EXPLAINING THE NEW GASB STANDARDS FOR PUBLIC PENSIONS

ISSUE
In June 2012, the Governmental Accounting Standards Board (GASB) issued two new standards, Nos. 67 and 68, fundamentally changing the future accounting and financial reporting requirements for public pensions. The new standards will require each public employer to account for a portion of its public pension plan’s unfunded liabilities on their balance sheet.

BACKGROUND
Beginning in 2014, public employers’ net pension liability (formerly known as the unfunded liability) will be calculated under the new standards and allocated to all participating employers. Employers will have to recognize a new accounting liability reflecting their ‘proportionate share’ of OPERS’ total pension liability. This means that OPERS-covered employers will be responsible for reporting a portion of OPERS’ unfunded liability on their financial statements.

These new accounting standards dictate the manner in which the net pension liability is accounted for, not how it is funded. Prior to the adoption of GASB 67 and 68, if an OPERS-participating employer was current in funding their statutorily-required contributions, there was no liability for the employer to report on its financial statement. The funding requirement will not change – OPERS-participating employers will continue to be responsible for funding the statutory contribution requirements – however, employers will now have the added responsibility of reporting (not funding) a portion of OPERS’ net pension liability on their financial statement.

FACTS
As with any significant public policy change, education is necessary to explain the impact of GASB 67 and 68. OPERS has already begun communicating with and educating its employers and stakeholders regarding the new standards.

1. Most importantly, GASB 67 and 68 are accounting standards, not funding standards. In Ohio, public employers are required to remit the statutory contribution rate, in most cases 14 percent. Nothing in the new standards changes that requirement. Although OPERS-covered employers will now be required to account for a share of OPERS’ unfunded liability, they will not be required to fund that liability beyond the statutorily-required contribution rates.

1 GASB 67 (Financial Reporting for Pension Plans) is effective for OPERS for calendar year 2014. GASB 68 (Accounting and Financial Reporting for Pension – applicable to OPERS-covered employers) is effective for fiscal years beginning after June 15, 2014.

2 The proportionate share will be based on a public employer’s total pension contributions during the current year – both member and employer – divided by the total amount of contributions received by OPERS during the current year.

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These standards are intended to: enhance the usefulness of pension-related information in financial reports; improve transparency; and, make it easier to compare public pension plans by standardizing financial reporting requirements and valuation practices.

2. GASB views pensions as a component of employee compensation and believes that employers should report a liability for the unfunded portion of the pensions earned by their employees. Therefore, GASB has required employers to recognize this liability on their financial statements.

OPERS has already begun communicating with and educating its employers and stakeholders regarding the new standards.

OPERS is a multi-employer cost-sharing pension plan, with more than 3,700 participating public employers. Our plan design is not controlled by employers, but by the Ohio General Assembly.

3. As a result of OPERS’ and other groups’ input and involvement, GASB made numerous positive changes to its original exposure drafts. Prior to the adoption of GASB 67 and 68, OPERS testified on the impact of the proposed standards, and voluntarily participated in GASB’s pre-adoption field test. Additionally, more than 200 OPERS-covered employers submitted letters to GASB expressing their concerns with the proposed standards.

4. OPERS performed a complete test implementation of the new standards to determine potential compliance issues. Completed in July 2013, the test implementation involved working closely with GASB representatives and a volunteer test group representing a broad cross-section of Ohio public employers including large and small municipalities, libraries, a university, and a hospital. Lessons learned from this test are being used to develop an education initiative for OPERS-covered employers.

5. OPERS is working closely with its external auditors and the Ohio Auditor of State to develop a coordinated audit approach and expects audit guidance to be issued by the American Institute of Certified Public Accountants soon.

QUESTIONS
Please contact OPERS if you have further questions or concerns regarding the implementation of GASB 67 and 68. Questions may be e-mailed to gasboutreach@opers.org.

MANDATORY SOCIAL SECURITY NOT INCLUDED IN FEDERAL BUDGET AGREEMENT
On a positive note, the Ryan-Murray federal budget agreement recently approved by the House of Representatives did not include any provision requiring Ohio’s public employees to participate in Social Security. In the weeks leading up to the bipartisan budget deal, there were suggestions that a mandatory coverage requirement might be included as part of a larger reform of the Social Security system. In fact, the Congressional Budget Office listed mandatory coverage as one of many options Congress might consider as it focuses on entitlement reform. This remains an important issue for OPERS because of the great harm that would befall Ohio’s five statewide public retirement systems if all public employees were forced to participate in Social Security. We are fortunate that we have had tremendous support on this issue at both the state and federal level. Earlier this year, the Ohio General Assembly passed HCR 19, which urges Congress to oppose any measure mandating participation in Social Security, and the members of the Ohio Congressional Delegation have been equally steadfast. Rest assured, OPERS will remain vigilant against these types of threats to the solvency and sustainability of your retirement system.

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With assets of $80.3 billion, as of Dec. 31, 2012, OPERS is the largest public pension fund in Ohio and the 11th largest public pension fund in the U.S. In operation since 1935, OPERS provides retirement, disability and survivor benefits for public employees throughout the state and serves more than one million members, including more than 190,000 retirees and beneficiaries.

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