Because of the relationships of plans, employers, and nonemployer contributing entities, the Board has given joint consideration to this Statement and the related Statement, *Financial Reporting for Pension Plans* (the related Statement). The Board believes that consistency in the measurement and disclosure of pension information reported by all entities associated with pension transactions will enhance the understandability and usefulness of pension information to users of governmental financial reports. Therefore, many of the measurement and disclosure requirements of the two Statements are the same or closely related.

Overview

121. The requirements of this Statement reflect a decision of the Board, informed by an expanded conceptual framework, to adopt an approach to accounting and financial reporting for pensions that is broader than the funding-based model of Statement 27—an approach that focuses on the effects of all transactions and events that create and modify an employer's obligations for pensions. Within this expanded conceptual context, the Board believes that the standards in this Statement will improve the decision-usefulness of information in employer financial reports and enhance its value for assessing accountability and interperiod equity. It accomplishes this by requiring recognition of a net pension liability for defined benefit pensions that reflects the total pension liability of the employers, net of plan net position, and a more comprehensive measure of pension expense, as well as by requiring information in note disclosures and required supplementary information related to the liability and expense.

122. The accounting and financial reporting approach required by this Statement reflects the underlying notion that pensions are a form of compensation provided to employees in exchange for the services they provide to a government. In the Board's view, the nature of this employment relationship is long term. The requirements of this Statement, therefore, incorporate provisions intended to reflect the effects of transactions and events related to measurement of employers' liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions in

a manner consistent with this long-term view of the relationship of the employer and the employee. The provisions also reflect the Board's view of the relationships of employers to the pension plans that are used to accumulate and manage assets for pensions, the role of investment earnings in providing resources to satisfy employer obligations, and the effects of the involvement of entities other than the employer, employees, and the plan on the accounting and financial reporting about obligations of employers for the pensions that are provided to their employees.

123. A summary of the broad concepts and principles considered by the Board as it made its decisions reflected in the requirements of this Statement is presented in paragraphs 124–133. Those concepts and principles also are discussed more specifically in relation to individual issues, as applicable, throughout this appendix.

Conceptual Framework

124. The standards in this Statement reflect an accounting and financial reporting approach for pensions that has been informed, first, by considerations identified in the GASB's Concepts Statements, including those related to the following:

- Objectives of financial reporting—accountability, decision-usefulness, and interperiod equity (Concepts Statement No. 1, *Objectives of Financial Reporting*, and Concepts Statement 4)
- The various users and uses of information in general purpose external financial reporting (Concepts Statement 1)
- The definitions of the elements of financial statements (Concepts Statement 4)
- The selection of appropriate methods of communicating information in general purpose external financial reports that contain basic financial statements (Concepts Statement 3).

125. Accordingly, the Board's deliberations of the accounting and financial reporting issues addressed in this Statement primarily have focused on:

- Analysis of the transactions and other events through which an employer incurs an obligation to provide pensions and of how the obligation subsequently is modified
- Consideration of the effects of those transactions and other events on the elements of an employer's financial statements
- Issues related to interperiod equity (the financial reporting period or periods to which those effects should be attributed) and how they should be measured for accounting and financial reporting purposes in the governmental environment
- Evaluation of the need for additional information to understand amounts recognized in the employer's financial statements or to place those amounts into an appropriate context.

Long-Term Nature of Governments

126. One of the distinguishing characteristics of state and local governments is their potential for longevity. As discussed in the GASB's White Paper, *Why Governmental Accounting and Financial Reporting Is—and Should Be—Different,* one of the effects of the longevity of governments on accounting and financial reporting is that accounting information is used not to answer questions about whether governments will continue to exist but rather for insight into "the sustainability of the level of services provided and the ability to meet future levels of demand for services. As a result, the emphasis generally has been on the allocation of resources to government programs, the determination of the cost of services . . . , and providing a longer term view of operations. The longer term view of operations of government is consistent with focusing on trends in operations, rather than on short-term fluctuations . . ." (page 8). Cost-of-services information also is essential to the objectives of financial reporting discussed in Concepts Statement 1, including that of helping financial report users assess the degree to which *interperiod equity*—a term used in Concepts Statements 1 and 4 to describe the state in which current-period inflows of resources equal current-period costs of services—has been achieved. The Board's deliberation of issues related to employer accounting and financial reporting for pensions, particularly questions related to measurement of liabilities and recognition of pension expense, reflects consideration of the long-term, ongoing nature of governments and the importance of information about the cost of services to users of governmental employer financial statements.

The Employer–Employee Exchange

127. The accounting and financial reporting requirements established by this Statement also build on consideration of the implications of a previously established conclusion, most fully expressed in Statement 45, that postemployment benefits (including pensions) arise from an exchange between an employer and employees of salaries and benefits for employee services each period. The most prominent implication is that an employer incurs an obligation to its employees for pensions as a result of the employment-exchange transactions. The Board's perspective that these transactions should be viewed in the context of an ongoing, career-long employment relationship has implications related to the measurement of the employer's pension liability and recognition of pension expense. These implications are discussed more fully in paragraphs 165–211 and paragraphs 214–231.

Financial Reporting Focus

128. As noted above, the objective of this Statement is to establish standards of accounting and financial reporting for pensions. It is not within the scope of the Board's activities to establish standards with regard to a government's method of financing the benefits it has obligated itself to provide (that being a policy decision for government officials or other responsible authority to make) or to regulate a government's compliance with the financing policy or method it adopts. Accordingly, the Board proposed in the Preliminary Views that the standards established should be made solely within the context of accounting and financial reporting, not within the context of the funding of pensions.

129. Many respondents to the Preliminary Views expressed concerns about establishing accounting and financial reporting requirements for the measurement of defined benefit pension-related liabilities and expense that are not specifically linked to approaches used by an employer to determine its funding requirements. Some respondents' concerns focused on the potential loss of information about funding benchmarks and financing choices made by employers. In the view of these respondents, information that can be used to determine whether a government has an adequate strategy to attempt to fund its defined benefit pension obligations is an important component of financial reporting. Many of these respondents explicitly stated that the Statement 27 measure of annual required contribution—a measure not of actual legal contribution requirements but a portion of a funding target that in the Statement 27 model is used as the foundation for pension expense and liability recognition—has become a "de facto" funding standard used to evaluate funding decisions of the employer.

130. Other respondents expressed concerns that the accounting measures proposed in the Preliminary Views potentially would be volatile and would lack a long-term perspective, as compared to the information developed using approaches typically applied for funding purposes. These respondents generally supported the long-term perspective that is provided for in Statement 27 because (a) governments are long-term ongoing entities and (b) pensions are incurred, and often are discharged, over relatively long periods of time. To some of these respondents, a long-term view necessitates the use of measurement techniques and approaches to expense recognition that mitigate volatility in amounts recognized in the financial statements—techniques and approaches similar to those used to determine funding requirements.

131. Still other respondents were concerned that the use of different measures for financial reporting and funding would be confusing to users of employers' financial statements.

132. The Board acknowledges the concerns of respondents that expressed a desire for financial reports of employers to include information about employer contributions to a pension plan and progress relative to internally established funding benchmarks for those plans. It, therefore, has included requirements related to disclosure of actuarially based contribution policies and presentation of information about the funding policy over time relative to actuarially based contribution requirements in certain circumstances. (Considerations related to the requirements are discussed further in paragraphs 257–259, below.) However, the Board believes that accounting and financial reporting for pensions necessitates a focus broader than funding. An employer's contribution to a defined benefit pension plan is one of many transactions and other events that create, increase, or decrease the employer's liability for defined benefit pensions. It appropriately is the focus of employer accounting and financial reporting to account for and report information about the totality of those transactions and other events. Therefore, the Board believes that the funding-based accounting model that some respondents have suggested should be continued would result in incomplete, or partial accountability—and, accordingly, also would result in limited decision-usefulness—when evaluated within the context of the objectives of general purposes financial reporting in Concepts Statement 1, and the financial statement elements set forth in Concepts Statement 4. Although the funding

focus would provide information meeting some of those objectives (such as the uses of financial resources and how a governmental entity financed its activities), it would provide incomplete information specifically designed to assess whether current-year revenues were sufficient to pay for current-year services, to assess the cost of services of the governmental entity, or to assess the financial position and economic condition of the governmental entity. In addition, the Board believes that the approach employed in developing the requirements of this Statement, which considered how the consumptions and acquisitions of an employer's net position (as defined in Concepts Statement 4) associated with pension-related events each year affect the production of government services in the current and future periods, better addresses the objective of assisting financial statement users to assess whether an employer's revenues have been adequate to pay for its cost of services in a given period as compared to a funding-based approach.

133. The Board also recognizes that because, under the requirements of this Statement, employers will report pension-related information measured differently than it traditionally has been measured for both funding and accounting purposes, there will be a transition period during which users of employers' financial statements will need to adjust the way in which they interpret the amounts reported about defined benefit pensions. During that period, some users of employer financial reports that are accustomed to having only funding-based information may question how that information is different from the funding measures traditionally reported. However, the Board believes that measures other than those traditionally presented related to funding benchmarks are necessary to improve accountability for the employer obligations that are created through the employment exchange and through other subsequent transactions and other events and that the presentation of those measures ultimately will result in additional clarity and a better framework of information to support report users' understanding of an employer's decisions related to pensions.

Scope and Applicability

134. The requirements of this Statement address issues related to accounting and financial reporting for pensions that are provided through defined benefit pension plans administered through qualified trusts. This Statement incorporates the definition of pension plan and the criteria to be a qualified trust from the related Statement. The requirements of this Statement do not address pensions provided directly by an employer to its employees or through a pension plan that is not administered through a qualified trust. The Board believes that there potentially are additional considerations with regard to measurement of employer liabilities for pensions that are not provided through a plan administered as a qualified trust. In addition, the Board understands that pensions provided in that manner tend to be supplemental benefits or benefits provided to relatively small groups of employees and generally would be a minor portion of the total obligations for pensions. Therefore, in this Statement, the Board has focused the requirements on those benefits that are provided through plans administered through qualified trusts. Pending issuance of additional guidance related to pensions not included in the scope of this Statement, employers that provide pensions through such plans will continue to apply the requirements of all Statements effective prior to issuance of this Statement, including Statement 27 and Statement No. 50, *Pension Disclosures.*

135. This Statement also does not include requirements related to other postemployment benefits (OPEB). Although pensions and OPEB share many similar characteristics, the Board believes that because of the importance of pension-related information to users of financial statements of governments, awaiting the completion of consideration of additional issues related to OPEB would have unacceptably delayed this Statement and the related Statement.

136. In addition to issues related to employer accounting and financial reporting for pensions provided through qualified trusts, this Statement includes requirements that update existing guidance related to accounting for financial assistance provided to employers by nonemployer contributing entities. The approach taken by the Board in this Statement generally was to consider whether and, if so, how the requirements of existing standards related to on-behalf payments would require modification to accommodate the changes in the pension accounting model as a result of this Statement. The Board's consideration of these issues is discussed more fully in paragraphs 278–281, below.

Employers That Provide Defined Benefit Pensions

Net Pension Liability

Origin of the Obligation for Pensions

137. In developing a foundation for the conclusions in this Statement, the Board affirmed a conclusion previously expressed in Statements 27 and 45 about the origin and substance of pensions. That is, pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employees' services. They are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial reporting period. Even though the employer and employees have agreed that a portion of the total compensation for those services, in the form of pensions, will be paid later (in retirement), the employer receives full value from the employment exchange each period in the form of employee services. Therefore, as a result of the employment exchange each year, the Board believes that an employer incurs an obligation to its employees for pensions, as defined in paragraph 18 of Concepts Statement 4—"a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action." To the extent that this obligation has not been satisfied through payment of benefits or the accumulation of assets in trust and restricted to the payment of the obligation, this obligation is a *present* obligation—that is the event that gives rise to the obligation (in this case, the provision of services by the employee) has occurred.

Relationships of Various Entities to the Obligation for Pensions

138. In addition to the employer–employee relationships from which an employer's obligation to its employees for pensions arises, an employer typically creates or agrees to the creation of a legally separate entity—the pension plan—to accumulate and manage resources dedicated for pensions and to pay the defined benefits to retired employees or their beneficiaries when due. An employer's relationship with the pension plan is

characterized by the adoption of a program of (actual or presumed) systematic annual employer contributions to the plan in amounts projected to be sufficient, when added to employee contributions (if any) and expected earnings on the investment of plan assets, to provide for payment of the defined benefit pensions. In some circumstances, a nonemployer entity might assume legal responsibility for all or a portion of the contributions of the employer to the pension plan—a financing arrangement referred to in Statement 27 and in this Statement as a *special funding situation.* (The implications of the involvement of a nonemployer contributing entity are discussed in paragraphs 278–281, below.) An additional relationship typically also exists between the pension plan and employees characterized by employee contributions to the plan prior to retirement and, afterward, the payment by the plan of benefits earned by the employees as a result of their services to the employer.

139. In the Preliminary Views, the Board expressed its tentative view that "for accounting and financial reporting purposes, an employer has an obligation to its employees for pensions by virtue of the employment exchange, and this obligation is not satisfied until the defined benefit pensions have been paid to the employees or their beneficiaries when due" (paragraph 6). The Board explained this view as the employer remaining "primarily responsible" for the portion of its benefit obligation to employees in excess of the plan net assets available for pensions. It also indicated that "to the extent that plan net assets have been accumulated, the employer becomes secondarily responsible, and the pension plan is primarily responsible, for the obligation" (paragraph 6).

140. Some respondents to the Preliminary Views disagreed with the Board's view that the obligation for pensions is one of the employer to the extent that the pension plan does not have assets held for the payment of pensions because they believe that the pension plan is responsible for the entire pension obligation, whether or not there are assets in the trust to pay pensions. These respondents believe that one of the fundamental responsibilities of the plan is to raise the resources necessary to pay pensions to employees when they come due and, therefore, that the creation of a pension plan discharges the employer from the obligation to its employees created by the employment exchange. Under this view, the employer's obligation, if any, is considered to be limited to making contributions to the plan pursuant to the funding policy adopted. The Board disagrees that the existence of a pension plan, combined with the adoption of a funding plan and the achievement of some degree of funding progress, is sufficient to settle the employer's obligation to its employees as a result of the original employment-exchange transactions. Further, the Board does not believe that the pension plan appropriately can be viewed as assuming the portion of the pension obligation that exceeds the amount of resources available for pensions that are held by the plan because the pension plan does not have an independent ability to obtain the resources needed to satisfy that obligation.

141. Other respondents disagreed with the Board's preliminary view in circumstances in which a special funding situation exists. These respondents to the Preliminary Views suggested that a special funding situation should be viewed for accounting and financial reporting purposes as limiting the employer's unfunded pension obligation to the portion supported by the contributions that an employer makes, or is expected to make, from its own resources. The Board notes that the view expressed by respondents is consistent both

with the approach that is applied to special funding situations in Statement 27 and with the definition of a liability in Concepts Statement 4. That is, that an entity that will be required to sacrifice resources to fulfill the present obligation to employees to provide defined benefit pensions has a liability for those benefits. Based on respondent comments, this Statement reflects the view that when an entity has unconditionally assumed from an employer a legal obligation to make contributions to the plan, the entity also has assumed for accounting and financial reporting purposes a commensurate portion of the employer's net pension liability and other related measures for those benefits. This approach is discussed further in paragraphs 278–281, below.

142. Other respondents to the Preliminary Views expressed the view that in an arrangement in which both the employer and the employees are required to make contributions, the employer should be viewed as sharing responsibility for the unfunded pension obligation with its employees. Although the Board recognizes that it is true that in many state and local government pension plans employees are required to contribute a part of the cost of their benefits, the benefit that is received by the employee typically is greater than what an employee's own contributions could provide, and the employer(s) and nonemployer entities that are required to make contributions are responsible for the residual amount required to provide for the payment of the pensions. Because employee contributions nearly always cover only a portion of their total service cost each period, the Board does not believe that it would be reasonable to interpret that employers, as part of employment exchanges, in effect tax their employees to pay for the underfunding of the defined benefit pensions promised to them and other employees. Moreover, unless employee contributions were to exceed their total service cost, employee contributions would not be sufficient to contribute anything toward satisfaction of the unfunded pension obligation. The Board believes that this condition is unlikely to occur because it would result in pensions subtracting from, rather than adding to, employees' total compensation for services during the period.

143. Other respondents expressed the view that, as a condition for assignment of responsibility for the unfunded pension obligation to an employer, the employer should have the ability to control its policy decisions with regard to contributions to the pension plan. These respondents believe that when contribution decisions are controlled by another entity, all or a portion of the unfunded pension obligation should be accounted for and reported by the entity that has such authority or control—often, in the respondents' views, the plan sponsor (the entity that created the plan) or the pension plan itself. The Board does not believe that another entity's role in assessing annual contributions or establishing benefit terms is sufficient evidence that the total benefit obligation that arises from the employment exchange is transferred from an employer to the pension plan or sponsor. The lack of ability to control the amount of the benefits to be offered by the employer can be analogized to many other regulations that restrict the operations and activities of governments. Likewise, the lack of ability to control the manner in which the benefits are funded does not change whether the employer received the benefit of its employees' services in exchange for compensation that included pensions. Therefore, the Board believes that regardless of which entity has authority to establish benefits or to set required contribution amounts, for accounting and financial reporting purposes, the present obligation to employees for defined benefit pensions appropriately is one of the

employer(s), unless another entity has assumed from the employer(s) an unconditional legal obligation to sacrifice resources to fulfill that obligation.

Consideration of Plan Net Position

144. This Statement requires that employers and governmental nonemployer contributing entities that have an unconditional legal obligation to contribute to a defined benefit pension plan administered as a qualified trust recognize their obligation for pensions net of the amount of plan net position that is available to satisfy that obligation. The Board also considered the view that the employer is responsible for the entire obligation to provide pensions to employees, without reduction for the amount of resources held by the pension plan, which is an entity legally separate from the employer. However, the Board believes that view does not appropriately consider the relationship that exists between the employer and the pension plan with regard to the accumulation of resources dedicated to the payment of pensions. That is, to the extent there are resources in a qualified trust, those resources are the primary financial resources relied upon for payment of the benefits. Further, the Board notes that to the extent that resources are held in a qualified trust, there is a reduction in the need for the employer or nonemployer contributing entity to sacrifice additional resources to satisfy the total pension liability.

The Unfunded Pension Obligation and the Definition of a Liability

145. Concepts Statement 4, paragraph 17, defines the financial statement element *liabilities* as "present obligations to sacrifice resources that the government has little or no discretion to avoid." As discussed above in paragraph 137, the Board believes that the obligation to sacrifice resources is a present obligation because it was created as a result of employment exchanges that already have occurred. Few respondents to the Preliminary Views disputed the origin of the obligation for pensions or the characterization of it as a present obligation. However, some believe that the obligation does not meet the definition of a liability of the employer because the employer might be able to reduce benefit payments or increase employee contribution rates—and, hence, in the view of the respondents, the employer has more than little discretion to avoid the sacrifice of resources associated with the obligation.

146. In the Preliminary Views, the Board acknowledged that to some degree, pension obligations are a form of constructive obligation in that a legal obligation for pensions generally is created when benefits vest but that an employer has a constructive obligation for nonvested pensions due to the long-term nature of a career-long employment exchange. It also notes that it does not believe that the phrase "little or no discretion to avoid" in Concepts Statement 4 was intended to imply that if there is some possibility of changing the amount of resources needed to satisfy an obligation, the obligation does not meet the definition of a liability. Rather, reductions of benefits received in exchange transactions should be viewed as transactions of future periods to be accounted for in those future periods should they materialize.

147. With regard to the potential for increasing employee contribution rates, the Board notes that the pension obligation is measured as the portion of projected benefit payments

that have been attributed to *past* periods of service. Similarly, contributions from employees made in those past periods already would have reduced the amount of the net pension liability of the employer as a result of having been recognized as additions to plan assets in those periods. Contributions from employees that are expected to be made in the future, even those that might be at different contribution rates than currently are in use, are potential transactions of future periods, to be accounted for in those periods. Moreover, to support the contention that the net pension liability is shared by the employees, employee contributions in a period would have to exceed the total service cost of those employees in the same period—a condition that, in the Board's view, is unlikely.

Criterion for Recognition of the Net Pension Liability

148. To qualify for recognition in basic financial statements, Concepts Statement 3 states that an item of information that is an element of basic financial statements also should be measurable with sufficient reliability for that purpose. Some respondents to the Preliminary Views disagreed that the net pension liability, measured as required by this Statement, is sufficiently reliable to be recognized in basic financial statements. Some respondents believe that the only measures that would be sufficiently reliable for recognition are those based on an employer's stated funding program. Some respondents suggested that because measurement of the net pension liability requires assumptions about future events, in many, if not all cases, the measure will differ from actual experience in some way. Others specifically expressed concerns that a measure of the net pension liability that uses the fair value of plan investments would be volatile, which, in their view, would make it unreliable, particularly in the short term. Still others believe that because of the magnitude of the net pension liability relative to other balances recognized in an employer's financial statements, recognition of the net pension liability would distort the financial statements within which it is displayed, which, in their opinion, would result in unreliable financial statements.

149. With regard to these concerns, the Board is not persuaded that measures related to actuarial funding policies are sufficiently reliable for recognition, yet the net pension liability would not have that characteristic. Both measures are based upon a number of—and in some cases, the same—estimates and assumptions about future economic and demographic events, and both employ actuarial methods to determine reported measures. Further, it notes that although the assumptions made in measuring the net pension liability might vary from actual events, that fact alone is not sufficient to consider the estimates based on those assumptions to be unreliable. In the Concepts Statement 1 discussion of reliability, it is noted that reliability does not indicate certainty or precision of an estimate. Rather, the characteristic of reliability indicates that it is free from bias, is a faithful representation of what it purports to represent, is comprehensive, and is not misleading. Therefore, provided that the estimates and assumptions used in determining the net pension liability are not selected with a desired outcome in mind (that is, they are free from bias), there is no reason to conclude that because the actual result may be different from the estimate, the estimate is not a faithful representation, is not comprehensive, or is misleading. In addition, the Board concluded that disclosures that are required by this Statement about the estimates and assumptions used in determining reported amounts

provide essential information for users of the financial statements to understand the level of uncertainty associated with recognized amounts.

150. The Board also recognizes that the use of fair value measures for plan investments has the potential to result in changes in the net pension liability that might be significant from period to period. However, it believes that short-term volatility in the fair value of plan investments reflects the economic reality of the events that occur in each financial reporting period. Within the context of a longer-term view of the transactions and other events that affect the measurement of the net pension liability and the objective of providing information to assess interperiod equity, the short-term effects of changes in fair value are appropriately addressed through consideration of issues related to recognition of pension expense. These issues are discussed in paragraphs 232–241, below. With regard to concerns about the magnitude of the net pension liabilities that will be recognized under the requirements of this Statement, the Board believes that the potential size of the liabilities, in light of development of the conceptual framework through the issuance of Concepts Statements 3 and 4, further supports the need for recognition of the liability to avoid the presentation of financial statements that are misleading.

Plan Net Position Greater Than the Total Pension Liability

151. This Statement does not specifically address the financial statement classification of debit balances that result from circumstances in which the amount of plan net position exceeds the total pension liability of the employer(s) at the end of an employer's reporting period. That issue is part of a broader discussion related to application of the definitions of elements of financial statements from Concepts Statement 4, which is being addressed in another GASB project.

Measurement of the Net Pension Liability

152. Measurement of an employer's total pension liability, on which the net pension liability is based, requires the use of assumptions about numerous future events that affect the benefit payments that will be made to employees in retirement. For example, benefit payments frequently are based on pension formulas that are derived from salaries at or near retirement and the number of years of service provided—factors that are unknown with certainty until retirement. Also unknown are the number of employees who will retire, their retirement dates, the number of years they or their survivors will receive benefits, and similar factors that also affect the total amount of benefit payments that will be made. Although the total stream of pension payments cannot be known with certainty, either for an individual or for the group of employees covered under the benefit terms, until the last payment is made, those benefit payments can be estimated, as can the portion of those payments attributable to each period of the employee's service (service cost). Estimating future payments requires the application of actuarial assumptions. To enhance consistency in measurement and comparability of the resulting measures among employers, this Statement requires that Actuarial Standards of Practice be applied in developing assumptions and establishes additional requirements for the measurement of the total pension liability, including requirements related to timing and frequency of the measurements, the selection of a discount rate in certain circumstances, and the

application of a specified actuarial cost method to determine service costs and the total pension liability.

Timing and frequency of measurements

153. The Preliminary Views proposed and this Statement requires that an employer recognize its net pension liability measured as of the end of its reporting period. This requirement necessitates the measurement of both components of the net pension liability—the total pension liability and plan net position—as of that date. To accomplish the objective of period-end measurements, the Board also has included provisions in this Statement that allow measurement of the total pension liability to be made either by an actuarial valuation as of the end of the employer's reporting period or through the use of update procedures to roll forward the results of an actuarial valuation as of a date no more than 24 months prior to the employer's year-end.

154. The Board acknowledges that annual actuarial valuations as of the employer's year-end are, conceptually, the correct approach—amounts recognized and reported as of the year-end also should be measured as of that date, and an actuarial valuation would result in the best estimate, or most faithful representation, of those amounts. In addition, there is potential for amounts developed through the use of update procedures to roll forward amounts that result from an actuarial valuation as of a date other than the employer's year-end to be different from the measures that would be obtained in an actuarial valuation as of the year-end. However, the Board is sensitive to the additional cost associated with annual actuarial valuations and with the potential adverse effects on the timeliness of financial reporting if actuarial valuations were required to be performed annually as of the employer's year-end. Therefore, the Board believes an employer should be permitted to use actuarial valuations as of a date other than its year-end in order to provide an opportunity for much of the measurement fieldwork to be done prior to the end of the reporting period but that if an actuarial valuation is not obtained as of the employer's year-end, additional procedures to roll forward the results of the most recent actuarial valuation are necessary to result in meaningful financial statement presentation.

155. Some respondents to the Preliminary Views believe that annual actuarial valuations should be required for some or all employers. Some suggested establishing different required minimum frequencies of measurement based on the size of the employer, the employer's liabilities, or some other measure. The Board is aware that many larger pension plans obtain actuarial valuations annually and that for employers in those plans a requirement for annual actuarial valuations for financial reporting purposes would be relatively less costly than an annual requirement for employers in other plans. However, the Board concluded that it is not appropriate to establish different requirements in this circumstance for employers based upon size of employer. The significance of the impact of pension measurements on an employer's financial report does not vary based upon the size of the employer. Additionally, this Statement includes a requirement that the effects of significant changes that occur between the actuarial valuation date and the employer's year-end would need to be considered to determine the extent of update procedures needed to roll forward the measurement to the employer's year-end, and consideration

should be given to whether a new actuarial valuation is needed. Consequently, the Board believes it is appropriate to continue with a biennial actuarial valuation requirement.

156. Some respondents to the Preliminary Views believe that an employer should be permitted to report its net pension liability determined as of a date other than the end of its reporting period. These respondents generally believe that the cost of updating a pension valuation would exceed the benefit or (particularly in the case of multiple-employer plans if the employers have different period-ends) that the use of update procedures would be impractical. Some suggested that requiring any measure (whether an actuarial valuation or an update that rolls forward the results of a prior actuarial valuation) as of the end of the employer's reporting period would delay issuance of governments' financial statements as compared to previous requirements. Other respondents identified the cost of auditing plan net position as of a date other than the plan's year-end, particularly for multiple-employer plans if the employers have different period-ends from the plan or from each other, as their greatest concern.

157. The Board considered an alternative that would have permitted an employer to report a measure of its net pension liability determined as of a date that does not coincide with the end of its reporting period. That approach would have allowed employers in the same multiple-employer plan to use a single measurement date regardless of the ends of their individual reporting periods. That approach potentially would have mitigated concerns about the time needed to develop measures for inclusion in an employer's financial report and the potential cost of rolling forward measures of the total pension liability and obtaining current measures of the plan's net assets, as well as costs associated with auditing these amounts, at potentially several different points throughout the year (for employers that provide benefits through multiple-employer plans and have period-ends different from the plan's year-end). However, the Board was concerned that even if the timing of the measurement used by an employer was restricted to a date within its financial reporting period—a condition that would necessitate annual actuarial valuations—the net pension liability, and notably the plan net position reflected in that measure, could be almost an entire year out of date. If, instead, actuarial valuations are obtained biennially, the amounts recognized in an employer's financial statements would potentially be almost two years out of date. The Board believes that out-of-date information, especially with respect to the plan net position reflected in the net pension liability, would not be reliable from the standpoint that it does not represent what it purports to represent. Further, the balance of plan net position can change significantly even in a relatively short period of time.

158. The Board also gave specific consideration to potential audit-related issues, including increased audit cost and the procedures that would be required to obtain assurance related to the amount of plan net position reflected in the employer's net pension liability and disclosed in notes to its financial statements as of its year-end. The Board's research on this issue, based primarily on discussions with members of the audit community, suggested that there would be an increase in audit cost associated with the requirements of this Statement and, in particular, with regard to the need for updated information related to plan net assets for employer reporting purposes. The research also suggested that the additional audit costs and the concern with timeliness of the producing

measurements at different dates throughout a year can be minimized through adequate advance planning and coordination of attest services for plan net position information between or among the plan and the employers that provide benefits through the plan.

Selection of assumptions

159. As previously noted, this Statement requires that all assumptions used in the measurement of the net pension liability be selected in accordance with Actuarial Standards of Practice. The Board considered the range of assumptions typically relevant to the measurements that are required by this Statement and believes that the broad guidance in the Actuarial Standards of Practice generally is appropriately focused on consideration of the specifics of individual employer circumstances to result in measurements that are relevant and reliable for financial reporting purposes, when applied within the additional accounting-specific guidelines established by this Statement. Those areas are discussed in more detail in paragraphs 165–211, below. In addition to requirements that have been included in this Statement, the Board also considered, but decided against establishing GASB-specific requirements in three areas—the selection of assumptions related to mortality and mortality improvements, the frequency of experience studies, and the development of a long-term expected rate of return on plan investments.

160. With regard to mortality-related assumptions, the primary concern raised to the Board in its research was the use of mortality tables developed based on the experience of periods that significantly predate the measurement date, coupled with variations in practice related to the application of adjustments for mortality improvements. The Board believes recent revisions to relevant Actuarial Standards of Practice addressing mortality improvement assumptions will result in more standardized practice. With regard to the age of base data (for example, mortality tables) on which mortality assumptions are based, the Board notes that the selection of any assumptions, including those related to mortality, necessarily requires the application of judgment of those with expertise in the field and that a requirement to use only tables developed on data after a defined date may not be consistent with facts and circumstances that occur in practice.

161. With regard to the frequency of experience studies, some respondents to the Preliminary Views expressed concerns about delays in evaluations of actual experience of those covered under the benefit terms and the impact of delayed incorporation of actual experience into measures for financial reporting purposes. The Board reviewed Actuarial Standards of Practice and noted that actuaries are required to consider the reasonableness of assumptions at each measurement date; however, experience studies are not required by those standards to be performed at any particular interval. The Board's research indicates that the frequency with which experience studies are performed varies widely and that costs associated with experience studies can be significant. The Board considered the possibility of establishing specific minimum frequency requirements for experience studies for purposes of establishing assumptions for accounting and financial reporting purposes. However, it ultimately concluded that without additional specific requirements about the manner in which the results of those studies should be incorporated into assumptions used in measurements to comply with this Statement, a minimum

requirement would not alleviate the concerns expressed by respondents and potentially would increase costs—particularly for smaller employers.

162. The Board concluded that the general requirement of this Statement that pension measurement be performed in conformity with Actuarial Standards of Practice that require an actuary to evaluate the reasonableness of all significant assumptions at each measurement date, combined with a requirement to disclose information about significant assumptions—including those related to mortality—as well as the dates of the table(s) or experience study on which those assumptions are based provide an appropriate level of detail for the user of financial statement information to assess the reasonableness of assumptions made.

163. Because the long-term rate of return on plan investments is a fundamental component of several of the measurements required by this Statement—notably, it is used in the development of the discount rate and also to determine the amount of earnings on plan investments that will be included in pension expense—the Board considered whether detailed requirements related to the selection of the long-term expected rate of return should be included in this Statement. Some respondents to the Preliminary Views suggested that the Board consider establishing specific requirements related to the development of the long-term expected rate of return because of concerns related to the subjectivity of that expectation and because of perceived inconsistencies between historically achieved rates of return and expected rates of return. The Board explored several possibilities for reducing the subjectivity of estimates used in developing a long-term expected rate of return on investments, including requiring the use of estimates based solely on historical data (past experience), consensus forecasts, or a specific method (geometric or arithmetic) of developing the mean used to calculate the rate.

164. With regard to the specific approaches considered, the Board believes that the use of historical data would be inconsistent with the forward-looking nature of the expectation and would not be a complete source for the development of expectations about future economic phenomena. Consensus forecasts generally relate to shorter periods than would the long-term expected rate of return for accounting purposes and, therefore, would require the use of adjustments that introduce subjectivity of their own. The use of geometric versus arithmetic returns for this purpose is an issue that continues to be debated in the actuarial community. For these reasons, the Board believes that the goal of achieving reduced subjectivity in the selection of the long-term expected rate of return might not be attainable within this Statement. Therefore, to provide users of employer financial statements with information that the Board concluded is essential to understand and evaluate the reasonableness of the assumptions made in the determination of the long-term expected rate of return, this Statement includes disclosure requirements related to the determination of the discount rate, including the best estimate assumptions for the long-term expected real rate of return for each major asset class, whether the expected rates of return are presented as arithmetic or geometric means, and information about how the long-term expected rate of return was developed (for example, disclosure about the assumed long-term portfolio allocation). The Board's conclusions regarding the discount rate are discussed further in paragraphs 180–198, below.

Projection of benefit payments

165. As discussed in paragraph 127, the requirements of this Statement reflect the Board's view that accounting should reflect the expectation of an ongoing employment relationship between the employer and the employee. Under this view, the effects of future events that are expected to impact the ultimate payment of benefits to the employee are considered to be associated with the overall career-long relationship and are taken into consideration in measuring the service costs of the individual periods of employment that comprise an employee's expected career. In this way, each individual employment period would reflect a portion of the effects of future events, and the service costs of past employment periods, including portions of the effects of future events attributed to those periods, would be seen under this view as a measure of the present obligation of the employer. With this view as context, this Statement requires that an employer's total pension liability reflect the effects of (a) automatic cost-of-living adjustments (COLAs) and other automatic postemployment benefit changes, (b) projected ad hoc COLAs and other ad hoc postemployment benefit changes if those changes are substantively automatic, (c) projected salary increases in circumstances in which the pension formula is based on future compensation levels, and (d) projected service credits for purposes of determining an employee's probable eligibility for benefits and for projecting benefit payments in circumstances in which the pension formula is based on years of service.

Automatic COLAs and other automatic postemployment benefit changes

166. Automatic COLAs and other automatic postemployment benefit increases, such as automatic supplemental payments (for example, "thirteenth checks" and automatic gain-sharing features), are explicitly part of the terms of the pension plan and, therefore, constitute part of the employment exchange each period. Because automatic COLAs and similar postemployment benefit increases are part of the employment exchange, the Board believes that they are an integral part of an employer's present obligation to its employees to provide pensions. Therefore, the effects of such automatic benefit changes should be included in the projection of benefit payments for accounting and financial reporting purposes.

Ad hoc COLAs and other ad hoc postemployment benefit changes

167. In contrast to automatic COLAs, which are adjustments explicitly included in the terms of the pension plan, ad hoc COLAs and other ad hoc postemployment benefit changes are discretionary in the sense that each occurrence requires a decision to grant by a responsible authority. Accordingly, the Board generally believes that future ad hoc COLAs and similar postemployment benefit changes are not part of the plan terms under which employees exchange their benefits for services in any given financial reporting period. Therefore, the projected effects of future ad hoc changes generally should not be included in the projection of benefit payments for accounting and financial reporting purposes.

168. However, the Board recognizes that there may be circumstances in which it would be reasonable to conclude that future ad hoc COLAs and other ad hoc postemployment

benefit changes are not substantively different from automatic changes. The Board believes that because the employment exchange transaction is being viewed within the context of an ongoing, career-long employment relationship, all factors that are reasonably predicted to impact benefit payments should be included in the projection of benefit payments. For example, if future ad hoc COLAs are not substantively different from an automatic COLA, their effects should be included in the projection of benefit payments. As discussed above, the characteristic of automatic COLAs that argues for their inclusion in the projection of pension payments is that they are part of the plan terms under which employees exchange services for compensation. For an ad hoc COLA to be *not substantively different* from an automatic COLA, the ad hoc COLA would have to be considered part of the plan terms associated with the employment exchange. Further, the actions of the employer need to create a level of expectation or understanding among the employees such that future ad hoc COLAs are an assumed part of the benefit terms to the degree that the employer has little or no discretion to avoid the sacrifice of resources associated with the COLAs that are attributed to past periods of service.

169. Some respondents to the Preliminary Views disagreed with the Board's proposal to require projection of ad hoc COLAs in this limited circumstance. Those respondents believe that regardless of whether an expectation of future ad hoc COLAs being granted is part of the plan terms as they are understood by the employees when they provide services, because some future action is required to enact the COLA, the effect of the future change fails to be a present obligation to sacrifice resources and also fails to meet the criterion that the employer has little or no discretion to avoid the sacrifice of resources. Other respondents believe that the obligation, even if it is determined to meet the definition of a liability, is subject to too much uncertainty to be recognized in financial statements—that is, the liability is not measurable with sufficient reliability.

170. The Board concluded that if ad hoc COLAs have become part of the benefit terms under which the employee provides services to the employer in exchange for salaries and benefits, the effects of projected ad hoc COLAs become part of the employer's present obligation for pensions when the employee provides services—as do the effects of automatic COLAs. The Board acknowledges that legally, a future ad hoc COLA might not be an enforceable obligation. It notes, however, that the definition of a liability in Concepts Statement 4 includes a notion of constructive liability under which the definition of a liability would be met not because payment of the liability is legally enforceable but because of circumstances that leave the government little or no discretion to avoid paying the liability. In this case, actions of the employer have established a compensation level that includes the expectation of the ad hoc COLAs. Therefore, the employer has little discretion to avoid the obligation without taking future action either to provide an equivalent level of compensation in another way (for example, salary increases) or to change that expectation. If or when that future action is taken, the effects of the ad hoc COLAs would cease to be part of the substance of the employers' past exchanges. However, until that time, the ad hoc COLA would be a present obligation of the employer.

171. With regard to the reliability of measurement, the Board reiterates that the issue at hand relates only to measurement of ad hoc COLAs that have become substantively automatic. To be substantively automatic suggests that the occurrence of the ad hoc

COLAs also would be predictable within the context of estimation techniques over the long term, which, in turn, suggests that the measurement would be sufficiently reliable for purposes of recognition, as long as the assumption(s) incorporated into the measurement are disclosed. As discussed in more detail below, this Statement requires disclosure of the key elements of the pension formulas and disclosure of assumptions used in the measurement of the net pension liability. These disclosures, together, support the reliability of the resulting measure of the employer's total pension liability with consideration of the effects of future ad hoc COLAs that are substantively automatic.

Criteria for Inclusion of Ad Hoc COLAs and Other Ad Hoc Postemployment Benefit Changes

172. In the Preliminary Views, the Board asked for respondent suggestions regarding potential criteria for determining whether an ad hoc COLA or similar postemployment benefit change is substantively automatic. Those that suggested potential criteria generally recommended either (a) a specific, numerical criterion based on the frequency with which decisions are made to grant ad hoc COLAs or other ad hoc postemployment benefit changes or (b) general descriptive criteria that would provide guidance as to factors to be considered but that would require the application of professional judgment in assessing the character of the ad hoc COLAs. The Board generally believes that the individual patterns of granting ad hoc COLAs may vary significantly from employer to employer. The varying characteristics of benefit terms make it difficult to establish a specific frequency criterion that would be appropriate across all circumstances. Instead, the Board believes that the determination of whether ad hoc COLAs are not substantively different from automatic COLAs necessarily will require the application of professional judgment. Therefore, in this Statement, the Board has provided some examples of considerations that it believes might be relevant to the determination of whether an ad hoc COLA is substantively automatic for accounting and financial reporting purposes. These considerations are based on respondent suggestions, which generally focused on evaluation of the employer's historical pattern of granting the COLAs. Other considerations raised were historical consistency in the amounts of the COLAs—which relates to the issue of whether reasonable expectations of the level of the COLAs can be developed for purposes of liability recognition—and evaluation of the current and expected future environments; that is, whether there is evidence to conclude that COLAs might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such COLAs are substantively automatic.

Future salary increases

173. The terms of many defined benefit pension plans base the amount of an employee's pensions in part on the employee's final salary level or final-average salary level. When that is the case, the Board believes that the projection of benefit payments for accounting and financial reporting purposes should include expected future salary increases because final-pay or final-average-pay-based benefits effectively incorporate future salary levels into the terms of employment exchanges throughout an employee's career. Some respondents to the Preliminary Views that disagreed with this approach did so because, generally, they believe that the employer's accounting liability for pensions should closely

reflect a measure of what the employer would be expected to have to pay in benefits to the employee at the date of the financial statements if the employee were to leave service at that date. Such measures, in their view, should exclude the expected effects of future events, such as salary increases, on amounts attributed to past periods of service because those amounts would become a present obligation of the employer only after the increases are formally granted. The Board considered this view; however, as noted above, the Board believes that annual employment exchanges between the employer and the employee should be viewed as occurring as part of an employee's career-long employment relationship with the employer and that, consistent with this view, the effects of all future events that are reasonably expected to impact the ultimate pension provided to the employee—including salary increases for pay-related pensions—should be considered when measuring the employer's periodic service cost and the amount of the pension associated with past periods of an employee's service.

174. Some respondents that believe the measure of the employer's liability for pensions should not include projection of future salaries asserted that the effects of future salary increases would not meet the definition of a liability in Concepts Statement 4 because the employer has discretion over decisions about whether and in what amounts to grant salary increases. The Board acknowledges that in the short term, this likely is true. However, in the longer term, for example, over the career of an employee, the Board believes that an employer's discretion to avoid granting salary increases generally may be relatively limited. In some governments there are well-defined classification structures and associated stepped salary scales for a large number of employees. Even in environments that lack such features, over the long term an employer would have to make adjustments to its compensation structure to maintain its competitiveness within prevailing economic conditions in order to continue to attract and retain employees.

175. Other respondents commented that increases in the level of future salary increases may not be sufficiently reliable to be recognized as a liability due to uncertainties about the future, including general economic conditions, budgetary demands, and individual employees' job performances. The Board believes that, although specific progression of an individual's salary might not be predictable on a year-by-year basis, when considered over a career and generalized to the population of employees, reasonable assumptions can be developed about overall salary progressions.

Future service credits

176. The terms of many defined benefit pensions include service credits that the employee earns for each year of eligible service to the employer as a factor affecting the ultimate amount of an employee's pension. For example, benefit terms might provide for service credits for each year of service up to a maximum of 30 years and provide the employee or his or her beneficiaries with annual payments in retirement equal to 2 percent of final salary for each accumulated service credit. Benefit terms also might include vesting provisions that require an employee to complete a certain number of years of service in order to be eligible to receive a pension.

177. As with future salary increases, the Board evaluated the relevance of future service credits in the projection of benefit payments within the context of the annual employment exchanges occurring as part of an employee's career-long employment relationship with the employer. Within this context, the Board believes that future service credits should be considered in two ways in the projection of benefit payments. First, if benefit terms contain provisions that an employee is required to meet to qualify for pensions (for example, vesting provisions), expected future service credits should be considered for purposes of forming an assumption about whether employees will qualify. Second, for defined benefit pensions in which the amount of benefit payments is affected by service credits earned by the employee, assumptions about future service credits should be included in the projection of benefit payments.

178. Similar to issues raised with regard to the projection of future salary increases, respondents to the Preliminary Views that disagreed with this approach generally did so because they believe that the effects of future service credits would become a present obligation of the employer only after future services have been performed. Some respondents that expressed this view would limit consideration of future service credits for all purposes in the accounting measures. Others would include future service credits for purposes of determining eligibility but not projecting benefit payments. With regard to the projection of benefit payments for purposes of determining eligibility, the Board notes that employee service during the vesting period is necessary for an employee to reach the end of the vesting period. Therefore, it believes that there is a pension-related value associated with employee service during periods leading to full eligibility. As with the inclusion of future salary increases, the Board also believes these changes should be viewed within the context of a career-long employment relationship. When pensions are defined, in whole or in part, in terms of service credits, the Board concluded that the probability of future service credits is implicit in the employment exchanges that occur in each period of employee service and should be recognized in each period of service.

Allocated insurance contracts

179. This Statement requires that pensions to be provided by means of allocated insurance contracts (a) for which benefit payments to an insurance company have been made and (b) through which the employer has irrevocably transferred to the insurer the responsibility for benefits be excluded from the projection of benefit payments for purposes of determining the employer's total pension liability. Because the purchase of an allocated insurance contract transfers to the insurer the primary obligation for providing the pensions covered by the contract, the Board believes that in the absence of evidence that the employer will be required to sacrifice additional resources for the payment of the pensions that are covered by the contract, the employer no longer has an obligation for pensions that meets the definition of a liability in Concepts Statement 4. Any risk that is retained by the employer for nonperformance by the insurer would be similar to the nature of a contingent liability, the recognition of which is required under existing guidance only if it is probable that the event that will give rise to the liability will occur and the amount of the loss (liability) can be reasonably estimated. The Board, however, has required note disclosures about the use of allocated insurance contracts because it determined that

information about the contracts is essential to understand the effects of the use of such contracts on recognized amounts.

Discount rate

180. This Statement requires that for purposes of determining the service cost component of pension expense and the total pension liability of the employer, projected benefit payments be discounted to their actuarial present value. The discount rate would be the rate that reflects (a) the long-term expected rate of return on plan investments to the extent that plan net position is projected to be sufficient to pay benefits and the assets expected to remain after each benefit payment can be invested long term and (2) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) to the extent that those conditions are not met.

181. The Board believes that this approach, which considers, first, the long-term expected rate of return on plan investments, appropriately reflects the environment in which governmental employers incur an obligation for pensions, accumulate assets in a dedicated trust to satisfy that obligation, and ultimately discharge that obligation through the payment of pensions to retirees from accumulated, dedicated resources. Pension obligations are incurred over the career of an employee, and the employer's relationship to the employee and the benefit obligation extends through many periods subsequent to the retirement date. In addition, governmental employers and the pension plans through which they accumulate and manage assets and provide benefits are long-lived entities. Assets can be invested with a long-term horizon and, therefore, can endure the short-term volatility of financial markets. The Board believes that discounting using the long-term expected rate of return on plan investments, when trust assets are expected to be available to earn that return, reflects the long-term nature of the pension liability.

182. The Board believes that this approach, which would incorporate projections of future cash flows into the plan from investment earnings into the calculation of service cost and the employer's total pension liability, is consistent with its views related to the projection of benefit payments, in which all reasonably anticipated future events are incorporated into the estimate of the total obligation that will be incurred by the employer over the course of an employee's career. The amounts that are projected to be provided by investment earnings represent a reduction in the employer's expected sacrifice of resources to satisfy the obligation for pensions. Therefore, if the potentially significant effect of investment earnings is not considered in the measurement of the employer's pension liability, the Board believes that amounts recognized by the employer, including the employer's cost of services associated with pensions as they are earned, potentially would be misstated and would fail to provide information appropriate for ascertaining the degree to which interperiod equity has been achieved.

183. As previously noted, the Board believes that the long-term investment rate of return should be used only to the extent that there is an expectation of resources being available in the pension plan and the use of a long-term investment strategy for those resources. If those conditions are not met, the link between investments (and earnings on investments) and pensions no longer exists. Satisfaction of benefit payments that are projected to occur

when those conditions are not met is dependent upon the employer's other resources, and to the extent that this condition is projected to exist, the discount rate should incorporate a liability-based rate.

184. When resources are projected to be sufficient, as previously noted, the Board believes the appropriate discount rate is the long-term expected rate of return on plan investments because that rate best reflects the employer's projected sacrifice of resources, reduced by the expected return on plan investments. However, when resources related to current employees and retirees are not projected to be sufficient to cover benefit payments, the Board believes that the characteristics of the net pension liability have changed. The employer's projected sacrifice of resources takes on characteristics that are reflective of traditional governmental debt. To provide a discount rate that reflects that change, yet provides a rate that enhances comparability, the Board believes that a high-quality municipal bond index rate is the best surrogate for the rate implicit in the exchange.

185. The specific approach to combining the two individual discount rates that the Board believes are relevant to measurement of the employer's pension liability requires an analysis of cash flows into and out of the plan to determine the extent to which it is projected that resources will be sufficient in the plan and a comparison of the projected benefit payments to the amount of resources projected to be available in the plan when those payments come due. The benefit payments are, first, viewed as (potentially) two separate benefit payment streams—(a) benefit payments to employees currently in the plan that are projected to be paid from plan net position available for pensions, adjusted for relevant projected increases and decreases, and (b) benefit payments to those employees that are expected to occur beyond the point at which plan net position available for pensions is fully depleted (or is no longer expected to be invested long term). The present values of the two separate benefit payment streams is calculated and totaled. Second, the discount rate is determined by solving for the single, equivalent discount rate—the rate that, when applied to the benefit payments of both streams, results in a present value of benefit payments equal to the total of the present values of the two separate benefit payment streams calculated using their respective rates.

The Preliminary Views

186. The requirements of this Statement are similar to, but more specific than, the proposals that were described in the Preliminary Views. Some respondents to the Preliminary Views supported the Board's overall approach to determining the discount rate. The principal reasons cited were relevance, consistency, and recognition of the funding strategy of the employer to the extent that benefits are projected to be paid from plan resources. Other respondents disagreed with the proposal and suggested instead exclusive use of the long-term expected rate of return on plan investments or strictly a liability-based rate in some form.

187. Respondents that believe that the long-term expected rate of return on plan investments should be used without consideration of the adequacy of plan resources frequently commented that, in their view, the use of the long-term expected rate of return

on plan investments takes into consideration, and is consistent with, the policies of the employer and the pension plan with regard to the accumulation and management of plan net position from which benefit payments are projected to be made. Some of these respondents specifically suggested that a rate applicable to the portion of projected benefits payments for which plan resources are not projected to be sufficient is not needed because funding policies would be adjusted over time such that there would always be plan assets to pay projected benefits. Other respondents believe that the use of a single discount rate that incorporates a high-quality municipal bond index rate would introduce too much volatility into the measurement of the net pension liability and pension expense (assuming that the discount rate would be reset with each valuation) and that reporting volatility with regard to the total pension liability would be misleading because the nature of the transaction and the promise is long term. Respondents also questioned the appropriateness of a high-quality municipal bond index rate for employers that are legally restricted from borrowing for pension funding purposes or expressed concern that use of a high-quality municipal bond index rate could influence plan investment decisions by encouraging investments in instruments that are expected to hedge the risk related to the pension liability, for which the expected rate of return would, under current conditions, be lower than for a typical plan portfolio that includes substantial allocation to equities.

188. Respondents to the Preliminary Views that believe that a liability-based rate (whether that is a municipal bond index rate, a risk-free rate, or another rate) is the sole appropriate discount rate for all projected benefit payments offered several reasons for their position, as well as several potential rates for consideration. Some respondents believe that the rate at which projected benefit payments should be discounted is a function of the degree of risk inherent in the employer's liability to employees for deferred payment of benefits. In their view, the strategy of the employer and the pension plan with regard to contributions and the investment of plan resources to provide for the accumulation of plan net position to pay the benefits is not relevant to the measurement of the pension liability. That is, the employer's liability to make benefit payments is the same regardless of the funding and investment strategies of the employer and the pension plan. In the view of these respondents, discounting using the long-term expected rate of return on plan investments results in reporting misleading information about a government's level of debt and employee-compensation costs.

189. Other respondents that generally supported use of a liability-based rate supported their positions with objections to the use of the long-term expected rate of return, including their view that long-term expected rates of return on plan investments may not be realized, and employers (and ultimately taxpayers and rate-payers) bear the risk that these returns may not be realized. Further, some of these respondents believe that discounting using a long-term expected rate of return on plan investments creates incentives to invest in riskier investments or to issue pension obligation bonds (in order to report a smaller liability and pension expense). Some also believe that even if the long-term expected rate of return is earned, it might not be a reliable predictor of the expected growth of plan assets that will be realized. Some believe that because of the effects of reverse dollar-cost averaging associated with frequently observed employer behaviors (for example, taking a contribution holiday or increasing benefits when plan net position exceeds the total pension liability and spreading contribution increases as much as

possible when the liability is significantly underfunded), the *money-weighted return* (the most relevant return to an investor) will tend to be less than the time-weighted long-term expected rate of return.

190. Some of those that advocated for use of a liability-based rate suggested that the risk-free rate of return is the most appropriate discount rate because it reflects the negligible possibility of default on the employer's liability for pension payments. In the view of others, using a high-quality municipal bond index rate reflects most closely the value of the promise to employees.

191. The Board evaluated each of the issues raised by respondents within the context of the governmental accounting and financial reporting environment. Based on fundamental objectives and definitions in its conceptual framework—including considerations relevant to the determination of costs of services and the resulting impact of cost-of-services information on the ability to assess the degree to which interperiod equity has been achieved—the Board believes that the discount rate used in pension-related measures generally should reflect the long-term expected rate of return on plan investments to the extent that plan resources are projected to be sufficient to make projected pension payments and be invested long term because of the integrated nature of the promise to pay pensions and the accumulation of assets dedicated to the payment of those benefits in a pension plan. This integration is reflected in other decisions of the Board, for example, the total pension liability is recognized net of the amount of plan net position; and investment earnings, when they are recognized, are included in pension expense. In addition, the Board believes that a discounting approach that considers, first, the use of the long-term expected rate of return is consistent with the long-term perspective of the employer–employee relationship implicit in the requirement to use the entry age normal actuarial cost method applied as a level percentage of pay to attribute service costs to periods. The Board also has addressed concerns about the subjectivity inherent in the selection of an expected long-term rate of return by requiring that the rate be determined in conformity with the Actuarial Standards of Practice issued by the Actuarial Standards Board and by requiring enhanced disclosures that provide information essential to users in assessing the discount rate assumption. (This issue is discussed in more detail in paragraphs 163 and 164.) In conjunction with its decision with respect to incorporation of the long-term expected rate of return in the discount rate, the Board continues to believe that the discount rate generally should reflect a liability-based rate to the extent that plan resources that can be invested long term are not projected to be available to pay pensions for the reasons discussed in paragraph 183, above. Specific considerations regarding the required use of a high-quality municipal bond index rate, including the Board's evaluation of alternative liability-based rates are discussed in paragraphs 192 and 193.

High-quality municipal bond index rate

192. This Statement requires the use of a high-quality municipal bond index rate as the liability-based rate, if relevant, because the Board believes that this rate is the best surrogate for the rate implicit in the exchange transaction between an employer and its employees. With regard to other potential liability-based rates, the Board concluded that the use of a risk-free rate is not appropriate because the liability for pensions cannot be

considered to be free of risk. Although the risk of nonpayment of pensions by state and local governments, like payments associated with general obligation debt, generally is low, the risk does exist and the amount of benefit payments is subject to change (for example, as the result of renegotiation, adjustment through Chapter 9 bankruptcy proceedings, or default). The Board also concluded that the use of a borrowing rate that reflects the employer's individual credit rating is inappropriate. If an individual employer's borrowing rate were used and the credit rating of the employer changed, the potential effect in the financial statements would be counterintuitive and would not promote accountability. If an employer's credit rating were downgraded, the discount rate applied would increase to the extent it reflects a liability-based rate, resulting in a smaller amount reported for the net pension liability and a decrease to pension expenses (and deferred pension expenses). If an employer's credit rating were increased, the discount rate applied would decrease to the extent it reflects a liability-based rate, resulting in a larger amount reported for the net pension liability and an increase to pension expense (and deferred pension expense).

193. Some respondents to the Preliminary Views agreed with the use of a high-quality municipal bond index rate because it would not penalize or create incentives for employers with the highest credit ratings. Some respondents to the Preliminary Views disagreed with the use of a high-quality municipal index rate because it might obscure differences between employers and changes in credit ratings of employers. After considering these views, the Board continues to believe that a high-quality municipal bond index rate is the best surrogate for the rate implicit in the exchange.

Tax-exempt rate

194. The Preliminary Views did not specify whether the high-quality municipal bond index rate should reflect a taxable or a tax-exempt borrowing rate. The respondents to the Preliminary Views that provided comments regarding the tax status of the high-quality municipal bond index rate generally advocated the use of a taxable rate because borrowings by state and local governments for pension obligation bonds are taxable borrowings and because they equated the employer's liability for pensions to pension obligation bonds. In addition, the Board considered arguments that a taxable rate would be appropriate for this purpose because the pension payments are not accorded tax-exempt status. That is, from the perspective of an employee receiving benefits, the discount rate applicable to those benefits receivable would be a taxable rate.

195. After considering the issues raised by these respondents, the Board concluded that the nature of an employer's liability for pensions is not similar in nature to a government's borrowing under a pension obligation bond. The former arises from an exchange of services of employees for deferred compensation; the latter is solely a financing transaction. In addition, the Board does not believe that the tax status of the pension payments to employees is directly relevant to assessing whether the high-quality municipal bond index rate should reflect a taxable or tax-exempt borrowing rate. Instead, the Board believes the applicable rate is one that reflects the characteristics of other general unsecured borrowings of the government. Generally, state and local governments

borrow at a tax-exempt rate, and, therefore, the high-quality municipal bond index rate should be a tax-exempt rate.

Identification of indices

196. Some respondents to the Preliminary Views expressed concerns about the potential for different interpretations as to which indices would be considered relevant, high-quality municipal bond indices and asked the Board to consider establishing more explicit guidance related to the selection of a rate, including identification of both the specific rating level that would be considered high quality and the appropriate maturity to be considered. Several organizations publish yield curves for municipal bonds for different credit ratings and maturities based upon recent trading activity that may be appropriate sources for determining an applicable high-quality municipal bonds index rate. The Board, however, believes that it would be inappropriate to endorse the yield curves or indices of any specific organization or organizations for this purpose. Therefore, in order to reduce the possibility of inconsistent application of this requirement, in this Statement, the Board has more specifically described indices that would be considered relevant high-quality indices. For this purpose, *high quality* is equivalent to an AA/Aa (or higher) rating, based upon what the Board believes is generally considered in the finance industry to be high quality. In addition, this Statement specifies that the appropriate maturity to consider is a 30-year rate because the duration of pension liabilities generally extends 30 years or more, and 30 years is the longest readily available rate.

Volatility of the index rate

197. Some respondents to the Preliminary Views suggested that the rate used for the high-quality municipal bond index rate be determined using an average of perhaps five-to-seven preceding years' rates. These respondents were concerned that if the rate were determined as the applicable rate at a single date (the valuation date), the applicable rates would change for every measurement and would produce volatility that would reduce the understandability of the amounts reported. Consistent with other decisions regarding measurement of the net pension liability, the Board believes that concerns regarding volatility of measurement should be addressed through consideration of which changes in the net pension liability should be recognized as part of pension expense and which changes in the net pension liability should be recognized as deferred outflows of resources or deferred inflows of resources and recognized in pension expense in future periods. Those issues are discussed in paragraphs 214–242, below.

Availability of assets for long-term investment

198. Some respondents to the Preliminary Views noted that when projecting contributions for purposes of determining whether plan net position is expected to be sufficient for payment of benefits and, thus, for determining whether the long-term expected rate of return on plan investments or the high-quality municipal index rate is applicable, some may include contributions made pursuant to pay-as-you-go or terminal funding policies. This would be incompatible with the concept that assets are accumulated and invested using a long-term investment strategy. Other respondents noted that, in

certain circumstances, as plan assets associated with current employees and retirees are depleted based on the current contribution policy, the investment strategy applied to the remaining assets will have to be adjusted from an allocation consistent with the plan's long-term investment strategy, which is subject to the risk of short-term volatility and which may not be sufficiently liquid, to an investment allocation that is shorter term in nature. This, too, represents a situation that is inconsistent with earning the long-term expected rate of return on plan investments. The Board was persuaded by these concerns, and, consequently, this Statement includes a requirement that for purposes of the determination of the discount rate, the long-term expected rate of return should be applied only to benefit payments for which assets available to make those payments can be invested using the long-term investment strategy of the plan.

Attribution method

199. This Statement requires that for purposes of determining the service-cost component of pension expense and the total pension liability of the employer, the actuarial present value of projected benefits be attributed to expected periods of employee service as a level percentage of projected pay using the entry age normal actuarial cost method. It also establishes limiting criteria with regard to the application of that cost method for accounting and financial purposes. The Board believes that specifying the use of a single method and eliminating potential variations in the application of the method will benefit report users by improving comparability and understandability and reducing the complexity of information reported about the impact of pensions on the elements of employers' financial statements.

200. Some respondents that expressed concerns about limiting the number of attribution methods for financial reporting purposes believe that comparability is not achievable in employer accounting and financial reporting for pensions because of variations in benefit terms, demographics of the covered groups of different employers, and policies and practices related to funding and the investment of plan assets, as well as the demographic and economic assumptions that reflect those differences. Other respondents focused more specifically on variations in funding approaches and asserted that because there are several actuarial methods that are considered appropriate for funding pensions, the Statement also should provide flexibility with regard to the selection of methods for accounting and financial reporting purposes. Some expressed concern that if a different actuarial cost method is used for accounting and financial reporting purposes than is used for funding, an employer would incur additional cost to obtain information needed for financial reporting purposes that, in their view, potentially would be confusing for users of financial reports. Still other respondents supported the Board's objective of promoting comparability through limiting attribution approaches but suggested that the Board consider permitting two methodologies—entry age normal and projected unit credit—rather than including only one.

Use of a single method

201. Pensions typically differ from one another in many ways, including benefit terms and the demographic characteristics of the covered groups. The Board recognizes that

consideration of benefit-specific characteristics, as well as employer-specific facts, circumstances, objectives, and constraints other than the benefit terms or the demographics of the plan membership, may contribute to the adoption by individual employers of varying policies and practices related to funding. However, the Board does not believe that differences among employers with regard to funding or other policy choices support a need for multiple methods of attributing the present value of projected benefit payments to periods for accounting and financial reporting purposes.

202. In addition, the Board believes that, to achieve comparable financial reporting, employers do not have to be identical with regard to facts and circumstances. The use of different assumptions in the measurement of the present value of projected benefit payments to which an attribution method is applied should, in principle, reflect differences in the circumstances and benefits of each employer and group of covered employees. In that way, whatever differences exist with regard to such facts and circumstances will be taken into consideration, and the resulting financial reporting will measure the impact of pensions on the elements of each employer's financial statements. That being said, however, the Board believes that neither variations in benefit terms nor differing funding policy preferences or fiscal circumstances of employers necessitate the use of different attribution methods for accounting and financial reporting purposes. Instead, specifying a single method by which the present value of projected benefit payments should be attributed to expected periods of employee service will eliminate what the Board believes to be an unnecessary accounting-related (rather than relevant facts-and-circumstances-related) source of variation in financial reporting. Further, with regard to the suggestion that the Board consider permitting two methodologies—entry age normal and projected unit credit—rather than limiting the standard to only one, the Board additionally notes that if multiple methods were to be adopted, the objectives and features of the methods suggested by respondents that supported a two-method alternative are sufficiently different to call into question why those methods would be permitted for the same financial reporting purpose.

203. The Board also considered the incremental cost of the use of a specified attribution method for accounting and financial reporting purposes for employers that choose to use a different method for funding purposes. Information received by the Board from members of the actuarial community indicated that the potential incremental cost of having an actuary apply two cost methods for different purposes would be relatively small because of the nature of the incremental work that would be required. The Board's understanding is that the most expensive stage of an actuarial valuation typically occurs prior to the application of an actuarial cost method and irrespective of the method to be used. That stage involves the projection of benefit payments, which typically is the most time-consuming process because of the need to develop "clean" census data, model benefit terms, and make or apply appropriate assumptions. After that stage, attribution of portions of the total present value of projected benefit payments is a mathematical process, commonly accomplished using existing computer technology.

Use of the entry age normal actuarial cost method

204. The entry age normal actuarial cost method is one of six actuarial cost methods permitted under Statement 27 for use in calculations for accounting and financial reporting purposes—aggregate, attained age, entry age normal, frozen attained age, frozen entry age, and projected (unprojected) unit credit. In reaching its decision to require use of the entry age normal actuarial cost method, the Board considered the suitability of each of those methods. Under Statement 27, the unprojected unit credit actuarial cost method is acceptable in circumstances in which benefits already accumulated for years of service are not affected by future salary levels. For pensions that are affected by future salary levels, that method effectively was eliminated from consideration for use in this Statement as a result of the requirement that the projection of benefit payments for service-cost and liability measurement purposes should include projected salary increases and service credits. For pensions not affected by future salary levels, the unprojected unit credit and projected unit credit actuarial cost methods result in the same attribution pattern. Therefore, the unprojected unit credit actuarial cost method was not separately considered. The other actuarial cost methods were evaluated using two principal criteria. First, because an employer's total pension liability at the reporting date will be the total of all amounts attributed to past periods, to be appropriate for financial reporting purposes, the Board believes that an attribution method should assign portions of the present value of projected benefit payments to past periods to the extent that benefits relate to services received from employees in past periods. Second, the Board believes that to be appropriate for accounting and financial reporting of service cost and the total pension liability, the attribution method selected should employ the same approach to attributing portions of the present value of projected benefit payments to past periods as it does to the current and future periods.

205. The application of the criteria described in the preceding paragraph narrowed the potential choices to two actuarial cost methods—projected unit credit and entry age normal, which also were those most frequently supported by respondents to the Preliminary Views that did not advocate retaining all methods permitted by Statement 27. As discussed above, some respondents to the Preliminary Views supported permitting the use of either method. However, the two methods, as typically applied, attribute service cost and interest in different patterns over time, and the Board believes that those differences suggest that to permit both would be counter to objectives related to comparability among employers.

206. In the absence of explicit plan terms to the contrary, the projected unit credit actuarial cost method, as usually applied on a level-dollar basis, attributes each projected benefit payment to an employee's projected periods of service in equal units. Because each successive period of service is one period closer to the period of payment of the projected benefits, the amounts attributed to periods of service increase in an ascending curve that is steeper than an employee's salary curve if the discount rate is greater than the projected rate of salary increases. In contrast, the entry age normal actuarial cost method generally calculates the actuarial present value of projected benefit payments discounted to the employee's entry age and then calculates the level amount that, if attributed over the period from entry age to the assumed date(s) of exit through retirement and combined

with interest that is expected to accrue over that period on amounts attributed to past service, will result in accumulated past service cost at retirement that is equal to the present value of projected benefit payments at retirement. The entry age normal actuarial cost method typically is applied in a way that attributes service cost to periods as a level percentage of projected payroll, in which case, it assigns service cost to periods in amounts that bear a consistent relationship to the employee's projected salary levels.

207. Respondents that supported the use of the projected unit credit actuarial cost method generally believe that the benefit terms themselves should be applied on a period-by-period basis to determine the amount of service cost to attribute to each period. Some that supported use of a projected unit credit approach believe that the total pension liability measure that results from application of that cost method would more closely meet the definition of a liability in Concepts Statement 4—that is, a present obligation to sacrifice resources—because that method could be defined to be applied in such a way as to more closely reflect the specific benefit accrual patterns identified in the benefit terms than would the entry age normal method. On this point, the Board notes that the distinction between the projected unit credit method on the one hand and the entry age normal method on the other hand is a matter of degree because, as traditionally applied, both approaches incorporate expectations of future events. However, when viewed within the context of a long-term career relationship, the Board believes that a portion of any incremental value explicitly associated with future exchanges under the benefit terms implicitly is associated with past-periods of service because exchanges earlier in an employee's career are necessary to have exchanges later in the employee's career. The Board believes that the implicit value of each exchange represents a present obligation of the employer within the context of the expected career-long relationship. Consistent with this view, the Board also believes that for accounting and financial reporting purposes, the different periods of an employee's career generally should be viewed as contributing equally to the ultimate benefits that will be provided to that employee. It further believes that for the majority of pensions, which are pay related, the service costs that are attributed to each of the periods of the actuarial valuation should reflect a level percentage of each individual employee's projected pay. For the relatively small number of benefits that are not pay related, this Statement also generally requires attribution of service costs based on a level percentage of an employee's pay. The Board believes that a consistent approach among all employers will enhance comparability of pension information.

208. Some respondents to the Preliminary Views noted that in practice, there are varying applications of the entry age normal actuarial cost method. The Board considered several of these variations and has included clarification in this Statement related to certain potential sources of such variation. Specifically, the Board believes that for accounting and financial reporting purposes, the entry age normal actuarial cost method should be applied on an individual employee-by-employee basis and should attribute service cost for all benefits to periods from entry age to assumed exit age(s) as a level percentage of the employee's expected pay. In this way, the approach reflects the effects of the individual employment exchanges that create the employer's liability for pensions.

209. The Board also considered several approaches that would not be permitted under the limitations noted in this Statement. One of these approaches commonly is referred to as

ultimate (or replacement) entry age normal. In this approach, if a change in benefit terms results in different benefit levels for future employees than those that are provided to current employees—for example, a new tier of benefits is created for future hires—the future service costs of all employees are determined based on the benefit terms in place for new hires. In this way, services costs for employees that were hired prior to the benefit change would not be determined based on the terms of the exchange under which they continue to provide services. Rather, the measures will be based on the terms of the exchanges between the employer and other employees—the new hires. The Board believes that all calculations related to an individual employee should consider the unique circumstances of each employee with regard to the benefit structure. Therefore, the Board concluded that the use of the ultimate entry age normal approach should not be permitted for financial reporting purposes.

210. The Board also considered an approach, sometimes referred to as replacement life entry age normal, which, subsequent to a benefit change that alters the benefit terms associated with all future periods of employee service, determines future service costs based on the forward-looking benefit structure. Although individually based, this approach calculates an employee's future service cost assuming a different benefit structure than that used to determine the actuarial present value of projected benefit payments. The Board believes that for accounting and financial reporting purposes, future service cost and the present value of projected benefit payments, which serves as the basis for the calculation of the total pension liability for an employee, should reflect the same projected benefit payments. Therefore, the Board concluded that the use of the replacement life entry age normal approach should not be permitted for financial reporting purposes.

211. In addition, the Board considered an approach referred to as funding-to-decrement entry age normal in which the actuarial present value of projected benefit payments for different types of benefits is attributed over different periods of employee service depending on expectations about the individual decrement that initiates the benefit payment(s). The Board believes that the traditional approach to entry age normal, which ends the attribution for all benefits with the expected dates of exit, regardless of the reason for exit, is more consistent with the view, discussed above, that each period of expected service of an employee has the same relationship (as a level percentage of the employee's pay) to that employee's present value of projected benefits. Therefore, the Board concluded that the use of the funding-to-decrement entry age normal approach should not be permitted for financial reporting purposes.

Plan net position

212. This Statement requires that for purposes of calculating the employer's net pension liability, plan net position be measured in the same manner as it is in the plan's statement of changes in plan net position. Some respondents to the Preliminary Views, although not asked specifically about measurement of plan net position for this purpose, expressed concern about the potential volatility of the fair value of investments and the impact that reflecting this volatility in the measurement of the employer's net pension liability would have on the employer's reported liability, as well as on pension expense. These

respondents suggested that the measurement incorporate techniques designed to mitigate volatility, for example, reflecting appreciation or depreciation in the fair value of plan assets over a defined number of periods.

213. With regard to the suggestion made by some respondents to use a smoothed market value instead of fair value, the Board concluded that this approach to measuring plan net position for purposes of determining the employer's net pension liability would not faithfully represent what the measure of plan net position is intended to represent in that context—that is, the amount of plan net position that, thereby, reduces the incremental sacrifice of the employer's resources to satisfy the total pension liability as of the end of the employer's reporting period. In addition, the Board believes that the use of a smoothed market value of plan investments would result in inconsistent financial reporting of the same plan net position in financial reports of employers and pension plans. Further, the Board notes that concerns related to potential volatility in investment earnings also are related to recognition of expense, and those concerns are more appropriately considered within that context. Issues considered with regard to expense recognition for changes in the plan net position are discussed in paragraphs 232–242, below.

Recognition of Changes in the Employer's Net Pension Liability

214. The employer's net pension liability consists of two components—the total pension liability and the amount of plan net position. The transactions and events that affect the measurement of each of these components are independent, and the Board evaluated them separately for purposes of establishing requirements for expense recognition.

Changes in the total pension liability arising from service cost and interest on the total pension liability

215. In the Preliminary Views, the Board proposed that changes in the employer's net pension liability arising from the amount of projected benefits attributed to a period of employee service (service cost) and interest on the total pension liability be recognized as pension expense in the periods in which they are incurred. Respondents to the Preliminary Views did not disagree that these two components of change in the employer's total pension liability should be recognized in the current period. Consistent with the Board's belief that the annual employment exchange should be viewed in the context of an ongoing employer–employee relationship spanning an employee's career, this Statement requires that service cost and interest cost be reported as part of pension expense in the period in which they are incurred.

Other changes in the total pension liability

216. This Statement requires that changes in the employer's total pension liability arising from changes of benefit terms be included in pension expense in the period of the change. It also requires that changes in the total pension liability resulting from (a) differences between expected and actual experience with regard to economic and demographic factors (differences between expected and actual experience) and (b) changes of assumptions regarding the expected future behavior of economic and demographic factors (changes of

assumptions) be recognized in the period of the change to the extent that they affect the total pension liability of inactive (including retired) employees. To the extent that they affect the total pension liability of active employees, this Statement requires that the changes be recognized as deferred outflows of resources and deferred inflows of resources and included in pension expense in a systematic and rational manner over a period equal to a weighted average of the remaining service lives of active employees.

217. With regard to changes arising from differences between expected and actual experience and changes of assumptions, the requirements of this Statement reflect the Board's view that pensions arise from an exchange between an employer and employees of salaries and benefits for employee service each period and that these transactions and related pension measurements should be viewed in the context of an ongoing, career-long employment relationship. For inactive employees, the exchange between the employer and its employees has been completed. As a result, changes in the total pension liability arising from these sources related to inactive employees should be reported in pension expense in the period of the change because there are no future periods of service related to these employees. For active employees, however, the Board believes that recognition of such changes as deferred outflows of resources or deferred inflows of resources in the period of the change with incorporation of deferred amounts into pension expense over a weighted average of the remaining service lives of active employees is consistent with the view that pensions are part of a career-long exchange.

218. With regard to recognition of the effects of benefit changes, this approach represents a modification of the proposal that the Board put forth in the Preliminary Views. In that document, the Board proposed that a single method for accounting and financial reporting be applied to all three types of changes in order to avoid unnecessary complexity. That is, that changes in the total pension liability arising from these three sources related to inactive employees be recognized in pension expense in the period of change and that such changes related to active employees be recognized as deferred outflows of resources or deferred inflows of resources and in pension expense over periods representative of the expected remaining service lives of individual employees. The Board, however, was persuaded by respondents that the degree of control of the employer over benefit changes distinguishes those changes from differences between expected and actual experience and from changes of assumptions. The reasons for this modification are discussed in more detail in paragraphs 221 and 224, below.

Respondents views about the proposal in the Preliminary Views

219. Some respondents to the Preliminary Views believed that the proposed method of accounting for differences between expected and actual experience, changes of assumptions, and benefit changes would cause excessive volatility in pension expense. Instead, these respondents recommended recognition of such changes in pension expense over longer periods of time. Often they recommended using an approach consistent with the amortization of unfunded actuarial liabilities for determining contribution requirements. Some respondents recommended continuing the Statement 27 approach of permitting a period of up to 30 years. These respondents believe that increased volatility in pension expense would be confusing to users of the financial statements, would be

inconsistent with their view of interperiod equity (that accounting should create a level pattern of expense among periods), or could produce inappropriate behavior by decision makers, such as delaying an update to assumptions to avoid potential resulting volatility in pension expense. Some respondents identified the proposal to immediately recognize in pension expense these changes in the total pension liability related to inactive employees as the most significant source of potential volatility in pension expense.

220. Some respondents to the Preliminary Views believed that the changes in the total pension liability arising from differences between expected and actual experience, changes of assumptions, and benefit changes should be recognized in expense immediately. These respondents believe that this approach would be more consistent with an approach of recognizing expense over the periods in which benefits are earned (or are attributed) and, in their view, would provide better information for the assessment of interperiod equity.

221. Some respondents to the Preliminary Views did not believe that it was appropriate to apply the same expense recognition requirements to all three types of changes. Specifically, some respondents believe that benefit changes are different from differences between expected and actual experience and from changes of assumptions. The latter two are both a result of the necessary use and refinement of estimates used in measuring the total pension liability and are not within the control of management, and as such, recognition in pension expense as proposed is appropriate. The former change is within the control of management, and as such, the effect of benefit changes for active employees on the total pension liability should be recognized in pension expense in the period of the change.

Differences between changes arising from active and inactive employees

222. The Board continues to believe that accounting and financial reporting for changes in the employer's total pension liability arising from differences between expected and actual experience, changes of assumptions, and benefit changes should reflect the basic understanding that pension liabilities should be viewed in the context of an ongoing, career-long employment relationship. Fundamental to this belief is the concept that the cost of providing pensions to an employee should be recognized as pension expense during the periods in which the employee renders service to the employer.

223. Respondents to the Preliminary Views that argued against immediate expense recognition for these changes in the liability related to inactive employees did so because of the potential for producing volatility in pension expense. Those respondents suggested that because the actual cost of pensions can only be estimated during an employee's career and because some differences between estimated and actual benefits will occur, the goal of recognizing all pension expense during an employee's career is unachievable. Consequently, these respondents believe that some deferral of changes related to inactive employees should be permitted to mitigate some of the volatility in pension expense. The Board evaluated these concerns; however, it was not persuaded that these concerns about potential volatility in pension expense were sufficient for the Board to deviate from its

overriding principle—that the cost of an employee's pension should be recognized during the periods that the employee provides service to the employer.

Benefit changes

224. As noted above, in the Preliminary Views, the Board proposed that all three sources of changes in the total pension be accounted for in the same manner, primarily for the purposes of reducing complexity and cost. The Board was persuaded by respondent comments that the nature of the changes in the total pension liability resulting from benefit changes—that of being under the control of management—is significantly different from the nature of the changes in the total pension liability resulting from differences between expected and actual experience and from changes of assumptions, which are a refinement of estimates and not within the control of management. The amount of the change in the total pension liability related to benefit changes is the amount of the effect of benefit changes that is attributed to prior years; amounts of benefit changes that will be attributed to future years will be recognized as part of future service cost. Because the changes in the total pension liability related to benefit changes results from an action taken by management in the current period, the Board determined that those amounts should be recognized as expense in the period of the change.

Differences between expected and actual experience and changes of assumptions

225. With regard to differences between expected and actual experience and changes of assumptions, the Board considered both the concerns of respondents that believe these changes should be recognized in pension expense over a longer period and the views of respondents that believe that these changes should be recognized in pension expense immediately. The Board also considered its proposal related to these two sources of changes in the total pension liability in relation to other guidance on revision of estimates and in relation to its conceptual framework.

226. Both types of changes are considered to arise from the use of estimates in measuring the total pension liability. With differences between expected and actual experience, the changes in the total pension liability result because the probabilities of future events were estimated in prior measurements. Whereas probabilities of events range from zero to 100 percent, actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will result in every measurement that incorporates expectation of future events. With changes of assumptions, the change in the total liability arises when the assumption about future events, such as mortality experience, changes from the assumption used in the prior measurement of the total pension liability. Existing guidance on how the effect of a change in accounting estimate should be reported does not suggest that a single approach is always appropriate. The nature of the items being reported and the effect of accounting estimates vary and may not be comparable with the effect of estimates on the measurement of the total pension liability.

227. Concepts Statement 4 defines a deferred outflow of resources as "a consumption of net assets by the government that is applicable to a future reporting period" (paragraph 32) and likewise defines a deferred inflow of resources as "an acquisition of net assets by the

government that is applicable to a future reporting period" (paragraph 34). Applicability to a future reporting period is determined using the concept of interperiod equity. A change in the amount of the total pension liability is either a consumption or acquisition of net assets by the government. The principal conceptual question is whether that change is applicable to a future reporting period. The Board recognizes that the change in the total pension liability related to either of these sources only includes the amount that has been attributed to prior periods through the process of attributing total benefits to periods. Due to the inherent inaccuracies of any estimate, the change in the total pension liability arising from differences between expected and actual experience or from changes of assumptions may be associated with changes in future periods that have a reversing effect to some extent.

228. The Board believes that reporting the changes initially as a deferred outflow of resources or a deferred inflow of resources and recognizing the changes in pension expense over a period representative of employees' expected remaining service lives can be viewed as reflective of the ideal of presenting information in financial statements in a manner that supports the assessment of interperiod equity. The concept of interperiod equity focuses on presenting a cost of services that is appropriate and useful for comparison with current-period revenues and other inflows for assessing whether current-period tax and rate-payers have provided sufficient resources to provide for current services or whether, for example, an increase in the level of borrowing or use of accumulated net resources was employed. The Board believes that, because of the association of pensions with the career-long exchange of employee service for pensions, full recognition of the effects of differences between expected and actual experience and changes of assumptions in pension expense in the year of the change is inconsistent with the presentation of information useful for the assessment of interperiod equity.

Expense recognition alternatives

229. Respondents to the Preliminary Views suggested a number of alternatives to recognizing these changes in pension expense over a period representative of employees' remaining service lives. Suggestions included use of a fixed number of years, such as 15 or 25, or use of timeframes that would extend beyond the expected remaining service lives of active employees. Reasons for these choices principally included a reduction in perceived complexity or greater consistency with measurements used for funding purposes. The Board believes that the requirements in this Statement for pension-expense recognition should be consistent with the Board's overriding view of the pension transaction—that of the career-long exchange between employees for deferred compensation—without also imposing additional requirements that might be inconsistent with the circumstances of any particular employer. For example, requiring recognition of changes over a fixed number of years potentially would be inappropriate for employers that provide benefits to mature covered groups.

230. The Board also determined that it was not necessary or appropriate to specify a method of determining a weighted-average service life over which to recognize certain changes in the total pension liability. The Board believes that delineating the ideal of replicating the result if the requirement were to be applied individually to employees is

sufficient. This approach allows practitioners to explore alternative methods that are more cost effective than applying the requirement on an individual basis and to apply professional judgment appropriate to their specific circumstances. This Statement also provides flexibility regarding the pattern of expense recognition (for example, use of a straight-line recognition approach or recognition as a level percentage of payroll) within whatever period of time is used. That is, no specific pattern is required.

231. This Statement does, however, exclude the use of an open-period method for recognizing in expense the changes in the total pension liability. Open-period methods recognize a fixed percentage of the original change over time and never fully recognize the change in expense. The Board believes that this approach is inconsistent with the overriding view that the cost of pensions should be recognized during the career-long period that an employee provides services.

Changes in plan net position

Changes in plan net position arising from investment experience

232. This Statement requires that changes in plan net position arising from investment experience be recognized as two separate components—(a) the projected earnings on plan investments is required to be included in (reduce) pension expense in each period and (b) differences between projected earnings and actual earnings is required to be recognized as a deferred outflow of resources or a deferred inflow of resources and included in pension expense over a closed, five-year period beginning in the period of the difference.

233. This approach to recognizing investment experience reflects the long-term earnings horizon with which pension investments are made. Earnings on investments can fluctuate significantly from period to period. However, the Board believes that differences between projected and actual investment experience generally will offset over time. That is, in any one period, actual earnings may be different from projected earnings; however, over time, earnings in excess of projections will be offset by earnings shortfalls in future periods, and vice versa. The Board believes that recognizing in pension expense investment earnings experience that is expected to be offset by future investment experience and, therefore, never realized, significantly reduces the usefulness of the measures of cost of services, of which pension expense is a component. Therefore, for differences between projected earnings and actual earnings, incorporation of those changes into pension expense over time provides an opportunity for short-term fluctuations to be offset and dampens the volatility of pension expense that would otherwise occur as a result of such fluctuations.

234. In the Preliminary Views, the Board proposed a different approach for differences between projected earnings and actual earnings on plan investments. That document included a proposed requirement that those differences be reported as deferred outflows of resources or deferred inflows of resources and that the cumulative balance of those net deferred outflows of resources or deferred inflows of resources not exceed 15 percent (plus or minus) of the fair value of plan investments. Any amount of the cumulative balance outside of the 15-percent corridor would have been recognized in pension expense

immediately. That proposed approach reflected the Board's view that if cumulative differences between projected and actual investment experience become too large as a percentage of plan investments, reversal of such differences may not occur until periods relatively far in the future and that differences that are not likely to be offset within a reasonable timeframe should be included in pension expense.

Respondents Views about the Proposal in the Preliminary Views

235. Some respondents to the Preliminary Views did not believe that any portion of actual investment experience should be deferred. Rather, these respondents believe that accounting and financial reporting should reflect "actual" results and that changes in the fair value of investments are results that should be reported in the period in which they occur. Other respondents disagreed with the Board's proposal because they disagree with the concept underlying the proposal—that past experience will be offset by future experience.

236. Some respondents to the Preliminary Views disagreed with the Board's proposal because they believe that it would produce erratic volatility in pension expense. These respondents were concerned that for periods in which cumulative differences between projected and actual investment experience remained under 15 percent of the fair value of plan investments, there would be no volatility in pension expense related to investment experience. However, in periods when the cumulative differences between projected and actual investment experience reached and exceeded 15 percent of the fair value of plan investments, pension expense would be subject to the effects of the short-term volatility in financial markets. These respondents also were concerned that volatility in pension expense would be inconsistent with funding and budgeting policies, would be inconsistent with their view of interperiod equity (that accounting should create a level pattern of expense among periods), or could provide information that would produce inappropriate decisions. These respondents recommended that a method that recognizes differences between projected and actual investment experience over a number of periods would produce less erratic results.

237. Some respondents disagreed that the proposal in the Preliminary Views would produce the intended results because of the application of the 15-percent limit to the cumulative difference between projected and actual investment experience. That is, the Board intended the approach to permit differences between projected and actual results to offset, without allowing the cumulative differences to grow too large. Respondents noted that when the cumulative balance of differences approaches 15 percent, subsequent differences will not be offset through the deferral account. For example, if the cumulative deferral balance is a deferred outflow of resources (that is, actual investment experience has been lower than projected experience), in subsequent periods investment experience that is lower than projected experience would be recognized in pension expense because it would cause the cumulative deferral balance to exceed 15 percent of the fair value of plan investments, but investment experience that is better than actual experience would be deferred.

Alternative Approaches to Recognition of Investment Experience

238. The Board was persuaded by the respondents' specific comments that the approach to recognition of investment experience that was proposed in the Preliminary Views could produce inconsistent results primarily because of the limitation on the cumulative net deferred outflows of resources or deferred inflows of resources. The Board considered other alternatives including:

a. Immediate recognition of all differences between projected and actual investment experience
b. Deferral of the difference between projected and actual investment experience in the current period with recognition of those differences in pension expense over a specified period of time
c. Deferral of differences between projected and actual investment experience, with amounts of cumulative deferrals limited to a percentage of the fair value of plan investments and with amounts exceeding that percentage recognized in pension expense over a specified period of time
d. Deferral of differences between projected and actual investment experience, with the amount of cumulative deferrals limited to a percentage of the fair value of plan investment different from what was proposed in the Preliminary Views and with amounts exceeding the percentage recognized immediately in pension expense.

239. The Board recognizes that long-term offset of short-term volatility in investment experience is a general, rather than specific, phenomenon. That is, generally, short-term volatility tends to be offset in the long term, but it is not possible to associate a specific instance in which actual investment experience is different from projected investment experience with a specific offsetting period of time. Consequently, the accounting and financial reporting for these differences cannot result in a precise link between offsetting investment experiences.

240. The alternatives considered fall within a spectrum of accounting options that has, at one end, immediate recognition of all differences between projected and actual investment experience and, at the other end, infinite deferral of all differences between projected and actual investment experience. With the immediate recognition approach, the inability to identify specific related offsetting differences in investment experience assumes no association between investment experience in different periods. With the infinite deferral approach, the inability to identify specific related offsetting differences is generalized to assume that over a sufficiently long period of time, all differences between projected and actual investment experience offset.

241. The requirements of this Statement do not reflect either end of the spectrum. Rather, the Board believes that the appropriate approach lies somewhere in between. The Board evaluated each of the potential alternatives using varying expense recognition periods and varying cumulative deferral limits over a 30-year period and considering historical investment returns on a hypothetical portfolio. The greatest concern with the immediate recognition extreme (and alternatives that produce similar results) is that the amount of investment earnings recognized in pension expense varies greatly from period to period

and, in the Board's view, does not appropriately reflect the long-term investment horizon that is common for pension plan investments. The greatest concern with the infinite deferral approach and alternatives that produce similar results is that the deferral balance could represent significant accumulations of investment experience differences that await offset by future investment experience. The Board concluded that deferral of differences between projected and actual investment experience with recognition of those differences in pension expense over a five-year, closed period recognizes general market cycles and results in an appropriate balance between the two approaches.

Changes in plan net position other than those resulting from investment earnings

242. In addition to changes resulting from investment experience, plan net position is affected by other events that impact the pension plan—for example, plan net position will increase as a result of employee contributions and will decrease as a result of benefit payments and administrative expenses. Because these changes have no association with future periods, the Board believes that they properly are reflected in the current-period cost of services. Therefore, this Statement requires that such changes be included in pension expense in the periods in which they occur.

Cost-Sharing Employers

243. The fundamental approach for employer recognition of net pension liabilities and related measures in this Statement is the same for cost-sharing employers as it is for single and agent employers. Pension plans, including cost-sharing pension plans, typically are long-term, relatively stable arrangements in which the participating employers also are long-lived entities. However, in a single-employer or agent multiple-employer plan, each employer bears separately the financial risks associated with its obligation to its employees to provide defined benefit pensions as part of employment exchanges. In addition, in those plans, plan assets (or a separately accounted for interest in assets pooled for investment purposes) are dedicated to payment of pensions to the employees of a specific employer. In contrast, cost-sharing pension plans are characterized by the pooling or sharing of (a) the employers' obligations to their employees to provide pensions as part of employment exchanges and (b) plan assets, so that assets contributed by any employer may be used to pay benefits to the employee of any participating employer. Therefore, the method of measuring the amount of the liability and related measures recognized by a cost-sharing employer that is required by this Statement incorporates features necessary to reflect those differences. This Statement requires a cost-sharing employer to recognize its proportionate share of the collective (total employers) net pension liability, collective deferred outflows of resources and collective deferred inflows of resources related to pensions, and collective pension expense. In addition, accounting requirements are established to address situations specific to the proportionate-share approach.

244. The Board believes that the origin of defined benefit pension obligations is the same without regard to the plan structure used. That is, as is the case with single and agent employers, cost-sharing employers individually incur obligations to provide pensions to their respective employees as part of the total compensation exchanged for their respective employees' services. What is distinctive in a cost-sharing plan, however, is that as a way

of paying for, administering, and delivering benefits, cost-sharing employers agree to share their financial risks associated with providing defined benefit pensions to their employees and to contribute to a pooling of assets dedicated to payment of pensions. When an employer in a cost-sharing plan engages in an exchange of services with the employee for compensation that includes pensions, it creates an obligation not specific to itself, but relative to the employers collectively that provide pensions through the plan. The employers collectively are responsible for the collective obligation that arises from the individual exchanges of all employers in the plan. The terms of the employers' participation in the plan establish how contribution rates are determined and the bases on which those rates are assessed and, therefore, determine how much each employer will be required to contribute to provide resources to satisfy the collective obligation. The expected sacrifice of resources of the employer to settle the benefit obligation is the current obligation of the employer related to those benefits—that is, the liability of the employer for pensions.

245. Many respondents to the Preliminary Views did not disagree with the Board's view that in a cost-sharing plan, the obligation for pensions arises in the employment exchanges between the participating employers and their employees. However, in the view of some respondents, certain characteristics of cost-sharing arrangements essentially transfer the obligation to the pension plan through which assets are accumulated and managed and benefits are provided. Some respondents disagreed that cost-sharing employers collectively have an obligation for accrued pensions because they believe that in many, if not most, cost-sharing plans, the employers have little or no control over benefit terms or required contribution levels. Therefore, these respondents asserted, cost-sharing employers are responsible only for their legally required contributions to the pension plan. Another entity—in some cases, the plan itself, in other cases, the plan sponsor—by virtue of their existence or their decision-making authority, in the view of some respondents, is responsible for the unfunded benefit obligation. Other respondents believe that the asset- and risk-pooling features of a cost-sharing plan suggest a structure similar to that of an insurance arrangement in which risk is transferred to a third-party insurer, leaving participants responsible for only their premium payments. Still others believe that in some cost-sharing plans, the relationship of a nonemployer contributing entity to the employers should affect the assignment of the pension liability for accounting and financial reporting purposes.

246. As previously noted, with regard to issues related to control, the Board does not believe that the lack of ability to control the benefit terms or the manner in which defined benefit pensions are financed changes whether the employers collectively received the benefits of employees' services in exchange for compensation that included pensions. Further, on the issue of transfer of the obligation from the employers collectively to the pension plan, the Board does not believe that the existence of, participation in, and payment of contributions to a pension plan by the cost-sharing employer(s) in and of itself transfers the entire pension obligation created through the employment exchanges with employees to the pension plan for financial reporting purposes. It is the Board's view that for financial reporting purposes, a pension plan can have an obligation for the pensions of its participating employers only to the extent that the plan is holding resources available for benefits. A cost-sharing plan is not financially self-sufficient but continually is reliant

on employer contributions (including those by nonemployer contributing entities in certain cases) and earnings on those contributions as the residual source of funding for promised benefits. The cost-sharing employers have an ongoing responsibility to financially support the benefits created by their collective employment exchanges with their employees. In the absence of another entity that explicitly assumes responsibility for the obligation, if past contributions and earnings on those contributions are not sufficient to provide assets to the plan to pay benefits when they come due, the employers (and those that contribute on their behalf) are the only sources of assets to satisfy the benefit obligation. Therefore, to the extent that resources are not available in the pension plan, the Board believes that the employers collectively remain responsible for the collective unfunded obligation.

247. With regard to the relationship of a nonemployer contributing entity with the cost-sharing plan and the participating employers, the Board agrees with respondents that in certain circumstances (special funding situations), the involvement of a nonemployer contributing entity might appropriately affect the accounting and financial reporting for the unfunded obligation for pensions. The Board notes, however, that issues related to the involvement of nonemployer entities are not unique to cost-sharing pensions. Considerations of the Board related to special funding situations for all employers are discussed in paragraphs 278–281, below.

248. The Board also considered situations in which the employers are legally responsible for annual contractually required contributions while another entity provides a legally enforceable guarantee of benefit payments to the extent, if any, that there are not assets available to pay benefits when they are due to employees. In these circumstances, the Board believes that the other entity should not be viewed as having an individual responsibility for a portion of the collective unfunded obligation, per se. Rather, in this case, the other entity has a contingent liability. Under this view, the other entity would not recognize a liability associated with the guarantee until there is an indication that it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Selection of a basis for determining proportionate share

249. As discussed above, the Board believes that the relationship of the employer to the collective net pension liability is fundamentally linked to the size of that employer's expected sacrifice of resources (contributions) to satisfy the obligation relative to the expected sacrifice of the employers collectively for that purpose. Therefore, this Statement requires the adoption of a long-term assumption about each employer's relative contribution effort.

250. Some respondents to the Preliminary Views that disagreed with the use of relative contribution effort as a basis objected specifically to the use of a single-period measure of relative contributions. They believe it would contribute to volatility in an employer's net pension liability and, hence, pension expense due to period-to-period variations in an employer's proportionate share if the share was based on current-period required contributions relative to total required contributions. An example would be the potential

impact of short-term changes (layoffs) by large employers on the calculation for smaller employers. The Board believes that use of a long-term projection of the employer's relative share of total employer contributions, when coupled with the requirement that changes in the employer's net pension liability that result from differences between actual and potential share in the period be recognized as a deferred outflow of resources or a deferred inflow of resources and included in pension expense over future periods, would address these concerns. The Board recognizes that this approach could be viewed as more complex than an approach that uses a single-period measure of proportion. However, it notes that the process of projecting long-term contribution efforts at the collective level is required to determine the discount rate and that those projections might be a starting point for determining the allocation of the collective net pension liability to participating employers.

251. Some respondents objected to the use of relative contribution requirements as the basis for an employer's proportionate share because, in their view, the resulting measures would not reflect an individual employer's obligation to its own employees. Some respondents suggested an alternative approach that would calculate, through separate actuarial valuations, total pension liabilities for individual employers for use as the basis for determining each employer's proportionate share of the collective net pension liability and related measures. The Board agrees with the respondents' evaluation of the effects of the required approach—that is, that the required allocation basis would not reflect the portion of the collective pension obligation that arose as the result of the employer receiving services from specific employees in past periods. However, the Board does not believe that is the objective of the measurement. Such an approach ignores an essential characteristic of cost-sharing plans—pooling of the benefit obligations of the employers. The Board believes that the lack of a one-to-one relationship to the original employment exchange is *exactly* reflective of the structure of a cost-sharing arrangement. That is, the employers have individual exchanges with their employees; however, the employers collectively are responsible for the collective obligation that arises from the individual exchanges.

Employer-specific accounting considerations

252. The approach required by this Statement for individual cost-sharing employer accounting necessitates guidance related to individual-employer accounting for events such as changes in an employer's assumption about its proportion and differences between actual employer contributions and the employer's proportionate share of collective employer contributions. With regard to these events, the Board believes that to minimize complexity, these events should be accounted for in a manner consistent with the treatment of changes of assumptions and differences between expected and actual experience in measurement of the collective net pension liability. The approach used for the effects of those types of changes in the collective net pension liability recognizes those amounts as deferred outflows of resources or deferred inflows of resources to the extent that they are associated with active employees and includes the amounts in pension expense over a number of future periods equal to a weighted average of the remaining service lives of active employees. Because contributions typically are assessed on the

basis of active-employee payroll, the Board believes that it is reasonable to view these individual-employer amounts as related to active employees.

Notes to Financial Statements of Employers

253. The Board evaluated potential note disclosure requirements in the context of the conceptual guidance in Concepts Statement 3, which states that "notes to financial statements are integral to financial statements and are essential to a user's understanding of financial position or inflows and outflows of resources" (paragraph 35). Notes are used to provide:

a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
b. More detail about or explanations of amounts recognized in financial statements
c. Additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition.

The Board did not propose disclosure requirements in the Preliminary Views. However, some respondents offered suggestions regarding potential disclosure requirements, and the Board considered those comments in its deliberations.

General requirements

254. This Statement requires that employers disclose in notes to financial statements certain basic information about the benefits provided, how those benefits are administered and established, and the availability of plan financial statements. These requirements build on the requirements in Statement 27 to disclose general information about the benefits. The Board concluded that due to the complexity and variety of the features of defined benefit pensions, it is essential for users of financial statements to have such basic information provided in an employer's financial report.

255. This Statement also requires that employers disclose information about significant assumptions used to measure its total pension liability. In contrast to liabilities that have fixed payment schedules, the measurement of the total pension liability is an estimated amount and is dependent upon the subjective assessment of a number of variables, each of which could have a significant effect on the resulting measurement. Because this measurement is not objective in nature, it is essential for users of the employer's financial statements to have information about what assumptions were made for purposes of potentially assessing the reasonableness of such assumptions or for purposes of comparison with other entities.

256. This Statement includes disclosure requirements specific to the assumptions made in determining the discount rate used in measuring the net pension liability. The Board concluded that additional detail about the specific assumptions related to the discount rate as well as information about the sensitivity of the net pension liability to the discount rate, is essential because of the significant effect that the discount rate has on the measurement

of the net pension liability and because of the focus that the users of financial statements have on this particular assumption.

Information about the employer's funding policy (contributions)

257. Many respondents to the Preliminary Views commented that information related to the adequacy of an employer's funding policy in comparison to actuarially calculated funding benchmarks, in their view, provides information that is critical to assessing accountability of employers and of those, if different, that are responsible for determining contribution policies of employers. As discussed above, some respondents noted that by (a) requiring employers to report measures such as the annual required contribution (ARC) introduced in Statements 25 and 27 and the extent to which they contributed the ARC and (b) establishing parameters, including a maximum amortization period for unfunded actuarial liabilities, for the calculation of those measures, the GASB also has been viewed as having established de facto contribution policy standards. In this Statement, the Board has made clear the separation between its objectives related to establishing standards for the financial reporting of pensions by employers, on the one hand, and public policy matters such as pension contribution policy, on the other. Consistent with this distinction, this Statement does not establish an ARC, or similar measure. As a result, the Board does not believe that it would be appropriate to require disclosures about a standardized measure of the amount an employer would need to contribute to a pension plan each year as part of a systematic contribution plan in order to reach projected objectives. Nor does the Board believe that the measures of the employer's performance should be required in relation to such a requirement or benchmark.

258. Some respondents noted the possibility that, to fill the unintended function the Statement 27 measures appear to have served, another organization might establish best practices or practice standards with regard to employer pension contributions and suggested that the Board consider requiring financial reporting of such a benchmark and of an employer's contributions in relation to that benchmark. In the view of the Board, doing so would imply that the GASB is taking a position about acceptable public policy with regard to an employer's contributions to a pension plan.

259. Instead of the alternatives suggested by respondents, the Board believes that the relevance for financial reporting of information related to the employer contribution amount computed as part of a systematic contribution plan depends on whether that measure is used to determine an employer's actual contributions to the pension plan each year—an amount that is required by this Statement to be presented in the detailed schedule of changes in the net pension liability. The Board concluded that, in addition to the actual amount contributed by the employer, the most relevant information pertaining to employer contributions is the basis for determination of actual contributions. This Statement, therefore, includes a requirement that an employer disclose that basis. In addition, in circumstances in which an employer's contribution policy is based on an actuarially determined employer contribution requirement, information about the key methods and assumptions used in determining the annual requirement should be disclosed. For employers that do not have a funding policy based on actuarially determined amounts,

that fact would be evident through the required description of the employer's funding policy and the absence of actuarially determined contribution information in the employer's financial report.

Disclosures about plan net position

260. This Statement includes a requirement for an employer to include in its basic financial statements all disclosures about the elements of the plan's basic financial statements that are required to be presented by other standards. The Board concluded that information that has been determined to be essential to understand those elements in other reporting contexts also would be essential to a user of an employer's financial statement, in which measures based, in part, on plan net position are recognized.

261. With regard to investments, receivables, capital assets, and accounts payable. The Board determined that existing guidance, for example, Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and No. 40, *Deposit and Investment Risk Disclosures,* which include disclosure requirements related to these items, is appropriate to fulfill the essential information needs of users of financial statements. The Board has not identified any specific features of these items that when reported by a pension plan would suggest additional disclosures. Consequently, the Board determined that disclosure requirements in addition to those already included in other pronouncements are not essential.

262. The Board notes that disclosures about these elements are included and available in the financial statements of the pension plan, if that pension plan issues stand-alone financial statements or is included in the financial report of another government. Therefore, because (a) there may be potential cost savings in the preparation and audit of employer financial statements, especially when an employer has a different year-end than the plan, and (b) it could avoid a potentially confusing presentation of information in a situation in which an employer also includes a plan with a different year-end as a fiduciary fund in its financial report, this Statement includes a provision that an employer can exclude certain disclosures related to the elements of the plan's basic financial statements and refer instead to a plan's stand-alone financial report or the report of another government that includes the plan, provided that the financial report is available to the public. In cases in which the financial statements of the pension plan are not as of the same period-end as the employer, reference is permitted. However, in circumstances in which there has been a significant change in those amounts between the date of the financial statements of the plan and the date of the financial statements of the employer, the Board believes that additional disclosures about the nature and significance of the change is essential to understand the amounts recognized in the net pension liability.

Changes in the net pension liability

263. For single and agent employers, this Statement requires detailed disclosure of information about the components of the changes in the employer's net pension liability. Previous requirements for accounting and financial reporting for pensions included provisions for disclosure in notes to financial statements about the actuarially determined

funded status of the plan as of the most recent actuarial valuation but did not require information about the changes in the components of funded status. The requirements of this Statement are similar in some ways to that funded status information but provide a greater depth of information that reflects the requirement that employers recognize a net pension liability.

264. The employer's net pension liability is a complex liability in the sense that the liability is created, and its amount may be increased or decreased, by diverse types of transactions or other events in each financial reporting period. The Board concluded that for financial statement users to understand and assess this liability and its position within a government's financial statements, it is essential for financial statement users to have information not only about the amount of the balance but also about the transactions or other events that created or changed the amount of the liability. These changes include both the direct effects of actions by the employer and the effects of events to which the employer is exposed as a consequence of its pension commitments and policies. Further, because the net pension liability encompasses two distinctly different components—the total pension liability and plan net position—each of which is affected by different events, the Board concluded that to enhance transparency, information about the two separate components of the liability, and changes in the two components of that liability, is essential to a user's understanding of the amount recognized in the employer's financial statements.

Information about pension expense

265. For single and agent employers, this Statement requires disclosure of the details of specific components of pension expense. The Board determined that this information is essential for users of the financial statements to understand information about cost of services because the nature of pension expense is complex and is an aggregation of a number of diverse components, including amounts related to service cost, interest, benefit changes, investment experience, and others. Pension expense also includes recognition over time of deferred outflows of resources and deferred inflows of resources resulting from changes in the net pension liability due to differences between expected and actual experience, changes of assumptions, and differences between projected and actual investment earnings. Information about these details of pension expense is essential for a user of financial statements to understand and assess amounts of pension expense from period to period or to compare pension expense from employer to employer.

Information about deferred outflows of resources and deferred inflows of resources related to pensions

266. Likewise, for deferred outflows of resources and deferred inflows of resources related to pensions, this Statement requires single and agent employers to disclose information about the sources of changes in the balances from the beginning of the period to the end of the period. The balances of deferred pension outflows of resources and deferred inflows of resources related to pensions may change as a result of a number of diverse transactions and other events including changes of assumptions, differences between expected and actual experience, and differences between projected and actual

investment earnings, and the Board concluded that information about such changes is essential for a user of the financial statements to understand the balances recognized in those statements. The Board considered but did not require that information about the beginning and ending balances of deferred outflows of resources and deferred inflows of resources related to pensions be disclosed by source—that is, amounts arising from changes of assumptions, from differences between expected and actual experience, and differences between projected and actual investment earnings. Because the approach to recognition of each of these items creates a new layer in the balances of deferred outflows of resources and deferred inflows of resources, separate disclosure of the sources of the balances, as well as information about the periods of time over which each layer is being included in pension expense would be an extremely detailed disclosure, that the Board determined would be overly cumbersome and potentially confusing to users of financial statements. To provide readers with an indication of the sources of changes, this Statement requires separate identification of current-period changes and the period(s) over which current-period changes are being included in pension expense.

Disclosure requirements for cost-sharing employers

267. This Statement requires cost-sharing employers to disclose the same general information about their pensions as is required for single and agent employers. The Board concluded that the characteristics of cost-sharing pensions do not diminish the needs of users for basic information about the key elements of the pensions that are provided to employees through those plans. For similar reasons, cost-sharing employers are required to disclose assumptions applied in measuring the total pension liability, information about plan net position, and descriptions of events that gave rise to changes in those components (for example, benefit changes or changes of assumptions) in the period. This information should include disclosure of the assumptions related to the entity's proportionate share.

268. With regard to information about changes in the net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions, the Board concluded that information about the employer's recognized amounts for each of its cost-sharing plans would be essential to a user of the employer's financial statements. In addition, this Statement requires a cost-sharing employer to disclose descriptive information about events that affected the net pension liability in the current period—for example, a description of benefit changes. However, this Statement does not include requirements for cost-sharing employers to present detailed information about those amounts and changes in those amounts as is required for single and agent employers. In the view of the Board, that level of detail would provide meaningful information if presented at the collective (all employer) level. However, the Board determined that level of detail is not essential to understand the amounts recognized by the individual cost-sharing employer. Because of the pooling features of cost-sharing plans, individual employers are one step removed from the collective measures. Although changes in the collective net pension liability—including the components of changes in the net pension liability—drive the collective obligation for which the employers are responsible, the components of changes in the net pension liability, pension expense, and changes in deferred outflows of resources and deferred inflows of resources related to pensions can be viewed as having a more direct relationship to the collective than to any

individual employer. The Board, therefore, concluded that this level of information is essential for placing the amounts recognized by an individual cost-sharing employer into context, rather than for basic understanding of the amounts recognized and, hence, should be presented in required supplementary information.

Required Supplementary Information of Employers

269. The Board evaluated potential requirements for the presentation of required supplementary information in the context of the conceptual guidance in Concepts Statement 3, which states that required supplementary information is "supporting information that . . . is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context" (paragraph 42). The Board did not propose requirements for required supplementary information in the Preliminary Views. However, some respondents offered suggestions regarding potential presentations, and the Board considered those comments in its evaluation of potential requirements.

270. This Statement requires that single and agent employers include in required supplementary information a 10-year schedule of changes in the net pension liability, for which the current-year information also is required to be included in notes to the financial statements. The Board determined that the information in this schedule would explain, in terms of historical transactions or other events, the factors that have resulted in the net pension liability that is recognized by the employer in the current-period financial statements. The Board also determined that a multi-year presentation of this information enhances the analytical potential of the current-year disclosure of changes by supporting analysis of the various types of changes, individually or in combination, over time. Cost-sharing employers are required to present this schedule with amounts at the collective (all employers) level because the Board concluded that this information provides essential context for the amounts that are recognized by the individual cost-sharing employers.

271. This Statement also includes requirements for single and agent employers to present required supplementary information schedules that present 10 years of summary information about the net pension liability and its two components over the same period of time as the schedule of changes in the net pension liability. The Board concluded that this information, supplemented with ratios to put the individual balances into perspective, in a format that does not also include the details of those changes, provides information that enables users to assess changes in the relationship of the liability and asset components over time at a higher level than the information presented in the schedule of changes in the net pension liability. For similar reasons, this information is required to be presented by cost-sharing employers at both the collective level and at the individual level, with disclosures about proportion that was used to calculate the employer's share of amounts each period. For this summary information, the Board believes that it is essential to present the information measured at the individual-employer level to relate these schedules to amounts recognized in the employer's financial statements. In addition, information about the assumed share of the employer over time would provide essential context to understand period-to-period changes in the net pension liability recognized by the employer.

272. The Board also has included in this Statement a requirement that single and agent employers present a schedule of employer contributions as required supplementary information. This schedule presents the actual employer contributions reported in comparison to an actuarially calculated contribution, if one is determined. As discussed above, in this Statement and in the related Statement, the Board has decided to remove the specific link between the accounting measures of the employer's pension liability and pension expense, on the one hand, and the actuarially calculated funding-based measures, on the other. However, the Board determined that, in circumstances in which an actuarially calculated contribution rate is established, a 10-year schedule providing information about employer contributions—including actual contributions and actuarially calculated contributions—as well as information related to covered-employee payroll, is essential for providing historical and economic context for the amount of contributions reported as additions to plan net position and should be presented as required supplementary information. The detail of actual contributions over a 10-year period provides historical context for the amount of contributions in the current period. Information about actuarially calculated and contractually required contributions, as well as covered-employee payroll information, provides economic context to the amounts of actual contributions reported. As with the schedule of components of the net pension liability, this Statement requires cost-sharing employers to present this schedule, with additional identification of the amount of the contractually required contributions, if different from the actuarially calculated contributions, at both the collective level and the individual level. The Board concluded that both levels of presentation provide essential, but different, context to understand the amounts reported in the employer's financial statements. At the collective level, the schedule provides information about the overall adequacy of contributions and provides context to evaluate the establishment of a contribution policy. At the individual-employer level, the schedule provides information to assess compliance of the individual employer with its legal requirement to make contributions.

10-year schedules

273. Earlier standards include a requirement to present required supplementary information about funded status resulting from three actuarial valuations, which covers three or six years, depending on the frequency of those actuarial valuations. The Board has received feedback from some users of financial statements that, if the intent is to provide historical context, so few years of information may not be sufficient. To provide information that is essential to understand trends and to place the information reported for the current period into historical perspective, this Statement requires that all schedules of required supplementary information present information for 10 years—a period of time that the Board believes will provide information to identify some cyclical factors and other trends in the information without resulting in an overly burdensome presentation.

Requirements When a Primary Government and Its Component Units Provide Benefits through the Same Defined Benefit Pension Plan

274. This Statement includes guidance related to the applicability of the requirements to a primary government and its component units. To minimize variations in application of the

requirements of this Statement, in circumstances in which a primary government and its component unit(s) provide pension benefits through the same defined benefit pension plan, a primary government and its component unit(s) are required to apply the cost-sharing provisions of this Statement when presenting information in their stand-alone financial statements. However, in the financial statements of the financial reporting entity, the note disclosure and required supplementary information requirements for single employers should be presented. This Statement also requires that in the reporting entity's note disclosures, amounts associated with the primary government and amounts associated with the discretely presented component units (in the aggregate) be separately identified. The Board concluded that this approach generally will address the need to provide information to assess accountability of the primary government for its component units and that comparability of information reported by governments will be enhanced by a single classification approach, coupled with the establishment of a consistent methodology for the allocation of pension-related measures among the primary government and its component unit(s), in such circumstances.

Liabilities to a Defined Benefit Pension Plan

275. This Statement includes separate accounting and financial reporting requirements for liabilities of an employer or governmental nonemployer contributing entity to a pension plan. Such liabilities can arise from several types of events. For example, liabilities to a pension plan can be created as a result of a legally required contribution to a pension plan that has not been made as of the period-end. These liabilities typically are short term in nature. Other liabilities to a pension plan are longer term obligations. For example, when entering a preexisting cost-sharing plan, an employer often enters into a separate financing arrangement with the pension plan for the past service cost of that employer's employees. (Under previous standards, such long-term liabilities of an employer to a pension plan were termed *pension-related debt.*) The Board believes that because short-term and long-term obligations to a pension plan have similar characteristics (notwithstanding differences in their duration), the accounting requirements for both types of liabilities also should be similar. Further, the Board believes that such obligations, because they are either legally required or contractually created, meet the definition of a liability in Concepts Statement 4 and should continue to be recognized as liabilities of an employer or governmental nonemployer contributing entity. Further, in circumstances in which the amount of the liability recognized by an employer or governmental nonemployer contributing entity is significant, the Board concluded that disclosure of information about the terms of the liability, the balances outstanding at period-end, and the circumstance giving rise to such liabilities would be essential to inform a user of the financial statements about the existence, magnitude, and conditions of a liability for pensions separate from the liability to the employees as a result of the employment exchange.

Defined Contribution Pensions

276. This Statement generally carries forward the requirements of Statement 27 for employer accounting and financial reporting for defined contribution pensions. The Board, however, is aware of circumstances in which the timing of payments into an employee's defined contribution account may differ from the timing of the provision of services for which the payments provide compensation. The Board believes that defined contributions are the amounts that are defined by the benefit terms as being attributable to employees' services in a period, notwithstanding variations that may exist with regard to the occurrence or timing of actual payments into an employee's individual account. Therefore, in this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such benefits, include provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee services to which defined contributions pertain (such as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). However, the underlying notion inherent in the definition in Statement 27 remains. That is, a pension is classified as defined contribution for accounting and financial reporting purposes if the amount of benefits that the plan member will receive is dependent solely upon amounts contributed or credited to the member's account, actual earnings on the underlying assets associated with contribution or credits to the member's account, and adjustments for forfeitures or administrative expenses that are assessed to the member's account. This definition excludes from the category of defined contribution pensions those benefits that are provided through plans in which interest earnings in individual member accounts are not derived from actual earnings on underlying assets contributed or credited to the account. Such benefits include those in which the employer provides a defined rate of return on member balances and those in which interest crediting is based on a specified index rather than on actual investment earnings. It also excludes circumstances in which the employer has longevity risk associated with an annuitization feature of a pension that otherwise would be classified as defined contribution.

277. This Statement also establishes requirements to address accounting for forfeitures. Previous GASB standards have not included provisions related to forfeitures. The Board's research indicated that forfeitures can be relatively significant in some defined contribution plans in at least some periods. Therefore, to improve consistency and comparability in the accounting for defined contribution pensions, this Statement requires that employers recognize pension expense net of forfeited amounts that are removed from the individual accounts of former employees. The Board considered an alternative approach that would have recognized pension expense based on measures that incorporate expectations about future forfeiture rates but believes that the additional complexity that would be added by a requirement to follow such an approach is not warranted because of the relatively small proportion of employers for which forfeitures are significant.

Accounting for Special Funding Situations

278. As discussed above, the Board believes that the liability for pensions originates with the employer(s) as a result of employment exchanges that promise pensions for employee

services. Therefore, employer accounting in this Statement is based on recognition of the employer's liability to employees for pensions to the extent that resources are not currently held by the plan for payment of pensions—an amount that reflects the expected future sacrifice of the employers relative to those benefits. In some cases, however, there are entities other than the employers that are expected to sacrifice resources to satisfy the liability to employees for pensions because of legal requirements to make contributions to a pension plan—circumstances referred to as special funding situations. Special funding situations are most commonly found among cost-sharing employers; however, the Board believes that special funding situations can and potentially will exist in other forms of pensions. Therefore, this Statement also provides guidance related to the effects of special funding situations on the pensions of single and agent employers, as well as for employers that provide defined contribution pensions.

279. With regard to these situations, the Board considered two possible interpretations, each with different implications for accounting and financial reporting purposes. That is, the legal responsibility of the nonemployer contributing entity to contribute should be viewed as (a) an assumption by the paying government of a portion of the unfunded pension liability of the employer or (b) solely a responsibility to make contributions to assist in funding the employer's pension liability. Within the context of the definition of a liability in Concepts Statement 4, the Board believes that to the extent that an entity is legally required to provide assets to the pension plan in the future to satisfy the accrued pension obligation and that requirement is not conditional on the occurrence of an event unrelated to the pensions, that entity has a present obligation to sacrifice resources—that is, a liability—for those benefits. Therefore, a nonemployer contributing entity's legal requirement to contribute should be viewed for accounting and financial reporting purposes as an assumption by the nonemployer contributing entity of a portion of the net pension liability of the employer on whose behalf the contributions are made. Consistent with this view, this Statement requires that (a) the net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions recognized by an employer reflect an adjustment for the proportion of the employer's liability that is assumed by a nonemployer contributing entity as a result of its requirement to contribute and (b) a governmental nonemployer contributing entity that has an unconditional legal requirement to make an on-behalf payment to a pension plan recognize in its financial statements its proportionate share of the net pension liability and of related measures of the employer(s) on whose behalf it contributes.

280. The approach required by this Statement is a continuation of the basic approach required in Statement 27 for special funding situations. That approach requires the entity that is legally responsible for contributions to follow the applicable employer provisions of that Statement for measurement and recognition of pension expense and liabilities. It also requires both the employer and the governmental nonemployer contributing entity to apply the requirements of Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, which, within the context of accounting for pensions, results in an employer recognizing an amount of pension expense that reflects the total cost of services associated with those benefits, with the financial support of the nonemployer contribution entity recognized as revenue. The project leading to this Statement did not examine or reconsider the requirements of Statement 24, generally, and

therefore, this Statement incorporates the requirements of Statement 24, with modifications only to reflect changes in the overall accounting framework applied to pensions.

281. Modifications required as a result of the accounting framework of this Statement included consideration of issues similar to those related to the assignment of the collective net pension liability and other measures associated with cost-sharing pensions to individual cost-sharing employers. That is, issues related to assumptions about relative proportion, and to accounting for a change in proportion and for differences between amounts recognized by the pension plan and each entity's share of those amounts, are relevant to both circumstances. Generally, the objective of the measurement of a nonemployer contributing entity's assumption of an employer's net pension liability and related measures is the same as the objective of similar measurements for cost-sharing employers—that is, to result in recognition of net pension liabilities that represent the expectation of expected future sacrifice of the entities' resources. Therefore, the requirements of this Statement for measurement of pension-related balances and expense by governmental nonemployer contributing entities in unconditional special funding situations generally are parallel to the requirements for cost-sharing employers.

Note Disclosures and Required Supplementary Information for Special Funding Situations

282. This Statement includes note disclosure requirements for governmental nonemployer contributing entities that recognize a portion of an employer's net pension liability and related measures, as well as modifications to note disclosures of employers to describe the effects of the involvement of a nonemployer contributing entity on amounts recognized by the employer. With regard to governmental nonemployer contributing entities that recognize a substantial portion of an employer's net pension liability and related measures, this Statement requires note disclosures and schedules of required supplementary information that generally are consistent with those required for cost-sharing employers. The Board believes that when the relative share of the governmental nonemployer contributing entity is substantial, the relationship of the entity to the net pension liability and related measures is similar to that of a cost-sharing employer to the collective (all employers) measures. Therefore, similar information about that relationship is essential to a user of the governmental nonemployer contributing entity's financial statements.

283. With regard to governmental nonemployer contributing entities that recognize a less-than-substantial portion of an employer's net pension liability and related measures, this Statement requires presentation of information in notes and required supplementary information at a level of detail that is reduced from that of the employer. Disclosures include basic descriptive information about the plan, the basis on which the entity's contributions are determined, and the amounts the net pension liabilities recognized by the governmental nonemployer contributing entity and the proportion of the total represented by those amounts. Requirements for presentation of information in required supplementary information comprise 10-year schedules of information about the amount of net pension liabilities recognized by the governmental nonemployer contributing entity

and the amount of the contributions made by the nonemployer contributing entity as support for the pensions of employees of other governments. The Board concluded that more detailed information about changes in and the relationships of the components of the amounts recognized by the governmental nonemployer contributing entity is not essential to a user of its financial statements. Unlike the employers, whose relationships with employees create the underlying liabilities, the nonemployer contributing entity in such a circumstance has no such direct relationship to the exchange. Rather, the relationship is one of the nonemployer contributing entity to the employers, and the schedules presented in required supplementary information should reflect that relationship over time.

Effective Date and Transition

284. Because of the importance that users of financial statements place on information about public pensions, the Board believes that the requirements of this Statement should be implemented as soon as practicable. Information from an actuarial valuation is needed in order to comply with all of the reporting requirements; therefore, the Board believes that the provisions of this Statement should be implemented after the next actuarial valuation, which would need to be performed in a manner that produces the information necessary to implement this Statement. It notes, however, that if necessary, amounts of beginning balances, as required at transition, can be determined by rolling back to the beginning of the reporting period amounts determined by an actuarial valuation as of a later date. The Board also noted that larger plans, in particular those with over $1 billion in net position, have annual actuarial valuations.

285. The Board also considered the practicality of implementing the provisions of this Statement when there is a need for planning and coordination of activities between the employer and the pension plan(s) in which it participates. These activities would be more extensive for employers that participate in plans with complex features—multiple-employer plans, as well as plans with certain special funding situations—especially when there are multiple employer year-ends. Additionally, these activities would be more extensive if any of the employer's pensions are provided through a plan that is included in the financial report of an entity that also reports plans with any of these complex features or if the employer itself includes as part of its reporting entity a pension trust fund with any of these complex features. As a result of these considerations, the Board concluded that employers whose pensions (a) consist only of benefits provided through large single-employer pension plans that do not have an unconditional special funding situation and (b) are not provided through a pension plan that is reported in the financial report of an entity that reports plans with any of these complex features should implement the provisions of this Statement one year earlier than other employers. The Board believes that the effective dates address the users' needs regarding information about public pensions, while not requiring actuarial valuations to be performed sooner than they would have ordinarily been scheduled.

286. Because of the potential cost associated with determining the amounts of deferred outflows of resources and deferred inflow of resources related to pensions, especially for employers that participate in plans with complex features, the Board believes it is appropriate to require retroactive application of the provisions of this Statement to the

extent that it is practicable. Likewise, the Board did not require that information for all periods for the 10-year schedules that should be presented as required supplementary information be presented at transition because of potential cost concerns and unavailability of information for past periods.

Alternative View

287. One Board member disagrees with the use of a discount rate to determine the employer's net pension liability that reflects (a) the long-term expected rate of return on plan investments to the extent that (1) plan net position is projected to be sufficient to make the benefit payments that are projected to occur in a period and (2) assets are expected to be invested using a long-term investment strategy and (b) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) to the extent that the conditions in (a) are not met. This member believes that the selection of the discount rate for purposes of calculating an employer's pension liability for accounting and financial reporting purposes is unrelated to and should be determined separately from the employer's funding of pension benefits. Instead, this member believes that the employer's pension liability should be determined using a discount rate based on the employer's taxable long-term borrowing rate. This borrowing rate can be estimated by applying a taxable-equivalent yield formula to the employer's yield on tax-exempt fixed-rate long-term bonds.

288. This member believes the measurement of the employer's reported pension liability should not be affected by the estimated investment earnings rate. Under the proposed requirements, an employer with an aggressive investment approach would report a lower pension liability than one with an identical pension liability that had a less aggressive investment strategy. Other liabilities are not measured based on the anticipated prospect of earnings from the sources from which they are expected to be paid. As with other liabilities of governments generally, the employer's promise to pay benefits—the total pension liability—is not contingent upon the investments held by the pension plan earning a specified rate of return over the long term.

289. The member believes the employer's pension liability is similar to long-term general obligation debt, which relies on the employer's full faith and credit. The discount rate should be a taxable rate because pensions paid to retirees and other beneficiaries are not tax exempt.

290. In this member's view, when this Statement is implemented, the discount rate used to determine an employer's pension liability should be the employer's taxable borrowing rate on that date. This discount rate should be revised at subsequent actuarial valuation dates based on the employer's current taxable borrowing rate because, in the view of this member, the pension liability is in effect variable-rate debt. This member believes that, unlike earnings on plan investments, which are expected to vary from period to period, the employer's borrowing rate is the best estimate of future borrowing rates and is not expected to vary in the manner that earnings on investments vary. As such, this member believes it would be appropriate for changes in the employer's pension liability arising from changes in the discount rate to be recognized when incurred.

Appendix C

ILLUSTRATIONS

291. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Illustrations 2 and 3 are coordinated with Illustrations 3 and 4 of Appendix C of the related Statement.

Illustration 1—Calculation of the Discount Rate

Illustration 2—Note Disclosures and Required Supplementary Information for a Single Employer without a Special Funding Situation

Illustration 3—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer without a Special Funding Situation

Illustration 4—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer with an Unconditional Special Funding Situation

Illustration 5—Note Disclosures and Required Supplementary Information for a Governmental Nonemployer Contributing Entity with an Unconditional Special Funding Situation (Substantial Proportion of Total)

Illustration 6—Note Disclosures for an Employer with Defined Contribution Pensions and without a Special Funding Situation

Illustration 1—Calculation of the Discount Rate

The following illustration is an example of the projections and calculations used to determine the discount rate in conformity with paragraphs 22–25 or 53–56 of this Statement, as applicable. The discount rate is the single rate that reflects (1) the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions to the extent that (a) plan net position is projected to be sufficient to make the benefit payments that are projected to occur in a period and (b) assets are expected to be invested using a long-term investment strategy and (2) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another scale) to the extent that the conditions of (1) are not met.

To calculate the discount rate, the cash flows into and out of the plan are required to be projected. In this illustration, this includes contributions to the plan (Table 1), benefit payments (Table 2), administrative expenses (Table 2), and investment earnings (Table 2). These cash flows are used to determine projected plan net position (Table 2). Projected plan net position is compared to the amount of benefit payments projected to occur in each period (Table 3). In this illustration, it is assumed that plan net position can always be invested using a long-term investment strategy because additional plan net position related to future employees will be available. Consequently, in this illustration, the benefit payments that are projected to occur are discounted using the long-term expected rate of return on pension plan investments when the amount of projected plan net position is sufficient to make the benefit payments (Table 3, column (f)). The projected benefit payments that are not projected to be paid from the projected amount of plan net position are discounted using an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) (Table 3, column (g)).

Determining the single rate that is the discount rate for purposes of this Statement is an iterative process that involves the following steps:

1. A single rate that is between the long-term expected rate of return on plan investments and the index rate used to calculate amounts in Table 3, column (g), is selected.
2. The selected rate is used to calculate the total present value of all projected benefit payments.
3. The total present value resulting from step 2 is compared to the sum of the present values determined in Table 3, columns (f) and (g).
4. If the selected rate results in a total present value greater than the sum of the present values determined in columns (f) and (g) in Table 3, a new higher rate is selected. If the total present value is less than the sum of the present values determined in columns (f) and (g) in Table 3, a new lower rate is selected.
5. Steps 2–4 are repeated until the single rate that results in a total present value of all projected benefit payments equal to the sum of the present values determined in Table 3, columns (f) and (g), is determined.

In this illustration, solving for the single rate that satisfies the condition of step 5 results in a discount rate of 5.35 percent. The proof of this calculation is shown in Table 3, column (h).

Facts and Assumptions

The following facts are assumed in this illustration:

a. Total payroll increases 4.25 percent per year.
b. Current employees are required by statute to contribute 5.00 percent of payroll to the plan.
c. The employer is required by statute to contribute 10.00 percent of payroll to the plan.
d. Benefit payments are projected as required by paragraphs 20 and 21 or 51 and 52 of this Statement, as applicable.
e. The service cost is 12.00 percent of payroll.
f. Initial plan net position is $1,431,956.
g. Initial administrative expenses are $1,000.
h. Administrative expenses increase 3.00 percent per year.
i. For purposes of projecting investment earnings, benefit payments, contributions, and administrative expenses occurr halfway through the year.
j. The long-term expected rate of return on pension plan investments is 7.50 percent.
k. The tax-exempt high-quality municipal bond index rate is 4.00 percent.

Table 1: Projection of Contributions

	Projected Payroll			Projected Contributions			
Year	Payroll for Current Employees (a)	Payroll for Future Employees (b) = (c) – (a)	Total Employee Payroll * (c)	Contributions from Current Employees (d) = (a) × 5%	Employer Contributions for Current Employees (e) = (a) × 10%	Contributions Related to Payroll of Future Employees † (f) = (b) × 3%‡	Total Contributions (g) = (d) + (e) + (f)
0	$ 488,072	$ -	$ 488,072	$ 24,404	$ 48,807	$ -	$ 73,211
1	474,494	34,321	508,815	23,725	47,449	1,030	72,204
2	469,203	61,237	530,440	23,460	46,920	1,837	72,217
3	463,875	89,109	552,984	23,194	46,388	2,673	72,255
4	457,451	119,035	576,486	22,873	45,745	3,571	72,189
5	450,018	150,969	600,987	22,501	45,002	4,529	72,032
6	441,785	184,744	626,529	22,089	44,179	5,542	71,810
7	432,704	220,452	653,156	21,635	43,270	6,614	71,519
8	422,353	258,562	680,915	21,118	42,235	7,757	71,110
9	411,044	298,810	709,854	20,552	41,104	8,964	70,620
10	399,081	340,942	740,023	19,954	39,908	10,228	70,090

Note: Years subsequent to year 10 have been omitted from this table.

* Payroll increases 4.25% each year.

† Contributions related to future employees that are above service cost and therefore can be allocated to payment of pensions of current employees.

‡ Three percent is the difference between total contributions for future employees of 15% of future employee payroll (10% of future employee payroll from employer contributions and 5% of future employee payroll from future employee contributions) and service cost of future employees (12%).

Table 2: Projection of Plan Net Position

Year	Projected Beginning Plan Net Position (a)	Projected Total Contributions * (b)	Projected Benefit Payments † (c)	Projected Administrative Expenses ‡ (d)	Projected Investment Earnings § (e)	Projected Ending Plan Net Position (f) = (a) + (b) – (c) – (d) + (e)
0	$ 1,431,956	$ 73,211	$ 109,951	$ 1,000	$ 105,981	$ 1,500,197
1	1,500,197	72,204	116,500	1,030	110,815	1,565,686
2	1,565,686	72,217	123,749	1,061	115,454	1,628,547
3	1,628,547	72,255	131,690	1,093	119,871	1,687,890
4	1,687,890	72,189	140,229	1,126	123,998	1,742,722
5	1,742,722	72,032	149,168	1,160	127,768	1,792,194
6	1,792,194	71,810	158,466	1,195	131,120	1,835,463
7	1,835,463	71,519	168,332	1,231	133,983	1,871,402
8	1,871,402	71,110	178,591	1,268	136,277	1,898,930
9	1,898,930	70,620	189,069	1,306	137,929	1,917,104
10	1,917,104	70,090	199,709	1,345	138,872	1,925,012

Note: Years subsequent to year 10 have been omitted from this table.

* From Table 1: Projection of Contributions, column (g).

† Projected as required by paragraphs 20 and 21 or 51 and 52 of this Statement, as applicable.

‡ Administrative expenses increase 3.00% per year.

§ The benefit payments, contributions, and administrative expenses occur halfway through the year.

Table 3: Present Values of Projected Benefit Payments

			Projected Benefit Payments		Present Values of Projected Benefit Payments		
Year (a)	Projected Plan Net Position * (b)	Projected Benefit Payments † (c)	Funded Portion of Benefit Payments (d)	Unfunded Portion of Benefit Payments (e)	Present Value of Funded Benefit Payments (f) = (d) ÷ (1 + 7.5%)[(a)]	Present Value of Unfunded Benefit Payments (g) = (e) ÷ (1 + 4%)[(a)]	Present Value of Benefit Payments Using the Single Discount Rate ‡ (h) = (c) ÷ (1 + 5.35%)[(a)]
0	$ 1,431,956	$ 109,951	$ 109,951	$ -	$ 109,951	$ -	$ 109,951
1	1,500,197	116,500	116,500	-	108,372	-	110,586
2	1,565,686	123,749	123,749	-	107,084	-	111,504
3	1,628,547	131,690	131,690	-	106,005	-	112,635
4	1,687,890	140,229	140,229	-	105,004	-	113,850
5	1,742,722	149,168	149,168	-	103,904	-	114,960
6	1,792,194	158,466	158,466	-	102,680	-	115,926
7	1,835,463	168,332	168,332	-	101,463	-	116,892
8	1,871,402	178,591	178,591	-	100,136	-	117,720
9	1,898,930	189,069	189,069	-	98,615	-	118,301
10	1,917,104	199,709	199,709	-	96,898	-	118,615
25	547,880	322,779	322,779	-	52,929	-	87,752
26	316,985	326,326	316,985	9,341	48,352	3,369	84,213
27	64,800	328,997	-	328,997	-	114,102	80,592
28	-	330,678	-	330,678	-	110,274	76,892
29	-	331,266	-	331,266	-	106,221	73,118
30	-	330,744	-	330,744	-	101,975	69,297
95	-	1	-	1	-	1	-
96	-	-	-	-	-	-	-
Total					$ 2,315,885 +	$ 1,679,188 =	$ 3,995,073

Note: Years 11–24 and 31–94 have been omitted from this table.

* From Table 2: Projection of Plan Net Position, column (a).

† From Table 2: Projection of Plan Net Position, column (c).

‡ In this illustration, 5.35% is the rate that produces a total present value that equals the sum of the present values of funded and unfunded benefit payments in columns (f) and (g).

Illustration 2—Note Disclosures and Required Supplementary Information for a Single Employer without a Special Funding Situation

[Note: The following is not a complete set of note disclosures and required supplementary information for the County.]

Sample County
Notes to the Financial Statements
for the Fiscal Year Ended December 31, 20X9

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, changes in the net pension liability, and pension expense, information about the components of pension plan net position and additions to/deductions from plan net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

General Information about Pensions

Plan Description. The County's defined benefit pension plan, County Employees Pension Plan (CEPP), provides benefits for all permanent full-time general and public safety employees of the County. CEPP is a single-employer defined benefit pension plan administered by the County Employees Retirement System (CERS). Article 15 of the Regulations of the State grants the authority to establish and amend the benefit provisions to the CERS Board of Trustees (CERS Board). CERS issues a publicly available financial report that can be obtained by writing to the County Employees Retirement System, Benefit Lane, Any Town, State, USA 00000-0000 or at [Internet address].

Benefits Provided. CEPP provides retirement and disability benefits. Retirement benefits for general members are calculated as 2 percent of 5-year final average salary times the member's years of service. Benefits for public safety members are calculated as 3 percent of 3-year final average salary times the member's years of service. General members with 10 years of continuous service are eligible to retire at age 60. Public safety members with 10 years of continuous service are eligible to retire at age 55. General members may retire at any age after 30 years of service. Public safety members may retire at any age after 20 years of service. All members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two-times the member's final full-year salary. A member who leaves County service may withdraw his or her contributions, plus any accumulated interest.

The plan terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are based on the change in the Consumer Price Index. The maximum increase in retirement allowance is 2 percent for general members and 3 percent for public safety members.

[If there had been a change of benefit terms that affected the measurement of the total pension liability during the period, the County would disclose information required by paragraph 37c of this Statement.]

Plan Membership. As of December 31, 20X9, plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	4,018
Inactive members entitled to but not yet receiving benefits	1,225
Active members	5,332
	10,575

Contributions. Article 15 of the Regulations of the State requires the County and active plan members to make contributions to CEPP based on actuarially calculated rates recommended by an independent actuary and adopted by the CERS Board. The County's rate is determined as the estimated amount necessary to finance benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. The average member rate for the period ended December 31, 20X9, was 11.74 percent of annual pay. The County's contribution rate for that period was 25.16 percent of annual pensionable payroll. The County's contribution rate was calculated using the following methods and assumptions:

Valuation date	June 30, 20X7
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Inflation	3.5 percent
Investment rate of return	7.75 percent, including inflation
Projected salary increases	5.20 percent, average, including inflation
Cost-of-living adjustments	1/2 CPI increase—maximum 2 percent for general members, 3 percent for safety members

Net Pension Liability

Recognized amounts are the result of a roll forward of the results of an actuarial valuation as of June 30, 20X9, to the County's year-end. [If there had been a change of assumption that affected the measurement of the total pension liability during the period, the County would disclose information required by paragraph 37b of this Statement.]

The actuarial assumptions related to inflation, investment rate of return, projected salary increases, and cost-of-living adjustments used in the measurement of the County's net pension liability in the June 30, 20X9 actuarial valuation were the same as those used to determine contributions in the June 30, 20X7 actuarial valuation. The discount rate (interest rate) was 7.75 percent (net of investment expenses), equal to the long-term expected rate of return on plan investments, applied to all periods. The plan's actuaries develop the best-estimate range for the investment return assumption based on the target asset allocation adopted by the CERS Board. The target allocation and best estimates of geometric real rates of return (expected return, net of inflation) for each major asset class are summarized in the following chart:

Asset Class	Target Allocation	Projected Real Rate of Return
Domestic equity	46%	5.4%
International equity	21	5.5
Fixed income	27	1.3
Real estate	6	4.5
Cash	0	0.0
Total	100%	

To calculate the discount rate, cash flows into and out of the plan are projected in order to determine whether resources are projected to be sufficient in future periods for the payment of projected benefit payments of current plan members. The projection assumes that County and member contributions will be made at current actuarially calculated contribution rates. For this purpose, County contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected County contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. In each period of the projection, County contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected County contributions for current plan members.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the County calculated using the current-period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Net pension liability	$ 731,949	$ 669,241	$ 597,699

Retired-Life Mortality. The same retired-life mortality rates are used in the valuation for active members, members retired from service, and beneficiaries. Beneficiary mortality is assumed to be the same assumption as healthy members. For service retirement, rates are based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustment for white-collar workers. Ages are set back two years for males and three years for females. For disability retirement, rates are the same as for service retirement, except the general member minimum was assumed to be 1.5 percent for males and 1.25 percent for females, and the safety member minimum was assumed to be 1.0 percent for both males and females. All rates incorporate adjustments for mortality improvements based on Scale AA.

Experience Studies. The actuarial assumptions used in the June 30, 20X9 valuation are based on the results of an actuarial experience study for the period July 1, 20X5–April 30, 20X7.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances—at 12/31/X8	$ 3,045,893	$ 2,283,333	$ 762,560
Changes for the year:			
Service cost	101,695		101,695
Interest	231,141		231,141
Benefit changes	-		-
Difference between expected and actual experience	(69,638)		(69,638)
Changes of assumptions	-		-
Contributions—employer		109,544	(109,544)
Contributions—member		51,119	(51,119)
Net investment income		199,273	(199,273)
Refunds of contributions	(2,780)	(2,780)	-
Benefits paid	(124,083)	(124,083)	-
Plan administrative expenses		(3,427)	3,427
Other changes		8	(8)
Net changes	136,335	229,654	(93,319)
Balances—at 12/31/X9	$ 3,182,228	$ 2,512,987	$ 669,241

Pension Expense

Service cost	$ 101,695
Interest on the total pension liability	231,141
Current-period benefit changes	-
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(37,579)
Expensed portion of current-period changes of assumptions	-
Member contributions	(51,119)
Projected earnings on plan investments	(178,268)
Expensed portion of current-period differences between actual and projected earnings on plan investments	(4,201)
Administrative expense	3,427
Other	(8)
Recognition of beginning deferred outflows of resources as pension expense	80,979
Recognition of beginning deferred inflows of resources as pension expense	(24,250)
Pension expense	$ 121,817

Current-period changes in the total pension liability due to differences between actual and expected experience related to actual employees are being recognized in pension expense over a period of 11.5 years, which is a weighted-average of the remaining service lives of active employees.

Deferred Outflows of Resources and Deferred Pension Inflows of Resources Related to Pensions

Deferred outflows of resources—beginning	$	310,538
Changes in deferred outflows of resources resulting from current-period:		
Difference between expected and actual experience in the total pension liability		-
Changes of assumptions		-
Earnings on plan investments below projection		-
Recognition of beginning deferred outflows of resources as pension expense		(80,979)
Deferred outflows of resources—ending	$	229,559
Deferred inflows of resources—beginning	$	50,766
Changes in deferred inflows of resources resulting from current-period:		
Difference between expected and actual experience in the total pension liability		32,059
Changes of assumptions		-
Earnings on plan investments above projection		16,804
Recognition of beginning deferred inflows of resources as pension expense		(24,250)
Deferred inflows of resources—ending	$	75,379

Allocated Insurance Contracts

[If there were benefits provided by means of allocated insurance contracts, the employer would disclose information required by paragraph 41 of this Statement. If allocated insurance contracts had been purchased during the period, the County also would disclose information required by paragraph 37e of this Statement.]

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability										
Service cost	$ 101,695	$ 100,317	$ 103,471	$ 98,685	$ 81,657	$ 71,765	$ 65,615	$ 48,060	$ 34,803	$ 36,512
Interest	231,141	219,193	200,491	185,434	171,179	149,133	140,555	129,623	109,901	101,733
Benefit changes	-	-	-	-	-	-	-	24,376	124,144	-
Difference between expected and actual experience	(69,638)	(41,374)	(9,387)	17,438	29,183	(4,152)	3,054	23,900	22,224	33,380
Changes of assumptions	-	-	63,375	-	-	158,409	(14,531)	(8,099)	34,257	-
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,558)	(85,690)	(78,874)	(71,653)	(67,202)	(62,188)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)	(1,882)	(1,588)	(1,486)	(1,368)	(1,690)
Net change in total pension liability	136,335	157,061	245,742	199,219	188,210	287,583	114,231	144,721	256,759	107,747
Total pension liability—beginning	3,045,893	2,888,832	2,643,090	2,443,871	2,255,661	1,968,078	1,853,847	1,709,126	1,452,367	1,344,620
Total pension liability—ending (a)	3,182,228	3,045,893	2,888,832	2,643,090	2,443,871	2,255,661	1,968,078	1,853,847	1,709,126	1,452,367
Plan net position										
Contributions—employer	109,544	107,028	105,755	103,089	89,054	76,485	68,993	48,775	34,881	36,333
Contributions—member	51,119	50,344	54,949	51,926	41,411	36,994	30,567	25,005	19,819	15,997
Net investment income	199,273	83,235	(30,957)	131,629	236,486	154,280	165,030	120,743	(17,987)	(74,580)
Benefit payments	(124,083)	(118,311)	(109,281)	(99,654)	(91,558)	(85,690)	(78,874)	(71,653)	(67,202)	(62,188)
Administrative expense	(3,427)	(3,333)	(3,046)	(2,684)	(2,349)	(2,156)	(2,083)	(1,900)	(1,709)	(1,501)
Refunds of contributions	(2,780)	(2,764)	(2,927)	(2,684)	(2,251)	(1,882)	(1,588)	(1,486)	(1,368)	(1,690)
Other	8	(34)	37	9	(88)	40	(192)	(257)	5	-
Net change in plan net position	229,654	116,165	14,530	181,631	270,705	178,071	181,853	119,227	(33,561)	(87,629)
Plan net position—beginning	2,283,333	2,167,168	2,152,638	1,971,007	1,700,302	1,522,231	1,340,378	1,221,151	1,254,712	1,342,341
Plan net position—ending (b)	2,512,987	2,283,333	2,167,168	2,152,638	1,971,007	1,700,302	1,522,231	1,340,378	1,221,151	1,254,712
Net pension liability—ending (a) – (b)	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864	$ 555,359	$ 445,847	$ 513,469	$ 487,975	$ 197,655

SCHEDULE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability	$ 3,182,228	$ 3,045,893	$ 2,888,832	$ 2,643,090	$ 2,443,871	$ 2,255,661	$ 1,968,078	$ 1,853,847	$ 1,709,126	$ 1,452,367
Plan net position	(2,512,987)	(2,283,333)	(2,167,168)	(2,152,638)	(1,971,007)	(1,700,302)	(1,522,231)	(1,340,378)	(1,221,151)	(1,254,712)
Net pension liability	$ 669,241	$ 762,560	$ 721,664	$ 490,452	$ 472,864	$ 555,359	$ 445,847	$ 513,469	$ 487,975	$ 197,655
Ratio of plan net position to total pension liability	78.97%	74.96%	75.02%	81.44%	80.65%	75.38%	77.35%	72.30%	71.45%	86.39%
Covered-employee payroll	$ 435,373	$ 432,256	$ 426,939	$ 412,280	$ 387,055	$ 349,861	$ 348,918	$ 345,885	$ 313,554	$ 288,932
Net pension liability as a percentage of covered-employee payroll	153.72%	176.41%	169.03%	118.96%	122.17%	158.74%	127.78%	148.45%	155.63%	68.41%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially calculated employer contribution	$ 109,544	$ 107,028	$ 105,755	$ 103,089	$ 89,054	$ 76,485	$ 68,993	$ 48,775	$ 34,881	$ 36,333
Actual employer contributions	(109,544)	(107,028)	(105,755)	(103,089)	(89,054)	(76,485)	(68,993)	(48,775)	(34,881)	(36,333)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 435,373	$ 432,256	$ 426,939	$ 412,280	$ 387,055	$ 349,861	$ 348,918	$ 345,885	$ 313,554	$ 288,932
Actual contributions as a percentage of covered-employee payroll	25.16%	24.76%	24.77%	25.00%	23.01%	21.86%	19.77%	14.10%	11.12%	12.57%

Notes to Required Supplementary Information for the Fiscal Year Ended December 31, 20X9

Benefit Changes. In 20X1, benefits were amended to base public safety member benefits on a three-year final average instead of a five-year final average. The change is reflected in the net pension liability in 20X1 and 20X2.

Changes of Assumptions. In 20X4 and 20X7, amounts reported as changes of assumptions arose primarily due to an increase in assumed life expectancy. In 20X3, changes of assumptions included an increase in the inflation rate from 3.0 percent to 4.0 percent and a decrease in the rates of projected salary increases. In 20X2, changes of assumptions included a decrease in the rates of projected salary increases. In 20X1, amounts reported as changes of assumptions arose primarily due to an increase in assumed life expectancy.

Illustration 3—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer without a Special Funding Situation

[Note: The following is not a complete set of note disclosures and required supplementary information for the school district.]

Sample School District
Notes to the Financial Statements
for the Fiscal Year Ended June 30, 20X9

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, changes in the net pension liability, and pension expense, information about the components of pension plan net position and additions to/deductions from plan net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

General Information about Pensions

Plan Description. The District provides benefits for teaching-certified employees through the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS). Article 33 of the Regulations of the State grants the authority to establish and amend the benefit provisions of the plan to the TRS Board of Trustees (TRS Board). TRS issues a publicly available financial report that can be obtained by writing to the Teachers Retirement System, Retirement Street, Any City, State USA 00000-0000 or at [Internet address].

Benefits Provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the member's final 3-year average compensation. Members with 10 years of continuous service are eligible to retire at age 60. Members are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two-times the member's final full-year salary. [If there had been a change of benefit terms that affected the measurement of the total pension liability during the period, the District would disclose information required by paragraph 69e of this Statement.]

Plan Membership. As of June 30, 20X9, total plan membership (all school districts) consisted of the following:

Retired members or beneficiaries currently receiving benefits	51,392
Inactive members entitled to but not yet receiving benefits	7,911
Active members	92,096
	151,399

Contributions. Per Article 33 of the Regulations of the State, contribution requirements of the plan members and the participating school districts are established and may be amended by the TRS Board. Plan members are required to contribute 6.19 percent of their annual pay. The school districts' contribution rate for that period was 15.38 percent of annual pensionable payroll. The school districts' contribution rate was calculated using the following methods and assumptions:

Valuation date	June 30, 20X8
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Inflation	3.5 percent
Investment rate of return	7.75 percent, including inflation
Projected salary increases	3.76–9.74 percent, including inflation

Net Pension Liability and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the District reported a net pension liability of $7,046, deferred outflows of resources related to pensions of $3,978, and deferred inflows of resources related to pensions of $6,106. Recognized amounts are the District's share of the collective net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions of all employers in TPP, based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts. The District's long-term projected share for purposes of amounts recognized at June 30, 20X9, was 0.20 percent. At June 30, 20X8, the District's projected share was 0.19 percent. Recognized amounts include $314 of net pension liability, $604 of deferred outflows of resources related to pensions, and $334 of deferred inflows of resources related to pensions resulting from the increase in the District's projected share from the prior period. Deferred outflows of resources related to pensions also include $39 resulting from the effect of current-period differences between the District's actual contributions and its share of collective contributions from all school districts recognized in the period.

Assumptions

As a result of the 20X9 actuarial experience study, certain new assumptions were adopted by the TRS Board of Investments for the June 30, 20X9 valuation. These changes included the change in the District's long-term projected share of contributions discussed above, an increase of 0.5 percent in the rates of projected salary increases, and an adjustment of the expectation of life after disability. The following assumptions were used in the measurement of the net pension liability of all school districts in the June 30, 20X9 valuation:

Salary Increases. Rates of annual salary increases assumed for the purpose of the valuation range from 4.26 to 10.24 percent, including inflation.

Inflation. 3.5 percent.

Discount Rate (Interest Rate). 7.75 percent (net of investment expenses), equal to the long-term expected rate of return on plan investments, applied to all periods.

TPP's actuaries develop the best-estimate range for the investment return assumption based on the target asset allocation adopted by the TRS Board. The target allocation and best estimates of geometric real rates of return (expected return, net of inflation) for each major asset class are summarized in the following chart:

Asset Class	Target Allocation	Projected Real Rate of Return
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	

To calculate the discount rate, cash flows into and out of the plan are projected in order to determine whether resources are projected to be sufficient in future periods for the payment of projected benefit payments of current plan members. The projection assumes that school district and member contributions will be made at current actuarially calculated contribution rates. For this purpose, school district contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected school district contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. In each period of the projection, school district contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected school district contributions for current plan members.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the District calculated using the current-period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Net pension liability	$ 7,706	$ 7,046	$ 6,293

Retired Life Mortality. Rates are based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with ages set back three years and adjustments for mortality improvements based on Scale AA.

Experience Studies. The actuarial assumptions used in the June 30, 20X9 valuation are based on the results of an actuarial experience study for the period July 1, 20X6–April 30, 20X9.

Pension Expense

The District reported pension expense of $1,223 for the period ended June 30, 20X9, which included $45 related to current-period changes in the District's long-term projected share of contributions and $17 for past-period changes in its projected share. It also included $4 related to current-period differences between the District's actual contributions and its share of collective school district contributions recognized in the period, and $2 related to past-period differences in contribution amounts. Current-period deferred outflows of resources related to pensions associated with the change in the District's long-term projected share of contributions and those related to the difference in current-period contributions are being recognized in pension expense over a period of 11.5 years, which is a weighted-average of the remaining service lives of active employees.

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Teachers Pension Plan—All Employers

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability										
Service cost	$ 990,261	$ 881,703	$ 786,992	$ 769,005	$ 770,226	$ 722,455	$ 722,380	$ 685,803	$ 602,269	$ 602,153
Interest	2,740,602	2,594,446	2,473,748	2,305,646	2,152,012	2,004,909	1,871,047	1,724,536	1,585,716	1,465,668
Benefit changes	-	50,152	-	-	-	440,809	-	-	-	-
Difference between expected and actual experience	789,864	155,142	(22,933)	(97,644)	453,496	19,715	571,295	590,600	634,956	698,072
Changes of assumptions	515,454	-	-	696,984	-	-	(239,456)	-	-	(245,993)
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Net change in total pension liability	3,243,524	1,882,980	1,675,444	2,226,480	2,036,532	1,947,517	1,769,596	1,935,674	1,824,760	1,576,305
Total pension liability—beginning	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946	19,383,641
Total pension liability—ending (a)	39,502,453	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946
Plan net position										
Contributions—employer	863,626	855,531	750,352	521,978	518,922	414,708	390,679	342,060	317,285	243,489
Contributions—member	347,701	296,176	286,096	262,699	233,192	265,573	216,297	198,618	202,062	179,476
Net investment income	3,487,184	4,092,410	3,396,193	4,118,500	924,991	(1,533,625)	(1,382,548)	3,335,941	3,342,362	3,460,959
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Administrative expense	(43,880)	(42,469)	(43,182)	(38,684)	(41,523)	(37,402)	(33,417)	(29,401)	(27,562)	(24,904)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Other	1,606	1,507	2,686	2,318	150,991	(471)	2,319	440	(1,965)	1,223
Net change in plan net position	2,863,580	3,404,692	2,829,782	3,419,300	447,371	(2,131,588)	(1,962,340)	2,782,393	2,834,001	2,916,648
Plan net position—beginning	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179	18,575,531
Plan net position—ending (b)	35,979,370	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179
Net pension liability—ending (a) – (b)	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 701,209	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)

SCHEDULE OF THE NET PENSION LIABILITY
Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

Teachers Pension Plan Totals—All Employers

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability	$ 39,502,453	$ 36,258,929	$ 34,375,949	$ 32,700,505	$ 30,474,025	$ 28,437,493	$ 26,489,976	$ 24,720,380	$ 22,784,706	$ 20,959,946
Plan net position	(35,979,370)	(33,115,790)	(29,711,098)	(26,881,316)	(23,462,016)	(23,014,645)	(25,146,233)	(27,108,573)	(24,326,180)	(21,492,179)
Net pension liability	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)
Ratio of plan net position to total pension liability	91.08%	91.33%	86.43%	82.20%	76.99%	80.93%	94.93%	109.66%	106.77%	102.54%
Total covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Net pension liability as a percentage of covered-employee payroll	62.74%	60.38%	93.63%	118.29%	142.13%	114.30%	30.55%	(58.14%)	(39.95%)	(14.94%)

Amounts Related to District's Participation in Teachers Pension Plan

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
District's share	0.20%	0.19%	0.19%	0.19%	0.20%	0.20%	0.20%	0.21%	0.21%	0.21%
Total pension liability	$ 79,005	$ 68,892	$ 65,314	$ 62,131	$ 60,948	$ 56,875	$ 52,980	$ 51,913	$ 47,848	$ 44,016
Plan net position	(71,959)	(62,920)	(56,451)	(51,075)	(46,924)	(46,029)	(50,292)	(56,928)	(51,085)	(45,134)
Net pension liability	$ 7,046	$ 5,972	$ 8,863	$ 11,056	$ 14,024	$ 10,846	$ 2,688	$ (5,015)	$ (3,237)	$ (1,118)
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,495	$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
District's net pension liability as a percentage of its covered-employee payroll	61.21%	57.36%	91.23%	116.45%	147.28%	116.63%	30.86%	(61.35%)	(40.93%)	(14.59%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

Teachers Pension Plan Totals—All Employers

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total actuarially calculated employer contributions	$ 863,626	$ 855,531	$ 750,352	$ 521,978	$ 518,922	$ 414,708	$ 390,679	$ 342,060	$ 317,285	$ 243,489
Total actual employer contributions	(863,626)	(855,531)	(750,352)	(521,978)	(518,922)	(414,708)	(390,679)	(342,060)	(317,285)	(243,489)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Actual contributions as a percentage of covered-employee payroll	15.38%	16.43%	15.06%	10.61%	10.52%	8.74%	8.88%	8.33%	8.22%	6.83%

Amounts Related to District's Participation in Teachers Pension Plan

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially calculated employer contribution	$ 1,770	$ 1,711	$ 1,463	$ 1,007	$ 1,002	$ 813	$ 774	$ 681	$ 650	$ 524
Actual employer contribution	(1,770)	(1,711)	(1,463)	(1,007)	(1,002)	(813)	(774)	(681)	(650)	(524)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Direct covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,495	$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
Actual contributions as a percentage of covered-employee payroll	15.38%	16.43%	15.06%	10.61%	10.52%	8.74%	8.88%	8.33%	8.22%	6.83%

Notes to Required Supplementary Information for the Fiscal Year Ended June 30, 20X9

Benefit Changes. In 20X4, benefits were amended to reflect a new definition of base compensation.

Changes of Assumptions. In 20X6, changes of assumptions included a decrease in the inflation rate from 4.0 percent to 3.5 percent and an expectation of retired life mortality based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table.

In 20X3, changes of assumptions for purposes of determining contribution rates included an increase in the amortization period of the unfunded actuarial accrued liability from a 25-year amortization period to a 30-year period.

In 20X0, changes of assumptions for purposes of determining contribution rates included a change in the actuarial asset valuation method from 5-year smoothed market to 3-year smoothed market and an increase in the projected salary increase assumption of 0.5 percent.

Illustration 4—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer with an Unconditional Special Funding Situation

[Note: The following is not a complete set of note disclosures and required supplementary information for the school district.]

Sample School District
Notes to the Financial Statements
for the Fiscal Year Ended June 30, 20X9

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, changes in the net pension liability, and pension expense, information about the components of pension plan net position and additions to/deductions from plan net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

General Information about Pensions

Plan Description. The District provides benefits for teaching-certified employees through the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS). Article 33 of the Regulations of the State grants the authority to establish and amend the benefit provisions of the plan to the TRS Board of Trustees (TRS Board). TRS issues a publicly available financial report that can be obtained by writing to the Teachers Retirement System, Retirement Street, Any City, State, USA 00000-0000 or at [Internet address].

Benefits Provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the member's final 3-year average compensation. Members with 10 years of continuous service are eligible to retire at age 60. Members are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two-times the member's final full-year salary. [If there had been a change of benefit terms that affected the measurement of the total pension liability during the period, the District would disclose information required by paragraph 69e of this Statement.]

Plan Membership. As of June 30, 20X9, total plan membership (all school districts) consisted of the following:

Retired members or beneficiaries currently receiving benefits	51,392
Inactive members entitled to but not yet receiving benefits	7,911
Active members	92,096
	151,399

Contributions. Per Article 33 of the Regulations of the State, contribution requirements of the plan members and the participating school districts are established and may be amended by the TRS Board. Plan members are required to contribute 6.19 percent of their annual pay. The school districts' contribution rate for that period was 15.38 percent of annual pensionable payroll. Article 33 also requires the State to contribute 90 percent of school district contributions on their behalf. The school districts' contribution rate was calculated using the following methods and assumptions:

Valuation date	June 30, 20X8
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, closed
Amortization period	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Inflation	3.5 percent
Investment rate of return	7.75 percent, including inflation
Projected salary increases	3.76–9.74 percent, including inflation

Net Pension Liability and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the District reported a net pension liability and deferred outflows of resources and deferred inflows of resources related to pensions for its share of the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions of all employers in TPP, reduced for support provided to the District by the State. The District's share of collective employer balances is based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts. The District's long-term projected share for purposes of amounts recognized at June 30, 20X9, was 0.20 percent. At June 30, 20X8, the District's projected share was 0.19 percent.

At June 30, 20X9, State support was provided for 90 percent of the District's share, for which the District reported aid revenue of $1,039. State support affected other amounts recognized by the District as follows:

	Net Pension Liability	Deferred Outflows of Resources Related to Pensions	Deferred Inflows of Resources Related to Pensions
District's proportionate share of all employers (0.20%)	$ 7,046	$ 3,371	$ 5,952
Reduction for State pension support	(6,342)	(2,974)	(5,342)
District's recognized amounts *	$ 704	$ 397	$ 610

* Recognized amounts include $31 of net pension liability, $60 of deferred outflows of resources related to pensions, and $33 of deferred inflows of resources related to pensions resulting from the increase in the District's long-term projected share from the prior period. Deferred outflows of resources related to pensions also include $4 resulting from the effect of current-period differences between the District's actual contributions and its share of collective contributions from all school districts recognized in the period.

Assumptions

As a result of the 20X9 actuarial experience study, certain new assumptions were adopted by the TRS Board of Investments for the June 30, 20X9 valuation. These changes included the change in the District's long-term projected share of contributions discussed above, an increase of 0.5 percent in the rates of projected salary increases, and an adjustment of the expectation of life after disability. The following assumptions were used in the measurement of the employers' net pension liability in the June 30, 20X9 valuation:

Salary Increases. Rates of annual salary increases assumed for the purpose of the valuation range from 4.26 to 10.24 percent, including inflation.

Inflation. 3.5 percent.

Discount Rate (Interest Rate). 7.75 percent (net of investment expenses), equal to the long-term expected rate of return on plan investments, applied to all periods.

TPP's actuaries develop the best-estimate range for the investment return assumption based on the target asset allocation adopted by the TRS Board. The target allocation and best estimates of geometric real rates of return (expected return, net of inflation) for each major asset class are summarized in the following chart:

Asset Class	Target Allocation	Projected Real Rate of Return
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	

To calculate the discount rate, cash flows into and out of the plan are projected in order to determine whether resources are projected to be sufficient in future periods for the payment of projected benefit payments of current plan members. The projection assumes that school district contributions (including those made on behalf of the districts by the State) and member contributions will be made at current actuarially calculated contribution rates. For this purpose, school district contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected school district contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. In each period of the projection, school district contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected school district contributions for current plan members.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the District calculated using the current-period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Net pension liability	$ 770	$ 704	$ 629

Retired-Life Mortality. Rates are based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with ages set back three years and adjustments for mortality improvements based on Scale AA.

Experience Studies. The actuarial assumptions used in the June 30, 20X9 valuation are based on the results of an actuarial experience study for the period July 1, 20X6–April 30, 20X9.

Pension Expense

The District reported pension expense of $1,160 for the period ended June 30, 20X9, which included $4 related to current-period changes in the District's long-term projected share of contributions and $1 for past-period changes in its projected share. It also included $0.38 related to current-period differences between the District's actual contributions and its share of collective employer contributions (including contributions made on behalf of the school districts by the State) recognized in the period, and $0.16 related to past-period differences in contribution amounts. Current-period deferred outflows of resources related to pensions associated with the change in the District's long-term projected share of contributions and those related to the difference in current-period contributions are being recognized in pension expense over a period of 11.5 years, which is a weighted-average of the remaining service lives of active employees.

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Teachers Pension Plan—All Employers

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability										
Service cost	$ 990,261	$ 881,703	$ 786,992	$ 769,005	$ 770,226	$ 722,455	$ 722,380	$ 685,803	$ 602,269	$ 602,153
Interest	2,740,602	2,594,446	2,473,748	2,305,646	2,152,012	2,004,909	1,871,047	1,724,536	1,585,716	1,465,668
Benefit changes	-	50,152	-	-	-	440,809	-	-	-	-
Difference between expected and actual experience	789,864	155,142	(22,933)	(97,644)	453,496	19,715	571,295	590,600	634,956	698,072
Changes of assumptions	515,454	-	-	696,984	-	-	(239,456)	-	-	(245,993)
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Net change in total pension liability	3,243,524	1,882,980	1,675,444	2,226,480	2,036,532	1,947,517	1,769,596	1,935,674	1,824,760	1,576,305
Total pension liability—beginning	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946	19,383,641
Total pension liability—ending (a)	39,502,453	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946
Plan net position										
Contributions—employer	86,363	85,553	75,035	52,198	51,892	41,471	39,068	34,206	31,729	24,349
Contributions—State	777,263	769,978	675,317	469,780	467,030	373,237	351,611	307,854	285,557	219,140
Contributions—member	347,701	296,176	286,096	262,699	233,192	265,573	216,297	198,618	202,062	179,476
Net investment income	3,487,184	4,092,410	3,396,193	4,118,500	924,991	(1,533,625)	(1,382,548)	3,335,941	3,342,362	3,460,959
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Administrative expense	(43,880)	(42,469)	(43,182)	(38,684)	(41,523)	(37,402)	(33,417)	(29,401)	(27,562)	(24,904)
Refunds of contributions	(18,038)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Other	1,606	1,507	2,686	2,318	150,991	(471)	2,319	440	(1,965)	1,223
Net change in plan net position	2,863,580	3,404,692	2,829,782	3,419,300	447,371	(2,131,588)	(1,962,340)	2,782,393	2,834,001	2,916,648
Plan net position—beginning	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179	18,575,531
Plan net position—ending (b)	35,979,370	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179
Net pension liability—ending (a) – (b)	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)

SCHEDULE OF THE NET PENSION LIABILITY
Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

Teachers Pension Plan Totals—All Employers

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability	$ 39,502,453	$ 36,258,929	$ 34,375,949	$ 32,700,505	$ 30,474,025	$ 28,437,493	$ 26,489,976	$ 24,720,380	$ 22,784,706	$ 20,959,946
Plan net position	(35,979,370)	(33,115,790)	(29,711,098)	(26,881,316)	(23,462,016)	(23,014,645)	(25,146,233)	(27,108,573)	(24,326,180)	(21,492,179)
Net pension liability	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)
Ratio of plan net position to total pension liability	91.08%	91.33%	86.43%	82.20%	76.99%	80.93%	94.93%	109.66%	106.77%	102.54%
Total covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Net pension liability as a percentage of covered-employee payroll	62.74%	60.38%	93.63%	118.29%	142.13%	114.30%	30.55%	(58.14%)	(39.95%)	(14.94%)

Amounts Related to District's Participation in Teachers Pension Plan

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
District's share—before State support	0.20%	0.19%	0.19%	0.19%	0.20%	0.20%	0.20%	0.21%	0.21%	0.21%
Total pension liability—before State support	$ 79,005	$ 68,892	$ 65,314	$ 62,131	$ 60,948	$ 56,875	$ 52,980	$ 51,913	$ 47,848	$ 44,016
Plan net position—before State support	(71,959)	(62,920)	(56,451)	(51,075)	(46,924)	(46,029)	(50,292)	(56,928)	(51,085)	(45,134)
Net pension liability—before State support	7,046	5,972	8,863	11,056	14,024	10,846	2,688	(5,015)	(3,237)	(1,118)
Reduction for State pension support	(6,342)	(5,375)	(7,977)	(9,951)	(12,622)	(9,761)	(2,419)	4,514	2,913	1,006
Net pension liability—recognized	$ 704	$ 597	$ 886	$ 1,105	$ 1,402	$ 1,085	$ 269	$ (501)	$ (324)	$ (112)
District's share—recognized	0.020%	0.019%	0.019%	0.019%	0.020%	0.020%	0.020%	0.021%	0.021%	0.021%
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,495	$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
District's recognized net pension liability as a percentage of its covered-employee payroll	6.12%	5.73%	9.12%	11.64%	14.72%	11.67%	3.08%	(6.13%)	(4.10%)	(1.46%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

Teachers Pension Plan Totals—All Employers

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total actuarially calculated employer contributions **(a)**	$ 863,626	$ 855,531	$ 750,352	$ 521,978	$ 518,922	$ 414,708	$ 390,679	$ 342,060	$ 317,285	$ 243,489
Total actual employer contributions—direct	(86,363)	(85,553)	(75,035)	(52,198)	(51,892)	(41,471)	(39,068)	(34,206)	(31,729)	(24,349)
Total actual State contributions for employers	(777,263)	(769,978)	(675,317)	(469,780)	(467,030)	(373,237)	(351,611)	(307,854)	(285,557)	(219,140)
Total actual contributions made **(b)**	863,626	855,531	750,352	521,978	518,922	414,708	390,679	342,060	317,285	243,489
Annual contribution deficiency (excess) **(a) – (b)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Actual contributions as a percentage of covered-employee payroll	15.38%	16.43%	15.06%	10.61%	10.52%	8.74%	8.88%	8.33%	8.22%	6.83%

Amounts Related to District's Participation in Teachers Pension Plan

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially calculated employer contribution **(a)**	$ 1,770	$ 1,711	$ 1,463	$ 1,007	$ 1,002	$ 813	$ 774	$ 681	$ 650	$ 524
Actual employer contributions—direct	(177)	(171)	(146)	(101)	(100)	(81)	(77)	(68)	(65)	(52)
Actual State contributions for District	(1,593)	(1,540)	(1,317)	(906)	(902)	(732)	(697)	(613)	(585)	(472)
Total actual contributions made **(b)**	1,770	1,711	1,463	1,007	1,002	813	774	681	650	524
Annual contribution deficiency (excess) **(a) – (b)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,495	$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
Actual contributions as a percentage of covered-employee payroll	1.54%	1.64%	1.50%	1.06%	1.05%	0.87%	0.88%	0.83%	0.82%	0.68%

Notes to Required Supplementary Information
for the Fiscal Year Ended June 30, 20X9

Benefit Changes. In 20X4, benefits were amended to reflect a new definition of base compensation.

Changes of Assumptions. In 20X6, changes of assumptions included a decrease in the inflation rate from 4.0 percent to 3.5 percent and an expectation of retired life mortality based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table.

In 20X3, changes of assumptions for purposes of determining contribution rates included an increase in the amortization period of the unfunded actuarial accrued liability from a 25-year amortization period to a 30-year period.

In 20X0, changes of assumptions for purposes of determining contribution rates included a change in the actuarial asset valuation method from 5-year smoothed market to 3-year smoothed market and an increase in the projected salary increase assumption of 0.5 percent.

Illustration 5—Note Disclosures and Required Supplementary Information for a Governmental Nonemployer Contributing Entity with an Unconditional Special Funding Situation (Substantial Proportion of Total)

[Note: The following is not a complete set of note disclosures and required supplementary information for the State.]

Sample State
Notes to the Financial Statements
for the Fiscal Year Ended June 30, 20X9

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, changes in the net pension liability, and pension expense, information about the components of pension plan net position and additions to/deductions from plan net position have been determined on the same basis as they are reported by the pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

General Information about Pensions

The State reports a net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and expense as a result of its legal requirement to contribute to the Teachers Pension Plan (TPP) on behalf of school districts in the State. The following is information about TPP:

Plan Description. TPP is a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) that provides benefits for teaching-certified employees of participating school districts. Article 33 of the Regulations of the State grants the authority to establish and amend the benefit provisions of the plan to the TRS Board of Trustees (TRS Board). TRS issues a publicly available financial report that can be obtained by writing to the Teachers Retirement System, Retirement Street, Any City, State, USA 00000-0000 or at [Internet address].

Benefits Provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the member's final 3-year average compensation. Members with 10 years of continuous service are eligible to retire at age 60. Members are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two-times the member's final full-year salary. [If there had been a change of benefit terms that affected the measurement of the total pension liability during the period, the State would disclose information required by paragraph 89e of this Statement.]

Plan Membership. As of June 30, 20X9, total plan membership (all school districts) consisted of the following:

Retired members or beneficiaries currently receiving benefits	51,392
Inactive members entitled to but not yet receiving benefits	7,911
Active members	92,096
	151,399

Contributions. Per Article 33 of the Regulations of the State, contribution requirements of the plan members and the participating school districts are established and may be amended by the TRS Board. Plan members are required to contribute 6.19 percent of their annual pay. The school districts' contribution rate for that period was 15.38 percent of annual pensionable payroll. Article 33 also requires the State to contribute 90 percent of school district contributions on their behalf. The school districts' contribution rate was calculated using the following methods and assumptions:

Valuation date	June 30, 20X8
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, closed
Amortization period	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Inflation	3.5 percent
Investment rate of return	7.75 percent, including inflation
Projected salary increases	3.76–9.74 percent, including inflation

Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense

At June 30, 20X9, the State reported a net pension liability of $3,170,772, deferred outflows of resources related to pensions of $1,486,991, and deferred inflows of resources of $2,670,957 related to pensions for benefits provided through TPP as a result of the requirement that it provide pension support to participating school districts. Recognized amounts are 90 percent of the amounts for all school districts in the plan, based on the requirements of Article 33. As a result of its involvement in the plan, the State also recognized pension expense of $519,413 for the period ended June 30, 20X9.

[If the State had a current-period change in its projected long-term share of school district contributions or a current-period difference between the amount of State contributions recognized by the pension plan and the amount of the State's share of the total contributions recognized by the plan from the school districts and the State, the State would disclose information required by paragraph 89f of this Statement.]

[If the State had past-period changes in its projected long-term share or past-period differences between the amount of State contributions recognized by the pension plan and the amount of the State's share of the total contributions recognized by the plan from the school districts and the State, the State would disclose information required by paragraph 89g of this Statement.]

Assumptions

As a result of the 20X9 actuarial experience study, certain new assumptions were adopted by the TRS Board of Investments for the June 30, 20X9 valuation. These changes included an increase of 0.5 percent in the rates of projected salary increases and an adjustment of the expectation of life after disability. The following assumptions were used in the measurement of the employers' net pension liability in the June 30, 20X9 valuation:

Salary Iincreases. Rates of annual salary increases assumed for the purpose of the valuation range from 4.26 to 10.24 percent, including inflation.

Inflation. 3.5 percent.

Discount Rate (Interest Rate). 7.75 percent (net of investment expenses), equal to the long-term expected rate of return on plan investments, applied to all periods.

TPP's actuaries develop the best-estimate range for the investment return assumption based on the target asset allocation adopted by the TRS Board. The target allocation and best estimates of geometric real rates of return (expected return, net of inflation) for each major asset class are summarized in the following chart:

Asset Class	Target Allocation	Projected Real Rate of Return
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	

To calculate the discount rate, cash flows into and out of the plan are projected in order to determine whether resources are projected to be sufficient in future periods for the payment of projected benefit payments of current plan members. The projection assumes that school district contributions (including those made on behalf of the districts by the State) and member contributions will be made at current actuarially calculated contribution rates. For this purpose, school district contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected school district contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. In each period of the projection, school district contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected school district contributions for current plan members.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the State calculated using the current-period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	**Current Assumption (7.75%)**	**1% Increase (8.75%)**
Net pension liability	$ 3,467,873	$ 3,170,772	$ 2,831,816

Retired-Life Mortality. Rates are based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with ages set back three years and adjustments for mortality improvements based on Scale AA.

Experience Studies. The actuarial assumptions used in the June 30, 20X9 valuation are based on the results of an actuarial experience study for the period July 1, 20X6–April 30, 20X9.

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
Teachers Pension Plan—All Employers

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability										
Service cost	$ 990,261	$ 881,703	$ 786,992	$ 769,005	$ 770,226	$ 722,455	$ 722,380	$ 685,803	$ 602,269	$ 602,153
Interest	2,740,602	2,594,446	2,473,748	2,305,646	2,152,012	2,004,909	1,871,047	1,724,536	1,585,716	1,465,668
Benefit changes	-	50,152	-	-	-	440,809	-	-	-	-
Difference between expected and actual experience	789,864	155,142	(22,933)	(97,644)	453,496	19,715	571,295	590,600	634,956	698,072
Changes of assumptions	515,454	-	-	696,984	-	-	(239,456)	-	-	(245,993)
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Net change in total pension liability	3,243,524	1,882,980	1,675,444	2,226,480	2,036,532	1,947,517	1,769,596	1,935,674	1,824,760	1,576,305
Total pension liability—beginning	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946	19,383,641
Total pension liability—ending (a)	39,502,453	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946
Plan net position										
Contributions—employer (direct)	86,363	85,553	75,035	52,198	51,892	41,471	39,068	34,206	31,729	24,349
Contributions—State	777,263	769,978	675,317	469,780	467,030	373,237	351,611	307,854	285,557	219,140
Contributions—member	347,701	296,176	286,096	262,699	233,192	265,573	216,297	198,618	202,062	179,476
Net investment income	3,487,184	4,092,410	3,396,193	4,118,500	924,991	(1,533,625)	(1,382,548)	3,335,941	3,342,362	3,460,959
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Administrative expense	(43,880)	(42,469)	(43,182)	(38,684)	(41,523)	(37,402)	(33,417)	(29,401)	(27,562)	(24,904)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Other	1,606	1,507	2,686	2,318	150,991	(471)	2,319	440	(1,965)	1,223
Net change in plan net position	2,863,580	3,404,692	2,829,782	3,419,300	447,371	(2,131,588)	(1,962,340)	2,782,393	2,834,001	2,916,648
Plan net position—beginning	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179	18,575,531
Plan net position—ending (b)	35,979,370	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179
Net pension liability—ending (a) – (b)	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)

SCHEDULE OF THE NET PENSION LIABILITY
Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

Teachers Pension Plan Totals—All Employers

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability	$ 39,502,453	$ 36,258,929	$ 34,375,949	$ 32,700,505	$ 30,474,025	$ 28,437,493	$ 26,489,976	$ 24,720,380	$ 22,784,706	$ 20,959,946
Plan net position	(35,979,370)	(33,115,790)	(29,711,098)	(26,881,316)	(23,462,016)	(23,014,645)	(25,146,233)	(27,108,573)	(24,326,180)	(21,492,179)
Net pension liability	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)
Ratio of plan net position to total pension liability	91.08%	91.33%	86.43%	82.20%	76.99%	80.93%	94.93%	109.66%	106.77%	102.54%
Total covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Net pension liability as a percentage of covered-employee payroll	62.74%	60.38%	93.63%	118.29%	142.13%	114.30%	30.55%	(58.14%)	(39.95%)	(14.94%)

Amounts Related to State's Participation in Teachers Pension Plan

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
State's share	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
Total pension liability	$ 35,552,208	$ 32,633,034	$ 30,938,353	$ 29,430,454	$ 27,426,622	$ 25,593,743	$ 23,840,978	$ 22,248,342	$ 20,506,235	$ 18,863,951
Plan net position	(32,381,436)	(29,804,211)	(26,739,988)	(24,193,184)	(21,115,814)	(20,713,181)	(22,631,610)	(24,397,716)	(21,893,562)	(19,342,961)
Net pension liability	$ 3,170,772	$ 2,828,823	$ 4,198,365	$ 5,237,270	$ 6,310,808	$ 4,880,562	$ 1,209,368	$ (2,149,374)	$ (1,387,327)	$ (479,010)

SCHEDULE OF EMPLOYER CONTRIBUTIONS
Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

Teachers Pension Plan Totals—All Employers

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total actuarially calculated employer contribution **(a)**	$ 863,626	$ 855,531	$ 750,352	$ 521,978	$ 518,922	$ 414,708	$ 390,679	$ 342,060	$ 317,285	$ 243,489
Total actual employer contributions—direct	(86,363)	(85,553)	(75,035)	(52,198)	(51,892)	(41,471)	(39,068)	(34,206)	(31,729)	(24,349)
Total actual State contributions for employers	(777,263)	(769,978)	(675,317)	(469,780)	(467,030)	(373,237)	(351,611)	(307,854)	(285,557)	(219,140)
Total actual contributions made **(b)**	863,626	855,531	750,352	521,978	518,922	414,708	390,679	342,060	317,285	243,489
Annual contribution deficiency (excess) **(a) – (b)**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Actual contributions as a percentage of covered-employee payroll	15.4%	16.4%	15.1%	10.6%	10.5%	8.7%	8.9%	8.3%	8.2%	6.8%

Amounts Related to State's Participation in Teachers Pension Plan

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially calculated State contribution	$ 777,263	$ 769,978	$ 675,317	$ 469,780	$ 467,030	$ 373,237	$ 351,611	$ 307,854	$ 285,557	$ 219,140
Actual State contributions for School Districts	777,263	769,978	675,317	469,780	467,030	373,237	351,611	307,854	285,557	219,140
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Notes to Required Supplementary Information
for the Fiscal Year Ended June 30, 20X9

Benefit Changes. In 20X4, benefits were amended to reflect a new definition of base compensation.

Changes of Assumptions. In 20X6, changes of assumptions included a decrease in the inflation rate from 4.0 percent to 3.5 percent and an expectation of retired life mortality based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table.

In 20X3, changes of assumptions for purposes of determining contribution rates included an increase in the amortization period of the unfunded actuarial accrued liability from a 25-year amortization period to a 30-year period.

In 20X0, changes of assumptions for purposes of determining contribution rates included a change in the actuarial asset valuation method from 5-year smoothed market to 3-year smoothed market and an increase in the projected salary increase assumption of 0.5 percent.

Illustration 6—Note Disclosures for an Employer with Defined Contribution Pensions and without a Special Funding Situation

[Note: The following is not a complete set of note disclosures for the City.]

Sample City
Notes to the Financial Statements
for the Fiscal Year Ended June 30, 20X9

(Dollar amounts in thousands)

Defined Contribution Pensions

The City contributes to the City Retirement Plan (CRP), a defined contribution pension plan, for its full-time general administrative employees. CRP is administered by the City Retirement System.

Benefit provisions, including contribution requirements, for CRP are established and may be amended by the City Council. For each employee in the plan, the City is required to contribute 7 percent of annual salary, exclusive of overtime pay, to an individual employee account. Employees are permitted to make contributions to the plan, up to applicable Internal Revenue Code limits. During the fiscal year ending June 30, 20X9, City contributions totaled $1,520 and employee contributions totaled $657.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in City contributions and earnings on City contributions after completion of 23 months of creditable service with the City. Nonvested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the plan's administrative expenses. For the fiscal year ended June 30, 20X9, forfeitures of $48 were included in pension expense.

Appendix D

CODIFICATION INSTRUCTIONS

292. The sections that follow update the June 30, 2010, *Codification of Governmental Accounting and Financial Reporting Standards,* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

REPORTING LIABILITIES **SECTION 1500**

Sources: [Add the following:] GASBS XX

See also: [Update title of Section P20 and add reference to Section P21, "Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts"]

.102 [Revise sources as follows:] [NCGAS 1, ¶42, as amended by NCGAS 4, ¶14, NCGAI 9, ¶12, GASBS 6, ¶13 and ¶23, GASBS 10, ¶53, GASBS 13, ¶7, GASBS 16, ¶6, GASBS 18, ¶7, GASBS 47, ¶3, GASBS 49, ¶9, and GASBI 1, ¶13; GASBS 34, ¶6, ¶30, ¶81, ¶82, ¶92, and ¶108; GASBS XX, ¶16–¶27, ¶44–¶58, ¶72, ¶76, ¶79, ¶80, ¶94, ¶96, and ¶103]

.103 [Revise sources as follows:] [NCGAS 1, ¶43, as amended by NCGAS 4, ¶14, NCGAI 9, ¶12, GASBS 6, ¶17, GASBS 13, ¶9, GASBS 16, ¶13, GASBS 17, ¶6, GASBS 18, ¶10, GASBS 47, ¶3, GASBS 49, ¶9 and ¶24, and GASBI 1, ¶10 and ¶12; GASBS 34, ¶82; GASBS XX, ¶29, ¶62, ¶72, ¶83, ¶94, ¶97, and ¶104]

[Revise heading of paragraph .601 as follows:] **Recognition of Liabilities by Cost-Sharing Employers for Pensions Not Provided through a Qualified Trust and for Other Postemployment Benefits**

.601 [Revise the introductory paragraph as follows and update cross-references throughout:] This paragraph clarifies the requirements of Sections P21 and P50 for the recognition of liabilities by cost-sharing employers for pensions not provided through a pension plan administered through a qualified trust and for other postemployment benefits (OPEB). [GASBTB 2004-2, ¶1, as amended by GASBS XX, ¶4 and ¶5]

* * *

BASIS OF ACCOUNTING **SECTION 1600**

Sources: [Add the following:] GASBS XX

See also: [Update title of Section P20 and add reference to Section P21, "Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts"]

.118 [Revise sources as follows:] [GASBI 6, ¶9, as amended by GASBS 47, ¶3, and GASBS 49, ¶9 and ¶24; GASBS XX, ¶29, ¶62, ¶72, ¶83, ¶94, ¶97, and ¶104]

[Revise heading of paragraph .601 as follows:] **Recognition of Liabilities by Cost-Sharing Employers for Pensions Not Provided through a Qualified Trust and for Other Postemployment Benefits**

.601 [Revise the introductory paragraph as follows and update cross-references throughout:] This paragraph clarifies the requirements of Sections P21 and P50 for the recognition of liabilities to employees by cost-sharing employers for pensions not provided through a pension plan administered through a qualified trust and for other postemployment benefits (OPEB). [GASBTB 2004-2, ¶1, as amended by GASBS XX, ¶4 and ¶5]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT **SECTION 2200**

.181 [Update title of Section P20 and add Section P21, "Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts" as a cross-reference for employee-benefit-related information]; revise sources as follows:] [GASBS 25, ¶44; GASBS 27, ¶39; GASBS 34, ¶6; GASBS 34, ¶129, as amended by GASBS XX, ¶42, ¶43, ¶70, ¶71, ¶90, ¶91, and ¶93; GASBS 43, ¶46; GASBS 45, ¶40]

* * *

NOTES TO FINANCIAL STATEMENT **SECTION 2300**

.101 [Revise sources as follows:] [NCGAS 1, ¶157, as amended by GASBS 14, GASBS 25, ¶40, GASBS 27, ¶22, GASBS 34, ¶6, ¶80, ¶82, ¶131, and ¶133, and GASBS XX, ¶43, ¶71, and ¶91]

.106 [Revise subparagraph f as follows:] Pension obligations. (See Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts," and Section P21, "Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts.")

[Revise cross-reference in subparagraph y as follows:] (See Section N50, paragraph .135 and Section P20, paragraphs .180–.185, .193, .201, and .202, as applicable.)

[Revise footnote 5 as follows:] Information about pension and OPEB obligations to employees should be reported in a separate pension or OPEB note, as required by Sections P20, P21, and P50. Pension or OPEB liabilities to a defined benefit pension plan administered through a qualified trust should be disclosed with short-term or long-term liabilities, as appropriate, and governments also should apply the requirements of paragraph .169 or .191 of Section P20, as applicable. [GASBS 34, fn47, as amended by GASBS XX, ¶32–37, ¶65–¶69, ¶73, ¶85–¶89, ¶92, ¶95, ¶99, ¶102, ¶105, and ¶106]

.119 [Add sentence at the end of the paragraph as follows:] Governments that report balances of payables related to liabilities to a defined benefit pension plan that is administered through a qualified trust also should disclose information required by paragraph .169 or .191 of Section P20, as applicable. [GASBS 38, ¶13, as amended by GASBS XX, ¶73 and ¶95]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE **SECTION 2600**

.122 [In the first sentence after subparagraph b(2), replace *Determining* with *Except for required disclosures about certain pensions administered through qualified trusts (paragraph .111 of Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts"), determining.*] [GASBS 14, ¶63, as amended by GASBS 34, ¶6, and GASBS XX, ¶15; GASBS 34, ¶113]

* * *

CLAIMS AND JUDGMENTS **SECTION C50**

.102 [Update title of Section P20 and add Section P21, "Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts" as a cross-reference for postemployment benefits requirements.] [GASBS 10, ¶2, as amended by GASBS 45, ¶4–¶9, GASBS 47, ¶3, and GASBS XX, ¶4 and ¶5]

.146 [Replace the first word of the fourth sentence with the following:] Except for required disclosures about certain pensions administered through qualified trusts (paragraph .111 of Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts"), determining [GASBS 10, ¶78, as amended by GASBS 34, ¶6; GASBS 14, ¶11; GASBS 14, ¶63, as amended by GASBS XX, ¶15; GASBS 34, ¶113]

* * *

COMPENSATED ABSENCES **SECTION C60**

.108 [Revise footnote 6 as follows:] An accrual for the required contribution to a defined contribution pension or OPEB plan, a cost-sharing multiple-employer defined benefit pension plan that is not administered as a qualified trust, or a cost-sharing multiple-employer defined benefit OPEB plan should be made if (1) the employer is liable for a contribution to the plan based on termination payments made to employees for vacation leave, sick leave, or other compensated absences and (2) those amounts are not included in the determination of employer contributions for the pension or OPEB. An additional accrual should not be made relating to single-employer or agent multiple-employer defined benefit pensions. [GASBS 16, fn7, as amended by GASBS 45, ¶9, and GASBS XX, ¶4, ¶5, ¶20, and ¶51]

* * *

INVESTMENTS **SECTION I50**

.123 [Replace the first word of the third sentence with the following:] Except for required disclosures about certain pensions administered through qualified trusts (paragraph .111 of Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts"), determining [GASBS 14, ¶11; GASBS 14, ¶63, as amended by GASBS XX, ¶15]

* * *

NONEXCHANGE TRANSACTIONS **SECTION N50**

Sources: [Add the following:] GASBS XX

See also: [Add reference to Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts"]

[Insert new paragraph .130, renumber subsequent paragraphs.]

.130 On-behalf payments for pensions provided through a pension plan that is administered through a qualified trust should be accounted for as required in Section P20, "Pension Activities—Employer Reporting for Benefits Provided Through Qualified Trusts." For all other on-behalf payments, the requirements of paragraphs .131–.136 of this section should be applied. [GASBS 24, ¶4, as amended by GASBS XX, ¶5]

* * *

[Revise section title and replace entire section as follows:]

PENSION ACTIVITIES—EMPLOYER REPORTING FOR BENEFITS PROVIDED THROUGH QUALIFIED TRUSTS — SECTION P20

Sources: GASB Statement XX

See also: Section N50, "Nonexchange Transactions"
Section P21, "Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts"
Section P50, "Postemployment Benefits Other Than Pensions—Employer Reporting"
Section Pe5, "Pension Plans Administered through Qualified Trusts—Defined Benefit"
Section Pe6, "Pension Plans Administered through Qualified Trusts—Defined Contribution"
Section Po50, "Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"
Section Sp20, "Special-Purpose Governments"
Section T25, "Termination Benefits"

Scope and Applicability of This Statement

.101 This section establishes standards of accounting and financial reporting for **defined benefit pensions**[1] and **defined contribution pensions** provided to the employees of state and local governmental employers through **pension plans** that are administered through trusts, or equivalent arrangements, in which:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a **nonemployer contributing entity,** and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing **pensions** to **plan members** in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

A trust, or equivalent arrangement, that is used to administer a pension plan and that has these characteristics is referred to in this section as a **qualified trust.** [GASBS XX, ¶4]

[1] [GASBS XX, fn1; change *Statement* to *section*.]

.102 [GASBS XX, ¶5; change *Statement* to *section* and boldface the term *nonemployer contributing entities.*]

.103–.202 [GASBS XX, ¶7–¶106, including headings and footnotes; change *Statement* to *section* and update cross-references throughout; in paragraph .103, boldface the term *defined benefit pension plan*, and in paragraph .194, boldface the term *defined contribution pension plan*.]

DEFINITIONS

.501–.544 [GASBS XX, ¶110, including footnotes; change *Statement* to section.]

* * *

[Insert new section as follows:]

PENSION ACTIVITIES—EMPLOYER REPORTING FOR BENEFITS NOT PROVIDED THROUGH QUALIFIED TRUSTS **SECTION P21**

Sources: [Insert sources from current Section P20.]

See also: [Insert references from current Section P20; update titles of sections and add the following:]
Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts"
Section Pe7, "Pension Plans Not Administered through Qualified Trusts—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Qualified Trusts—Defined Contribution"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"

[Insert Note from current Section P20.]

[Insert current Section P20, paragraphs .101–.584; revise paragraph .101 as follows and update cross-references throughout:]

.101 This section establishes standards of accounting and financial reporting for pension expenditures/expense and related pension liabilities, note disclosures, and required supplementary information in the financial reports of state and local governmental employers whose employees are provided with pensions through pension plans that are not administered through qualified trusts, as defined in Section Pe5, paragraph .101.[1] It does not address accounting and financial reporting for pension (and other employee benefit) trust funds of the employer. [GASBS 27, ¶3, as amended by GASBS 34, ¶69, and GASBS XX, ¶4]

[1] [Insert current footnote 1 from Section P20.]

[Revise heading of paragraph .601 as follows:] **Recognition of Pension Expenditures/Expense and Liabilities by Cost-Sharing Employers for Pensions Not Provided through Qualified Trusts**

.601 [Revise the introductory paragraph as follows and update cross-references throughout:] This paragraph clarifies the requirements of this section for recognition of pension expenditures/expense and liabilities by cost-sharing employers for pensions not provided through a pension plan administered through a qualified trust. [GASBTB 2004-2, ¶1, as amended by GASBS XX, ¶4 and ¶5]

* * *

[Revise section title as follows and update cross-references throughout:]

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—EMPLOYER REPORTING **SECTION P50**

See also: [Update title of Section P20 and add reference to Section P21, “Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts”]

* * *

TERMINATION BENEFITS **SECTION T25**

See also: [Update title of Section P20 and add reference to Section P21, “Pension Activities—Employer Reporting for Benefits Not Provided through Qualified Trusts”]

.102 [Add cross-reference to Section P21.] [GASBS 47, ¶4, as amended by GASBS XX]

.113 [Revise parenthetical as follows and add a cross-reference to Section P21:] (for example, a change in an employer’s total pension liability or its actuarial accrued liability for pension benefits or postemployment healthcare benefits) [GASBS 47, ¶17, as amended by GASBS XX, ¶4; GASBS XX, fn19 and fn20]

.115 [Revise last sentence as follows:] To meet this requirement, an employer that provides termination benefits that affect defined benefit pension obligations should disclose in the notes to the financial statements the change in the total pension liability or actuarial accrued liability, as applicable, attributable to the termination benefits. An employer that provides termination benefits that affect defined benefit OPEB obligations should disclose the change in the actuarial accrued liability for the OPEB plan attributable to the termination benefit. [GASBS 47, ¶19, as amended by GASBS XX, ¶17–¶26 and ¶44–¶57]