[Completely Superseded]

Statement No. 4 of the Governmental Accounting Standards Board

Applicability of FASB Statement No. 87, “Employers’ Accounting for Pensions,” to State and Local Governmental Employers
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Summary

This Statement provides that state and local governmental employers should not change their accounting and financial reporting of pension activities as a result of FASB Statement No. 87, *Employers’ Accounting for Pensions*. The GASB is making progress on that subject and expects to issue one or more pronouncements on it in the near future.

The provisions of this Statement are effective on issuance.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including public benefit corporations and authorities, public employee retirement systems, and governmental utilities, hospitals, colleges, and universities.
Applicability of FASB Statement No. 87, “Employers’ Accounting for Pensions,” to State and Local Governmental Employers

September 1986
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September 1986

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INTRODUCTION AND BACKGROUND INFORMATION

1. This Statement provides guidance on the applicability of FASB Statement No. 87, *Employers’ Accounting for Pensions*, to state and local governmental employers that report pension activities in their financial statements.

2. The GASB started research on the topic of pension accounting and reporting in December 1984. The applicability of FASB Statement 87 to governmental employers was considered by the GASB staff in January 1986, and the staff proposed to issue a Technical Bulletin on the subject. However, the Board agreed in March 1986 that the guidance should be provided in a GASB Statement.


4. When it began operations, the GASB issued Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, which continues in force all effective pronouncements of the National Council on Governmental Accounting (NCGA) and applicable pronouncements of the American Institute of CPAs until altered, amended, supplemented, revoked, or superseded by subsequent GASB pronouncements. NCGA Statement 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers*, was not effective at that time because, by mutual agreement with the FASB, both the effective date of NCGA Statement 6 and the applicability of FASB Statement 35 to public employee retirement systems (PERS) had been extended indefinitely. To provide interim guidance, paragraph 9 of
GASB Statement 1 states that, pending issuance by the Board of a Statement or Statements on pension accounting and financial reporting, the following pronouncements are considered by the Board as sources of acceptable accounting and reporting principles for PERS and state and local governmental employers (the order shown does not indicate preference):

a. NCGA Statement 1, Governmental Accounting and Financial Reporting Principles
b. NCGA Statement 6
c. FASB Statement 35.

5. At its first meeting, the GASB placed pension accounting on its project agenda and, in August 1985, issued an Exposure Draft of a proposed Statement, Disclosure of Defined Benefit Pension Information for Public Employee Retirement Systems and State and Local Governmental Employers. It is expected that a final Statement on this subject will be issued in 1986 with the same effective date as portions of FASB Statement 87. The GASB Statement will supersede paragraph 9 of GASB Statement 1, cited in paragraph 4 above, to the extent that it relates to disclosure of pension information and will apply to pension disclosures made by all state and local governmental employers, including public benefit corporations and authorities, and governmental utilities, hospitals, colleges, and universities. It will also apply to PERS financial reports.

6. In February 1985, the GASB issued a Discussion Memorandum, Measurement Focus and Basis of Accounting—Governmental Funds. It is expected that a final Statement will be issued in 1987. That Statement will provide guidance on revenue and expenditure recognition and measurement, in general, in governmental funds. It will therefore cover pension expenditure and liability recognition and measurement, pending more specific guidance resulting from the Board's pensions project discussed below.

7. The Board has also begun research on pension recognition, measurement, and display issues affecting both PERS and employers. The Board expects that one or more final pronouncements will be issued in 1987 or 1988. They will apply to financial reports of all entities noted in paragraph 5.

**Effect of GASB Statement 1—Governmental Fund Types**

8. For governmental employers that report their pension activities in governmental or similar trust funds, GASB Statement 1 provides two sources of acceptable accounting and reporting principles. NCGA Statement 1 provides guidance on governmental fund
expenditure and liability recognition and measurement in general. NCGA Statement 6, as interpreted by NCGA Interpretation 8, *Certain Pension Matters*, provides specific guidance on pension expenditure and liability recognition and measurement and pension disclosures.

**Effect of GASB Statement 1—Proprietary Fund Employers**

9. Currently, employer pension transactions recorded in proprietary and similar trust fund types may be accounted for in accordance with NCGA Statement 1 or NCGA Statement 6. For proprietary funds accounting in accordance with NCGA Statement 1, footnote 8 (GASB *Codification of Governmental Accounting and Financial Reporting Standards*, Section Pe5, “Pension Funds,” paragraph .134, footnote 3) states that expenses and liabilities related to pension activities should be recognized and disclosures should be made in conformity with APB Opinion 8 or subsequent FASB pronouncements. Without amendment of NCGA Statement 1 by this Statement, an employer following NCGA Statement 1 for pension activities accounted for in proprietary funds would have been required to adopt FASB Statement 87 because it supersedes APB Opinion 8.

**STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING**

10. State and local governmental employers, including proprietary and similar trust funds, should not change their accounting and reporting of pension activities as a result of the issuance of FASB Statement 87.¹ The GASB is making progress on that subject and expects to issue one or more pronouncements on it in the near future.

**Amendment to NCGA Statement 1**

11. Footnote 8 of NCGA Statement 1 (Cod. Sec. Pe5.134, footnote 3) is superseded and replaced with the following:

> Proprietary fund employers that account for pension activities in accordance with NCGA Statement 1 should recognize pension plan expenses and liabilities and

¹Employers are not precluded from changing to any actuarial cost method, provided that method is in conformity with APB Opinion 8, NCGA Statement 1, or NCGA Statement 6 and is considered preferable for purposes of making an accounting change in accordance with APB Opinion No. 20, *Accounting Changes*. APB Opinion 20, paragraphs 15 and 16, provides that “…there is a presumption that an accounting principle once adopted should not be changed in accounting for events and transactions of a similar type.” That presumption “may be overcome only if the enterprise justifies the use of an alternative acceptable accounting principle on the basis that it is preferable.”
make appropriate disclosures in conformity with APB Opinion No. 8, “Accounting for the Cost of Pension Plans,” as amended by FASB Statement No. 36, “Disclosure of Pension Information” (if the required information is available), and by FASB Statement No. 74, “Accounting for Special Termination Benefits Paid to Employees.” Footnote 4 to paragraph 8 of FASB Statement 36 provides that if the information required to be disclosed by that Statement is not available, the employer should disclose the reasons why that information is not available and should continue to comply with the disclosure requirements of APB Opinion 8.

EFFECTIVE DATE AND TRANSITION

12. The provisions of this Statement are effective on issuance.

This Statement was adopted by the unanimous vote of the five members of the Governmental Accounting Standards Board:

James F. Antonio, Chairman
Martin Ives, Vice-Chairman
Philip L. Defliese
W. Gary Harmer
Elmer B. Staats
Appendix A

BASIS FOR CONCLUSIONS

13. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. It includes descriptions of the various alternatives considered and the Board’s reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

14. The area of pension accounting by state and local governments has been in a state of uncertainty since 1980. In that year, the FASB issued Statement No. 35, Accounting and Financial Reporting by Defined Benefit Pension Plans. In 1981, the NCGA issued Interpretation 4, Accounting and Financial Reporting for Public Employee Retirement Systems [PERS] and Pension Trust Funds. These pronouncements differed in material respects. The NCGA later repealed Interpretation 4 and in 1983 the FASB indefinitely delayed the applicability of Statement 35 to state and local governmental PERS. Also in 1983, the NCGA issued Statement 6, Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers, whose effective date was also delayed indefinitely. As discussed in paragraph 4 of this Statement, GASB Statement No. 1, Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide, provides interim guidance, pending issuance by the GASB of a Statement or Statements on pension accounting and financial reporting.

Proposed Technical Bulletin and Statement

15. In February 1986, the GASB staff exposed a proposed Technical Bulletin (TB), Pension Accounting and Disclosures. That TB contained the same conclusions as this Statement. Eighteen comment letters were received on the proposed TB. Most of those letters agreed with the conclusions, but some expressed concern that a TB could not provide effective guidance for proprietary funds in view of the requirements of footnote 8 of NCGA Statement 1. In response to those comments, the Board determined that the guidance should be provided in a GASB Statement.

16. On May 14, 1986, the Board issued an Exposure Draft (ED) of a proposed Statement, Applicability of FASB Statement No. 87, “Employers’ Accounting for Pensions,” to State and Local Governmental Employers. The Board received only 19 comment letters in response to the ED, much fewer than it has received on other EDs. The
Board must assume the low response rate is due to general agreement with its conclusions, particularly because all but two respondents concurred with the Board's basic conclusion.

**Factors in Board Conclusion**

17. Based on the progress made in its projects on pension disclosures, recognition, measurement, and display as noted in paragraphs 5–7 of this Statement, the Board has concluded that no practical purpose would be served by adopting or preparing to adopt the provisions of FASB Statement 87 by state and local governmental employers at this time. All but two respondents to the ED agreed with this conclusion. In addition, the Board believes the provisions of FASB Statement 87 are not adaptable to the current measurement focus/basis of accounting of governmental funds set forth in NCGA Statement 1 and Statement 6 (as amended by NCGA Interpretation 8, *Certain Pension Matters*). On the other hand, the provisions of FASB Statement 87 are adaptable to proprietary funds, and footnote 8 of NCGA Statement 1 specifically authorizes application of “subsequent FASB pronouncements.” The Board considered these factors in determining whether the provisions of FASB Statement 87 should be applied to proprietary funds currently reporting in accordance with the provisions of NCGA Statement 1:

a. When the Board issues its Statement on pension disclosures, that Statement will provide pension disclosure guidance for *all* governmental employers and PERS.

b. As noted in paragraph 7, one or more GASB pronouncements on pension recognition, measurement, and display issues are expected to be issued before the effective date of all aspects of FASB Statement 87. Those GASB pronouncements will also apply to *all* governmental employers. Depending on the outcome of the GASB’s research and deliberations, needless work by the governmental employer could result from applying FASB Statement 87 and, shortly thereafter, a GASB pronouncement.

Because of these factors, the Board believes that state and local governmental employers should not change their accounting and reporting of pension activities as a result of FASB Statement 87.

18. One respondent to the ED concurred with the Board's basic conclusion but expressed concern that governmental entities that compete for funding with private institutions may incur some economic penalties due to pension uncertainties arising primarily from a lack of comparability with private institutions. The Board believes the disclosures that will be required by its proposed Statement on pension disclosures (as currently drafted) will
provide sufficient information to overcome any possible uncertainties. They note that certain disclosures (for example, trend information) will go beyond the FASB Statement 87 requirements, while others are substantially the same.

19. Other respondents stated that the Board should reconsider the applicability of this Statement to all governmental entities. They note that utilities, hospitals, colleges, universities, and some industries in which public benefit corporations and authorities participate include both governmental and nongovernmental entities and they understand that many believe all such entities should follow the same accounting principles. They believe the Board should avoid implying that it has concluded that principles different from those in FASB Statement 87 or any other FASB pronouncements will apply to proprietary funds. The Board intends no such implication. The Board notes that the purpose of this Statement is simply to place a hold on any changes in pension accounting and financial reporting for all governmental employers, pending completion of its pensions projects. The factors affecting applicability of the Board’s conclusions to specific types of entities will be considered during those projects and the conclusions reached will be subject to due process.
CODIFICATION INSTRUCTIONS

20. The sections that follow update the November 1, 1984 Codification of Governmental Accounting and Financial Reporting Standards for the effects of this Statement. Only the paragraph number is listed if the paragraph will be cited in full in the Codification.

* * *

PENSION FUNDS—EMPLOYER REPORTING

SECTION P20

Sources: [Add the following:] GASB Statement 4

[Add the following:]

.102 [GASBS 4, ¶10]

.103–.105 [Insert current Codification paragraphs .102–.104.]

* * *

PENSION FUNDS

SECTION Pe5

Sources: [Add the following:] GASB Statement 4

[Add the following:]

.101a [GASBS 4, ¶10]

[Delete the first sentence of footnote 3 (paragraph .134) and replace it with the following:]

Proprietary fund employers that account for pension activities in accordance with NCGA Statement 1 should recognize pension plan expenses and liabilities and make appropriate disclosures in conformity with APB Opinion No. 8, Accounting for the Cost of Pension Plans, as amended by FASB Statement No. 36, Disclosure of Pension Information (if the required information is available), and by FASB Statement No. 74, Accounting for Special Termination Benefits Paid to Employees. Footnote 4 to paragraph 8 of FASB Statement 36 provides that if the information required to be disclosed by that Statement is not available, the employer should
disclose the reasons why the information is not available and should continue to comply with the disclosure requirements of APB Opinion 8. [GASBS 4, ¶11]