



September 21, 2011

Proposed Pension Accounting Rules Will Affect Counties

The Governmental Accounting Standards Board (GASB) in July proposed major revisions to pension accounting rules for public agencies by issuing [Exposure Drafts](#) (proposed versions of a document issued for open discussion before its release as a final document) regarding post-employment benefit accounting and financial reporting. The changes are the next step in GASB's broad effort to improve accountability and transparency of financial reporting in regard to the financial effects of employers' commitments and actions related to pension benefits.

Last week, staff of the California Public Employees' Retirement System (CalPERS) conveyed concerns to CSAC staff about how the new rules will affect contracting agencies. CalPERS believes that employer costs will increase due to the possible need to hire an independent actuary and because CalPERS may have to assess a fee on public employers to cover the costs of issuing new actuarial valuations. Additionally, employers may be at risk of non-compliance if they are not prepared to implement GASB's requirements in their financial documents starting with fiscal year 2012-13. This could affect counties' ability to issue bonds.

The proposals, (which would apply to all state and local governments that sponsor defined benefit pension plans) in the Exposure Drafts include the following:

- **The requirement that state and local governments recognize net pension liability (NPL) in their financial documents** (currently only provided as supplemental information). Currently, state and local governments must recognize their annual required contribution (the employer's periodic required annual contributions to a defined benefit pension plan, calculated in accordance with the plan assumptions) as an expense on financial reports. The new rule would require governments to also include NPL (the market value of assets subtracted from the total pension liability) which will then be used as the measure of the employer's pension liability. Accordingly, GASB rejected the current concept of Net Pension Obligation, which is the difference between the employer's actual and required contributions.
- **The use of a single discount rate to value future projected benefit payments.** The discount rate used to place a value on a plan's total pension liability will, under the proposed GASB rule, be an average of the following: 1) the current long-term investment rate of return for future and current assets,

- and 2) the risk-free, high quality municipal bond index rate.
- **Accomplishing the attribution of the actuarial present value of benefit payments by using the employee's entry age normal actuarial cost method as a level percentage of pay.** Under this method, projected benefits are discounted to their present value when employees first begin earning benefits and attributed to employees' expected periods of employment until they leave.

We will keep counties updated on GASB's actions related to the proposed rules; public comment is being accepted until September 30, 2011. [Click here](#) to send public comment on the proposed rules (deadline is September 30, 2011).

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