NO. 116-A | NOVEMBER 1994

Governmental Accounting Standards Series

Statement No. 25 of the Governmental Accounting Standards Board

Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans

GASB

Governmental Accounting Standards Board
of the Financial Accounting Foundation

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Summary

This Statement establishes financial reporting standards for defined benefit pension plans and for the notes to the financial statements of defined contribution plans of state and local governmental entities. Financial reporting standards for postemployment healthcare plans administered by defined benefit pension plans and for the pension expenditures/expense of employers are included, respectively, in two related Statements: No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

The standards in this Statement apply for pension trust funds included in the financial reports of plan sponsors or employers as well as for the stand-alone financial reports of pension plans or the public employee retirement systems that administer them. Reduced disclosures are acceptable for pension trust funds when a stand-alone plan financial report is publicly available and contains all required information.

This Statement establishes a financial reporting framework for *defined benefit pension plans* that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

Plans should include information in the first category in two financial statements: (a) a *statement of plan net assets* that provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets and (b) a *statement of changes in plan net assets* that provides information about the year-to-year changes in plan net assets. The requirements for the notes to the financial statements include a brief plan

description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations.

Information in the second category should be included, for a minimum of six years, in two schedules of historical trend information that should be presented as required supplementary information immediately after the notes to the financial statements. The required schedules are (a) a *schedule of funding progress* that reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and (b) a *schedule of employer contributions* that provides information about the annual required contributions of the employer(s) (ARC) and the percentage of the ARC recognized by the plan as contributed. Note disclosures related to the required schedules should be presented after the schedules and should include the actuarial methods and significant assumptions used for financial reporting.

Plans may elect to report one or more years of the information required for either or both schedules in an additional financial statement(s) or in the notes to the financial statements. Information for all required years also should be reported as required supplementary information, unless all years are included in the additional statement(s) or notes.

Plans should measure all actuarially determined information included in their financial reports in accordance with certain parameters. The parameters include requirements for the frequency and timing of actuarial valuations as well as for the actuarial methods and assumptions that are acceptable for financial reporting. When the methods and assumptions used in determining a plan's funding requirements meet the parameters, the same methods and assumptions are required for financial reporting by both a plan and its participating employer(s).

This Statement requires the notes to the financial statements of *defined contribution plans* to include a brief plan description, a summary of significant accounting policies (including the fair value of plan assets, unless reported at fair value), and information about contributions and investment concentrations.

The provisions of this Statement are effective for periods beginning after June 15, 1996. Early implementation is encouraged; however, Statement 26, if applicable, should be implemented in the same fiscal year.

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, utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 9 and 10 discuss the applicability of this Statement.

Statement No. 25 of the
Governmental Accounting
Standards Board

Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans

November 1994

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, PO Box 5116, Norwalk, Connecticut 06856-5116

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INTRODUCTION

Objective of This Statement

1. The objective of this Statement is to enhance the understandability and usefulness of pension information included in the financial reports of state and local governmental pension plans, whether the information is included in a separately issued financial report of the plan or the **public employee retirement system**[1] that administers the plan, or in the financial report of the plan **sponsor** or participating employer (**pension trust fund**).

2. The approach adopted for **defined benefit pension plans** is based on the views that (a) the plan is accountable for the resources provided for **pension benefits** and should provide current information about those resources and the administration of benefits, and (b) the processes of government and the needs of users of financial reports are best served when related information reported by the plan, the employer(s), or both entities is measured consistently and in accordance with an established, actuarially sound **funding policy.** That information includes the plan's funded status and the required contributions of the employer(s).

3. In the past, several measures of plan assets and various formats for the financial statements have been acceptable for financial reporting. The reported measures of a plan's funded status and the employer's required contributions have not always been consistent with accounting concepts or the needs of users of financial reports. This Statement requires greater consistency for the measurement and display of information in the

[1]Terms defined in the Glossary (paragraph 44) are printed in **boldface type** when they first appear.

financial statements. The Statement also establishes certain boundaries, or **parameters,** for determining whether the amounts measured in accordance with the plan's funding policy are acceptable measures for financial reporting or whether different measures are required.

Related Statements

4. This Statement is one of three Statements that address related issues and have the same or related effective dates. Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans,* provides interim guidance for those plans, pending completion of the Governmental Accounting Standards Board's (GASB) project on accounting and financial reporting for **other postemployment benefits** by plans and employers. Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* establishes standards for the recognition, measurement, and display of the employer's expenditures/expense for pension contributions. Certain provisions of this Statement refer to the related Statements.

Defined Benefit Pension Plans—Financial Reporting Objectives

5. The financial report of a defined benefit pension plan should provide information primarily for (a) the **plan members,** beneficiaries, and their representatives, (b) legislative and executive officials of the plan sponsor, participating employer(s), and agencies with plan oversight responsibilities, and (c) the plan's board of trustees or other governing body. Because plan operations affect the employer's resources, information in a plan's financial report also may be useful to the citizenry and to investors and creditors of the employer(s), in addition to the information provided in the employer's financial report about the employer's expenditures/expense for contributions to the plan.

6. To address the needs of these various user groups, the financial report of a defined benefit pension plan should provide information that is useful in assessing (a) the

stewardship of plan resources and the ongoing ability of the plan to pay pension benefits when due, (b) the effect of plan operations and pension benefit commitments on the need for contributions by plan members, employers, and other contributors, and (c) compliance with finance-related statutory, regulatory, and contractual requirements.

7. To accomplish these objectives, the financial report of a defined benefit pension plan should provide information about (a) **plan assets, plan liabilities,** and **plan net assets** and how the fiduciary responsibilities of the trustees and administrators have been discharged, (b) the year-to-year changes in plan net assets, (c) the funded status of the plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due, and (d) the contribution requirements of plan members, employers, and other contributors and the extent of compliance with those requirements.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

8. This Statement establishes financial reporting standards for defined benefit pension plans and standards for the notes to the financial statements of **defined contribution plans.** It does not address financial reporting of the pension expenditures/expense of employers.

9. The provisions of this Statement for defined benefit pension plans apply to plans of all state and local governmental entities, including those of general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities.

10. The provisions of this Statement for defined contribution plans apply to plans of all state and local governmental entities, including all those listed in paragraph 9. A plan that has characteristics of both a defined benefit pension plan and a defined contribution plan requires careful analysis. If the substance of the plan is to provide a defined benefit in some form, the provisions of this Statement for defined benefit pension plans apply. The requirements for the notes to the financial statements of defined contribution plans are included in paragraph 41. Except for that paragraph, the remainder of this Statement does not apply to defined contribution plans.

11. This Statement supersedes all previous authoritative guidance on accounting and financial reporting for defined benefit pension plans of state and local governmental entities, including the guidance in National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles;*[2] NCGA Statement 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers;* paragraph 9 of GASB Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide;* and GASB Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers.* This Statement also supersedes the guidance in Statement 5 on note disclosures for defined contribution plans.

12. A defined benefit pension plan provides retirement income and also may provide other types of **postemployment** benefits, including disability benefits, death benefits, life insurance, healthcare benefits, and other ancillary benefits. As used in this Statement, the term *pension benefits* includes retirement income and all other types of benefits provided

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[2]This Statement does not change the NCGA Statement 1 classification of pension trust funds as fiduciary funds, nor does it affect the applicability of that Statement to pension trust funds that account for the activities of defined contribution plans.

through a defined benefit pension plan, *except* **postemployment healthcare benefits.**[3] For financial reporting purposes, postemployment healthcare benefits, including medical, dental, vision, and other health-related benefits, provided through a defined benefit pension plan, and the assets accumulated by the plan for the payment of postemployment healthcare benefits, are considered, in substance, a postemployment healthcare plan administered by but not part of the pension plan. This Statement does not address financial reporting for postemployment healthcare plans or any plan that does not provide retirement income.

13. The provisions of this Statement for defined benefit pension plans apply whether the plan is a **single-employer, agent multiple-employer,** or **cost-sharing multiple-employer plan** and regardless of how or when pension benefits provided by the plan are financed. The requirements apply whether (a) the plan's financial statements are included in a separate financial report issued by the plan or by the public employee retirement system that administers the plan (**stand-alone plan financial report**) or (b) the plan is included as a pension trust fund in the financial reporting entity of the sponsor or employer**.**

Public Employee Retirement Systems

14. The term *public employee retirement system* sometimes is used as a synonym for *defined benefit pension plan* (or *pension trust fund*). However, many public employee retirement systems administer more than one defined benefit pension plan. Some systems also administer other types of plans, including defined contribution plans, deferred compensation plans, and postemployment healthcare plans. As used in this Statement, the

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[3]The Board has a separate project on its agenda to address accounting and financial reporting for postemployment benefits other than pension benefits (other postemployment benefits). Postemployment healthcare benefits are considered other postemployment benefits and are included in that project, whether they are provided through a defined benefit pension plan or a plan that does not provide retirement income. The Board has adopted this approach because additional or different measurement standards from those in this Statement may be needed in accounting for postemployment healthcare benefits (for example, guidance on estimating a healthcare cost trend rate or healthcare inflation assumption).

term *public employee retirement system* refers to a state or local governmental fiduciary entity entrusted with administering a plan (or plans) and not to the plan itself. This Statement does not address the financial reports of public employee retirement systems, except to the extent that the systems' reports include financial statements for defined benefit pension plans or defined contribution plans.

15. When the financial report of a public employee retirement system includes more than one defined benefit pension plan, the provisions of this Statement apply separately to *each plan administered.* That is, the system's report should present combining financial statements and required schedules for all defined benefit pension plans administered by the system. If the system administers one or more agent multiple-employer plans (agent plans), the provisions of this Statement apply at the *aggregate plan* level for each plan administered. The system is not required to include financial statements and schedules for the individual plans of the participating employers.[4]

16. The principles described in this paragraph should be applied in determining whether a public employee retirement system is administering a single plan or more than one plan for which paragraph 15 requires separate reporting.

a. A public employee retirement system is administering a *single plan* only if, on an ongoing basis, all assets accumulated for the payment of benefits may *legally* be used to pay benefits, including refunds of member contributions, to *any* of the plan members or beneficiaries, as defined by the terms of the plan. If these criteria are met, the plan is considered a single plan for financial reporting even if (1) the system is required by law or administrative policy to maintain separate reserves, funds, or accounts for specific groups of plan members, employers, or types of benefits (for example, a reserve for plan member contributions, a reserve for disability benefits, or separate accounts for the contributions of state government versus local government employers) or (2) separate actuarial valuations are performed for different classes of covered employees or groups (tiers) within a class because

[4]Throughout this Statement, the terms *agent multiple-employer plan* and *agent plan* refer to the aggregate of the individual plans of all participating employers. For agent plans, references to *plan, single plan, each plan,* and so forth, should be interpreted in that context.

different contribution rates may apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors.

b. A public employee retirement system is administering *more than one plan* if any portion of the total assets administered by the system is accumulated solely for the payment of benefits to certain classes of employees or to employees of certain entities (for example, public safety employees or state government employees) and may not legally be used to pay benefits to other classes of employees or other entities' employees (for example, general employees or local government employees). That portion of the total assets and the associated benefits constitute a separate plan for which separate financial reporting is required, even if the assets are pooled with other assets for investment purposes.

17. The requirements of paragraph 15 also apply for the comprehensive annual financial reports of a sponsor or employer when, based on the principles described in paragraph 16, the report includes more than one defined benefit pension plan.

Financial Reporting Framework

18. Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to accomplish the financial reporting objectives. Therefore, this Statement requires a financial reporting framework that includes schedules of historical trend information in addition to the financial statements. The schedules should be presented as **required supplementary information** immediately after the notes to the financial statements.

19. The financial report of a defined benefit pension plan should include two financial statements and two required schedules of historical trend information, as summarized in this paragraph. The requirements for the recognition, measurement, and display of information in the financial statements and required schedules and for the notes to the financial statements and schedules are addressed in subsequent paragraphs. The financial statements and required schedules are:

a. A *statement of plan net assets* that includes information about the plan assets, liabilities, and net assets as of the end of the plan's fiscal year (**reporting date**). The statement of plan net assets should provide information about the **fair value** and composition of net assets. The statement should *not* report the actuarially determined funded status of the plan. That information should be provided from a long-term, ongoing plan perspective in a historical trend table (paragraph 19c).

b. A *statement of changes in plan net assets* that includes information about the additions to, deductions from, and net increase (or decrease) for the year in plan net assets. The statement should provide information about significant year-to-year changes in plan net assets.

c. A required *schedule of funding progress* that includes historical trend information about the actuarially determined funded status of the plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.

d. A required *schedule of employer contributions* that includes historical trend information about the **annual required contributions of the employer(s) (ARC)** and the contributions made by the employer(s) in relation to the ARC. The schedule should provide information that contributes to understanding the changes over time in the funded status of the plan.

Financial Statements[5]

Statement of Plan Net Assets

Assets

20. The statement of plan net assets should be prepared on the accrual basis of accounting, except where indicated otherwise in paragraph 26. Accordingly, purchases and sales of investments should be recorded on a trade-date basis.

21. Plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in plan operations) and (b) the principal components of the receivables and investments categories.

Receivables

22. Plan receivables generally are short term and consist of contributions due as of the reporting date from the employer(s), plan members, and other contributors, and interest and dividends on investments. Amounts recognized as receivables should include those

[5]The financial statements should not include assets, liabilities, or changes in net assets held for postemployment healthcare benefits. Standards for reporting those amounts are included in Statement 26.

due pursuant to formal commitments as well as statutory or contractual requirements. With respect to an employer's contributions, evidence of a formal commitment may include (a) an appropriation by the employer's governing body of a specified contribution or (b) a consistent pattern of making payments after the plan's reporting date pursuant to an established funding policy that attributes those payments to the preceding plan year. When combined with either (a) or (b), the recognition in the employer's financial statements of a contribution payable to the plan may be supporting evidence of a formal commitment. However, the plan should not recognize a receivable based *solely* on the employer's recognition of a liability for contributions to the plan.

23. Receivables and additions for contributions payable to the plan more than one year after the reporting date pursuant to, for example, installment contracts, should be recognized in full in the year the contract is made.[6]

Investments

24. Plan investments, whether equity or debt securities, real estate, or other investments (excluding **insurance contracts**), should be reported at their fair value at the reporting date. The fair value of an investment is the amount that the plan could reasonably expect to receive for it in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale.[7] Fair value should be measured by the market price if there is an active market for the investment. If there is not an active market for an investment but there is an active market for similar investments, selling prices in that market may be helpful in estimating fair value. If a market price is not available, a forecast of expected cash flows may aid in estimating fair value, provided that the

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[6]Paragraph 32c(4) requires disclosure of the terms of the contract and the outstanding balances. When a contract is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results.

[7]The fair value of an investment should reflect brokerage commissions and other costs normally incurred in a sale, if determinable.

expected cash flows are discounted at a rate commensurate with the risk involved. **Unallocated insurance contracts** may be reported at **contract value. Allocated insurance contracts** should be excluded from plan assets.[8]

Assets used in plan operations

25. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be reported at historical cost less accumulated depreciation or amortization.

Liabilities

26. Plan liabilities generally consist of benefits and refunds due to plan members and beneficiaries and accrued investment and administrative expenses. Plan liabilities for benefits and refunds should be recognized when due and payable in accordance with the terms of the plan. All other plan liabilities should be recognized on the accrual basis. Benefits payable from contracts excluded from plan assets for which payments to the insurance company have been made should be excluded from plan liabilities.

Net Assets Held in Trust for Pension Benefits

27. The difference between total plan assets and total plan liabilities at the reporting date should be captioned *net assets held in trust for pension benefits.*[9] The caption should be followed by a parenthetical reference to the plan's schedule of funding progress.

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[8]Paragraphs 26, 31, and 36a include provisions for excluding benefits covered by allocated insurance contracts from benefit amounts reported by the plan and from the actuarially determined information required by this Statement.

[9]When a plan's financial statements are included in the financial report of the employer or sponsor, the difference between total plan assets and liabilities should be captioned *fund balance reserved for employees' pension benefits.*

Statement of Changes in Plan Net Assets

28. The statement of changes in plan net assets should be prepared on the accrual basis, consistent with the requirements of paragraphs 22, 23, and 26 for the recognition of plan receivables and liabilities. The information should be presented in two principal sections, *additions* and *deductions.* The difference between total additions and deductions should be reported as the *net increase* (or decrease) for the year in plan net assets.

Additions

29. The additions section of the statement of changes in plan net assets should include the information in these four categories, separately displayed;

a. Contributions from the employer(s)
b. Contributions from plan members, including those transmitted by the employer(s)
c. Contributions from sources other than the employer(s) and plan members (for example, state government contributions to a local government plan)
d. Net investment income, including (1) the net appreciation (depreciation) in the fair value of plan investments,[10] (2) interest income, dividend income, and other income not included in (1),[11] and (3) total investment expense, separately displayed, including investment management and custodial fees and all other significant investment-related costs.[12]

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[10]The net appreciation (depreciation) in the fair value of investments should include realized gains and losses on investments that were both bought and sold during the year. Realized and unrealized gains and losses should not be separately displayed in the financial statements. Plans may disclose realized gains and losses in the notes to the financial statements, provided that the amounts disclosed include all realized gains and losses for the year, computed as the difference between the proceeds of sale and the original cost of the investments sold. The disclosure also should state that (a) the calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments and (b) unrealized gains and losses on investments sold in the current year that had been held for more than one year were included in the net appreciation (depreciation) reported in the prior year(s) and the current year.

[11]Consistent with reporting investments at their fair value, interest income should be reported at the stated interest rate; any premiums or discounts on debt securities should not be amortized. Components (1) and (2) of net investment income may be separately displayed or combined and reported as one amount.

[12]Plans are not required to include in the reported amount of investment expense those investment-related costs that are not readily separable from (a) investment income (the income is reported net of related expenses) or (b) the general administrative expenses of the plan.

Deductions

30. The deductions section of the statement of changes in plan net assets should include (a) benefits and refunds paid to plan members and beneficiaries and (b) total administrative expense, separately displayed.

31. Benefits paid should not include payments made by an insurance company in accordance with a contract that is excluded from plan assets. However, amounts paid by the plan to an insurance company pursuant to such a contract, including purchases of annuities with amounts allocated from existing investments with the insurance company, should be included in benefits paid. (The amounts reported may be net of the plan's dividend income for the year on excluded contracts.)

Notes to the Financial Statements

32. The notes to the financial statements of a defined benefit pension plan should include all disclosures required by this paragraph when the financial statements are presented (a) in a stand-alone plan financial report or (b) *solely* in the financial report of an employer (pension trust fund). When a plan's financial statements are presented in both an employer's report and a publicly available stand-alone plan financial report that complies with this Statement, the employer may limit its pension trust fund disclosures to those required by paragraphs 32a(1), 32b, 32c(4), and 32d, provided that the employer discloses information about how to obtain the stand-alone plan financial report.[13]

a. Plan description
    1. Identification of the plan as a single-employer, agent multiple-employer, or cost-sharing multiple-employer defined benefit pension plan and disclosure of the number of participating employers and other contributing entities.
    2. Classes of employees covered (for example, general employees and public safety employees) and the current membership, including the number of retirees and beneficiaries currently receiving benefits, terminated members entitled to

[13]Statement 27 includes the requirements for notes to the employer's financial statements concerning the employer's pension expenditures/expense.

but not yet receiving benefits, and current active members. If the plan is closed to new entrants, that fact should be disclosed.

3. Brief description of benefit provisions, including the types of benefits, the provisions or policies with respect to **automatic** and **ad hoc postretirement benefit increases,** and the authority under which benefit provisions are established or may be amended.

b. Summary of significant accounting policies
   1. Basis of accounting, including the policy with respect to the recognition in the financial statements of contributions, benefits paid, and refunds paid.
   2. Brief description of how the fair value of investments is determined.

c. Contributions and reserves
   1. Authority under which the obligations to contribute to the plan of the plan members, employer(s), and other contributing entities are established or may be amended.
   2. Funding policy, including a brief description of how the contributions of the plan members, employer(s), and other contributing entities are determined (for example, by statute, through an actuarial valuation, or in some other manner) and how the costs of administering the plan are financed.
   3. Required contribution rates of active plan members, in accordance with the funding policy.[14]
   4. Brief description of the terms of any long-term contracts for contributions to the plan and disclosure of the amounts outstanding at the reporting date.
   5. The balances in the plan's legally required reserves at the reporting date. Amounts of net assets designated by the plan's board of trustees or other governing body for a specific purpose(s) also may be disclosed but should be captioned *designations*, rather than *reserves.*[15] Also include a brief description of the purpose of each reserve and designation disclosed and whether the reserve is fully funded.

d. Concentrations—Identification of investments (other than those issued or guaranteed by the U.S. government) in any one organization that represent 5 percent or more of plan net assets.

Required Supplementary Information[16]

33. Except as indicated in paragraph 34, a schedule of funding progress and a schedule of employer contributions should be presented immediately after the notes to the financial

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[14]Information that should be reported about contributions from the employer(s) and from other contributing entities, if applicable, is addressed in the required supplementary information section (paragraphs 33–40) of this Statement.

[15]Paragraphs 118 and 120 of NCGA Statement 1 address the distinction between *reserves* and *designations.*

[16]The amounts reported in the schedules of required supplementary information should not include assets, benefits, or contributions for postemployment healthcare benefits. Standards for reporting those amounts are included in Statement 26.

statements.[17] Paragraphs 35 and 36 include the requirements for measuring the actuarially determined information to be reported in the schedules and related note disclosures (the parameters). Paragraphs 37–40 include the requirements for the content of the schedules and related notes.[18]

34. When a cost-sharing or agent plan's financial statements are included in an employer's financial report (pension trust fund), the employer is not required to present schedules of required supplementary information for that plan if (a) the required schedules are included with the plan's financial statements in a publicly available, stand-alone plan financial report and (b) the employer includes in its notes to the financial statements information about how to obtain the stand-alone plan financial report. When the financial statements of a single-employer plan are included in the employer's report, the employer should disclose the availability of the stand-alone plan report and the information required for the schedule of funding progress for the three most recent **actuarial valuations.** (The employer should not present the schedule of employer contributions for the plan.) If the financial statements and required schedules of the plan (whether single-employer, agent, or cost-sharing) are not publicly available in a stand-alone plan financial report, the employer should present both schedules for each plan included in the employer's report, for all years required by this Statement.[19]

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[17]Plans that use the **aggregate actuarial cost method** in accordance with the parameters should present the required schedule of employer contributions. They are not required to present a schedule of funding progress but should disclose that the aggregate method is used, as required by paragraph 40a.

[18]Plans may elect to report the information specified for one or both of the required schedules in (a) a *statement of funding progress* and/or a *statement of employer contributions* presented *in addition to and separate from* the statement of plan net assets and statement of changes in plan net assets required by this Statement or (b) the notes to the financial statements. If presented, the additional statement(s) or notes should include *the same* items of information that are required, respectively, by paragraphs 37, 38, and 40 for the most recent year (actuarial valuation) available; information for one or more prior years also may be included. The information *also* should be presented as required supplementary information including all years specified by paragraph 37 and/or 38 (or paragraph 34, if applicable), unless *all* years are included in the additional statement(s) or notes.

[19]Statement 27 includes the requirements for required supplementary information that should be presented in relation to the employer's pension expenditures/expense.

The Parameters

35. For financial reporting purposes, an actuarial valuation should be performed at least biennially in accordance with this paragraph and paragraph 36. The **actuarial valuation date** need not be the plan's reporting date, but generally should be the same date each year (biennium). However, a new valuation should be performed if significant changes have occurred since the previous valuation in benefit provisions, the size or composition of the population covered by the plan, or other factors that affect the results of the valuation. All actuarially determined information reported for the current year in the schedule of funding progress, including information for the fiscal year in which this Statement is implemented (**transition year**), should be based on the results of an actuarial valuation performed in accordance with the parameters as of a date not more than one year (two years for plans with biennial valuations) before the plan's reporting date for that year.

36. For financial reporting purposes, all actuarially determined pension information should be calculated in accordance with this paragraph, consistently applied. The actuarial methods and assumptions applied for financial reporting should be the same methods and assumptions applied in determining the plan's funding requirements, unless compliance with this paragraph requires the use of different methods or assumptions. A plan and its participating employer(s) should apply the same actuarial methods and assumptions in determining similar or related information included in their respective financial reports.[20]

a. Benefits to be included—The **actuarial present value of total projected benefits** should include all pension benefits to be provided by the plan to plan members or their beneficiaries in accordance with (1) the terms of the plan and (2) any additional statutory or contractual agreement(s) to provide pension benefits through the plan that are in force at the actuarial valuation date. Additional agreements may include, for example, collective-bargaining agreements and agreements to provide ad hoc

[20]Statement 27 includes the same parameters for measuring pension expenditures/expense and related actuarially determined information to be disclosed by the employer(s). Statement 27 also requires the employer(s) and the plan to use the same methods and assumptions when reporting similar or related pension information.

cost-of-living adjustments and other types of postretirement benefit increases not previously included in the plan terms. Benefits to be provided by means of contracts excluded from plan assets for which payments to an insurance company have been made should be excluded.

b. **Actuarial assumptions**—The selection of all actuarial assumptions should be guided by Actuarial Standard of Practice No. 4, *Measuring Pension Obligations*,[21] as revised from time to time by the Actuarial Standards Board. Accordingly, actuarial assumptions should be based on the actual experience of the **covered group,** to the extent that credible experience data are available, but should emphasize expected long-term future trends rather than give undue weight to recent past experience. The reasonableness of each actuarial assumption should be considered independently based on its own merits, its consistency with each other assumption, and the combined impact of all assumptions.

c. Economic assumptions—In addition to complying with the guidance in paragraph 36b, the **investment return assumption (discount rate)** should be based on an estimated long-term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments and the basis used to determine the **actuarial value of assets** (paragraph 36e). The investment return assumption, **projected salary increase assumption,** and other economic assumptions should include the same assumption with respect to inflation.

d. **Actuarial cost method**—One of the following actuarial cost methods should be used: **entry age, frozen entry age, attained age, frozen attained age, projected unit credit,**[22] or the aggregate actuarial cost method, as described in paragraph 45, Section B.

e. Actuarial value of assets—Plan assets should be valued using methods and techniques that are consistent with the class and anticipated holding period of the assets, the investment return assumption, other assumptions used in determining the actuarial present value of total projected benefits, and current actuarial standards for asset valuation.[23] Accordingly, the actuarial value of plan assets generally should be **market related.**

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[21]Actuarial Standards Board, Actuarial Standard of Practice No. 4, 1993 Reformatted Edition, *Measuring Pension Obligations* (Washington, DC: Actuarial Standards Board, 1993) or its successor document(s).

[22]**Unprojected unit credit** is acceptable for plans in which benefits already accumulated for years of service are not affected by future salary levels.

[23]See footnote 21.

f. Annual required contributions of the employer(s) (ARC)—The ARC should be actuarially determined in accordance with the parameters. The amount should include the employer's **normal cost** and a provision(s) for amortizing the total **unfunded actuarial accrued liability (unfunded actuarial liability)** in accordance with the following requirements:[24]

   1. Maximum **amortization** period—For a term of not more than ten years from the effective date of this Statement, the maximum acceptable amortization period for the total unfunded actuarial liability is 40 years. After that ten-year term, the maximum acceptable amortization period is 30 years. The total unfunded actuarial liability may be amortized as one amount, or components of the total may be separately amortized. When components are amortized over different periods, the individual amortization periods should be selected so that the **equivalent single amortization period** for all components combined does not exceed the maximum acceptable period. The equivalent single amortization period is the number of years incorporated in a weighted average amortization factor for all components combined. The weighted average amortization factor should be equal to the total unfunded actuarial liability divided by the sum of the amortization provisions for each of the separately amortized components.[25]
   2. Minimum amortization period—A significant decrease in the total unfunded actuarial liability generated by a change from one of the actuarial cost methods specified in paragraph 36d to another of those methods, or by a change in the method(s) used to determine the actuarial value of assets (for example, from a cost-based valuation to a market-related valuation), should be amortized over a period of not less than ten years. The minimum amortization period is not required when a plan is closed to new entrants and all or almost all the plan members have retired.
   3. Amortization method—The provision(s) for amortizing the total unfunded actuarial liability may be determined in **level dollar** amounts or as a **level percentage of the projected payroll** of active plan members. If the level percentage of projected payroll method is used, the assumed **payroll growth rate** should not include an assumed increase in the number of active plan members; however, projected decreases in that number should be included if no new members are permitted to enter the plan (for example, a plan that covers only employees hired before a certain date).

g. **Contribution deficiencies** or **excess contributions** of the employer(s)—A contribution deficiency or excess contribution is the difference between the ARC for a given year and the employer's contributions in relation to the ARC. Amortization of a contribution deficiency or excess contribution should begin at the next actuarial

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[24]The total unfunded actuarial liability may be positive (**actuarial accrued liability** greater than the actuarial value of assets) or negative (actuarial accrued liability less than the actuarial value of assets, or **funding excess**). The term *unfunded actuarial liability* refers to either situation. Separate determination and amortization of the unfunded actuarial liability are not part of the aggregate actuarial cost method and are not required when that method is used.

[25]The requirements for calculating an equivalent single amortization period are included in paragraph 43.

valuation, unless settlement is expected not more than one year after the deficiency or excess occurred. If settlement has not occurred by the end of that term, amortization should begin at the next actuarial valuation.

Schedule of Funding Progress

37. The schedule of funding progress should present the following information for each of the past six consecutive fiscal years of the plan, at a minimum: the actuarial valuation date, the actuarial value of plan assets, the actuarial accrued liability, the total unfunded actuarial liability, the actuarial value of assets as a percentage of the actuarial accrued liability (**funded ratio**), the annual **covered payroll,** and the ratio of the unfunded actuarial liability to annual covered payroll. All actuarially determined information reported should be calculated in accordance with the parameters and should be presented as of the actuarial valuation date.[26]

Schedule of Employer Contributions

38. The schedule of employer contributions should present the following information for each of the past six consecutive fiscal years of the plan, at a minimum: (a) the dollar amount of the ARC applicable to that year, calculated in accordance with paragraph 36f, and (b) the percentage of that ARC that was recognized in the plan's statement of changes in plan net assets for that year as contributions from the employer(s), in accordance with paragraphs 28 and 29.[27] When the plan's funding policy includes contributions from sources other than the plan members and the employer(s) (for example, contributions from a state government to a local government plan), the required contributions of those other

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[26]A funding excess (and related ratios) should be reported in the same manner as a positive unfunded actuarial liability. Plans with biennial valuations need not present duplicate information for the intervening years.

[27]The actuarial determination of the ARC generally is based on a projection of covered payroll for the period to which the ARC will apply. Some employers make contributions based on projected covered payroll; others contribute based on budgeted or actual covered payroll for the year. Any of those measures of covered payroll, consistently applied, is acceptable for the schedule of employer contributions. That is, comparisons between the ARC and contributions made should be based on the same measure of covered payroll, consistently applied, whether that measure is projected, budgeted, or actual covered payroll.

contributing entities and the percentage recognized as made should be included in the schedule of employer contributions. The schedule should be titled *schedule of contributions from the employer(s) and other contributing entities.*

39. For the transition year and the following five years, the required schedules of funding progress and employer contributions should include information for the current year and as many of the prior years as information according to the parameters is available. The schedules should not include information that does not meet the parameters.[28]

Notes to the Required Schedules

40. The following note disclosures should accompany the schedules of required supplementary information:

a. Identification of the actuarial methods and significant assumptions used for the most recent year reported in the required schedules, including the actuarial cost method, the method(s) used to determine the actuarial value of assets, and the assumptions with respect to the inflation rate, investment return, projected salary increases, and postretirement benefit increases. If the economic assumptions contemplate different rates for successive years (**year-based** or **select and ultimate rates**), the rates that should be disclosed are the ultimate rates. Also disclose the amortization method (level dollar or level percentage of projected payroll) and the amortization period (equivalent single amortization period, for plans that use multiple periods) for the most recent actuarial valuation and whether the period is **closed** or **open.** Plans that use the aggregate actuarial cost method should disclose that the method does not identify or separately amortize unfunded actuarial liabilities.
b. Factors that significantly affect the identification of trends in the amounts reported in the required schedules, including, for example, changes in benefit provisions, the

[28]The Board anticipates that, for many plans, the actuarial methods and assumptions applied based on the funding policy before implementation of this Statement will not differ significantly from the parameters. Those plans should be able to provide six years of information in accordance with the parameters when this Statement is implemented. However, retroactive application of the parameters is not required.

size or composition of the population covered by the plan, or the actuarial methods and assumptions used. (The amounts reported for prior years should not be restated.)[29]

Defined Contribution Plans

41. The notes to the financial statements of a defined contribution plan should include all disclosures required by this paragraph when the financial statements are presented (a) in a stand-alone plan financial report or (b) *solely* in the financial report of an employer. When a plan's financial statements are presented in both an employer's report and a publicly available stand-alone plan financial report that includes all disclosures required by this paragraph, the employer may limit its plan disclosures to those required by paragraphs 41a(1), 41b, and 41c, provided that the employer discloses information about how to obtain the stand-alone plan financial report.[30]

a. Plan description
   1. Identification of the plan as a defined contribution plan and disclosure of the number of participating employers and other contributing entities.
   2. Classes of employees covered (for example, general employees, public safety employees) and the total current membership.
   3. Brief description of plan provisions and the authority under which they are established or may be amended.
   4. Contribution requirements (for example, the contribution rates in dollars or as a percentage of salary) of the plan members, employer(s), and other contributing entities and the authority under which the requirements are established or may be amended.

b. Summary of significant accounting policies—Basis of accounting, fair value of plan assets (unless plan assets are reported at fair value), and a brief description of how the fair value is determined.

c. Concentrations—Identification of investments (other than those issued or guaranteed by the U.S. government) in any one organization that represent 5 percent or more of plan net assets.

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[29]Amounts previously reported based on the **standardized measure of the pension benefit obligation** according to Statement 5 (superseded by this Statement) should, however, be restated, unless that measure was used in determining the employer's actuarially determined required contributions to the plan for the year for which the amounts are reported.

[30]See footnote 13.

EFFECTIVE DATE AND TRANSITION

42. The requirements of this Statement are effective for periods beginning after June 15, 1996. If comparative financial statements are presented, restatement of the prior-year financial statements is required. Early implementation of this Statement is encouraged; however, Statement 26, if applicable, should be implemented in the same fiscal year.

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

This Statement was adopted by the affirmative votes of four members of the Governmental Accounting Standards Board. Mr. Antonio dissented.

Mr. Antonio objects to this Statement not only because it fails to provide more useful information than the standards it replaces, but also because he believes it actually provides less useful information. Mr. Antonio believes that this Statement either reverses or fails to take advantage of certain pension plan reporting improvements initiated during the past ten years through NCGA Statement 6 (1983) and Statement 5 (1986). Moreover, the Statement fails to provide adequate guidance in measuring investment performance. This Statement leaves users without a standardized means of assessing the two most significant aspects of pension plan accountability—investment performance and funded status. Therefore, Mr. Antonio believes that this Statement sets its objectives too narrowly and fails to achieve the objectives it establishes.

Investment Performance

Mr. Antonio believes that one of the major shortcomings of this Statement is its failure to require broader uniform reporting of investment performance measures. Although the Board recognized a need to study this issue further, a golden opportunity to improve financial reporting with this Statement that was noted by a significant number of the Exposure Draft respondents has been missed. Investment of employer and employee contributions is a fundamental activity of pension plans and is therefore a function requiring demonstration of accountability. The greater the investment yield (consistent with safety requirements), the less the required taxpayer contributions and perhaps the greater the pension benefits. Although current financial reporting standards do not provide for specific reporting requirements in general purpose financial reports, many plans nevertheless report their investment yields. To make investment performance information for all plans comparable and accessible (and hence more useful to governmental funding entities, taxpayers, plan trustees, employees, analysts, and other users), standardized requirements for general purpose financial reporting of investment yields need to be established. The requirements should cover such matters as how rates of return should be measured, whether rates of return should be reported by category of investment, and whether trend information should be required. Users of pension plan reporting should have access to comparable investment yield information on pension plans just as one has access to comparable rates of return on mutual funds through the daily financial pages.

Standardized Measure

Mr. Antonio also objects to this Statement because it deletes the requirement to report a standardized measure of the pension benefit obligation, and uses instead the actuarial accrued liability (if any) produced by the method used to fund the plan. The use of a standardized measure of the pension obligation to assess pension plan status and make comparisons among plans was introduced into governmental accounting literature by NCGA Statement 6 and was reaffirmed by Statement 5. The following reasons for using a standardized measure are as valid today as they were when adopted in the 1980s by two governmental accounting standards-setting bodies:

a. The most potentially useful information provided by the requirements of this Statement is the trend in funded status of the plan. To be of maximum usefulness to *all* users, however, funded status needs to be reported on a comparable basis by all plans. One frequently reads observations such as "the state of A pension plan is X% funded, compared with the state of B which is Y% funded and the all-state average of Z% funded." Mr. Antonio believes that this kind of information, which requires standardized measurement of funded status, is useful to public policy researchers and the media (which may influence public perception as well as legislation), the investment community (for example, rating agencies in rationalizing one city's bond rating against another), and governmental officials involved in the funding and oversight process (for example, in understanding how their government's pension fund status compares with other governments).

b. Use of the actuarial accrued liability produced by the funding methodology does not produce a common measure of the pension obligation. In fact, one of the six actuarial cost methods allowed by this Statement—the aggregate method—produces a zero unfunded actuarial accrued liability regardless of the extent to which the plan has been funded; it therefore cannot be used to measure funding progress. Furthermore, the two "frozen" actuarial cost methods produce actuarial accrued liabilities that are not adjusted for actuarial gains and losses. The actuarial accrued liabilities produced by the various funding methods are nothing more than byproducts of the actuarial method used to compute the funding requirement; several of them cannot be used to measure funding progress. Furthermore, those methods that can be used to measure funding progress allocate differing amounts to past service (the portion that may help to measure the benefit obligation) and to future service. If one is interested in determining the funded status of one government's plan relative to another, a particular process should be chosen. This is what was done in NCGA Statement 6 and Statement 5.

c. The use of funding methods to measure pension expenditures/expense can produce significantly different results under similar circumstances, particularly because of the extensive options allowed by the Board in computing the ARC. Requiring a standardized measure of the pension obligation helps to overcome some of the differences that result from allowing funding methods to measure pension expenditures/expense. Failure to require a standardized measure of the pension obligation weakens the position of the Board in permitting extensive options in measuring pension expenditures/expense.

Based on the results of a survey and comments received on the ED, the Board believes that a standardized measure is not useful to the majority of users, would be confusing to them, and might mislead them. The GASB's due process, however, did not capture the views of many external users of governmental financial reporting, but instead was based primarily on the views of internal personnel (such as pension plan administrators and plan actuaries) or their perceptions about the needs of external users. Obviously, internal personnel need information about plan status in relation to the plan's own funding targets, and they have no difficulty getting that information. But that is not a sufficient reason for abandoning a standardized measure for external reporting by the plan. The following comments deal with some of the points made by those who would abandon the standardized measure, and therefore supplement the comments in the preceding paragraph:

a. The suggestion that "standardizing one statistic does not make plans comparable" misses the point of having a standardized measure. The objective is not to make plans exactly comparable, but rather, as previously stated, to enhance comparability of the funded status of one plan relative to another, regardless of the method used to fund the plan. Other accounting standards setters seem to have had some success in developing a standardized measure; it is unfortunate that the Board failed to capitalize on the momentum created by Statement 5.

b. The suggestion that a standardized measure may lead to "invalid conclusions" can be tested with a simple illustration. Assume that there are three governmental entities with plans that are alike in all respects, except that one funds on the entry age normal actuarial method, another on the aggregate method, and the third on the projected unit credit method. Assume further that, using the Statement 5 standardized measure and a standardized measure of the actuarial value of assets, all three plans would report that they are 85 percent funded. But, using each plan's own actuarial measurements—as required in this Statement—the first plan is 75 percent funded, the second plan is not required to state its funded status, and the third is 85 percent funded. Given the fact that all three plans have the same funded status using a standardized measure, it is difficult to understand how external users are more likely to draw "invalid conclusions" from the standardized measure than from different measures or no measure at all.

c. Apparently, the Board is concerned that the standardized measure may be used, but not for the intended purpose; that is, it may be used to justify reducing employer contributions. In response to this concern, one might ask why any disclosures are made unless they are intended for some kind of evaluative, comparative (and possible action) purpose. In fact, a change in any one of the following required disclosures might be used to justify reducing employer contributions: the actuarial cost method; the method used to determine the actuarial value of assets; the assumptions concerning the inflation rate, investment return, projected salary increases, and postretirement benefit increases; the amortization method; the amortization period; and whether the amortization period is closed or open.

Basic Financial Statements

Mr. Antonio also objects to this Statement because the required financial statements lack focus. These statements are limited to a statement of net assets and a statement of changes in net assets. Information concerning the pension obligation and changes in that obligation is not required to be presented in the body of the basic financial statements. The Board justifies the lack of any requirement by expressing concern about the preciseness of the actuarial estimates and about the accounting nature of the pension obligation and the unfunded obligation. They therefore choose to overturn the NCGA Statement 6 requirement for reporting the obligation in the body of the financial statements, and they ignore the opportunity to require an adaptation of the FASB Statement 35 presentation of both the obligation and the changes in the obligation either in the body of the statements or in the notes.

Mr. Antonio believes that the statement of net assets is useful only when the assets are related to the objective for which they are being accumulated—namely, the obligation to pay pension benefits. Furthermore, the current values of the assets are "precise" only at a specific moment in time. The current values are likely to bear very little relationship to their exit values—the values at which the assets are disposed of either to purchase new assets or to pay pension benefits. Thus, in terms of the *use* for which the pension assets are being accumulated, the current values are no more "precise" than a best estimate of the current value of the pension obligation. Therefore, he believes the "preciseness" of the pension obligation is not a valid concern.

To provide useful information in financial reporting, accountants are fully accustomed to relying on estimates prepared by other professions. The GASB, for example, relied heavily on engineering estimates in Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs,* regarding the liability for landfill postclosure costs—a liability to be liquidated over periods approaching the liquidation period of the pension obligation. Similarly, in the interest of providing useful information, Mr. Antonio sees no reason for the concerns expressed about the accounting nature of the obligation. He suggests that useful information regarding the financial position of a pension plan should be conveyed in a combined statement of net assets available for benefits *and pension benefit obligation,* and that useful information regarding pension plan operations for the year should be conveyed in a statement of changes in net assets *and a statement of changes in the pension benefit obligation.*

The Statement addresses some of the financial statement shortcomings that Mr. Antonio perceives by establishing a minimum requirement for a schedule of funding progress as required supplementary information. However, as previously discussed, this requirement suffers from the lack of a standardized measure of the asset values and the obligation. Also, the asset measure on the schedule differs from the asset measure in the statement of net assets, raising a potential source of confusion. Finally, the disclosure requirement concerning changes in the obligation merely requires a general identification of factors affecting trends rather than a statement of changes in the obligation.

Parameters

Mr. Antonio also objects to the parameters established to report actuarially determined pension information and for measuring employer pension expenditures/expense. The issues here relate to the requirements proposed in the GASB's 1990 ED on employer pension accounting. Those requirements have been revised and included in both Statement 27 and this Statement.

The 1990 ED was issued after extensive due process that included issuance of and deliberations on a Preliminary Views document. The 1990 ED was based on a "funding-oriented" approach to measurement of the expenditures/expense, but contained some elements of both APB Opinion No. 8, *Accounting for the Cost of Pension Plans,* and FASB Statement No. 87, *Employers' Accounting for Pensions.* It thus proposed a reduction in the range of measurement alternatives because at that time the Board believed that the existing range was unreasonably broad. In essence, the 1990 ED continued the pension funding orientation for accounting measurement purposes, but placed greater constraints on it to narrow the range of options and more nearly relate the employer accounting charge for pensions to the period benefited by the employee service.

The largest group of respondents to the 1990 ED either agreed with the proposed constraints or suggested that the constraints be made either slightly "tighter" or slightly "looser." A smaller group of respondents suggested significant "tightening" of the constraints—for example, by amortizing the unfunded actuarial liability at transition over average remaining service life, adopting a single actuarial method, or adopting FASB Statement 87. Another, smaller group suggested "loosening" some but not all of the constraints—for example, by amortizing the transition liability on a closed basis but amortizing subsequent changes on a fluctuating basis up to 30 years. And a small group recommended significant "loosening" of the amortization methodology for both the transition liability and subsequent changes.

In keeping with the intent of the 1990 ED, Mr. Antonio believes that an appropriate reaction to the respondents' comments would have been a slight adjustment of the proposed constraints. Instead, the Board has chosen to remove virtually all of those constraints on funding approaches when used for employer pension accounting measurements. Mr. Antonio is not surprised that a majority of respondents to this Statement's ED agreed with the Board's approach, given the flexibility provided. He continues to believe a Statement so devoid of constraints on accounting measurement and so full of options cannot be considered an improvement over current standards.

Mr. Antonio objects, in particular, to the provisions of paragraphs 36a and 36f, which, taken together, permit employer accounting recognition of certain types of benefits over inordinately long periods of time. These are additional pension benefits resulting from special termination benefits, benefit increases for retired and active plan participants, and other statutory or contractual agreements to provide pension benefits. The effect of the standard is to allow optional use of certain pension funding techniques to undermine accrual accounting, as discussed in subsequent paragraphs.

Special termination benefits are benefits offered to employees for a short period of time, often as an inducement to take early retirement, and often to help alleviate near-term budgetary problems. They are not benefits offered to employees in exchange for *rendering* service; instead, they are benefits offered in exchange for *terminating* service. These benefits generally take the form of either lump-sum cash payouts or additional pension benefits (for example, one year of pension service credit for every ten years worked). There is no justification for accounting for special termination benefits differently when they are paid out over many years in the form of pension benefits than when they are paid immediately.

FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* requires that the cost of special termination benefits be recognized immediately—that is, when the employee accepts the offer and the amount can be reasonably estimated. NCGA Interpretation 8, *Certain Pension Matters,* which was based on a similar provision of FASB Statement No. 74, *Accounting for Special Termination Benefits Paid to Employees,* contained a similar requirement, subject to the distinction in accounting and reporting as between proprietary and governmental funds. This Statement, however, would modify NCGA Interpretation 8 and use pension plan funding techniques. This change could result in spreading employer accounting recognition of additional pension benefits resulting from special termination benefits over periods up to 40 years (and more, under certain funding methods). Mr. Antonio believes that a special termination benefit of this type is not a pension benefit (it is an ad hoc severance benefit paid in the *form* of a pension benefit) and should not be accounted for as if it were a pension benefit.

This Statement also permits amortization of other "statutory or contractual agreements to provide pension benefits" for periods up to 40 years (and more). This is an open-ended invitation to defer recognition not only of additional pension benefits, resulting fromspecial termination benefits, but also of any type of collective-bargaining arrangement that converts current salaries and other benefits to pension benefits. Theoretically, any type of wage or salary payable for current services could be deferred and paid in the form of pension benefits as a result of collective bargaining, without immediate recognition of a liability.

The 1990 ED proposed that an increase in the unfunded actuarial liability due to a benefit increase for retired plan participants be amortized (and therefore recognized) either in level dollar amounts over the estimated average remaining life expectancy of the retirees or by a method that reflects the gradually decreasing payout to retirees over their remaining life expectancies. In arriving at that conclusion, the Board recognized the differing views regarding the relationship between benefit increases to retired plan participants and the economic benefit to the employer. It therefore proposed a middle ground between immediate recognition of the entire unfunded actuarial liability and recognition over the estimated average remaining service life of active plan participants. This Statement, however, allows recognition of the expenditures/expense for these benefits for periods up to 40 years (and more)—long beyond the period that an employer could possibly derive economic benefit from the payment to those retirees.

Similarly, the 1990 ED proposed that an increase in the unfunded actuarial liability due to a benefit increase for active plan participants should be amortized over the estimated average remaining service life of those participants. In justifying that conclusion, the Board reasoned that it was unreasonable to anticipate that employers would derive an economic benefit beyond the period of average remaining service life of the active participants entitled to the increase. This Statement, however, again allows recognition for periods up to 40 years (and more).

The 1990 ED proposed amortization of the unfunded actuarial liability at transition and most subsequent changes in the unfunded actuarial liability on a "closed" basis. Under the closed basis, each component of the liability is fully amortized over the prescribed number of years. That ED also permitted amortization to be either in level dollar amounts or as a level percentage of projected payroll. The level dollar amortization method is similar to the mortgage payment method and is automatically a closed basis. Under the level percentage of payroll closed basis, the amortization payment in the early years is insufficient to cover the interest on the unfunded actuarial liability; however, as the payroll base rises in the later years, the total payment increases rapidly so that the unfunded actuarial liability is fully amortized in the prescribed number of years. Although Opinion 8 contemplated only the level dollar amortization method, the 1990 ED permitted use of the level percentage of payroll closed method because it helped to maintain a consistent percentage relationship between pension expenditures/expense and payroll while fully amortizing the unfunded actuarial liability in the prescribed number of years.

This Statement, however, permits not only the level dollar and level percentage of payroll closed methods, but also the "fluctuating" or "open" methods. Under some applications, the open method, when coupled with an amortization period of 30 to 40 years, produces no perceptible amortization of the unfunded actuarial liability. Thus, the additional pension benefits resulting from special termination benefits and the other pension benefits previously discussed may be amortized in periods far beyond the stated 30 to 40 years. Although actuaries may consider this to be an amortization method because the unfunded actuarial liability decreases over time as a percentage of payroll, Mr.

Antonio believes it is not an amortization method in an accounting sense because the liability increases in absolute amount.

This Statement and Statement 27 seek to justify both the 30-to-40-year maximum acceptable amortization period and the open method based on such factors as "simplicity in the calculations," "stability in the contribution rates," and the ability to produce satisfactory results from a sound funding, long-term, going-concern perspective. Mr. Antonio provides the following comments regarding this justification:

a. Simplicity of calculation. Most accountants would probably agree that there is nothing particularly simple about actuarial techniques. Even though more stringent parameters may result in additional calculations by some plans, Mr. Antonio believes from a cost-benefit standpoint, simplicity of calculation is not a relevant issue.
b. Rate stability. Maintaining stability in pension funding rates may be a desirable feature from the plan's and employer's perspective, but when transactions occur that affect only the current period or a short subsequent period, then accounting recognition cannot be subordinated to pension funding techniques. Indeed, a strong case can be made, from a public policy perspective, that the cost of those events should not be spread out even for funding purposes.
c. Sound funding, long-term, going-concern perspective. Mr. Antonio supported the funding-oriented approach proposed in the 1990 ED. However, he cannot support the notion that there is no need for concern with making appropriate charges to particular periods based on the theory that "over the long haul everything will work out." That notion usually means that taxpayers will pay the bill long after the expiration of any benefits received.

Finally, Mr. Antonio believes that the funding alternatives permitted by this Statement result in an extraordinary number of accounting options. An accounting standard that permits options is no better than its weakest option. One option, which combines a 40-year amortization period, a level percentage of payroll amortization method, and an open method, results in no perceptible amortization and a likely increase in the liability far beyond the stated 40-year period. When allowed in connection with additional pension benefits resulting from special termination benefits and ad hoc benefit increases to retired employees—causing future recognition of expenditures/expenses far beyond the benefit period—Mr. Antonio believes that the Statement fails to meet the test of fiscal responsibility.

Members of the Governmental Accounting Standards Board:

James F. Antonio, *Chairman*
Tom L. Allen
Robert J. Freeman
Barbara A. Henderson
Edward M. Klasny

EQUIVALENT SINGLE AMORTIZATION PERIOD—CALCULATION METHOD

43. This paragraph includes exhibits of the calculations that, if applicable, are required by this Statement. When components of the total unfunded actuarial liability are separately amortized over different periods, this Statement requires the individual periods to be selected so that the *equivalent single amortization period for all components combined* does not exceed the maximum acceptable amortization period. An equivalent single amortization period is a weighted average period calculated in accordance with paragraph 36f(1). For these exhibits, the maximum acceptable period is assumed to be 30 years. The data included in the exhibits are hypothetical and are not intended to indicate the Board's endorsement of the amortization periods and methods shown.

Exhibit 1 Equivalent Single Amortization Period *within* the Maximum Acceptable Amortization Period

Exhibit 2 Equivalent Single Amortization Period *outside* the Maximum Acceptable Amortization Period

Exhibit 3 Recalculation of Exhibit 2 So That the Equivalent Single Amortization Period Is *within* the Maximum Acceptable Amortization Period

Exhibit 1—Equivalent Single Amortization Period *within* the Maximum Acceptable Amortization Period

Lines 1, 2, and 3 of the exhibit are given. The total unfunded actuarial liability (UAL) comprises three components or bases (line 2). Each base is to be amortized as a level percentage of projected payroll over a different time period (line 3). The assumptions are 8% investment return and 5% inflation; based on those assumptions, the level percent discount rate is approximately 2.86%. Each amortization factor (line 4) incorporates that rate and the period.

The amortization calculations for each of the three bases result in a total (net) amortization payment of 4.82% of payroll (line 6, total column). If the employer continued to contribute at that rate and all else resulted as anticipated, the total unfunded actuarial liability would be fully amortized in 26 years (equivalent single amortization period, line 8). That period is within the maximum acceptable period of 30 years. Therefore, the amortization periods selected for each base are acceptable.

	Base 1 Initial UAL	Base 2 Plan Amendment	Base 3 Cumulative Loss (Gain)	Total
1. Covered payroll				$1,500,000
2. Amount of base	$1,000,000	$400,000	$(100,000)	$1,300,000
3. Remaining amortization years	30	15	10	
4. Amortization factor based on (3)	19.77	11.94	8.51	
5. Next year's payment (2)/(4)	$50,582	$33,501	$(11,751)	$72,332
6. Payment as a level percentage of payroll (5)/(1)	3.37%	2.23%	(0.78)%	4.82%
Equivalent single period				
7. Weighted average amortization factor (2)/(5)				17.97
8. Equivalent single amortization period (nearest whole year)*				26

*Number of years incorporated in the amortization factor (7) when the discount rate is 2.86%. An amortization factor incorporates a discount rate and a period. When one is known, the other can be calculated.

Exhibit 2—Equivalent Single Amortization Period *outside* the Maximum Acceptable Amortization Period

Lines 1, 2, and 3 of the exhibit are given. The total unfunded actuarial liability (UAL) comprises three components or bases (line 2). Each base is to be amortized as a level percentage of projected payroll over a different time period (line 3). The assumptions are 8% investment return and 5% inflation; based on those assumptions, the level percent discount rate is approximately 2.86%. Each amortization factor (line 4) incorporates that rate and the period.

The amortization calculations for each of the three bases result in a total (net) amortization payment of 2.14% of payroll (line 6, total column). If the employer continued to contribute at that rate and all else resulted as anticipated, the total unfunded actuarial liability would be fully amortized in 59 years (equivalent single amortization period, line 8). Based on the assumptions made, 2.14% of payroll is insufficient to amortize the total unfunded actuarial liability in 30 years. One or more of the amortization periods selected for the individual bases should be changed. One solution is to spread the cumulative gain over a longer period, thereby *reducing* the credit taken (lines 5 and 6, Base 3) and *increasing* the total (net) amortization payment. Exhibit 3 presents that solution.

	Base 1 Initial UAL	Base 2 Plan Amendment	Base 3 Cumulative Loss (Gain)	Total
1. Covered payroll				$1,500,000
2. Amount of base	$1,000,000	$200,000	$(300,000)	$900,000
3. Remaining amortization years	30	15	10	
4. Amortization factor based on (3)	19.77	11.94	8.51	
5. Next year's payment (2)/(4)	$50,582	$16,750	$(35,253)	$32,079
6. Payment as a level percentage of payroll (5)/(1)	3.37%	1.12%	(2.35)%	2.14%
Equivalent single period				
7. Weighted average amortization factor (2)/(5)				28.06
8. Equivalent single amortization period (nearest whole year)*				59

*Number of years incorporated in the amortization factor (7) when the discount rate is 2.86%. An amortization factor incorporates a discount rate and a period. When one is known, the other can be calculated.

Exhibit 3—Recalculation of Exhibit 2 So That the Equivalent Single Amortization Period Is *within* the Maximum Acceptable Amortization Period

Lines 1 through 8 are repeated from Exhibit 2 and the same assumptions apply. Given those assumptions, the minimum payment needed to pay off the total unfunded actuarial liability in 30 years (line 9) is $45,524, or 3.03% of payroll (lines 11 and 12).

One way to achieve the required minimum payment is to keep the amortization payments for the two loss bases the same (line 13) and recalculate the maximum credit that can be taken for the cumulative gain (line 14). To achieve that amount, the amortization factor for the cumulative gain should be 13.76 (line 15) instead of 8.51 (line 4). The number of years incorporated in that factor when the discount rate is 2.86% is 18 years (line 16); Base 3 should be amortized over 18 years, not 10 years. *Note that other solutions are possible, including various combinations of shortening the periods for Base 1 and/or Base 2 and lengthening the period for Base 3.*

	Base 1 Initial UAL	**Base 2** Plan Amendment	**Base 3** Cumulative Loss (Gain)	**Total**
1. Covered payroll				$1,500,000
2. Amount of base	$1,000,000	$200,000	$(300,000)	$900,000
3. Remaining amortization years	30	15	10	
4. Amortization factor based on (3)	19.77	11.94	8.51	
5. Next year's payment (2)/(4)	$50,582	$16,750	$(35,253)	$32,079
6. Payment as a level percentage of payroll (5)/(1)	3.37%	1.12%	(2.35)%	2.14%
Equivalent single period				
7. Weighted average amortization factor (2)/(5)				28.06
8. Equivalent single amortization period (nearest whole year)				59
Minimum Payment				
9. Maximum acceptable average period				30
10. Amortization factor for (9)				19.77
11. Minimum next year's payment (2)/(10)				$45,524
12. Minimum as a percentage of payroll (11)/(1)				3.03%
Adjusted Amortization Period for Base 3				
13. Payment for Base 1 plus Base 2 (5)				$67,332
14. Maximum credit against cumulative gain (11) – (13)				$(21,808)
15. Base 3 amortization factor (2)/(14)				13.76
16. Base 3 amortization years				18

GLOSSARY

44. This paragraph contains definitions of certain terms *as they are used in this Statement*; the terms may have different meanings in other contexts. Terms defined in paragraph 45, "Pension Actuarial Terminology," are cross-referenced to that paragraph.

Actuarial accrued liability

See paragraph 45, A-4.

Actuarial assumptions

See paragraph 45, C-2.

Actuarial cost method

See paragraph 45, A-2.

Actuarial experience gain and loss

See paragraph 45, A-8.

Actuarial present value of total projected benefits

Total projected benefits include all benefits estimated to be payable to plan members (retirees and beneficiaries, terminated employees entitled to benefits but not yet receiving them, and current active members) as a result of their service through the valuation date and their expected future service. The actuarial present value of total projected benefits as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Expressed another way, it is the amount that would have to be invested on the valuation date so that the amount invested plus investment earnings will provide sufficient assets to pay total projected benefits when due.

Actuarial valuation

See paragraph 45, C-3.

Actuarial valuation date

The date as of which an actuarial valuation is performed.

Actuarial value of assets

See paragraph 45, A-5.

Ad hoc postretirement benefit increase

See Postretirement benefit increase.

Agent multiple-employer plan (agent plan)

An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan, based on the benefit formula selected by the employer and the individual plan's proportionate share of the pooled assets. The results of the individual valuations are aggregated at the administrative level.

Aggregate actuarial cost method

See paragraph 45, B-4.

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.

Amortization (of unfunded actuarial accrued liability)

See paragraph 45, C-5.

Annual required contributions of the employer(s) (ARC)

The employer's periodic required contributions to a defined benefit pension plan, calculated in accordance with the parameters.

Attained age actuarial cost method

See paragraph 45, B-3.

Automatic postretirement benefit increase

See Postretirement benefit increase.

Closed amortization period (closed basis)

A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period is initially 30 years on a closed basis, 29 years remain after the first year, 28 years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, 30 years), the period may increase, decrease, or remain stable.

Contract value

The value of an unallocated contract that is determined by the insurance company in accordance with the terms of the contract.

Contribution deficiencies (excess contributions)

The difference between the annual required contributions of the employer(s) (ARC) and the employer's actual contributions in relation to the ARC.

Cost-sharing multiple-employer plan

A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to the employers. A single actuarial valuation covers all plan members and the same contribution rate(s) applies for each employer.

Covered group

Plan members included in an actuarial valuation.

Covered payroll

All elements included in compensation paid to active employees on which contributions to a pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Defined benefit pension plan

A pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation.

Defined contribution plan

A pension plan having terms that specify how contributions to a plan member's account are to be determined, rather than the amount of retirement income the member is to receive. The amounts received by a member will depend *only* on the amount contributed to the member's account, earnings on investments of those contributions, and forfeitures of contributions made for other members that may be allocated to the member's account.

Entry age actuarial cost method

See paragraph 45, B-2.

Equivalent single amortization period

The weighted average of all amortization periods used when components of the total unfunded actuarial accrued liability are separately amortized and the average is calculated in accordance with the parameters.

Excess contributions (contribution deficiencies)

See Contribution deficiencies (excess contributions).

Fair value

The amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale.

Frozen attained age actuarial cost method

See paragraph 45, B-6.

Frozen entry age actuarial cost method

See paragraph 45, B-5.

Funded ratio

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Funding excess

The excess of the actuarial value of assets over the actuarial accrued liability. See paragraph 45, A-6.

Funding policy

The program for the amounts and timing of contributions to be made by plan members, employer(s), and other contributing entities (for example, state government contributions to a local government plan) to provide the benefits specified by a pension plan.

Insurance contract

See Allocated insurance contract and Unallocated insurance contract.

Investment return assumption (discount rate)

The rate used to adjust a series of future payments to reflect the time value of money.

Level dollar amortization method

The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as a result of inflation, level dollar payments generally represent a decreasing percentage of payroll; in dollars adjusted for inflation, the payments can be expected to decrease over time.

Level percentage of projected payroll amortization method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Market-related value of plan assets

A term used with reference to the actuarial value of assets. A market-related value may be market value (or estimated market value) or a calculated value that recognizes changes in market value over a period of, for example, three to five years.

Normal cost

See paragraph 45, A-3. In this Statement, the term refers to employer normal cost.

Open amortization period (open basis)

See Closed amortization period (closed basis).

Other postemployment benefits

Postemployment benefits other than pension benefits; other postemployment benefits include postemployment healthcare benefits, regardless of the type of plan that provides them, and all postemployment benefits provided through a plan that does not provide retirement income, except benefits defined as special termination benefits in NCGA Interpretation 8, *Certain Pension Matters*, as amended.

Parameters

The set of requirements for calculating actuarially determined pension information included in financial reports.

Pay-as-you-go

See paragraph 45, C-8.

Payroll growth rate

An actuarial assumption with respect to future increases in total covered payroll attributable to inflation; used in applying the level percentage of projected payroll amortization method.

Pension benefits

Retirement income and all other benefits, including disability benefits, death benefits, life insurance, and other ancillary benefits, *except healthcare benefits*, that are provided through a *defined benefit* pension plan to plan members and beneficiaries after termination of employment or after retirement. Post-employment healthcare benefits are considered other postemployment benefits, whether they are provided through a defined benefit pension plan or another type of plan.

Pension trust fund

A fund held by a governmental entity in a trustee capacity for pension plan members; used to account for the accumulation of assets for the purpose of paying benefits when they become due in accordance with the terms of the plan; a pension plan included in the financial reporting entity of the plan sponsor or a participating employer.

Plan assets

Resources, usually in the form of stocks, bonds, and other classes of investments, that have been segregated and restricted in a trust for the payment of benefits in accordance with the terms of the plan.

Plan liabilities

Obligations payable by the plan at the reporting date, including, primarily, benefits and refunds due and payable to plan members and beneficiaries, and accrued investment and administrative expenses. Plan liabilities do not include actuarial accrued liabilities for benefits that are not due for payment at the reporting date.

Plan members

The individuals covered by the terms of a pension plan. The plan membership generally includes employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees and beneficiaries currently receiving benefits.

Plan net assets and **Plan net assets held in trust for pension benefits**

The difference between total plan assets and total plan liabilities at the reporting date.

Postemployment

The period between termination of employment and retirement as well as the period after retirement.

Postemployment healthcare benefits

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

Postretirement benefit increase

An increase in the pension benefits of retirees or beneficiaries granted to compensate for the effects of inflation (cost-of-living adjustment) or for other reasons. *Ad hoc* increases may be granted periodically by a decision of the board of trustees, legislature, or other authoritative body; both the decision to grant an increase and the amount of the increase are discretionary. *Automatic* increases are periodic increases specified in the terms of the plan; they are nondiscretionary except to the extent that the plan terms can be changed.

Projected salary increase assumption

An actuarial assumption with respect to future increases in the individual salaries and wages of active plan members; used in determining the actuarial present value of total projected benefits. The expected increases commonly include amounts for inflation, enhanced productivity, and employee merit and seniority.

Projected unit credit actuarial cost method

See paragraph 45, B-1.

Public employee retirement system

A state or local governmental entity entrusted with administering one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans. A public employee retirement system also may be an employer that provides or participates in a pension plan or other types of employee benefit plans for employees of the system.

Reporting date

The date of the financial statements; the last day of the fiscal year.

Required supplementary information (RSI)

Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Select and ultimate rates

Actuarial assumptions that contemplate different rates for successive years. Instead of a single assumed rate with respect to, for example, the investment return assumption, the actuary may apply different rates for the early years of a projection and a single rate for all subsequent years. For example, if an actuary applies an assumed investment return of 8 percent for year 19W0, 7.5 percent for 19W1, and 7 percent for 19W2 and thereafter, then 8 percent and 7.5 percent are select rates, and 7 percent is the ultimate rate.

Single-employer plan

A plan that covers the current and former employees, including beneficiaries, of only one employer.

Sponsor

The entity that established the plan. The sponsor generally is the employer or one of the employers that participate in the plan to provide benefits for their employees. Sometimes, however, the sponsor establishes the plan for the employees of other entities but does not include its own employees and, therefore, is not a participating employer of that plan. An example is a state government that establishes a plan for the employees of local governments within the state, but the employees of the state government are covered by a different plan.

Stand-alone plan financial report

A report that contains the financial statements of a plan and is issued by the plan or by the public employee retirement system that administers the plan. The term *stand-alone* is used to distinguish such a financial report from plan financial statements that are included in the financial report of the plan sponsor or employer (pension trust fund).

Standardized measure of the pension benefit obligation

The actuarial present value of credited projected benefits produced by the projected unit credit actuarial cost method, prorated on service, and other measurement requirements specified in Statement 5 (superseded by this Statement).

Transition year

The fiscal year in which this Statement is implemented.

Ultimate rate

See Select and ultimate rates.

Unallocated insurance contract

A contract with an insurance company under which payments to the insurance company are accumulated in an unallocated pool or pooled account (not allocated to specific members) to be used either directly or through the purchase of annuities to meet benefit payments when employees retire. Monies held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.

Unfunded actuarial accrued liability (unfunded actuarial liability)

See paragraph 45, A-6.

Unprojected unit credit

See paragraph 45, B-1.

Year-based assumptions

See Select and ultimate rates.

PENSION ACTUARIAL TERMINOLOGY

45. This paragraph contains terms and definitions adopted by the Interim Actuarial Standards Board (now the Actuarial Standards Board) of the American Academy of Actuaries in 1988. The terms and definitions are reproduced, with permission, including the original section headings and item numbers, as published in "Appendix II: Pension Actuarial Terminology" of Actuarial Standard of Practice No. 4, *Measuring Pension Obligations,* approved for publication by the Actuarial Standards Board, October 1993.[31] Five items in the original (B-7, B-8, B-9, C-1, and C-6) are not included in this paragraph because they describe actuarial cost methods not included in the parameters or define terms not used in this Statement or Statement 27. Terms with an asterisk are not used in this Statement or Statement 27 but have been reproduced because they are used in the definitions of other terms.

Section A
CORE TERMS

A-1* **Actuarial Present Value**

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions. For purposes of this standard, each such amount or series of amounts is:

a. adjusted for the probable financial effect of certain intervening events (such as changes in compensation levels, Social Security, marital status, etc.),

[31]Actuarial Standard of Practice No. 4 may be obtained from the Actuarial Standards Board, 1100 Seventeenth Street, NW, 7th Floor, Washington, DC 20036.

b. multiplied by the probability of the occurrence of an event (such as survival, death, disability, termination of employment, etc.) on which the payment is conditioned, and

c. discounted according to an assumed rate (or rates) of return to reflect the time value of money.

A-2 Actuarial Cost Method or Funding Method

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and an Actuarial Accrued Liability.

Note: An Actuarial Cost Method is understood to be a Closed Group Actuarial Cost Method unless otherwise stated.

A-3 Normal Cost or Normal Actuarial Cost

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Note 1: The presentation of Normal Cost should be accompanied by reference to the Actuarial Cost Method used.

Note 2: Any payment in respect of an Unfunded Actuarial Accrued Liability is not part of Normal Cost (see Amortization Payment).

Note 3: For pension plan benefits which are provided in part by employee contributions, Normal Cost refers to the total of employee contributions and employer Normal Cost unless otherwise specifically stated.

A-4 Actuarial Accrued Liability, Actuarial Liability, Accrued Liability, or Actuarial Reserve

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

Note: The presentation of an Actuarial Accrued Liability should be accompanied by reference to the Actuarial Cost Method used; for example, by hyphenation ("Actuarial Accrued Liability—XYZ," where "XYZ" denotes the Actuarial Cost Method) or by a footnote.

A-5 Actuarial Value of Assets or Valuation Assets

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Note: The statement of Actuarial Assumptions should set forth the particular procedures used to determine this value.

A-6 Unfunded Actuarial Accrued Liability, Unfunded Actuarial Liability, Unfunded Accrued Liability, or Unfunded Actuarial Reserve

The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

Note: This value may be negative in which case it may be expressed as a negative Unfunded Actuarial Accrued Liability, the excess of the Actuarial Value of Assets over the Actuarial Accrued Liability, or the Funding Excess.

A-7* Unfunded Frozen Actuarial Accrued Liability or Unfunded Frozen Actuarial Liability

An Unfunded Actuarial Accrued Liability which is not adjusted ("frozen") from one Actuarial Valuation to the next to reflect Actuarial Gains (Losses) under certain Actuarial Cost Methods. Generally, this amount is adjusted by any increments or decrements in Actuarial Accrued Liability due to changes in pension plan benefits or Actuarial Assumptions subsequent to the date it is frozen. Adjustments are made from one Actuarial Valuation to the next to reflect the addition of interest and deduction of Amortization Payments.

A-8 Actuarial Gain (Loss) or Experience Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Note 1: The effect on the Actuarial Accrued Liability and/or the Normal Cost resulting from changes in the Actuarial Assumptions, the Actuarial Cost Method or pension plan provisions should be described as such, not as an Actuarial Gain (Loss).

Note 2: The manner in which the Actuarial Gain (Loss) affects future Normal Cost and Actuarial Accrued Liability allocations depends upon the particular Actuarial Cost Method Used.

Section B
ACTUARIAL COST METHODS

B-1 Unit Credit Actuarial Cost Method

A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all periods prior to a valuation year is called the Actuarial Accrued Liability.

Note 1: The description of this method should state the procedures used, including:

(a) how benefits are allocated to specific time periods;
(b) the procedures used to project benefits, if applicable; and
(c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, generally reduce (increase) the Unfunded Actuarial Accrued Liability.

B-2 Entry Age Actuarial Cost Method or 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.

Note 1: The description of this method should state the procedures used, including:

(a) whether the allocation is based on earnings or service;
(b) where aggregation is used in the calculation process;
(c) how entry age is established;
(d) what procedures are used when different benefit formulas apply to various periods of service; and
(e) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

B-3 Attained Age Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits over the Actuarial Accrued Liability in respect of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between the valuation date and assumed exit. The portion of this Actuarial Present Value which is allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is determined using the Unit Credit Actuarial Cost Method.

Note 1: The description of this method should state the procedures used, including:

(a) whether the allocation is based on earnings or service;
(b) where aggregation is used in the calculation process; and
(c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) the Unfunded Actuarial Accrued Liability.

Note 3: The differences which regularly arise between the Normal Cost under this method and the Normal Cost under the Unit Credit Actuarial Cost Method will affect the determination of future Actuarial Gains (Losses).

B-4 Aggregate Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the Actuarial Present Value allocated to a valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets.

Note 1: The description of this method should state the procedures used, including:

(a) whether the allocation is based on earnings or service;
(b) how aggregation is used in the calculation process; and
(c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) future Normal Costs.

B-5 Frozen Entry Age Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Note 1: The description of this method should state the procedures used, including:

(a) whether the allocation is based on earnings or service;
(b) how aggregation is used in the calculation process; and
(c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) future Normal Costs.

B-6 Frozen Attained Age Actuarial Cost Method

A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The Unfunded Frozen Actuarial Accrued Liability is determined using the Unit Credit Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Note 1: The description of this method should state the procedures used, including:

(a) whether the allocation is based on earnings or service;
(b) how aggregation is used in the calculation process; and
(c) a description of any other method used to value a portion of the pension plan's benefits.

Note 2: Under this method, the Actuarial Gains (Losses), as they occur, reduce (increase) future Normal Costs.

Section C
SUPPLEMENTAL GLOSSARY

C-2 Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; changes in compensation and Government provided pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the Actuarial Value of Assets; characteristics of future entrants for Open Group Actuarial Cost Methods; and other relevant items.

C-3 Actuarial Valuation

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

C-4* Actuarially Equivalent

Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

C-5 Amortization Payment

That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability or the Unfunded Frozen Actuarial Accrued Liability.

C-7* Open Group/Closed Group

Terms used to distinguish between two classes of Actuarial Cost Methods. Under an Open Group Actuarial Cost Method, Actuarial Present Values associated with expected future entrants are considered; under a Closed Group Actuarial Cost Method, Actuarial Present Values associated with future entrants are not considered.

C-8 Pay-as-You-Go

A method of financing a pension plan under which the contributions to the plan are generally made at about the same time and in about the same amount as benefit payments and expenses becoming due.

C-9*   Projected Benefits

Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits. That portion of an individual's Projected Benefit allocated to service to date, determined in accordance with the terms of a pension plan and based on future compensation as projected to retirement, is called the Credited Projected Benefit.

C-10   Terminal Funding

A method of funding a pension plan under which the entire Actuarial Present Value of benefits for each individual is contributed to the plan's fund at the time of withdrawal, retirement or benefit commencement.

Appendix A

BACKGROUND

46. Prior to 1968, guidance on accounting and financial reporting for state and local governmental pension plans was included in publications prepared by committees of the Municipal Finance Officers Association (now the Government Finance Officers Association). In 1968, the National Committee on Governmental Accounting issued *Governmental Accounting, Auditing, and Financial Reporting* (1968 *GAAFR*), which included financial reporting guidance for pension plans and the pension expenditures/expense of employers. In March 1979, the Committee's successor, the National Council on Governmental Accounting (NCGA), restated portions of the 1968 *GAAFR* as NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles.* The NCGA classified pension trust funds in the trust and agency fund type in Statement 1 and referenced related requirements of the 1968 *GAAFR* as illustrative of the principles of Statement 1.

47. In March 1980, the Financial Accounting Standards Board (FASB) issued Statement No. 35, *Accounting and Reporting by Defined Benefit Pension Plans.* Statement 35 was intended to apply to state and local governmental pension plans as well as private-sector plans. The NCGA opposed certain provisions of Statement 35 and issued Interpretation No. 4, *Accounting and Financial Reporting for Public Employee Retirement Systems and Pension Trust Funds,* in December 1981. Pending further discussion, the NCGA deferred the effective date of Interpretation 4 in March 1982, and the FASB issued Statement No. 59, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units,* in April 1982 to defer Statement 35 for governmental plans.

48. In June 1983, the NCGA superseded Interpretation 4 with Statement 6, *Pension Accounting and Financial Reporting: Public Employee Retirement Systems and State and Local Government Employers*, which also differed from FASB Statement 35. Because of those differences and because discussions to form the GASB were at an advanced stage, the NCGA and the FASB deferred Statements 6 and 35 (for governmental plans) in November 1983 through NCGA Interpretation 8, *Certain Pension Matters*, and FASB Statement No. 75, *Deferral of the Effective Date of Certain Accounting Requirements for Pension Plans of State and Local Governmental Units.*

49. In June 1984, the GASB placed on its initial agenda a project on pension accounting and financial reporting for plans and participating employers. In July 1984, the GASB issued Statement No. 1, *Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide.* In that Statement the Board identified three pronouncements as sources of acceptable accounting and reporting principles for pension plans and employers, pending issuance of a GASB Statement(s) on pensions: (a) NCGA Statement 1 (and the related guidance in the 1968 *GAAFR*, to the extent it was consistent with Statement 1), (b) NCGA Statement 6, as interpreted by NCGA Interpretation 8, and (c) FASB Statement 35. The GASB also identified the American Institute of Certified Public Accountants (AICPA) Industry Audit Guide, *Audits of State and Local Governmental Units* (1974), as an authoritative source of guidance.

50. In November 1986, the GASB issued Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers.* Statement 5 superseded all previous authoritative guidance on pension note disclosures, but continued to recognize the pronouncements, as amended, listed in paragraph 49 of this appendix as sources of guidance for pension recognition, measurement, and display, pending issuance of a future GASB Statement(s). The guidance in those pronouncements, as amended, and Statement 5 was subsequently

incorporated in Sections P20, "Pension Activities—Employer Reporting," Pe5, "Pension Funds—Accounting," and Pe6, "Pension Funds—Disclosure," of the GASB Codification.[32]

51. In October 1988 and January 1990, respectively, the GASB issued a Preliminary Views (PV) document, *State and Local Governmental Employers' Accounting for Pensions*, and an Exposure Draft of a proposed Statement, *Accounting for Pensions by State and Local Governmental Employers* (1990 ED). Those documents addressed accounting and financial reporting for an employer's pension expenditures/expense for contributions to a pension plan; they did not address financial reporting for pension plans, including pension trust funds of employers.

52. A large majority of the respondents to both documents indicated that the measurement of an employer's pension expenditures/expense should be based on the employer's actuarially determined required contributions to the plan. Both the alternative view in the PV and the 1990 ED had proposed that approach, provided that the actuarial methods and assumptions used in determining the employer's required contributions met certain constraints or parameters.

53. Respondents to the 1990 ED indicated that, provided the relationship between accounting and funding measures was maintained, they did not oppose a reduction in the range of alternatives available for measuring pension expenditures/expense. However, they also indicated that some of the parameters proposed in the 1990 ED were inconsistent with recognized funding methodologies and, if adopted, would automatically separate accounting and funding measures. Some respondents also recommended that the Board address accounting and financial reporting for pension plans and possible changes in the

[32]GASB *Codification of Governmental Accounting and Financial Reporting Standards* (Norwalk, CT: GASB, 1994).

disclosure requirements of Statement 5 for employers and plans, before or in conjunction with the proposals for pension accounting by employers.

54. In July 1990, the Board began deliberations on pension plan reporting issues, in addition to continuing its deliberations on accounting for pensions by employers. In the same month, the Board formally added to its agenda a project to review the disclosure requirements of Statement 5. The objectives of the review were (a) to ensure that the requirements for pension note disclosures and required supplementary information would be consistent with the new standards for the financial statements of pension plans and employers, (b) to review the appropriateness and usefulness of the standardized measure of the pension benefit obligation (PBO) required by Statement 5, and (c) to reduce the volume and complexity of the required disclosures. As part of that review, the Board researched constituents' experiences with the standardized PBO disclosures since the effective date of Statement 5 (1987). The results of that review are summarized in paragraphs 57–59.

55. In July 1991, the Board concluded that final decisions on accounting for pensions by employers should be deferred until the projects on pension plan reporting and revisions to Statement 5 were complete or significantly advanced. Following that decision, the Board coordinated its consideration of reporting issues for pension plans and employers, with a view to enhancing the consistency of the reporting and disclosure requirements for both types of entities. As a result, the Board prepared three EDs of proposed Statements containing closely related provisions: (a) the ED of this Statement, (b) *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans,* and (c) *Accounting for Pensions by State and Local Governmental Employers* (a revision of the 1990 ED). The Board exposed all three EDs for comment in February 1994 and held public hearings on the EDs in June and July 1994.

56. The Board received 95 comment letters in response to the ED of this Statement. A large majority of the respondents supported the provisions of the ED. They especially supported the Board's objectives of maintaining the maximum possible consistency between (a) pension accounting and actuarially determined funding measures and (b) similar or related pension information reported by a pension plan and its participating employer(s). Certain changes have, however, been made in this Statement as a result of respondents' recommendations. The principal changes are discussed in Appendix B to this Statement.

Review of Constituents' Experiences with the PBO Disclosures

57. As stated in paragraph 54, one of the objectives of the project to review Statement 5 was to review the appropriateness and usefulness of the required standardized measure of the PBO. As part of that review, the Board researched constituents' experiences with the required disclosures (note disclosures and required supplementary information) since Statement 5 became effective in 1987. The research included consultations with the task force and other advisers, including trustees and administrators of pension plans, representatives of their participating employers, and a citizens group, discussion of the issue at a task force meeting in July 1992, and a survey conducted in the fall of 1992. The survey was mailed to 53 percent of the 99 respondents to the ED of Statement 5 (issued in 1985); all those contacted had specifically commented on the proposal to adopt the standardized measure of the PBO. The survey respondents (65 percent of those contacted) included state and local governmental employer entities, state audit agencies, public accounting firms, actuaries and benefits consultants, pension plans and public employee retirement systems, pension oversight entities, members of the investor/creditor community, and representatives of various committees and associations of professionals interested in governmental financial reporting. Many of the respondents indicated that

they had consulted with other individuals before responding, and several of the committees and associations surveyed their membership.

58. Survey respondents, the task force, and other advisers were asked to (a) consider their experiences with the PBO disclosures since Statement 5 became effective, (b) comment on whether the information had been used, (c) if so, give some specific examples of the kinds of users and the purposes for which the disclosures had been used, and (d) give their opinion about whether the Board should continue to require the PBO disclosures, modify the calculation in some manner, or discontinue the standardized approach and require disclosures based on the funding methodology, constrained by the parameters.

59. Some of the survey respondents, task force members, and other advisers supported continuing the required disclosures; however, they generally did not give examples of how the disclosures had been used or by whom. The principal reasons given for supporting continued disclosure were similar to the objectives stated in Statement 5: to enable users to compare the funded status and funding progress of different plans. In contrast, a large majority of all the respondents recommended that the Board discontinue the standardized measure of the PBO and require measures of funding progress based on the plan's funding methodology. Many of the respondents cited the experiences of specific entities. The principal reasons given in favor of discontinuing the standardized measure of the PBO were as follows:

a. Most of the respondents indicated that the standardized PBO disclosures are provided because they are required; they are not used for any purpose. Many of those respondents indicated that when users need information about a plan's funded status and funding progress, they use information based on the plan's funding methodology. That information is used and needed because it represents a financial reality that is not achieved by information based on a substitute accounting measure.
b. Many respondents indicated that providing a standardized measure to enable users to compare different plans is an unneeded objective, an unachievable objective, or both. Many indicated that, in their experience, most users do not compare the

funded status of different pension plans, even within the same state. Those respondents indicated that most users need information that is consistently measured and consistently reported from year to year for the same plan, based on the methodology used to fund the plan, so that they can assess the progress being made, the likelihood of changes in contribution rates, benefit levels, and so forth. Whether other plans, particularly those in other states or regions of the country, are better or worse funded has little relevance, they believe, to the decisions being made about a particular plan. Other respondents pointed out that pension plans differ in too many ways to make meaningful comparisons. In their view, presenting a standardized accounting measure does not make comparable that which is inherently not comparable; a "one size fits all" approach is inappropriate and may lead to invalid conclusions.

c. A major concern of many respondents was that the PBO *has* been used, but not for the purposes for which it was intended. Rather, it has been used primarily to justify reducing employers' contributions. A large proportion of governmental plans use an entry age/level percentage of payroll approach to determine funding requirements. The PBO tends to be lower than the actuarial accrued liability according to entry age and, therefore, the funded status based on the PBO tends to be higher. The difference is particularly apparent when a plan has a high funding level. For many plans, the funded ratios reported based on the PBO have exceeded 100 percent, suggesting that the plan has a funding excess, even though, based on the funding methodology, the plan has a positive unfunded actuarial liability. As a result, legislatures have been pressured to reduce employer contributions or increase benefits without increasing contributions, and some of those efforts have been successful. Respondents indicated that the reduction of contributions had been or was expected to be temporary; the rates would be increased again in the future. In the view of those respondents, all that had occurred was a deferral of costs to the future and a disruption of an orderly funding process.

d. A few of the respondents who recommended discontinuing the standardized measure of the PBO thought that it could be useful to some users. However, in their experience, the measure and its purpose generally are not well understood and the disclosures are more confusing than useful. Although the PBO is a measure of accrued benefits that is independent of any actuarial cost method, the measure is approximately the same as an actuarial accrued liability determined using the projected unit credit actuarial cost method prorated on service. Respondents indicated that, as a result, legislators, public officials, and others interpret the required disclosure to mean that plans *should be funded* using the projected unit credit method and that the GASB prefers that approach. In some instances, plans have been pressured to change their actuarial cost method to projected unit credit from, for example, an entry age approach. Some respondents commented that projected unit credit was not commonly used for funding a governmental plan because it tends to accumulate assets more slowly, produce more volatile measures of contribution rates, and result in rising rather than level contribution rates. Some of those respondents recognized that it was not the GASB's intent to indicate a preference for any particular method of determining funding requirements.

However, they indicated that it was difficult to explain to legislators and others who make decisions about contribution rates and benefit levels why the GASB would require disclosure of measures that differ from the measures produced by the funding methodology.

Appendix B

BASIS FOR CONCLUSIONS

CONTENTS

Appendix B

BASIS FOR CONCLUSIONS

Introduction

60. This appendix summarizes 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 gave greater weight to some factors than to others.

61. In developing this Statement, the Board had the counsel of a 22-member task force composed of individuals from government, public accounting, the actuarial profession, and the academic community. In October 1988 and January 1990, respectively, the GASB issued a Preliminary Views (PV) document, *State and Local Governmental Employers' Accounting for Pensions,* and an Exposure Draft (ED) of a proposed Statement, *Accounting for Pensions by State and Local Governmental Employers.* Those documents addressed accounting and financial reporting for an employer's pension expenditures/expense for contributions to a pension plan; they did not address financial reporting for the plan itself, either in a stand-alone plan financial report or in an employer's financial report (pension trust fund). However, the Board's research for those documents and respondents' comments included issues that affect financial reporting for plans as well as employers and contributed to the development of this Statement.

Related Statements

62. The Board has concluded that consistency in the measurement and disclosure of pension information reported by pension plans and their participating employers, combined with a reduction of duplication in the information reported by plans and employers, will enhance the understandability and usefulness of pension information to users of governmental financial reports. Therefore, the Board has given joint

consideration to this Statement and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.* Many of the measurement and disclosure requirements of the two Statements are the same or closely related, as are the illustrations and other appendices. The Statements were exposed for comment at the same time (February 1994) so that preparers, auditors, and users also could give joint consideration to plan and employer financial reporting of pension information. Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans,* also was exposed at the same time because its provisions are related to those of this Statement and to certain provisions of Statement 27. A large majority of the respondents to the ED of this Statement and one or both of the related Statements supported the Board's approach to pension accounting and financial reporting for plans and employers, including the consistency of related provisions in the plan and employer Statements. Consistent with that approach, the changes made in this Statement that also affect Statement 26 or 27 have been incorporated in those Statements.

Scope and Applicability of This Statement

Single-Employer and Multiple-Employer Plans

63. A pension plan may be classified as single-employer or multiple-employer, depending on the number of employers that participate in the plan. For example, a plan that covers only the general employees of a state government or only the firefighters employed by one city is a single-employer plan, whereas a plan that covers teachers employed by local government school districts throughout a state is a multiple-employer plan.

64. Some multiple-employer plans are aggregations of single-employer plans, with pooled administrative and investment functions; that is, the plan acts as a common investment and administrative agent for each participating employer. Those plans are

referred to in this Statement as agent multiple-employer plans or agent plans. Each participating employer receives a separate actuarial valuation to determine its required contributions. (Many agent plans pool risks related to retired employees. They transfer the obligation for benefits from the individual entity to the plan as a whole when benefits become payable. In those instances, each participating employer's separate actuarial valuation covers only its current employees covered by the plan.) Other multiple-employer plans are single plans with cost-sharing arrangements; that is, all risks and costs, including benefit costs, are shared by the participating employers. One actuarial valuation is performed for the plan and the same contribution rate(s) applies to each participating employer. This Statement refers to those plans as cost-sharing multiple-employer plans or cost-sharing plans.

Plan Financial Reporting

65. Some of the requirements of Statement 27 for measuring and reporting an employer's pension expenditures/expense vary depending on the type of plan in which the employer participates. The Board has concluded, however, that users of a plan's financial reports generally need similar information about the plan's assets and funding progress, whether the plan is a single-employer, agent, or cost-sharing plan. Therefore, the requirements of this Statement for the measurement, recognition, and display of information reported for plans are the same for all types of defined benefit plans. For agent plans, the requirements of this Statement apply for the *aggregate* (all employers) plan. Statement 27 includes the disclosures that should be made for the *individual* plans of employers that participate in an agent plan.

66. The Board also has concluded that users' information needs are similar and the same reporting requirements should apply (a) whether a plan is administered by a public employee retirement system (PERS) or directly by the sponsor or participating employer,

(b) whether a plan or the PERS that administers the plan issues a stand-alone report or is included in the sponsor or employer's financial reporting entity (pension trust fund), and (c) regardless of how a plan is funded or financed. To avoid unnecessary duplication, the Board has reduced the requirements for notes to the financial statements and required supplementary information for a pension trust fund, when a stand-alone report for the same plan is publicly available and includes all disclosures and schedules required by this Statement. The requirements for full versus reduced note disclosures and required supplementary information for pension trust funds are summarized in Illustration 2 of Appendix C to this Statement. (Also, Illustration 1 of Appendix D to Statement 27 includes a summary of the note disclosures and required supplementary information related to, respectively, an employer's pension expenditures/expense and a pension trust fund.) Except where indicated otherwise, in the rest of this appendix the terms *pension plan* and *plan* incorporate pension trust funds of an employer as well as plans included in stand-alone plan reports.

Separate Reporting for Individual Plans

67. Many PERS administer more than one pension plan. For example, a statewide PERS may administer a plan for state government employees, a plan for general employees of local governments throughout the state, and a plan for judges. The Board has concluded that, when a PERS administers more than one plan, the standards should be applied separately *for each plan administered,* whether or not the PERS also presents combined financial statements for several plans, in accordance with Codification Section 2200, "Comprehensive Annual Financial Report" (CAFR). The requirements for separate reporting can be met by presenting combining financial statements and tables or schedules of note disclosures and required supplementary information, as shown in Illustration 1 of Appendix C. Similarly, when a sponsor's or employer's CAFR includes several pension

trust funds, the combining financial statements should include a statement for each pension trust fund.

68. The Board's research indicates that PERS and employers generally apply criteria similar to those adopted in this Statement for determining when the entity includes more than one plan for financial reporting purposes. The Board believes that the key criteria are the legal relationship between the assets and benefits being administered and the information needs of users. If all assets administered can legally be used to pay all benefits administered, the PERS or employer is administering one plan, even if the plan covers more than one class of employees or more than one group (tier) within a class and different contribution rates may apply to each class or group. However, if, for example, a PERS or a city is administering assets and benefits for both the general employees and the public safety employees of the city, and the assets accumulated for one of those classes of employees cannot legally be used to pay the benefits of the other class, the PERS or city is administering two separate plans, even if the assets of both plans are pooled for investment purposes. To report only the *total* assets administered and the funding progress of both plans *in combination* provides insufficient information and can be misleading to, for example, public safety personnel, their representatives, and officials with responsibilities related specifically to the public safety plan. Those users should be able to find information about the net assets held in trust for the pension benefits of the members of the *public safety plan,* as well as the funding progress and the employer's required and actual contributions to the public safety plan.

69. The Board recognizes that the terms *PERS* and *plan* have been used interchangeably in previous financial reporting standards, including Statement 5. The change in terminology may at first suggest that the separate reporting requirements of this Statement depart from previous requirements and practice. However, the Board used the term *PERS* in Statement 5 with the same meaning as the term *plan* is used in this Statement, and the

requirements of Statement 5 applied to each "PERS" (plan) administered. The requirements of this Statement for separate reporting are consistent with those requirements. The Board's research indicates that most PERS and employers that include more than one plan in their financial reports are presenting separate disclosures and schedules of required supplementary information for each plan, as required by Statement 5, and most also present combining financial statements. The Board believes, therefore, that most preparers will have little difficulty determining when an entity includes more than one plan for which separate reporting is required, and compliance with that requirement will result in little or no change from current practice for most entities. A few respondents indicated that it would not be possible to allocate specific assets to individual plans administered by a PERS when those assets are pooled for investment purposes. However, this Statement does not require the allocation of specific assets. Rather, for financial reporting purposes, the total pooled assets should be proportionately allocated to each plan, as is customary for the financial statements of the individual participants in any investment pool.

70. The Board considered but decided not to extend the scope of this Statement beyond the information that should be included in (a) the financial statements and required supplementary information presented for defined benefit pension plans and (b) the notes to the financial statements of defined contribution plans. When a plan or PERS issues a CAFR or a similar type of comprehensive report, that information would be included in the financial section of the report. This Statement does not address information commonly included in other sections of a plan or PERS CAFR, including, for example, a summary of the actuary's valuation report, additional investment information, and statistical information.

71. In response to a question in the Notice to Recipients to the ED, approximately one-third of the respondents recommended that the Board establish standards for the financial

statements of defined contribution plans. However, most of those respondents preferred not to delay issuance of this Statement on that account. Some respondents indicated that standards for defined contribution plan financial statements are unnecessary. The Board believes that research would be required to clarify whether additional standards are needed for defined contribution plans and, if so, what those standards should include. A large majority of governmental plans are defined benefit plans and to delay issuance of this Statement would not serve the users of the financial reports of those plans. The Board therefore has reaffirmed its decision to limit the defined contribution plan provisions of this Statement to required note disclosures. Those provisions essentially continue the requirements established in Statement 5.

Financial Reporting Framework

72. As summarized in Appendix A, new standards of accounting and financial reporting for pension plans have been anticipated for a number of years. In developing this Statement, the Board researched the characteristics, operations, and operating environments of state and local governmental pension plans; the interrelationships among pension plans, their members, and their participating employers; and the information needs of users and potential users of plan financial reports. The Board examined the requirements and applications in practice of the three pronouncements recognized in Statement 1 as acceptable sources of financial reporting standards for plan financial statements (NCGA Statements 1 and 6 and FASB Statement 35). The Board also examined the similarities and differences in the kinds of information that financial statements based on each standard may convey, and the extent to which that information and other alternatives may be useful to users.

73. In developing the objectives and provisions of this Statement, the Board focused on the information needs of those individuals and entities that benefit most directly from a

plan's activities, recommend or establish benefit levels and contribution rates, provide resources to a plan, or are accountable for the oversight, administration, or financing of a plan and the stewardship of plan resources. Those groups include (a) the plan members and their representatives, (b) legislative and executive officials of the plan sponsor, participating employer(s), and plan oversight bodies, and (c) the plan's board of trustees or other governing body. The Board believes that investors and creditors of an employer, citizens, and other groups also may find a plan's financial reports useful. However, those groups need pension information primarily to assess the impact of contribution requirements on an employer's current and future financial resources. The Board believes that most of their information needs are addressed more directly through the requirements of Statement 27 on accounting for pensions by employers.

74. Based on its research, the Board concluded that users of plan financial reports need two broad categories of information about a pension plan: (a) *current financial information* about plan assets and financial activities and (b) *actuarially determined information, from a long-term perspective,* about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. Both categories are important and should be included in plan financial reports. However, the two categories are quite different in nature, serve different information needs, and should be measured and displayed in different ways. Information in the first category is appropriately reported in financial statements. Information in the second category is more usefully reported in multiyear schedules for the following reasons:

a. The primary purpose of financial statements is to provide information as of one point in time and for the year just ended. Although the accounting measurement of some of that information may include estimates, most of the amounts reported are based on transactions or events that already have occurred. In contrast, actuarially determined information about the funded status and funding progress of an ongoing plan is based *predominantly* not only on estimates of the value of reported amounts but also on assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the length of service, duration of benefit payments, investment allocation and return, future salary levels, postretirement benefit increases, and so forth. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. In the Board's view, requiring those amounts to be displayed in the financial statements implies a precision and reliability as of the reporting date that is inconsistent with the nature of actuarially determined pension information. The interpretation of that information requires consideration of the results of several consecutive actuarial valuations. Therefore, the information should be reported in multiyear schedules.

b. Reporting a plan's assets and actuarial accrued liability in a balance sheet format requires presentation of the actuarial accrued liability in either the equity (fund balance) section or the liability section of the balance sheet. The Board has concluded that neither location is appropriate.

   1. Plan equity is the difference between plan assets and accounting liabilities, or *plan net assets;* equity indicates the residual ownership of assets after all claims by individuals or entities outside the reporting entity have been met. An actuarial accrued liability is the portion of the actuarial present value of the total *projected benefits* of *plan members* that is attributed by an actuarial cost method to years of service before the actuarial valuation date. Members' benefits and plan net assets are not the same.
   2. Some believe that, because the plan is holding the assets in trust for plan members, reported assets should be considered *members'* assets, even though they generally are reported as *plan* assets. They believe that, from that perspective, reporting the actuarial accrued liability in equity may be appropriate because the amount represents the members' residual equity in their assets after payment of all plan liabilities. However, whether the assets are considered plan assets or members' assets, net assets and an actuarial accrued liability are conceptually different and rarely equal in amount. The difference between the two amounts is the unfunded actuarial liability (or funding excess). To achieve the necessary equality between equity and net assets, the unfunded actuarial liability would be either (a) omitted from the balance sheet or (b) reported as *negative equity* (or as equity in excess of net assets). Both approaches have been used in practice, but the Board believes they are inconsistent with the logic of a balance sheet and are potentially misleading. The first approach erroneously implies that the plan is fully funded (net assets and the actuarial accrued liability are equal). Reporting negative equity indicates a claim against net assets greater than net assets. Any such claim logically is against an entity outside the reporting entity; those types of claims, if recognizable, should be reported as receivables, not as equity. The Board understands that an unfunded actuarial liability is recognized as a receivable in an actuarial balance sheet but notes that an actuarial receivable does not have the characteristics of an asset for financial reporting purposes.
   3. A plan's actuarial accrued liability is not an *accounting* liability of the plan. A plan's accounting liability for benefits is incurred when the benefits become due and payable in accordance with the terms of the plan and not, for example,

when services are rendered to employers. All or almost all the benefits included in an actuarial accrued liability will not become payable by the plan until a future date or the occurrence of an event specified in the plan terms.

c. Reporting an unfunded actuarial liability in the financial statements requires application of the same asset value for two different purposes: (1) reporting current information about fund assets and (2) reporting information about the funded status of the plan from a long-term perspective. The Board believes those two purposes require different asset values. To provide current financial information about fund assets, the assets should be reported at fair (market) values. However, the use of fair value generally is inappropriate for measuring funded status and funding progress. For that purpose, assets generally should be valued using methods that smooth short-term fluctuations in market values that may have little or no meaning from a long-term, ongoing plan perspective.

d. The Board also considered other alternatives including requiring (1) separate financial statements of, respectively, net assets and the actuarial accrued liability or (2) a single statement that would present net assets deducted from the actuarial accrued liability (or vice versa), without designating the actuarial accrued liability as either equity or a plan liability. The Board has rejected those possibilities as requirements because they present some of the same disadvantages previously discussed.

75. For all of the above reasons, the Board has adopted—and this Statement requires—a financial reporting framework for pension plans that makes a clear distinction between the objectives, content, and measurement of information included in (a) *financial statements* and (b) *schedules of required supplementary information.* The financial statements should focus on providing information about the pension plan as a *fund* (resources), including the most current financial information available about the composition, value, and recent changes in the value of the fund. The required schedules should focus on providing information about the *trend* in the *funded status of the plan.* That is, information should be provided about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Because a plan's funding progress is significantly affected by the ongoing willingness and ability of the employer(s) to contribute to the plan, information also should be provided about the trend in the employer's contributions relative to the actuarially determined amounts.

76. A majority of the respondents to the ED supported the Board's conclusion that actuarially determined information about the plan's funded status and funding progress should be reported in multiyear historical trend tables as required supplementary information, rather than in the basic financial statements. The reasons given were similar to those discussed in paragraphs 74 and 75.

77. A significant minority of respondents supported the presentation of a multiyear schedule of funding progress as required supplementary information but indicated that a plan's actuarial accrued liability for pension benefits *also* should be reported somewhere in the basic financial statements. Many of those respondents indicated that reporting actuarial accrued liabilities only as required supplementary information could understate the importance of those amounts and confuse users with respect to the purpose for which the assets reported in the financial statements are accumulated. The responses were not uniform, however, with respect to how or where the actuarial accrued liability should be reported. Some respondents would prefer a balance sheet; however, those respondents were divided as to whether the actuarial accrued liability should be reported as a plan liability or as equity. Some of those respondents also indicated that the balance sheet should compare the actuarial accrued liability with assets reported at historical cost. A few respondents would prefer a statement that would include both net assets and the actuarial accrued liability without captioning that amount as either a liability or equity, and a few recommended separate statements of net assets and actuarial accrued liabilities. Other respondents indicated that actuarial accrued liabilities should not be displayed in the financial statements but could or should be disclosed in the notes.

78. The Board reconsidered the various alternatives for reporting actuarial accrued liabilities and information about funded status and funding progress. For all of the reasons discussed in paragraphs 74 and 75, the Board reaffirmed its conclusion that actuarially determined information is more usefully reported in multiyear historical trend tables than

in the financial statements as of one point in time. Presentation of a schedule of funding progress and a schedule of employer contributions including at least six years (actuarial valuations) of information as required supplementary information is a basic requirement of this Statement. (A minimum of three years or valuations is acceptable for pension trust funds in an employer's or sponsor's report if paragraph 34 applies.) The Board concluded, however, that preparers could report that information either in a financial statement(s) presented in addition to and separate from the required statements of plan net assets and changes in plan net assets or in the notes to the financial statements. Preparers may elect to present the information required for either or both schedules in that manner. However, as indicated in footnote 18 to paragraph 33, (a) the additional statement(s) or notes should include the same items of information specified for the required schedule(s) and (b) the information also should be reported as required supplementary information for all years (actuarial valuations) required by this Statement unless all years are included in the additional statement(s) or notes.

Financial Statements

79. The Board has concluded that plan financial statements should provide current information about the *stewardship* (custody and management) of the *assets* held in trust for plan members. *The Board does not intend the asset values reported in the financial statements to be used for comparisons between assets and a plan's actuarial accrued liability (assessments of funded status and funding progress), either at one point in time or on an ongoing basis.* Accordingly, the required financial statements should not include information about plan members' benefits that are not yet due and payable; that information should be included in the required schedule of funding progress, together with assets measured at their actuarial value.

80. The *statement of plan net assets* should focus on the composition and current value of the plan assets, plan liabilities (usually current or predominately current), and the difference between those two elements—the plan net assets held in trust for the future payment of pension benefits or, for pension trust funds reported by an employer, the fund balance reserved for employees' pension benefits. The *statement of changes in plan net assets* should provide information about the principal year-to-year changes in plan net assets to assist users in assessing the extent to which the changes are due to investment performance, contribution levels, or other factors.

81. This Statement specifies that the financial statements should be prepared based on the plan's fiscal year. The plan's and employer's (or sponsor's) fiscal years may not coincide. When fiscal years differ and the plan is included as a pension trust fund in an employer's or sponsor's financial report, the employer should follow the guidance in GASB Statement No. 14, *The Financial Reporting Entity,* with respect to the reporting date for the pension trust fund.

Accrual Basis of Accounting

82. The Board has continued previous requirements and general practice for pension plans with respect to application of the accrual basis of accounting. That is, all assets and liabilities, and all additions to and deductions from plan net assets, should be recognized when the transaction or event occurs. For member benefits, including refunds, that point is when the benefits are due and payable by the plan in accordance with the plan terms, and not in the periods when employee services are provided.

83. The accrual basis requires that purchases and sales of investments be recorded on a trade-date basis. The Board recognizes that many plans currently use the settlement date. In some instances, use of that approach would not produce significantly different results, when considered in the context of the general materiality provision of this Statement. In

that context, use of the settlement date would be acceptable, when that date is after the reporting date, provided that (a) the fair value of the investments purchased or sold just before the reporting date did not change significantly between the trade date and the reporting date and (b) the purchases or sales did not significantly affect the composition of plan assets.

Receivables

84. The requirements for the recognition of receivables are consistent with the accrual basis of accounting for those assets and with existing practice for most plans. (This Statement does not change existing standards for the provision of an allowance for estimated uncollectible amounts.)

85. With respect to contributions from employers, some may believe that recognition by an employer of a liability for contributions to a plan is sufficient basis for the plan to recognize a receivable and a contribution or a deferred revenue. The Board disagrees with that view. Recognition of a receivable requires a reasonable expectation of collection, and amounts that qualify for recognition as receivables should be recognized as contributions, not deferred revenue. Some liabilities to pension plans that employers are required to recognize in accordance with Statement 27 may not be collectible. Statement 27 requires employers participating in single-employer and agent plans (sole and agent employers) to recognize a liability to the plan when the measure of annual pension cost required by that Statement exceeds the contributions made by the employer; the requirement applies whether or not those contributions are equal to the amounts charged by the plan. The required measure of annual pension cost is based on the same parameters as those required by this Statement for reporting the ARC in the schedule of employer contributions. The amounts that plans charge to employers may or may not be calculated in accordance with the parameters. (This Statement addresses *financial reporting,* not *funding.*) Therefore,

liabilities recognized by sole and agent employers may be greater than the amount of contributions charged by the plan and not paid. There may be no expectation of collection of some of those liabilities and, if so, they should not be recognized as plan receivables. Paragraph 22 includes some examples of evidence of a formal commitment to pay contributions that would support recognition of receivables from employers.

86. Long-term receivables (those due more than one year after the reporting date) generally arise from installment contracts for the payment, with interest, of contractually deferred contributions of employers, assessments to employers upon joining a multiple-employer plan, and similar amounts that are in addition to the regular annual contributions charged to employers. (Those types of employer contribution requirements are not included in the ARC and are referred to in Statement 27 as pension-related debt.)

87. The requirement to recognize long-term receivables (and contributions) in full in the year the contract is made, and the guidance with respect to use of the effective interest method for discounted contracts, are consistent with accrual-basis accounting. The Board has not required separate display for long-term receivables (and contributions); however, disclosure is required of the terms of such contracts and their outstanding balances to assist users in assessing the liquidity of total receivables.

Investments

Valuation

88. The assets of a pension plan consist predominantly of investments. Investment income has a significant impact on the accumulation of assets and the amount of resources required in the form of contributions, particularly contributions from the employer(s). Thus, information about plan investments and the results of investment management activities is particularly important for users.

89. Previous financial reporting standards for state and local governmental pension plans accepted reporting investments in the financial statements at (a) historical cost or amortized cost (cost-based values), (b) cost-based values with parenthetical disclosure of aggregate market values, or (c) fair value. The Board's research for the ED indicated that most plans were reporting investments at cost-based values, with disclosure of market values. However, in recent years, an increasing number of plans had adopted fair value for the financial statements, and other plans were considering that approach.

90. The Board believes that several factors have contributed to an increase in fair value reporting by governmental plans. Some of those factors are the general expansion of the investment markets to include a broader range of opportunities for diversification, a greater latitude in the types of investments permissible for governmental plans, and more emphasis on the active management of plan portfolios by both internal and external professional investment managers. As a result of these and other developments, the composition of the investment portfolios of many plans has changed in recent years to include a wider variety of investments and a lower proportion of the more traditional instruments, such as debt securities, and the practice of holding all or most debt securities to maturity is less common than in the past.

91. The Board considered these developments as well as its objectives for the financial statements of pension plans and concluded that all plan investments should be reported at fair value. The Board believes that the financial statements should focus on providing information, from a stewardship perspective, about the pension plan as a *fund* (resources). The Board rejected historical cost because the price paid for an investment does not provide the most relevant information from a stewardship perspective. Stewardship comprises not only the safekeeping of assets but also the effective use of assets in order to generate additional resources. Investment performance is an essential element of stewardship responsibility.

92. Fair value provides the most relevant information about the composition, value, and recent changes in the value of a pension fund. Fair value eliminates reporting identical and interchangeable securities at different amounts merely because they were acquired at different times. Reporting changes in fair value provides information necessary for assessing investment performance, including the results of holding as well as selling investments.

93. Historical cost provides information on investment results only in the year the investments are sold. The Board believes that changes in fair value should be included as a component of net investment income in the year they occur. They are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and the financial position of the fund. A pension fund is in a better financial position when investment values increase and a worse position when they decline. From that perspective, failure to include changes in fair value in net investment income results in a misstatement of the year-to-year changes in plan net assets. The Board also notes that reporting at fair value eliminates the potential for distortions of investment income caused by timing investment sales to produce a particular result.

94. Approximately three-fourths of the ED respondents supported the requirement to report all plan investments in the financial statements at fair value for many of the reasons articulated in the above paragraphs. A minority of respondents, however, thought that the Board should require cost-based values for all investments or at least for debt securities, particularly when those securities are held to maturity or for long periods of time. Many of those respondents expressed concern about the volatility introduced in pension information when investments are reported at fair value. They indicated that much of the volatility would be due to short-term market fluctuations that would be reversed in future market cycles; to include those fluctuations in reported pension information could confuse

users of plan financial statements with respect to the plan's funded status, funding progress, and funding requirements. In the view of those respondents, reporting plan investments at fair value places undue emphasis on short-term results, whereas a plan's funded status, funding progress, and funding requirements should be measured from a long-term perspective. As discussed in paragraphs 74, 75, and 79, the Board shares that view, and the standard requires use of the actuarial value of assets—generally a smoothed market value rather than market (fair) value itself—*for measuring funded status and the ARC.* However, the Board believes that, from the perspective of reporting on the *stewardship of fund assets,* including investment performance, ignoring the year-to-year changes in fair values would result in a significant loss of information.

95. The Board considered whether amortized cost should be acceptable for reporting debt securities, either in general or only when a plan intends to hold them to maturity. The Board believes that reporting the fair value and year-to-year changes in fair value of *all* investments, including debt securities, is relevant to assessments of stewardship, including investment performance. The Board recognizes that some plans hold certain debt securities for long periods of time, including to maturity. As indicated in paragraph 94, some respondents to the ED would prefer to report those securities at amortized cost; they believe that fair value at the reporting date has little relevance because year-to-year changes in fair value will reverse before maturity. However, that view assumes that the securities will, indeed, be held to maturity.

96. The Board believes that assumption is inconsistent with the stewardship responsibilities of plan trustees and administrators. As fiduciaries, they are charged with seeking the best return on investments within an established level of risk. Similar to other investments, debt securities are subject to continual sell or hold decisions. Reporting them at amortized cost does not provide information about the effect on investment performance of decisions to hold. Furthermore, the Board believes that it would be

impractical and inappropriate to establish reporting standards that vary according to whether a plan does or does not intend to hold a particular investment to maturity.

Other Investment Issues

97. The Board considered but decided not to include specific requirements for determining the fair value of particular classes of investments or guidance on certain investment issues, such as accounting for foreign exchange and hedging transactions. The Board recognizes that additional guidance may be needed on those issues. However, the Board believes that the development of more specific investment accounting guidance should consider the needs of users of the financial statements of all types of governmental entities, not just pension plans. A broader scope is particularly appropriate when the investments of various types of entities, including pension plans, are jointly managed by, for example, state investment boards. Similar considerations contributed to the Board's decision not to include in this Statement a requirement to disclose investment rates of return or other investment performance measures.

98. Some respondents to the ED nonetheless indicated that additional investment guidance is needed for specific transactions, such as foreign exchange and hedging transactions. However, most of those respondents agreed with the Board's position that such guidance should be developed for all types of governmental entities at the same time and should not be provided only for pension plans through this Statement. Over two-thirds of the ED respondents commented on the Board's decision not to require disclosure of investment rates of return or other investment performance measures. A small majority indicated that those measures are useful and should be required; the remainder opposed required disclosure for various reasons. A large majority of respondents in both groups indicated that, if disclosure were required, the Board would need to establish standards for measuring rates of return and for the disclosure of extensive explanatory information to

assist users in interpreting the reported rates; without standards and sufficient explanatory information, much of which would be plan specific, the disclosures could be more misleading than useful. Some of those respondents supported the development of standards; others expressed the view that it would be inappropriate for the GASB to set standards for measuring rates of return or other investment performance measures. As with possible future standards for certain investment transactions, some respondents agreed with the Board's view that, if the Board develops standards for disclosing investment performance measures, those standards should be developed for all governmental entities at the same time, not just pension plans.

Assets Used in Plan Operations

99. The Board has concluded that assets used in plan operations should be included in plan financial statements at their depreciated historical cost, consistent with current standards and practice for pension plans. Although some may believe that all plan assets should be reported at fair value, the Board believes that continual revaluations of assets used in operations would not be cost-beneficial for plans and would not provide useful information to users. Also, assets used in plan operations are unlike other plan assets because they are not expected to generate future cash flows for the payment of benefits. They are essentially prepayments for future administrative services and, from that perspective, reporting them at depreciated historical cost is appropriate.

Liabilities

100. Liabilities for member benefits are discussed briefly in paragraph 82. Other plan liabilities may include, for example, accrued investment and administrative expenses, and long-term liabilities for compensated absences of plan employees and debt on assets used in plan operations. The discussion in paragraph 85 refers to the recognition by sole and

agent employers of liabilities for differences between the measure of annual pension cost required by Statement 27 and the employer's contributions to pension plans. Statement 27 also requires sole and agent employers to recognize (or disclose) an asset (prepaid pension expenditures/expense) when the contributions made in accordance with the amounts charged by the plan exceed annual pension cost. That requirement for employers does not affect plan financial reporting of employer contributions; the plan would recognize the amount received as a contribution (or reduction of a receivable), not a deferred revenue.

Net Assets Held in Trust for Pension Benefits

101. The Board proposed in the ED that the difference between plan assets and plan liabilities should be captioned *net assets available for benefits* in stand-alone plan reports and *fund balance reserved for employees' pension benefits* for pension trust funds included in an employer's or sponsor's financial report. A few respondents recommended that the caption in stand-alone plan reports also should indicate that the net assets are reserved or restricted for the payment of member benefits; the term *available for benefits* might suggest to some readers availability of the assets for some other purpose. The Board agreed and has changed the required caption to *net assets held in trust for pension benefits.* The Board also has changed the titles of the financial statements to remove the term *available for benefits*. In addition, the Board has required a parenthetical reference in the statement of plan net assets to the required schedule of funding progress. The parenthetical reference is not intended to represent or imply incorporation of the schedule of funding progress in the basic financial statements. Rather, the Board believes the reference will provide a useful link between the two principal components of a plan's financial report and will help to emphasize that each component includes important information for users to consider. As discussed in paragraphs 72–78 (financial reporting framework), the two components are (a) the financial statements, which report current financial information about plan assets and recent financial activities, and (b) required

supplementary information, which reports actuarially determined information from a long-term perspective about the progress being made in accumulating sufficient assets to pay benefits when due.

Reserves

102. The Board considered but decided not to require presentation of a plan's reserves (excluding unfunded actuarially determined amounts) as subdivisions of net assets held in trust for pension benefits or fund balance reserved for employees' pension benefits. Presentation on the face of the financial statement would require any difference between net assets and the total *recorded* values (excluding unfunded amounts) of the reserves to be allocated to one or more of the reported reserve balances or presented as a separate line item. The Board concluded that either approach would be more confusing than useful to most users and also could conflict with legal requirements for some plans. Instead, this Statement requires disclosure of the recorded year-end balances of a plan's legally required reserves in the notes to the financial statements. The Board has not specified the number of reserves that should be disclosed or how the balances should be measured; disclosure should be consistent with legal requirements, to provide information from a compliance or accountability perspective. Because the titles of reserve accounts are not always self-explanatory and one or more of the reserves may include unfunded actuarially determined amounts, the Statement requires that plans briefly describe the purpose of each reserve disclosed (or designation, if applicable) and whether it is fully funded.

Changes in Plan Net Assets

103. The Board has concluded that the display of information about the changes in plan net assets during the year generally should be in sufficient detail to assist users in assessing the principal reasons for the total change in net assets. The Board has classified and illustrated the principal additions to and deductions from net assets that occur in most

years for the majority of plans. This Statement does not preclude separate display of other items within the additions and deductions sections of the statement of changes in plan net assets when, in the preparers' judgment, greater detail may be useful to users. For example, separate display of specific types of investment income or benefits paid may be useful in some circumstances. Similarly, combining components (1) and (2) of net investment income (paragraph 29d) may provide sufficient information to the users of the financial statements of many plans, and separate display of those components is not required.

104. The requirements for reporting changes in net assets generally are consistent with current practice for many plans, especially those that report assets at fair value. However, the Board has included certain specific requirements for the measurement and display of investment income, and for the display of investment and general administrative expenses, to reduce some of the variation found in current practice.

Net Investment Income

105. The Board has concluded that separate display in the financial statements of realized versus unrealized gains and losses on investments is not acceptable; separate display mixes two different measurement bases, is inconsistent with reporting assets at fair value, and can be misleading. The Board recognizes, however, that information about realized gains and losses may be useful in some circumstances. For example, when ad hoc (discretionary) postretirement benefit increases are related by statute to realized gains, disclosure of those gains may be useful from a compliance perspective. Therefore, the Board has not precluded disclosure of realized gains and losses in the notes to the financial statements, provided that the additional information specified in footnote 10 to paragraph 29 also is disclosed. Those additional disclosures should assist users in understanding that (a) the realized gains and losses disclosed were calculated on a different basis from the

amount of net appreciation (depreciation) reported in the financial statements and are not income in addition to that amount and (b) a portion of the gains and losses disclosed as realized in the current year was recognized in the amount of net appreciation (depreciation) reported in prior years.

106. The Board's research indicates that a few governmental plans that currently report assets at fair value amortize premiums and discounts on debt securities to interest income, although the majority do not. The Board has concluded that amortization is not acceptable; it is an accounting measurement procedure based on reporting assets at historical cost and is inappropriate when investments are reported at fair value. When that basis is used, amortization results in an intraperiod misallocation of investment income between the net change in the fair value of the investments and interest income.

107. The Board has concluded that information about a plan's net investment income is more useful when the total cost of generating the income is separately displayed, as a reduction of income, than when income is reported only net of that cost, or when all investment and general administrative expenses are reported together. Information about both gross and net investment income generally is needed, for example, for assessments of investment performance. (Separate display of the components of total investment expense is not required.) Therefore, this Statement requires separate display of total investment expense, including investment management and custodial fees and other significant investment-related costs, in the *additions* section of the statement of changes in plan net assets, rather than in the deductions section with general administrative expenses. The Board recognizes that it may not be possible or cost-beneficial to separate certain investment expenses from either the related investment income or the general administrative expenses of the plan; the Statement allows the exercise of professional judgment with respect to how those types of expenses should be reported. Examples include expenses related to income from rental property (the income generally is reported

to a plan net of expenses), and the salaries of employees who perform both investment-related and general administrative functions.

Notes to the Financial Statements

108. This Statement supersedes Statement 5, which became effective in 1987. Statement 5 included requirements for note disclosures and required supplementary information to be presented by plans and employers, including disclosure of a standardized measure of the pension benefit obligation (PBO) and an "analysis of funding progress" based on the PBO. In developing the standards in this Statement and Statement 27, the Board reviewed the requirements of Statement 5 for plans and employers. The objectives of the review were (a) to ensure that the requirements for note disclosures and required supplementary information would be consistent with the new standards for the financial statements, (b) to review the appropriateness and usefulness of the standardized measure of the PBO, and (c) to reduce the volume and complexity of the required disclosures. As part of its review, the Board researched constituents' experiences with the standardized measure of the PBO, in addition to consulting with its task force and other advisers on that issue. The results of that research support the Board's conclusions in this Statement and are summarized in paragraphs 57–59.

109. Based on the results of its review, the Board has reduced the number of disclosures and the level of detail previously required for the notes to the financial statements of a pension plan. Disclosures previously required that the Board believes are essential or useful to most users' understanding and interpretation of the financial statements have been retained, with appropriate modifications to conform to the new standards for the financial statements; those disclosures should be presented, as is customary, immediately after the financial statements. Because the financial statements do not include actuarially

determined information, this Statement requires disclosures that relate to the schedules of required supplementary information to be presented after those schedules.

110. Disclosures previously required that are no longer considered essential or that are considered potentially useful only to a minority of users have been reduced or eliminated. (It should be noted, however, that some disclosures specifically required by Statement 5 that are not included in this Statement or Statement 27 are covered by other standards and, therefore, continue to be required. An example is the required disclosure of information concerning related-party transactions.)

111. As discussed in paragraph 66, the Board also has reduced the amount of duplication previously required in the notes to the financial statements of a plan and its participating employer(s), especially when the plan is included in the employer's financial report (pension trust fund) and a stand-alone plan financial report containing the required information is publicly available. The Board encourages employers that include several pension trust funds in the reporting entity to combine the required disclosures for the pension trust funds and for the employer's pension expenditures/expense in a manner that provides the required information for each plan without unnecessary duplication.

Required Supplementary Information

112. As discussed in paragraphs 72–78 (financial reporting framework), the Board has concluded that actuarially determined information is more usefully reported in multiyear schedules than in financial statements as of one point in time. The basic requirement of this Statement is to present the schedules as required supplementary information. However, preparers may report all or some of the information in the financial statements or notes, as stated in footnote 18 to paragraph 33. The objectives and the content and measurement requirements discussed in the following paragraphs with reference to required supplementary information also apply for the alternative presentations.

113. The required *schedule of funding progress* should provide information about the funded status of a pension plan and the progress being made in accumulating sufficient assets to pay benefits when due. The required *schedule of employer contributions* should provide information about the required contributions of the employer(s) and the extent to which the employers are complying with those requirements. (Paragraph 34 includes certain exemptions or reduced requirements for pension trust funds, as discussed in paragraph 66 and illustrated in Appendix C.)

114. The Board has concluded that all information included in the schedules of required supplementary information should be in accordance with the requirements of this Statement. Those requirements include compliance with the parameters and application of the funding methodology, when that methodology meets the parameters. Therefore, amounts previously reported based on the Statement 5 measure of the PBO should be restated (or omitted, if the amounts in accordance with this Statement are not known), unless that measure was used in determining the ARC for the year reported. Retroactive application of the parameters is not required. If information calculated in accordance with this Statement is not available before the effective date, plans should present the required information for as many years as possible, beginning with the implementation year, until the required minimum of six years is achieved.

115. The Board considered whether the required schedules should be presented for a minimum of ten years, consistent with the coverage previously required under Statement 5. Experience with the Statement 5 requirements suggests that, for some plans, the presentation of as many as ten years can help users identify, interpret, and predict trends; for other plans, recent changes in benefit levels, contribution requirements, or actuarial methods and assumptions greatly reduce the usefulness of data more than five or six years old. The Board concluded that a reduction in the *required* number of years would contribute to reducing the volume and complexity of required disclosures (one of the goals

of reviewing the Statement 5 requirements) and would be especially helpful for preparers and users of the financial reports of entities with multiple plans. The Board concluded that six years would be sufficient in most circumstances as the *minimum* requirement; six years (rather than five) incorporates the results of three valuations for plans with biennial valuations. However, plans are not precluded from including data for additional years, if they believe it would provide useful information.

Schedule of Funding Progress

116. The required *content* of the schedule of funding progress is the same as previously required by Statement 5 for the analysis of funding progress, with the addition of required disclosure of the actuarial valuation date. The schedule should include the plan assets, actuarial accrued liability, the difference between the two (unfunded actuarial accrued liability or unfunded actuarial liability), annual covered payroll, and two ratios or indices: the funded ratio (assets expressed as a percentage of the actuarial accrued liability) and the unfunded actuarial liability expressed as a percentage of active covered payroll. The latter ratio is a measure of the significance of the unfunded actuarial liability relative to the capacity to pay it. The trend in those two ratios provides information about whether the financial strength of the plan is improving or deteriorating over time. An improvement is indicated when the funded ratio is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

117. The *measures* required for the information included in the schedule of funding progress differ from those required by Statement 5. The Board has concluded that pension accounting information measured using the methods and assumptions applied in determining a plan's funding requirements, provided those measures meet certain basic accounting requirements, is more useful to the majority of users than information based on standardized accounting measures. That information includes a plan's funding progress as

well as the pension expenditures/expense of the participating employer(s). Therefore, the information included in the schedule of funding progress should be measured (a) in accordance with the parameters and (b) based on the plan's funding methodology, when that methodology meets the parameters.

118. The Board considered but decided not to require disclosure of funding progress based on the Statement 5 standardized measure of the PBO and, possibly, a standardized measure of assets, *in addition to* a schedule based on the parameters. The Board believes that a majority of users would find two sets of information more confusing than useful. The disclosure of two measures of purportedly the same information invites confusion about which is the "right" measure; it also invites selection of one or other measure to support a particular position, whether or not that measure is appropriate for that purpose.

119. In the Board's view, neither of the two measures is "right"; they have different purposes. The funding-based measure reports progress toward achieving the funding objectives using the methodology selected to achieve those objectives. That methodology, not a substitute standardized method, affects funding requirements; in turn, those requirements, and the extent to which they are met, affect the plan's funded status, funding progress, and future contribution requirements. Understanding those relationships is important to users for assessments of the plan's current and future ability to pay benefits when due and for decisions about benefit levels and contribution rates. For those purposes, it is important to provide information based on the funding methodology actually used, provided that methodology meets basic accounting requirements.

120. Statement 5 was issued before consideration of those basic accounting requirements. Pending completion of the Board's project on pension recognition and measurement, Statement 5 continued to accept any of the three standards accepted in Statement 1 for pension information reported in the financial statements. The Board concluded that, given

the variation in those standards for the financial statements, there was an immediate need for a single set of disclosure standards. The Board has reexamined those disclosure standards in conjunction with its consideration of recognition and measurement issues and has concluded that the Statement 5 measure of the PBO is no longer appropriate.

121. The standardized measure of the PBO is a statistic that some users may find useful for comparing the actuarial present value of benefits accrued for past service under different plans, regardless of the actuarial cost method in use, or for comparing the funded status of different plans, based on the PBO. (The PBO is not a measure of funded status; that measure would be the *unfunded* PBO—PBO less plan assets, the value of which was not standardized under Statement 5. Either historical cost or market value was required, depending on the accounting standard followed by the plan.) The Board believes that the majority of users do not make such comparisons. In addition, given the wide variation in the underlying characteristics and legal, economic, social, and political environments of pension plans, standardizing one statistic does not make plans comparable and may lead to invalid conclusions.

122. The Board also recognizes that general purpose financial reporting standards generally do not require entities to disclose either two measures of the same information or comparative statistics. They should not be required for pensions unless there is a demonstrable need for them by those who cannot obtain the information by requesting actuarial studies or other special reports. The Board's research, including constituents' experiences with the standardized measure of the PBO since Statement 5 became effective (1987), does not indicate the existence of such a need. On the contrary, the PBO appears to have been largely ignored and sometimes used for purposes for which it was not intended.

123. A large majority of those who commented on the schedule of funding progress in response to the ED of this Statement, Statement 27, or both supported the Board's conclusion that reported actuarially determined information should be based on the plan's funding methodology, provided it meets the parameters, and that the Statement 5 standardized measure of the PBO should no longer be a required disclosure. The reasons given by respondents were similar to those explained in paragraphs 59 and 117–122 of this Statement.

Aggregate Actuarial Cost Method

124. A schedule of funding progress is not required when the aggregate actuarial cost method is used in determining funding requirements because that method does not separately identify an actuarial accrued liability. The Board considered requiring a schedule of funding progress based on a different method; entry age, for example, is a related method. However, a requirement to use a different method would be inconsistent with the general approach of this Statement to require application of the method used to determine funding requirements, when that method meets the parameters. Instead, this Statement requires disclosure that the aggregate method is used and does not identify or separately amortize unfunded actuarial liabilities. (They are amortized through normal cost.) Relatively few plans use the aggregate method; for example, 6 percent of 451 plans included in a survey conducted in 1993 by the Public Pension Coordinating Council reported using that method and most are small plans.[33] The Board is reluctant to impose additional costs on those plans. However, plans and employers that use the aggregate method are not precluded from presenting a schedule of funding progress based on, for example, an entry age calculation, if they believe the information would be useful to users of their financial statements.

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[33]Zorn, Paul, *Survey of State and Local Government Employee Retirement Systems* (Chicago, IL: Public Pension Coordinating Council, 1994), p. B-32.

Schedule of Employer Contributions

125. The purpose of the schedule is to provide information about the required contributions of the employer(s) and the extent to which those contributions are being made. The information should assist users in understanding the changes and possible reasons for the changes in a plan's funded status over time and the progress made in accumulating sufficient assets to pay benefits when due. Many factors contribute to changes in funded status and the progress made (or not made) in accumulating sufficient assets to pay benefits when due. Among the most important are the policies and administration of the plan, and the extent to which employers are fulfilling their responsibilities to provide resources to the plan. A plan that is well administered may, nevertheless, make little or no progress in improving its funded status if the participating employer(s) consistently fails to make the required contributions. In contrast, if the employer consistently pays all required contributions but the funded status is not improving, users may wish to seek additional information about the plan's funding policy, investment management, and other factors that may be contributing to the lack of improvement.

126. The Board concluded that information about the *required* contributions of the employer(s) should be measured in accordance with the same parameters established in Statement 27 for measuring the ARC to a single-employer or agent plan. The Board believes that approach provides more useful information about the cost of commitments to provide benefits than reporting, as required contributions, the amounts actually assessed to employers. The amounts assessed to employers may be determined in many ways and may not be consistent with accounting concepts for the measurement of cost. (Issues related to the measurement of the annual cost of commitments to provide pension benefits are discussed in Appendix B to Statement 27.) The ARC is either the only component or the major component of the pension expenditures/expense reported by a sole or agent

employer for contributions to a pension plan. Consistent with other requirements of this Statement for agent plans, the ARC reported for an agent *plan* should be the aggregate (all employers) ARC.

127. Statement 27 requires cost-sharing *employers* to measure pension expenditures/expense equal to their contractually required contributions to the plan, whether or not those contributions are determined in accordance with the parameters. As discussed more fully in Appendix B to Statement 27, the Board concluded that cost-sharing employers should not be required to recognize liabilities (or assets) to a plan other than for contractually required unpaid contributions, however calculated, because their obligations generally are limited to payment of those contributions. The Board concluded that requiring individual cost-sharing employers to recognize a liability for a portion of any difference between the total ARC (all employers) and the total contributions assessed to employers would not provide useful information to users of the employers' financial statements.

128. The Board believes, however, that users need information about the cost of commitments to provide benefits and the extent to which the employers' contributions cover that cost, whether the cost is attributable to individual employers (single-employer and agent plans) or pooled (cost-sharing plans), and regardless of how contributions assessed to the employers are determined. Therefore, this Statement requires cost-sharing *plans* to measure and report the aggregate (all employers) ARC in the schedule of employer contributions in the same manner as that requirement applies for single-employer and agent plans. All plans should include in that schedule the percentage of the ARC recognized by the plan, on the accrual basis, as contributions made. A large majority of the respondents to the ED of this Statement, Statement 27, or both supported the Board's conclusions concerning financial reporting by cost-sharing employers and plans.

129. The Board believes that, for many plans, whether single-employer, cost-sharing, or agent plans, there will be little or no difference between the ARC reported in the schedule of employer contributions and contributions recognized as made in relation to that ARC. (The percentage column will show 100 percent contributed for all or most years.) The Board considered whether the schedule should be required (a) for all plans, (b) only when there is an ongoing, significant difference between the ARC and contributions made, or (c) only when a significant difference has occurred, for example, in three consecutive years. The Board concluded that the schedule would provide useful information whether contributions made were consistently equal to the ARC or regularly or occasionally different from the ARC. The Board also concluded that establishing criteria for when the schedule was or was not required would be impractical.

130. The standard neither requires nor precludes disclosure of information concerning the reasons for differences between the ARC and contributions made. For example, for some plans, the differences may be due entirely to statutory contribution requirements that differ from the ARC, and the employer(s) may consistently pay the statutory requirements. Those plans may wish to disclose that information either in the notes to the required schedules or in additional columns of the schedule of employer contributions. This Statement does not preclude the presentation of additional columns for that purpose or other purposes that preparers believe would enhance the usefulness of the schedule. For example, a few respondents to the ED suggested that when entities other than the employer(s) are required to contribute to a plan (for example, state contributions to a local government plan), those required contributions and the percentage contributed should be reported separately from the required contributions and percentage contributed by the employer(s). The Board believes that reporting contributions from the employer(s) and contributions from other contributing entities in separate columns may be useful in some circumstances—for example, when the employer(s) consistently contributes 100 percent

of its required contributions and other contributing entities do not (or vice versa). However, the Board does not believe that separate columns should be required for each type of entity in all circumstances. In many situations it would be sufficient to title the schedule *schedule of contributions from the employer(s) and other contributing entities,* as required by paragraph 38. The Board also has required separate display of the various sources of contributions in the statement of changes in plan net assets.

Measurement of Required Supplementary Information

Consistency Objectives

131. The Board has concluded that the understandability and usefulness of financial reports are enhanced when actuarially determined pension information is calculated (a) consistent with the funding methodology, provided that methodology meets the parameters, and (b) in the same way by a pension plan and its participating employer(s). Therefore, this Statement and Statement 27 include the same requirements for measuring similar or related information reported by a plan and its participating employer(s). Both Statements include the parameters[34] and the requirement to use the same actuarial methods and assumptions for financial reporting that are applied in accordance with the funding methodology, when those methods and assumptions meet the parameters. A large majority of the respondents to the EDs of both Statements supported these consistency objectives.

132. The parameters apply both for measuring the ARC—the basis for measuring a sole or agent employer's annual pension cost—and for calculating information reported by a plan and its participating employer(s) about the plan's funding progress. When the

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[34]Application of the parameters is required for the schedules of required supplementary information presented for cost-sharing *plans,* including those reported as pension trust funds of the employer, but is not required for measuring the pension expenditures/expense of cost-sharing *employers.* The Board believes, however, that consistency of measurement will be achieved for most cost-sharing plans and their participating employers because the contractually required employer contributions generally will meet the parameters.

funding methodology does not meet the parameters, adherence to the parameters is required for financial reporting by both a plan and its participating employer(s). Because the parameters permit several alternatives, it would be possible for a plan and its participating employer(s) to select different alternatives for reporting similar or related information. Although that possibility is unlikely to occur in the majority of situations, the Board has specifically precluded it in both Statements because of the importance to users of consistency between plan and employer reporting of similar information.

Parameters[35]

Frequency and timing of actuarial valuations

133. The Board has continued the standards established in Statement 5 for the frequency and timing of actuarial valuations, with one addition for plan reporting: all actuarially determined information included in the schedule of funding progress for the current year should be based on the results of an actuarial valuation performed as of a date not more than one year (two years for plans with biennial valuations) before the plan's reporting date for that year. Also, Statement 27 requires the ARC included in the amount of annual pension cost reported by a sole or agent employer to have been calculated not more than 24 months before the beginning of the employer's fiscal year (first fiscal year, if valuations are biennial). With respect to the plan's schedule of employer contributions, the ARC and the percentage of that amount recognized as contributions for the year should be the amounts corresponding to the fiscal year ending on the plan's reporting date, whether or not that fiscal year coincides with the employer's fiscal year. Paragraph 81 discusses the reporting date for pension trust funds included in an employer's financial report.

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[35]Appendix B to Statement 27 includes a more detailed discussion of the parameters, especially those that relate to the requirements for a provision(s) for amortization of unfunded actuarial liabilities in determining the ARC. That discussion includes the comments received in response to the 1990 and 1994 EDs of Statement 27.

Benefits to be included

134. The actuarial present value of total projected benefits generally includes all pension benefits covered by the plan terms at the valuation date. However, practice varies with respect to changes in benefits that may occur after the actuarial valuation date. Examples include ad hoc (discretionary) cost-of-living adjustments and other postretirement benefit increases not included in the plan terms, and the results of collective-bargaining agreements. Sometimes those types of benefit changes are anticipated in an actuarial valuation; in other cases, they are excluded unless there is a firm commitment to make the change. Also, some ad hoc postretirement benefit increases are financed on a **pay-as-you-go** basis and are excluded from the actuarial valuation even when there is a firm commitment to provide them. The Board believes that all pension benefits for which a commitment exists at the actuarial valuation date should be included in the actuarial present value of total projected benefits. This Statement neither requires nor precludes including benefit changes under consideration but not confirmed at the valuation date.

Investment return and other actuarial assumptions

135. The Board has concluded that the selection of all actuarial assumptions should be guided by the standards promulgated by the Actuarial Standards Board of the American Academy of Actuaries. Those standards may be revised from time to time. The rules of procedure of the Actuarial Standards Board include the required exposure of proposed standards, including revisions, for comment before adoption. The GASB intends to review proposed changes that affect pension accounting and financial reporting and will issue additional accounting guidance, if needed. Currently, guidance on the selection of actuarial assumptions for pension calculations is included in Actuarial Standard of Practice No. 4, *Measuring Pension Obligations.*

136. Investment return assumptions selected in accordance with Actuarial Standard of Practice No. 4 may be based on current or expected long-term rates, depending on the

purpose for which the actuarial calculations are made. The investment return (discount) rate commonly selected for governmental pension plan calculations is based on an estimated long-term rate of return on current and expected future plan investments. The Board believes that rate is consistent with the long-term nature of governmental pension plans and should be required for governmental accounting for pensions. When an actuary applies different assumed rates for successive years included in a projection, known as year-based or select and ultimate rates, the ultimate rate is the expected long-term rate and should be disclosed.

137. The Board considered but rejected the possibility of requiring a specific investment return rate (for example, the expected return on long-term government bonds). Pension plan investment portfolios vary both among plans and for individual plans over time. The investment return assumptions selected for a particular plan should be best estimates at the actuarial valuation date of that plan's earnings on current and expected future investments. In addition to the general requirements for best estimates and consistency of all actuarial assumptions, the Board has included a specific requirement that the assumed inflation rates included in the economic assumptions should be consistent. That requirement should help ensure that the relationship or "spread" between the investment return assumption and the projected salary increase assumption is reasonable. This Statement also requires disclosure of the inflation, investment return, and projected salary increase assumptions.

Actuarial value of assets

138. The Board has concluded that the actuarial valuation of plan assets should be based on the standards promulgated by the Actuarial Standards Board, currently Actuarial Standard of Practice No. 4. As stated in that publication, asset values, the investment return assumption, the determination of actuarial present values of pension plan benefits, and the purpose of the calculations are interdependent. The Board believes that, consistent

with its view that the investment return assumption should be based on an estimated long-term rate of return on plan investments, the valuation of plan assets for the purpose of determining funded status and the ARC generally should be market related. However, current market values should not be used if those values would cause funded status and the ARCs for successive periods to fluctuate in a manner that would have little or no meaning from a long-term perspective.

139. The Board's conclusions are based on considerations similar to those described in this excerpt from Thomas P. Bleakney's *Retirement Systems for Public Employees:*[36]

> *Valuation of Assets.* As the investments of a system grow, the method used for valuing them plays an increasing role in determining the actuarial gains or losses the system will incur. The portfolios of most systems are made up of securities held for extended periods. This permits the market values of some of the investments to diverge significantly from their costs—the prices paid for them. Valuing a portfolio at cost thus fails to give a realistic value to securities whose market values change substantially, common stocks being the most obvious example. The use of market value gives precision to the current value but creates substantial variability in the asset values. The special asset valuation methods in use [that is, smoothing techniques] are thus designed to strike a balance between two purposes, which are sometimes in opposition:
>
> > A recognition of each security's intrinsic value at the time of valuation;
> >
> > An attempt to gain stability of valuation, so as to avoid fluctuating gains and losses which have no long term significance.

140. Based on similar considerations, Actuarial Standard of Practice No. 4 states that the valuation of assets generally should reflect *some function of market value,* a term that includes both current market values and values produced by techniques that smooth the effects of short-term volatility in market values. The Board believes that smoothing

[36]Bleakney, Thomas P., F.S.A., *Retirement Systems for Public Employees* (Homewood, IL: Richard D. Irwin, Inc., 1972), p. 125.

changes in market values over, for example, three to five years is appropriate for determining funded status and the ARC. However, plans invest in various kinds of assets with different holding periods. The Board has not precluded the use of current market values or cost-based values if, in the judgment of those familiar with the circumstances, use of those values is warranted for particular investments. Similarly, the Board has not placed constraints on the kinds of smoothing techniques or the length of smoothing periods used in the actuarial valuation of assets.

Actuarial cost methods

141. The actuarial cost methods accepted by this Statement were acceptable under Accounting Principles Board (APB) Opinion No. 8, *Accounting for the Cost of Pension Plans,* and NCGA Statement 6 and include those most commonly used in determining the funding requirements of governmental pension plans. In examining whether those methods are acceptable for accounting purposes, the Board considered information from a variety of sources and consulted regularly with actuaries, including those on its task force. The Board reviewed the results of a study conducted by the American Academy of Actuaries in 1985 in conjunction with the FASB's deliberations on pension accounting by employers, as well as a study prepared by the GASB's consulting actuaries in 1988. That study included, for each of several typical governmental pension plan populations, comparisons of 20-year projections of annual funding requirements and asset accumulations according to various actuarial cost methods. The Board has concluded that, from the long-term perspective appropriate to governmental accounting for pensions, any of the methods included in the parameters, coupled with the other parameters in this Statement, are acceptable; each of those methods produces results that are sufficiently similar over time to preclude rejecting some methods in favor of others.

Amortization of unfunded actuarial liabilities

142. Most pension plans have an unfunded actuarial liability, either positive (actuarial accrued liability greater than plan assets) or negative (funding excess). The term *unfunded actuarial liability* and the amortization requirements of this Statement apply to either situation. Different plans use different amortization approaches. Some plans amortize the total unfunded actuarial liability as one amount, over a single period. Others use different periods for different components of the total; for example, a period of 30 years may be used for the initial unfunded actuarial liability (incurred at the inception of the plan) and large plan amendments, while 15 years is used for **actuarial experience gains and losses.** Some plans amortize unfunded actuarial liabilities in level dollar amounts; others calculate the amortization payments as a level percentage of projected covered payroll. Some plans use closed amortization periods (fixed periods that decline by one year each year). Other plans use open periods for the total unfunded actuarial liability or for certain components of the total; that is, the amortization period is permitted to fluctuate within limits established by law or policy. The use of an open approach helps reduce volatility in the employer's contribution rates. Many governmental plans are required by statute or policy to maintain fixed or stable contribution rates.

143. All of these variations are acceptable under recognized actuarial funding methodologies. The approach selected for a particular plan, including the amortization periods and methods, depends on a variety of factors, including the characteristics of the plan and the covered population, statutory requirements, the funding objectives, and the degree of stability that is required in the employer's contribution rates, by law or the plan's established funding policy. The Board has carefully examined the conceptual and practical applications of various possibilities and their acceptability for financial reporting.

144. The Board has concluded that amortization periods for unfunded actuarial liabilities should not exceed 30 years. However, the Board has accepted a 40-year maximum for not

more than ten years from the effective date of this Statement to facilitate a gradual reduction of amortization periods greater than 30 years and avoid sudden large changes in contribution rates. The Statement does not require that amortization periods be closed; therefore, an immediate or more rapid reduction of amortization periods is acceptable. The periods specified are *maximum acceptable periods;* the Board is neither encouraging the use of the maximum nor discouraging shorter periods. (A minimum period applies only for changes in actuarial methods, as discussed in paragraph 147.) Provided the maximum is not exceeded, the selection of an amortization period should be appropriate to the overall methodology adopted for the plan, the type of change in the total unfunded actuarial liability being amortized, the characteristics of the plan population, and other factors that may affect the selection of a particular period. For those reasons and to simplify the standard, the Board has not required separate amortization of any component of the total unfunded actuarial liability and has not specified the periods that should be applied for particular components. In reaching this conclusion, the Board considered whether an exception should be made for changes in pension benefits resulting from special termination benefit programs. The Board considered whether employers should be required to recognize expenditures/expense and a liability for the full estimated cost of those changes, regardless of the funding methodology. The Board concluded that requirement would be inappropriate and impractical. The reasons for the Board's conclusions are discussed in paragraphs 146–162 of Statement 27. A majority of the respondents who commented on the required maximum amortization periods and the applicability of those requirements to all types of changes in unfunded actuarial liabilities agreed with the Board's conclusions on those issues.

145. The Board has concluded that either a closed or an open approach to amortization is acceptable from a long-term, ongoing plan perspective; the approach selected depends on many factors and should be appropriate to the circumstances of the plan, participating

employers, and their operating environments. The Board believes that the cost of a commitment to provide pension benefits and the funding progress of a plan should be assessed from a long-term perspective. From that perspective, either a closed or an open approach is acceptable and neither is preferable in all circumstances. An open approach smooths year-to-year fluctuations in the ARC that may have little or no significance from a long-term perspective. When a closed approach is used, many of those fluctuations will affect each year's ARC but will tend to offset each other over time. For similar plans under similar circumstances, the resulting trend in the ARC should be similar under either approach.

146. In reaching its conclusions, the Board consulted with actuaries and administrators of plans that have used the open approach for many years and discussed the accounting and actuarial issues involved under both approaches with members of its task force and other advisers. The Board also examined the financial reports and the comparative funding levels of plans in various states that use each approach. The Board's research indicates that either a closed or an open approach can produce satisfactory results from a sound funding perspective. The Board found no evidence of a correlation between funding levels and whether a plan is using a closed or an open approach or some combination of the two. Many plans that have been using an open approach for many years have very high funding levels, including many with a funding excess. The same is true of many plans that use a closed approach. Some plans with low funding levels are using an open approach, whereas others have used a closed approach for many years. A large majority of the respondents who commented on closed and open approaches to amortization agreed that either approach should be acceptable for financial reporting, consistent with the funding methodology adopted for the plan.

147. A change in actuarial methods (actuarial cost method or asset valuation method) may cause a significant change in the total unfunded actuarial liability, including a change from

a positive amount to a funding excess. The Board recognizes that changes in actuarial methods may be appropriate in the judgment of those familiar with the circumstances, although they should occur rarely. However, sometimes the methods are changed specifically to produce a "contribution holiday"—a temporary reduction in the employer's required contributions, including to zero. For example, a change from an actuarial cost method with a high funding objective to one with a lower funding objective (and lower future ARCs) can produce a large gain; immediate or rapid amortization of the gain can substantially or more than offset the amortization payments on other (loss) components of the total unfunded actuarial liability and can even offset normal cost until the gain is fully amortized. As a result, two potentially large changes may occur in the ARC—a decrease and an increase—within a few years of each other. The Board believes that kind of situation may confuse users with respect to the employer's future required contributions. Therefore, this Statement requires significant gains produced by a change in actuarial methods to be amortized over at least ten years, unless the plan is closed to new entrants and all or almost all the plan members have retired. In those circumstances, a required minimum amortization period would be inconsistent with the objective of phasing out the plan.

148. The Board considered but has not required a minimum amortization period for other types of gains, although application of a minimum period is not precluded for either gains or losses. (A closed approach to amortization is not required.) Some plans use minimum periods for both gains and losses to reduce volatility in the contribution rates. The Board believes that goal is consistent with the long-term approach adopted in this Statement for the measurement of required supplementary information. The Board also believes that, when components of the total unfunded actuarial liability are separately amortized, gains and losses of a similar type (for example, actuarial experience gains and losses) generally should be amortized over similar periods; that is, it generally would not be appropriate to

recognize all gains immediately or over very short periods and spread all losses over longer periods. The Board recognizes, however, that a required minimum period may not always be appropriate. For example, in some circumstances, the immediate recognition of a gain to offset or partially offset a loss may help reduce volatility in the ARC.

149. The Board is concerned, however, that when components of the total unfunded actuarial liability are separately amortized, immediate recognition or rapid amortization of a gain that is a large proportion of the total unfunded actuarial liability may temporarily offset the amortization provisions for loss components being amortized over longer periods. As a result, the volatility of the ARC may be increased rather than reduced. A temporary reduction in the total provision for amortization (and the ARC) may occur, even though the remaining balances of the loss components are substantial, and the ARC will subsequently increase.

150. Rather than requiring a minimum amortization period for all gains, the Board has addressed this issue by requiring calculation of an equivalent single amortization period. That period is a weighted average of all periods used when components of the total unfunded actuarial liability are separately amortized, using a specific calculation method. When the results of the calculation indicate that the equivalent single period is greater than the maximum acceptable period (30 years or 40 years, whichever applies), one or more of the amortization periods initially selected for the components should be adjusted. The period for the gain should be lengthened, the period for one or more of the loss components should be shortened, or some combination of those changes should be made. The standard requires application of a specific methodology (illustrated in paragraph 43) because the calculation is designed to achieve a specific purpose. Other methods of calculating a weighted average amortization period exist, but they were developed for different purposes and may not achieve the same result.

151. This Statement requires the use of either the level percentage of projected payroll amortization method or the level dollar method. The Board has concluded that either method attributes a reasonable portion of unfunded actuarial liabilities to accounting periods, from the long-term, ongoing plan perspective, and neither method is preferable in all circumstances.

Effective Date

152. The Board had proposed that this Statement should be effective for plan fiscal years beginning after December 15, 1995, and Statement 27 should be effective for employer fiscal years beginning after December 15, 1996. The Board has concluded that the maximum acceptable delay between calculation of the ARC and its application by the employer(s) should be 24 months instead of 18 months as previously proposed. Consistent with that change, the Board has extended the effective dates of this Statement and Statement 27 by six months to, respectively, fiscal years beginning after June 15, 1996, and June 15, 1997.

Appendix C

ILLUSTRATIONS

153. This appendix illustrates the 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. Existing standards may require disclosures in addition to those illustrated. Illustrations 1 and 2 are coordinated with Illustrations 2, 3, and 4 of Appendix D to Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

Illustration 1	Defined Benefit Pension Plan Financial Reports
Illustration 2	Reduced Disclosures for a Pension Trust Fund When a Stand-Alone Plan Report Is Publicly Available
Illustration 3	Defined Contribution Pension Plan Note Disclosures

Illustration 1—Defined Benefit Pension Plan Financial Reports

COLUMBINE RETIREMENT SYSTEM

STATEMENTS OF PLAN NET ASSETS

as of June 30, 19X2 and 19X1

(Dollar amounts in thousands)

	State Employees	School Districts	Municipal Employees	19X2 Total	19X1 Total
Assets					
Cash and short-term investments	$ 66,129	$ 116,988	$ 27,014	$ 210,131	$ 440,146
Receivables					
Employer	16,451	18,501	2,958	37,910	45,770
Employer—long-term		986		986	1,088
Interest and dividends	33,495	48,299	4,951	86,745	81,183
Total receivables	49,946	67,786	7,909	125,641	128,041
Investments, at fair value					
U.S. Government obligations	541,289	780,541	80,001	1,401,831	1,571,404
Municipal bonds	33,585	48,416	4,969	86,970	86,417
Domestic corporate bonds	892,295	1,217,251	191,801	2,301,347	1,961,288
Domestic stocks	1,276,533	1,784,054	183,893	3,244,480	3,230,446
International stocks	461,350	665,269	68,187	1,194,806	1,187,703
Mortgages	149,100	209,099	24,453	382,652	319,745
Real estate	184,984	266,748	27,350	479,082	420,806
Venture capital	26,795	38,638	3,960	69,393	37,120
Total investments	3,565,931	5,010,016	584,614	9,160,561	8,814,929
Properties, at cost, net of accumulated depreciation of $5,164 and $4,430, respectively	6,351	8,924	1,040	16,315	16,093
Total assets	3,688,357	5,203,714	620,577	9,512,648	9,399,209
Liabilities					
Refunds payable and other	4,212	1,849	429	6,490	37,211
Net assets held in trust for pension benefits (A schedule of funding progress for each plan is presented on page ___.*)	$3,684,145	$5,201,865	$620,148	$9,506,158	$9,361,998

**[Note: The preparer should cite the page number of the plan's or system's report. In this illustration, the schedules of funding progress are on page 123.]*

COLUMBINE RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Years Ended June 30, 19X2 and 19X1

(Dollar amounts in thousands)

	State Employees	**School Districts**	**Municipal Employees**	**19X2 Total**	**19X1 Total**
Additions					
Contributions					
Employer	$ 137,916	$ 157,783	$ 19,199	$ 314,898	$ 284,568
Employer—long-term		102		102	102
Plan member	90,971	117,852	16,828	225,651	216,106
Total contributions	228,887	275,737	36,027	540,651	500,776
Investment income					
Net appreciation (depreciation) in fair value of investments	(241,408)	(344,429)	(35,280)	(621,117)	788,913
Interest	157,371	225,446	23,098	405,915	422,644
Dividends	123,953	177,654	18,191	319,798	560,848
Real estate operating income, net	10,733	15,383	1,575	27,691	25,296
	50,649	74,054	7,584	132,287	1,797,701
Less investment expense	54,081	61,872	7,529	123,482	500,674
Net investment income	(3,432)	12,182	55	8,805	1,297,027
Total additions	225,455	287,919	36,082	549,456	1,797,803
Deductions					
Benefits	170,434	172,787	18,073	361,294	325,881
Refunds of contributions	15,750	13,200	3,671	32,621	38,406
Administrative expense	4,984	5,703	694	11,381	12,681
Total deductions	191,168	191,690	22,438	405,296	376,968
Net increase	34,287	96,229	13,644	144,160	1,420,835
Net assets held in trust for pension benefits					
Beginning of year	3,649,858	5,105,636	606,504	9,361,998	7,941,163
End of year	$3,684,145	$5,201,865	$620,148	$9,506,158	$9,361,998

Columbine Retirement System

Notes to the Financial Statements
for the Fiscal Year Ended June 30, 19X2

The Columbine Retirement System (CRS) administers three defined benefit pension plans—State Employees Pension Plan (SEPP), School District Employees Pension Plan (SDEPP), and Municipal Employees Pension Plan (MEPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to the members of that plan, in accordance with the terms of the plan.

A. Summary of Significant Accounting Policies

Basis of Accounting. CRS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Method Used to Value Investments. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at December 31, 19X1, the date of the latest actuarial valuation:

	SEPP	SDEPP	MEPP
Retirees and beneficiaries receiving benefits	15,274	17,337	1,857
Terminated plan members entitled to but not yet receiving benefits	1,328	1,508	162
Active plan members	38,292	61,004	3,481
Total	54,894	79,849	5,500
Number of participating employers	1	203	53

State Employees Pension Plan

Plan Description. SEPP is a single-employer defined benefit pension plan that covers the employees of the State including all departments and agencies. SEPP provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Article 29 of the Regulations of the State of Columbine assigns the authority to establish and amend the benefit provisions of the plan to the State legislature.

Contributions. Plan members are required to contribute 7.8% of their annual covered salary. The State is required to contribute at an actuarially determined rate. Per Article 29, contribution requirements of the plan members and the State are established and may be amended by the State legislature. Administrative costs of SEPP are financed through investment earnings.

School District Employees Pension Plan

Plan Description. SDEPP is a cost-sharing multiple-employer defined benefit pension plan that covers teaching-certified employees of participating school districts. SDEPP provides retirement, disability, and death benefits to plan members as well as an annual COLA. Article 30 of the Regulations of the State of Columbine assigns the authority to establish and amend benefit provisions to the SDEPP Board of Trustees.

Contributions. Plan members are required to contribute 7.6% of their annual covered salary. Participating school districts are required to contribute at actuarially determined rates. Per Article 30, contribution requirements of the plan members and the participating employers are established and may be amended by the SDEPP Board of Trustees. Administrative costs of SDEPP are financed through investment earnings and an assessment of 0.18% of covered payroll for each participating school district.

Long-Term Receivables. In addition to actuarially determined contributions, certain employers also make semi-annual installment payments, including interest at 8% per year, for the cost of service credit granted retroactively to employees when the employers initially joined SDEPP. As of June 30, 19X2 and 19X1, the outstanding balances were $986 and $1,088, respectively. These payments are due over various time periods not exceeding ten years at June 30, 19X2, and 11 years at June 30, 19X1.

Municipal Employees Pension Plan

Plan Description. MEPP is an agent multiple-employer defined benefit pension plan that covers general and public safety employees of political subdivisions of the State of Columbine that have elected to participate in MEPP. Benefit provisions are established by each participating employer when the employer elects to participate in MEPP. Benefit provisions may be amended by the individual participating employers. MEPP provides retirement, disability, and death benefits to plan members and beneficiaries. An annual COLA is provided to benefit recipients of employers that contract for this option. At December 31, 19X1, the date of the most recent actuarial valuation, there were 53 participating employers consisting of:

Cities	16
Townships	15
Counties	10
Special Districts	12
Total	53

Contributions. Contribution rates for each participating employer and its covered employees are established and may be amended by the MEPP Board of Trustees. The contribution rates are determined based on the benefit structure established by each employer. Plan members are required to contribute between 4 and 12% of their annual covered salary. Participating employers are required to contribute the remaining amounts necessary to finance the coverage of their employees through periodic contributions at actuarially determined rates. Administrative costs of MEPP are financed through investment earnings and an assessment of $20 per participating active plan member per year.

[*Note: In this illustration, there are no legally required reserve accounts, no investment concentrations, and no differences between required and actual contributions.*]

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) —Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
SEPP						
12/31/W6	$2,005,238	$2,626,296	$621,058	76.4%	$ 901,566	68.9%
12/31/W7	2,411,610	2,902,399	490,789	83.1	956,525	51.3
12/31/W8	2,709,432	3,331,872	622,440	81.3	1,004,949	61.9
12/31/W9*	3,001,314	3,604,297	602,983	83.3	1,049,138	57.5
12/31/X0	3,366,946	3,930,112	563,166	85.7	1,093,780	51.5
12/31/X1	3,658,323	4,284,961	626,638	85.4	1,156,346	54.2
SDEPP						
12/31/W6	$2,888,374	$3,499,572	$611,198	82.5%	$1,205,873	50.7%
12/31/W7	3,473,718	3,867,483	393,765	89.8	1,279,383	30.8
12/31/W8	3,902,705	4,439,761	537,056	87.9	1,344,151	40.0
12/31/W9*	4,323,137	4,802,700	479,563	90.0	1,403,255	34.2
12/31/X0	4,849,798	5,236,922	387,124	92.6	1,462,965	26.5
12/31/X1	5,269,502	5,709,764	440,262	92.3	1,546,650	28.5
MEPP						
12/31/W6	$301,305	$342,842	$41,537	87.9%	$163,508	25.4%
12/31/W7	362,366	378,885	16,519	95.6	173,476	9.5
12/31/W8	407,117	434,949	27,832	93.6	182,258	15.3
12/31/W9*	450,975	470,512	19,537	95.8	190,272	10.3
12/31/X0	505,714	513,044	7,330	98.6	198,368	3.7

*Revised economic and noneconomic assumptions due to experience review.

SCHEDULES OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

	Employer Contributions					
	SEPP		SDEPP		MEPP	
Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
19W7	$100,729	100%	$115,935	100%	$15,042	100%
19W8	106,030	100	122,682	100	15,959	100
19W9	112,798	100	129,822	100	16,768	100
19X0	118,735	100	137,378	100	17,505	100
19X1	124,276	100	142,347	100	18,049	100
19X2	137,916	100	157,783	100	18,653	100

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

	SEPP	SDEPP	MEPP
Valuation date	12/31/X1	12/31/X1	12/31/X1
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percent open	Level percent closed	Level percent closed
Remaining amortization period	23 years	15 years	Weighted average of 25 years
Asset valuation method	4-year smoothed market	4-year smoothed market	4-year smoothed market
Actuarial assumptions:			
Investment rate of return*	7.5%	7.5%	7.5%
Projected salary increases*	5.5–9.5%	5.5–11.5%	5.5–11.5%
*Includes inflation at	5.5%	5.5%	5.5%
Cost-of-living adjustments	None	½ CPI increase, maximum of 3%	1–3%

Illustration 2—Reduced Disclosures for a Pension Trust Fund When a Stand-Alone Plan Report Is Publicly Available

When a pension trust fund (defined benefit) is included in an employer's financial reporting entity, reduced notes and required supplementary information (RSI) are acceptable for the pension trust fund, provided that a stand-alone plan report that contains the information required by this Statement is publicly available. The following chart summarizes the requirements.

Plan Issues Stand-Alone Report	**Pension Trust Fund (Type of Plan)**		
	Single-Employer	**Agent Employer**	**Cost-Sharing Employer**
YES	Notes ¶32 (Reduced) RSI ¶33–40 (Reduced)	Notes ¶32 (Reduced)	Notes ¶32 (Reduced)
NO	Notes ¶32 (Full) RSI ¶33–40 (Full)	Notes ¶32 (Full) RSI ¶33–40 (Full)	Notes ¶32 (Full) RSI ¶33–40 (Full)

Full RSI comprises a schedule of funding progress and a schedule of employer contributions for at least *six* plan years, and RSI notes. *Reduced* RSI comprises a schedule of funding progress for at least *three* valuations.

Reduced Disclosures

The reduced disclosures presented in this illustration are based on the information in Illustration 1. This illustration assumes the pension trust fund for the State Employees Pension Plan (SEPP), a single-employer defined benefit pension plan, is included in the State's reporting entity. Because a stand-alone plan report (Illustration 1) is publicly available, the State may present reduced pension trust fund note disclosures and RSI.

(Similar disclosures may be presented for agent multiple-employer and cost-sharing multiple-employer pension trust funds; RSI would not be required for these funds.)

A. Plan Description

The Columbine Retirement System (CRS) administers the State Employees Pension Plan (SEPP), a single-employer defined benefit pension plan. CRS issues a publicly available financial report that includes financial statements and required supplementary information for SEPP. The financial report may be obtained by writing to Columbine Retirement System, Government Lane, Anytown, USA 01000 or by calling 1-800-555-PLAN.

B. Summary of Significant Accounting Policies

Basis of Accounting. The financial statements of SEPP are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. The State's contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments. Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

REQUIRED SUPPLEMENTARY INFORMATION

STATE EMPLOYEES PENSION PLAN
Schedule of Funding Progress

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) —Entry Age (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b – a) / c)
12/31/W9*	$3,001,314	$3,604,297	$602,983	83.3%	$1,049,138	57.5%
12/31/X0	3,366,946	3,930,112	563,166	85.7	1,093,780	51.5
12/31/X1	3,658,323	4,284,961	626,638	85.4	1,156,346	54.2

*Revised economic and noneconomic assumptions due to experience review.

Illustration 3—Defined Contribution Pension Plan Note Disclosures

City of CW Notes to the Financial Statements for the Year Ended December 31, 19X2

A. Plan Description

The CW Retirement Plan (CWRP) is a defined contribution pension plan established by the City of CW to provide benefits at retirement to general and public safety employees of the City. At December 31, 19X2, there were 429 plan members. Plan members are required to contribute 6% of covered salary. The City is required to contribute 9% of annual covered payroll. Plan provisions and contribution requirements are established and may be amended by the CW City Council.

B. Significant Accounting Policies

Basis of Accounting. CWRP financial statements are prepared using the accrual basis of accounting. Employer and plan member contributions are recognized in the period that the contributions are due.

Method Used to Value Investments. Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price. Investments that do not have an established market are reported at estimated fair values.

Appendix D

CODIFICATION INSTRUCTIONS

154. The sections that follow update the June 30, 1994 *Codification of Governmental Accounting and Financial Reporting Standards* for the effects of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. Certain Codification sections included in this appendix have also been updated for the effects of Statements No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans,* and No. 27, *Accounting for Pensions by State and Local Governmental Employers.* Only the paragraph number of each of these Statements is listed if the paragraph will be cited in full in the Codification.

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FINANCIAL REPORTING **SECTION 1900**

Sources: [Revise as follows:] NCGA Statement 1
GASB Statements 9 through 10
GASB Statement 14
GASB Statements 25 through 27

Statement of Principle
Interim and Annual Financial Reporting

[Revise as follows:]

[NCGAS 1, ¶128; GASBS 9, ¶6; GASBS 10, ¶50; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 27, ¶22]

.116 [Remove source reference to GASBS 5, ¶7 and replace it with GASBS 27, ¶22; add the following to footnote 1:] In certain circumstances, combining statements are required for pension trust funds and for postemployment healthcare plans administered by defined benefit pension plans. (See Sections Pe5, "Pension Plans—Defined Benefit," paragraph .107, and Po50, "Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans," paragraph .105.) [GASBS 14, ¶51; GASBS 25, ¶15; GASBS 26, ¶7]

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COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

Sources: [Revise as follows:] NCGA Statement 1
AICPA Statement of Position 80-2
GASB Statement 6
GASB Statements 9 through 10
GASB Statement 14
GASB Statements 25 through 27

Statement of Principle
Annual Financial Reporting

[Revise as follows:]

> [NCGAS 1, ¶128; GASBS 9, ¶6; GASBS 10, ¶50; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 27, ¶22]

.108 [Remove source reference to GASBS 5, ¶7 and replace it with GASBS 27, ¶22; add the following to footnote 1:] In certain circumstances, combining statements are required for pension trust funds and for postemployment healthcare plans administered by defined benefit pension plans. (See Sections Pe5, "Pension Plans—Defined Benefit," paragraph .107, and Po50, "Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans," paragraph .105.) [GASBS 14, ¶51; GASBS 25, ¶15; GASBS 26, ¶7]

.906 [Delete subparagraph d.]

* * *

CASH FLOW STATEMENTS SECTION 2450

.102 [Replace the last two sentences of the paragraph with the following:] Pension plans (including pension trust funds) are exempt from the requirement to present a statement of cash flows. However, pension plans (including pension trust funds) are not precluded from presenting a statement of cash flows if the information provided is considered useful. [GASBS 9, ¶5 and fn4, as amended by GASBS 25, ¶14]

* * *

COLLEGES AND UNIVERSITIES SECTION Co5

Sources: [Revise as follows:] GASB Statements 2 through 3
GASB Statements 6 through 10
GASB Statements 12 through 16
GASB Statements 18 through 23
GASB Statement 25
GASB Statement 27
GASB Interpretation 1
GASB Technical Bulletin 92-1

.102 [Add the following to the list, replacing the current listing for Pe6, as follows:]

Pe5, "Pension Plans—Defined Benefit"
Pe6, "Pension Plans—Defined Contribution." [GASBS 2–3, 6–9, 12–16, 25, 27, GASBI 1]

* * *

[Revise entire section as follows:]

PENSION PLANS—DEFINED BENEFIT SECTION Pe5

Sources: GASB Statement 9
GASB Statement 25
GASB Statement 26
GASB Statement 27

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for **defined benefit pension plans.**[1] Requirements for presenting notes to the financial statements of **defined contribution plans** are included in Section Pe6, "Pension Plans—Defined Contribution." Section P20, "Pension Activities—Employer Reporting," addresses financial reporting of the pension expenditures/expense of employers. [GASBS 25, ¶8]

.102 The provisions of this section for defined benefit pension plans apply to plans of all state and local governmental entities, including those of general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities.[2] [GASBS 25, ¶9]

.103 A plan that has characteristics of both a defined benefit pension plan and a defined contribution plan requires careful analysis. If the substance of the plan is to provide a defined benefit in some form, the provisions of this section apply. The requirements for the notes to the financial statements of defined contribution plans are included in Section Pe6. [GASBS 25, ¶10]

.104 [GASBS 25, ¶12] [Change "Statement" to "section" and revise last sentence as follows:] Section Po50, "Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans," addresses financial reporting for those healthcare plans.

.105–.110 [GASBS 25, ¶13–¶18] [Change "Statement" to "section" and change cross-references.]

.111 [GASBS 25, ¶19] [Change cross-reference and add a footnote at the end of the first sentence as follows:]

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[1][GASBS 25, fn1] [Change cross-reference.]
[2][GASBS 25, fn2] [Change "Statement" to "section" and change cross-references.]

[5]In 1989, the GASB issued Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*. That Statement exempts pension plans (including pension trust funds) from the requirement to present a statement of cash flows. (See Section 2450, "Cash Flow Statements," paragraph .102.) [GASBS 9, ¶5, as amended by GASBS 25, ¶14]

Financial Statements[6]

Statement of Plan Net Assets

Assets

.112–.132 [GASBS 25, ¶20–¶40] [Change "Statement" to "section" and change cross-references.]

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[6][GASBS 25, fn5]

EQUIVALENT SINGLE AMORTIZATION PERIOD—CALCULATION METHOD

.501 [GASBS 25, ¶43] [Change "Statement" to "section" and change cross-references.]

DEFINITIONS

.502–.503 [GASBS 25, ¶44–¶45] [Change "Statement" to "section" and change cross-references.]

NONAUTHORITATIVE DISCUSSION

.901 [GASBS 25, Appendix C, Illustrations 1 and 2] [Change "Statement" to "section" and change cross-references.]

* * *

[Revise entire section as follows:]

PENSION PLANS—DEFINED CONTRIBUTION SECTION Pe6

Source: GASB Statement 25

Scope and Applicability

.101 This section establishes financial reporting standards for the notes to the financial statements of **defined contribution plans.**[1] Section Pe5, "Pension Plans—Defined Benefit," addresses financial reporting for **defined benefit pension plans**. Section P20, "Pension Activities—Employer Reporting," addresses financial reporting of the pension expenditures/expense of employers. [GASBS 25, ¶8]

.102 The provisions of this section for defined contribution plans apply to plans of all state and local governmental entities, including those of general purpose governments, public benefit corporations and authorities, public employee retirement systems, utilities, hospitals and other healthcare providers, and colleges and universities. [GASBS 25, ¶9–¶10]

.103 A plan that has characteristics of both a defined benefit pension plan and a defined contribution plan requires careful analysis. If the substance of the plan is to provide a defined benefit in some form, the provisions of Section Pe5 apply. [GASBS 25, ¶10]

Defined Contribution Plans

.104 [GASBS 25, ¶41] [Change cross-references.]

NONAUTHORITATIVE DISCUSSION

.901 [GASBS 25, Appendix C, Illustration 3]

[1]Terms printed in **boldface type** when they first appear are defined in Section Pe5, paragraphs .502–.503.