

**LEGISLATURE OF THE  
STATE OF NEW MEXICO**

**INVESTMENTS AND PENSIONS  
OVERSIGHT COMMITTEE**

**Panel Discussion on New Governmental Accounting  
Standards Board (GASB) Rules**

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# Governmental Accounting Standards Board

## Replacement of Statements 25 and 27



### Statement

### Standard

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25 (now 67) Financial Reporting for Pension Plans

27 (now 68) Accounting and Financial Reporting for Pensions

Reasons behind GASB changes (in their words)

- ❖ Improve consistency and transparency
- ❖ Enhance decision usefulness of pension information
- ❖ Assist users in evaluating accountability and inter-period equity related to pensions

GASB's authority extends only to accounting and financial reporting;  
not to funding.

# Summary of Changes

- Divorce accounting and funding.
- Net Pension Liability (NPL) moves to balance sheet of employers. NPL is:
  - ❖ Actuarial accrued liability (referred to in statements as Total Pension Liability or TPL) based on Entry Age Normal funding method, less
  - ❖ Plan's Fiduciary Net Position (market value of assets).
- Annual pension expense (PE) or pension income (!) with no direct relationship to actuarially determined contributions. PE is:
  - ❖ EAN normal cost
  - ❖ Interest on the NPL
  - ❖ Immediate recognition of changes in active and inactive liability due to plan amendments
  - ❖ Deferred recognition (over average remaining service life) of changes in active and inactive liability due to assumption changes and actual experience
  - ❖ Deferred recognition of investment gains and losses over five years.

- Based on long-term expected return of assets held in trust unless fund is expected to be depleted before all benefit payments are made.
  - ❖ Municipal bond index for high-quality, non-taxable 20-year bonds used for discounting post asset depletion benefit payments.
- Funding period for changes to the Net Pension Liability not due to investment returns and plan benefits changes are spread over the average working lifetime (including retirees and inactive members). Currently this funding period is less than 6 years.
- Cost-sharing Employers will report proportionate share of NPL, PE and Deferred I/O.

- With the numerous entities reporting various measures of pension liabilities and costs, it will become difficult to maintain focus on the actuarial measures of funded status, contribution sufficiency and progress toward objectives.
- The actuarial valuation must remain the basis for decision – makers to assess a retirement system’s current funded position and the sufficiency of contributions to achieve financial objectives.
- GASB disclosures are solely for the purpose of financial reporting, Moody’s (and others) measures are solely for the purpose of assessing credit ratings; neither of these measures should be confused to be for the purpose of assessing the actuarial condition of a pension.