Town of Hampton will be in compliance with GASB 68 for year ending 12/31/15.

NHRS ... NOW YOU KNOW

Making sense of GASB numbers

There's a lot of information out there regarding the New Hampshire Retirement System, some of it fact, some of it fiction. This document, along with others in the "NHRS ... Now You Know" series, is designed to provide you with straight talk about the retirement system.

The fact that the New Hampshire Retirement System has an unfunded pension liability isn't news; nor is the fact that this liability is being paid down via employer contributions on a 30-year statutory funding schedule that runs through 2039.

What may be news to some is that participating employers are now reporting a proportionate share of the pension liability on their financial statements for the first time. This information has the potential to cause confusion, and possibly concern, among those who don't understand what this number is – and what it isn't.

First, a little background: The Governmental Accounting Standards Board (GASB) is an independent, non-profit organization that sets financial accounting and reporting standards for state and local governments.

In 2012, GASB approved two new standards – GASB 67 and GASB 68 – that deal with public pension accounting. Previous GASB standards provided a methodology to measure funded ratios and define the amount of annual required contributions needed to maintain healthy funding of public pensions. The new rules no longer provide a funding standard, they merely tell governments how to account for and report pension liabilities and costs.

GASB 67 took effect for NHRS beginning in the fiscal year ended June 30, 2014. It requires the retirement system to include new footnotes and multi-year financial schedules in its financial statements, as well as report the collective Net Pension Liability (NPL) of the plan as a whole. As a result of GASB 67, NHRS now reports two pension liability calculations: the liability for accounting purposes – the NPL – and the liability for funding purposes, referred to as the Unfunded Actuarial Accrued Liability (UAAL).

GASB 68 took effect for participating state and local governments beginning in fiscal years ending June 15, 2015, or later. Among the requirements of GASB 68 is that employers report their proportionate share of the NPL on their balance sheet and determine pension costs in a different way.

What GASB 67 and 68 do:

■ The new standards change the way pension plans report financial information <u>for accounting purposes</u>, but do not force pension plans to change their funding policies. This has been referred to as "divorcing accounting from funding."

■ The new standards provide a snapshot of a plan's financial status as of a given date. Unlike the actuarial calculation of the UAAL, which smooths asset gains and losses over five years, the new GASB calculation of the Net Pension Liability uses the fair market value of assets at the close of the fiscal year. This means the NPL will be more sensitive to year-to-year market volatility than the UAAL.

■ By requiring all pension plans to use the same formula to calculate the NPL, the new standards provide a consistent framework for comparing the financial status of different plans.

What GASB 67 and 68 don't do:

■ The calculation and reporting of the NPL under GASB 67 does not impact NHRS employer contribution rates, which are actuarially determined pursuant to the NHRS Actuarial Funding Policy, RSA 100-A, and the state Constitution.

■ The calculation and reporting of the proportionate share under GASB 68 does not directly impact property tax rates because the pension liability is presented in the "government-wide financial statement," not the "fund financial statements" used by the state Department of Revenue Administration for setting tax rates. The only potential cost impact to local taxpayers is additional administrative and audit expenses, if any, associated with complying with the GASB requirements.

■ The proportionate share is not a bill. NHRS isn't looking for employers to pay down the liability any differently. In fact, because NHRS is a multi-employer plan where all employers pay the same contribution rates, if an individual employer wanted to write a check – or issue a bond – to pay off their proportionate share, any funds received by NHRS in excess of the actuarially required contribution would be used to offset the liability for <u>all</u> employers.

■ The proportionate share is not anything new to bond-rating entities. Pension liability has long been a factor in municipal credit ratings and the rating agencies have their own formulas for measuring pension debt.

So, what's the bottom line on these new accounting standards? Here's what GASB says: "While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed."

Related topics:

NHRS Now You Know: 'Demystifying unfunded liability'
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