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

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Memorandum # 2016-13

TO: **Local Government Finance Officials and Their Independent Auditors**

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

SUBJECT: **GASB Statement 73,** *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*

DATE: **March 11, 2016**

The Governmental Accounting Standards Board (GASB) recently issued Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement addresses new reporting guidance for defined benefit pension plans that are not accounted for through a trust that meets the requirements outlined in Statements 67 and 68. It establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit plans that are not administered through such trusts. Unlike most other GASB statements, this statement has two implementation dates. Most changes relating to pensions that are not within the scope of Statement 68 will be effective for fiscal years ending June 30, 2017. These pensions include the Law Enforcement Officers' Special Separation Allowance (LEO) plan, any death benefit, disability benefit, or life insurance that is provided through a pension plan, and certain payment arrangements to retirees that for all intents and purposes serve as other post-employment benefits (OPEB). This standard is not applicable to other postemployment or termination benefits. The other requirements of the statement will go into effect for fiscal years ending June 30, 2016.

One change that will go into effect in the fiscal year ending June 30, 2016 is the reporting for local governments that present their LEO in non-GASB defined trusts. The Statement requires that any assets that are accumulated for pension purposes in such plans should be reported as assets of the employer. Units that currently report assets set aside to pay pension obligations in a pension trust fund that does not meet the requirements outlined in paragraph 4 of Statement 73 should, beginning with the reporting year ending June 30, 2016, present these assets in the General Fund or in the fund in which the law enforcement function is reported. Units should report this as committed fund balance on the fund statements. Assets that a government is holding in a fiduciary capacity for another government unit continue to be reported properly in an agency fund. If LEO assets are held in an irrevocable trust that meets the requirements of the standard, GASB Statements 67 and 68 apply and should be implemented immediately.

The most significant change resulting from Statement 73 is that the total pension liability for the pension plan will be recognized on the full accrual statements. The statement also requires new note disclosures and required supplementary information and redefines pension expense. We will provide more detailed information about those disclosures at a later date, although they will be similar to those used for GASB 68. For a detailed review of these components, please refer to Memo #2015-06, *GASB Statement 67, Financial Reporting for Pension Plans, and GASB Statement 68, Accounting and Financial Reporting for Pensions.*

The LEO plan is a **single-employer defined benefit pension plan**. Each unit has its own LEO plan; as a result there will be no information available from the State on the individual plan journal entries. Each unit must work with its actuaries to get the data needed to implement this Standard.

Given the number of units that provide OPEB across the state, the different arrangements offered to retirees are numerous. One common benefit is providing a stipend or partially subsidizing the cost of health insurance to a retiree. In these cases, the purposes and terms of the payments should be analyzed to determine if these arrangements in fact meet the GASB definition of a pension. As a general guideline, if the payment the unit of government makes is made to the retiree with no enforcement or accountability as to its use, it is considered retirement income and is a pension benefit subject to either GASB Statement 67 or 73. Assuming assets to provide the benefit are not held in a GASB defined trust, Statement 73 would apply and will have to be implemented with the fiscal year ending June 30, 2017.

Actuarial valuations

As with GASB Statement 68, Statement 73 requires at least biennial actuarial valuations to determine the total pension liability. The actuarial valuation cannot be performed any earlier than 30 months and 1 day before the employer's most recent fiscal year end and the measurement date cannot be any earlier than the last day of the prior fiscal year. In addition, you will need beginning balances from which to calculate the necessary data for the first year of implementation. If your current actuarial study does not provide you with this information, you will need to ask your actuary to provide it. For those of you that have not had a study done, you will need one that meets the requirements of this Standard, including the calculation of the beginning liability balance. The statement does not afford the option of an alternative measurement method. Given the potential liability that will be reported, we are expecting each unit to have an actuarial study done for the first year to determine the extent of the liability. Exceptions to this policy must be approved by the State and Local Government Finance Division (SLGFD) in writing.

It is reasonable to expect that the number of units requiring actuarial valuations will increase. We recommend that units start to plan for the actuarial valuation both in the budget and by establishing a relationship with an actuary now, if one does not already exist. Your unit might want to consider a multi-year contract for actuarial services to ensure that you will receive your valuation reports timely. It will be crucial for units to have good communication with their actuary so that accurate information regarding demographic data will be used in the actuarial valuation.

Glossary

To facilitate comprehension of the new terms and concepts associated with the new reporting requirements, we urge you to familiarize yourself with the statement's glossary. The more significant terms and concepts are outlined below. For purposes of this memo, we will assume that calculation of the plan's net position will result in a total pension liability. It is possible that a unit that has some assets set aside may report a net pension asset as a result of implementation of Statement 73.

Total Pension Liability (TPL) – This represents the gross liability of the pension plan. It includes service cost, interest, any differences between expected and actual experience as it relates to earnings or payments of the plan, and any payments made to members. The TPL is determined at the measurement date.

Pension Expense – In prior years, pension expense was the contribution made by employers to satisfy the ARC. With the new model, pension expense is the annual change in the Total Pension Liability (TPL). There are some components of pension expense which are immediately recognized and some that will be deferred and recognized in future years.

Valuation Date – date on which the TPL and any assets held to provide benefits, are actuarially valued; can be no more than 30 months plus 1 day prior to the as of date of the financial report for which the valuation data is being used. Example: For June 30, 2017 financial statement date, the valuation report can be no older than December 31, 2014, with roll-forward procedures to the measurement date of June 30, 2016.

Measurement Date – date on which the TPL is measured; can be no more than 1 year prior to the fiscal year end date

Timeline

As mentioned before, there are several parts to this statement, each of which has different implementation dates. To prepare for the implementation of the provisions that are relevant to your unit, please consider the following timeline:

Fiscal year ending June 30, 2016:

- Prepare for actuarial valuations – budget funds and establish a relationship with an actuary
    - If actuarial valuations are performed prior to June 30, 2016, roll forward procedures must be applied to comply with measurement date requirements
- Present assets accumulated for the purpose of providing these pensions in the General Fund (or whichever fund accounts for the law enforcement function) at June 30, 2016
- If LEO plan is accounted for in a GASB defined trust, implement GASB 67 and 68

Fiscal year ending June 30, 2017:

- Implement new reporting standard for non-GASB defined trust LEO plans

We will continue to provide information regarding Statement 73 and its application to the LEO plans in our presentations and in the sample financial statements. There is a webpage dedicated to pension standards, https://www.nctreasurer.com/slg/lfm/audit_acct/Pages/Pension-Standards.aspx, which can provide additional guidance and other helpful resources. If you have any questions, please contact Sharon Edmundson, sharon.edumundson@nctreasurer.com or (919) 814-4289, or Preeta Nayak, preeta.nayak@nctreasurer.com or (919) 814-4291.