



NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER  
STATE AND LOCAL GOVERNMENT FINANCE DIVISION  
AND THE LOCAL GOVERNMENT COMMISSION

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**Memorandum # 2014 - 12**

**TO:** Finance Officers of North Carolina Local Governments and Public Authorities

**FROM:** Sharon Edmundson, Director, Fiscal Management Section

**SUBJECT:** New Reporting Standards for Defined Benefit Pension Plans and Participant Employers – GASB Statements 67 and 68

**DATE:** February 28, 2014

The Governmental Accounting Standards Board (GASB) has adopted two new reporting standards for pension plans and those employers that participate in those plans. GASB Statements 67 and 68 will fundamentally change the way defined benefit pension plans, liabilities, and expenses are reporting in both the plan financial statements and the statements of participant employers.

In North Carolina, we have four state-wide defined benefit pension plans in which local governments and public authorities participate; they are all cost-sharing multi-employer plans:

- Teachers and State Employees Retirement System (TSERS)
- Local Government Employees Retirement System (LGERS)
- Firefighters' and Rescue Squad Workers' Pension Fund (F&RS)
- Register of Deeds Supplemental Pension Plan

Retirement plans currently report an Unfunded Actuarial Accrued Liability in the notes to their financial statements, and use that figure to help determine funding. When GASB 67 is implemented, each plan will be required to calculate a net pension liability, and that amount will be reported in the notes to the financial statements for the plan.

Net pension liability is calculated as the difference between total pension liability and the plan fiduciary net position as of the measurement date. Plan statements also will include significantly more disclosures about the plan, the net pension liability, and other information.

GASB 68 will require that cost-sharing multi-employer plans apportion that net pension liability to the participant employers; each employer will then report its share on its full accrual financial statements, including any enterprise funds and participant component units. The participant employer in each of the single employer plans will report 100% of the plan liability. All participant employers will record their share (apportioned for participants in multi-employer plans or 100% for single employer) of pension expense and deferred inflows and outflows of resources. Each multi-employer plan participant will apportion the deferred inflows and outflows of the plan on the same basis as the liability. Some components of the apportioned amounts will be amortized over a closed 5 year period with a new period beginning for each year's deferrals on each plan participant's financials, while others will be amortized over the remaining service life of the plan members.

It is important to note that implementation of the new standards will not require that North Carolina local governments and public authorities change the way it is funding its pension plans, nor will it create any new obligations for those plans. These standards are accounting and reporting standards – they will change the way the pensions are reported but do not dictate any changes in the way the pensions are funded. In fact, it was GASB's intent to separate the funding process from the accounting and reporting process. Before the implementation of these standards, participant governments were not really recording and reporting the liabilities associated with their pensions. Disclosures that were being included in the plan financial reports were associated with how much or how little governments were funding their pension plans; this information was being derived from periodic actuarial valuation reports.

With the implementation of GASB Statements 67 and 68, users of both the plan financial statements and the participant financials will see the calculated liability of a defined benefit pension plan in the notes (plan) or financial statements (participant employers), and will see information about funding in the required supplementary information to the plan financials. Participant employers that issue rated debt should be prepared to answer questions from the rating agencies about their share of the net pension liability once Statement 68 is implemented.

While the details are still being worked out, we fully expect that the data employer participants will need to complete their financial reports will be provided by the Department of State Treasurer along with some form of attestation. The information will be provided in a timely manner such that completion of annual audits should not be

impacted. It is likely that some additional audit work will need to be completed by the participant employer auditor with regards to the employer's participant data and records from its payroll system and employee files.

Certain circumstances represent what the new standards refer to as special funding situations. A special funding situation exists when someone other than the employer is legally obligated to make a pension contribution directly to the pension plan that is used to provide pensions to the employees of another entity or entities and either 1) the amount of contributions for which the non-employer entity is legally responsible is not dependent on one or more events or circumstances unrelated to the pensions; or 2) the non-employer entity is the only entity with a legal obligation to make contributions directly to a pension plan. We believe we have two pension plans for which special funding situations exist – the National Guard Pension Fund and the Firefighters' and Rescue Squad Workers' Pension Fund. The employers for members in these two pensions will report an additional pension expense for the amount contributed by the non-employer and a matching revenue.

GASB Statement 67 must be implemented for all fiscal years beginning after June 15, 2013 (plans with fiscal years ended June 30, 2014 or later in NC). Statement 68 must be implemented for employers that participate in a defined benefit pension plan for all fiscal years beginning after June 15, 2014 (units with fiscal year end June 30, 2015 or later in NC).

We continue to work through the nuances of these two standards and the available guidance on them. More information will be made available as we move forward, including illustrative statements for employer participants including required disclosures and sample calculations, and additional training will be offered. We have a dedicated web page for implementation of the standards; it can be accessed here: (insert link).

Please contact Sharon Edmundson with any questions at [Sharon.edmundson@nctreasurer.com](mailto:Sharon.edmundson@nctreasurer.com) or (919) 807-2380.