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Statement No. 71 of the Governmental Accounting Standards Board

Pension Transition for Contributions Made Subsequent to the Measurement Date

an amendment of GASB Statement No. 68

GASB

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Summary

The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions.* The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine *all* such amounts.

The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs.

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. Paragraph 2 discusses the applicability of this Statement.

Statement No. 71 of the
Governmental Accounting
Standards Board

Pension Transition for Contributions Made Subsequent to the Measurement Date

an amendment of GASB Statement No. 68

November 2013

GOVERNMENTAL ACCOUNTING STANDARDS BOARD
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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November 2013

CONTENTS

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November 2013

INTRODUCTION

1. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions,* concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

2. This Statement amends paragraph 137 of Statement 68. The requirements of this Statement apply to all state and local governments that are required to apply the provisions of Statement 68 for defined benefit pensions.

Amendment to Statement 68

3. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of *all* applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources

only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized.

EFFECTIVE DATE

4. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68.

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

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

David A. Vaudt, *Chairman*
James E. Brown
William W. Fish
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor

Appendix A

BACKGROUND

5. Statement 68, approved in June 2012, establishes requirements for accounting and financial reporting for pensions by state and local government employers and nonemployer contributing entities. The requirements of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

6. For defined benefit pensions, Statement 68 requires an employer (or a nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If the measurement date of the net pension liability is a date other than the end of the fiscal year in which the liability is reported, Statement 68 requires that the employer or nonemployer contributing entity recognize a deferred outflow of resources for its contributions, if any, made between the measurement date and the end of the reporting period.

7. Statement 68 also requires recognition of deferred outflows of resources and deferred inflows of resources for other pension-related events. For example, deferred outflows of resources and deferred inflows of resources are recognized for changes in the total pension liability arising from differences between expected and actual experience with regard to economic or demographic factors, for the effects of changes of assumptions about future economic or demographic factors or of other inputs, and for differences between projected and actual investment earnings on defined benefit pension plan investments.

8. The transition provisions in paragraph 137 of Statement 68 require that, to the extent practical, changes made to comply with the Statement be reported as an adjustment of prior periods in the first period that the Statement is applied. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 required that *no* beginning balances for deferred outflows of resources and deferred inflows of resources be reported.

9. Following issuance of Statement 68, an issue was identified regarding application of the provisions in paragraph 137 in circumstances in which it is not practical to determine the amount of all deferred outflows of resources and deferred inflows of resources related to pensions. Stakeholders expressed concern about the potential for significant misstatement of an employer or nonemployer contributing entity's beginning net position and subsequent expense in accrual-basis financial statements if the government does not recognize its contributions made after the measurement date of the beginning net pension liability as deferred outflows of resources at transition.

10. The issue was introduced in a discussion of potential projects at the February 2013 meeting of the Governmental Accounting Standards Advisory Council. At its April 2013 meeting, the Board considered a project prospectus on the issue, and a project to consider amending the transition provisions of Statement 68 was added to the Board's current agenda.

11. In June 2013, the Board issued an Exposure Draft, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* The Board received 19 responses to the Exposure Draft. As discussed in the Basis for Conclusions of this Statement, the comments and suggestions from the organizations and individuals who responded to the Exposure Draft contributed to the Board's deliberations in finalizing the requirements of this Statement.

Appendix B

BASIS FOR CONCLUSIONS

12. This appendix discusses factors considered significant by Board members in reaching the conclusions in this Statement. Individual Board members may have given greater weight to some factors than to others.

13. Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of employers that arise from several types of events. Those requirements include recognition by an employer of a deferred outflow of resources for its contributions made to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the employer's reporting period. Similar requirements apply to governmental nonemployer contributing entities for defined benefit pensions with special funding situations.

14. Paragraph 137 of Statement 68 limited recognition of pension-related deferred outflows of resources and deferred inflows of resources at transition to circumstances in which it is practical to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions. For a government that has made contributions to a pension plan subsequent to the measurement date of the beginning net pension liability, the transition provisions could have resulted in significant understatement of beginning net position and expense in the initial year of implementation in circumstances in which it is not practical to determine the amount of all deferred outflows of resources and deferred inflows of resources related to pensions. Further, a government that makes contributions subsequent to the measurement date of the reported beginning net pension liability already will have the information necessary to report the beginning deferred outflow of resources amount related to those subsequent contributions. Therefore, the Board proposed in the Exposure Draft that the amount be required to be recognized as a deferred outflow of resources at transition, regardless of whether the amounts of all other beginning deferred outflows of resources and deferred inflows of resources related to pensions are determinable.

15. There was general support for the proposed amendment among respondents to the Exposure Draft. Some respondents suggested that the transition provisions in paragraph 137 of Statement 68 be amended further to permit the

recognition of other deferred outflows of resources and deferred inflows of resources at transition, even if all such amounts cannot be determined. Those respondents asserted that all significant deferred outflows of resources and deferred inflows of resources about which the government has evidence should be reported at transition. However, the Board continues to believe, as it did when developing Statement 68, that recognition of only some of the deferral balances related to the net pension liability reported at transition to Statement 68, other than the deferred outflow of resources associated with the government's contributions made subsequent to the measurement date, potentially would be misleading. Further, the Board continues to believe that comparability of pension-related amounts reported at transition to Statement 68 and in future periods will be enhanced by retaining the provisions of paragraph 137 related to events other than the government's contributions made subsequent to the measurement date.

16. Some respondents to the Exposure Draft suggested that the Board reconsider the requirement in Statement 68 that a government recognize a deferred outflow of resources for its contributions made subsequent to the measurement date of the net pension liability and before the end of its fiscal year. After considering this point, the Board concluded that it would be inappropriate to reexamine that issue within the limited scope of this project.

Considerations Related to Benefits and Costs

17. For the reasons stated above, the Board concluded that the expected benefits of this Statement—the elimination of a potentially significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements—will not result in significant additional cost because, as discussed in paragraph 14, all governments that make contributions subsequent to the measurement date of the reported beginning net pension liability already will have the information necessary to comply with the requirements of this Statement.

Appendix C

CODIFICATION INSTRUCTIONS

18. The provisions of paragraphs 3 and 4 of this Statement will be incorporated into Appendix D, "Effective Dates of Pronouncements," of the *Codification of Governmental Accounting and Financial Reporting Standards,* in accordance with the procedures set forth in that document.