GASB Exposure Draft

June 25, 2013

Comments Due: August 26, 2013

Proposed Statement

of the Governmental Accounting Standards Board

Pension Transition for Contributions Made Subsequent to the Measurement Date

an amendment of GASB Statement No. 68

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

Director of Research and Technical Activities
Project No. 25-20

Governmental Accounting Standards Board

PENSION TRANSITION FOR CONTRIBUTIONS MADE SUBSEQUENT TO THE MEASUREMENT DATE

WRITTEN COMMENTS

Deadline for submitting written comments: August 26, 2013

Requirements for written comments. Comments should be addressed to the Director of Research and Technical Activities, Project No. 25-20, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public hearing. The Board has not scheduled a public hearing on the issue addressed in this Exposure Draft.

Public files. Written comments will become part of the Board's public file and will be available for inspection at the Board's offices. Written comments also are posted on the GASB's website.

Orders. This Exposure Draft may be downloaded from the GASB's website at www.gasb.org. Any individual or organization may obtain one printed copy of this Exposure Draft on request without charge until August 26, 2013, by writing or phoning the GASB Order Department. For information on prices for additional copies and copies requested after that date, please contact the Order Department at the following address:

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Notice to Recipients of This Exposure Draft

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

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement on the reporting of deferred outflows of resources for certain contributions made to pension plans by employers and nonemployer contributing entities at the time of transition to Statement No. 68, *Accounting and Financial Reporting for Pensions.*

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

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

Summary

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

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

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

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

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

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities that apply the requirements of that Statement.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.

Proposed Statement of the Governmental Accounting Standards Board

Pension Transition for Contributions Made Subsequent to the Measurement Date

an amendment of GASB Statement No. 68

June 25, 2013

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Proposed Statement of the Governmental Accounting Standards Board

Pension Transition for Contributions Made Subsequent to the Measurement Date

an amendment of GASB Statement No. 68

June 25, 2013

INTRODUCTION

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

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

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

Amendment to Statement 68

3. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of *all* applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and before the start of the employer's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized.

EFFECTIVE DATE AND TRANSITION

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

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

Appendix A

BACKGROUND

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

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

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

8. The transition provisions in paragraph 137 of Statement 68 require that, to the extent practical, changes made to comply with the Statement be reported as an adjustment of prior periods in the first period that the Statement is applied. At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 also requires that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

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

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

Appendix B

BASIS FOR CONCLUSIONS

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

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

13. At transition, paragraph 137 of Statement 68 limits recognition of pension-related deferred outflows of resources and deferred inflows of resources to circumstances in which it is practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions. The Board observes that, for governments that have made contributions to a pension plan subsequent to the measurement date of the beginning net pension liability, the transition provisions could result in significant understatement of beginning net position and expense in the initial year of implementation in circumstances in which it is not practical to determine the amount of all deferred outflows of resources and deferred inflows of resources related to pensions. Further, all governments that make contributions subsequent to the measurement date of the reported beginning net pension liability already will have the information necessary to report the beginning deferred outflow of resources amount. Therefore, the Board concluded that those amounts should be required to be recognized as deferred outflows of resources at transition, regardless of whether the amounts of other beginning deferred outflows of resources and deferred inflows of resources related to pensions are readily determinable.

Appendix C

CODIFICATION INSTRUCTIONS

14. This Statement addresses only transition provisions. Therefore, it will not be incorporated into the authoritative sections of the *Codification of Governmental Accounting and Financial Reporting Standards.*