Implementation of GASB 68: Accounting & Financial Reporting for Public Employee Pensions

In June 2012, the Government Accounting Standards Board (GASB) approved two new standards aimed to improve the accounting and financial reporting of employee pension plans administered by state and local governments.


- **Statement No. 68 (GASB 68)** – Accounting and financial reporting for pensions administered by state and local government employers effective for fiscal years beginning after June 15, 2014 (FY2015 for New Jersey pension plans). This Statement impacts reporting by the State and all employers whose employees participate in a public pensions system.

Financial statements issued by the Division of Pensions and Benefits for FY2014 were issued in compliance with GASB Statement No. 67. To comply with the standard, Public Employees Retirement System (PERS) and Police and Firemen’s Retirement System (PFRS) liabilities and net pensions liabilities had to be developed in the aggregate (total State and local) for each system rather than separately (State and local) for each system. The pension plans’ respective audited FY2014 financial reports containing the required GASB 67 disclosures and other corresponding information can be viewed on the [Division of Pensions and Benefits’ website](#).

**What is GASB 68?**

GASB 68 requires states to allocate, for reporting purposes only, pension liabilities of their centralized pension systems to all participating employers. Among the employers who are being allocated liabilities, for reporting purposes only, are local governments.
The New Jersey Department of Treasury's Division of Pensions and Benefits is releasing GASB 68 reporting data today. Each local government’s allocation can be found on the Division of Pension’s and Benefit’s website.

It is important to note the following when reviewing the liability that, for reporting purposes, has been allocated to your local government:

- Because GASB dictates reporting requirements, the State and local governments are required to report these allocations. Lack of compliance on the part of the State will result in a negative audit opinion on the State’s financial statements, which could also result in negative findings on local government audits.

- Because GASB 68 dictates the methodologies to be used in calculating the required disclosures, including the pooling of both State and local employer pension assets and liabilities, aggregate local employer pension liabilities will appear to be higher than if separate State and local calculations were allowed.

- GASB reporting requirements solely govern financial reporting, but have no impact on State laws; therefore, the statements do not result in a change to the calculation of statutory assets, liabilities and contribution requirements for State and local employers. Accordingly, per statute, State and local systems are measured separately for the calculation of plan assets, liabilities and contribution requirements.

- The required disclosure is not expected to affect municipal credit ratings in any way.

- Allocations have been audited by KMPG for accuracy.

GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Note disclosure and required supplementary information requirements about pensions also are addressed.

The full text of GASB 68 is available on the Government Accounting Standards Board’s website.

Local Government Compliance with GASB 68

Compliance with GASB 68 reporting requirements is mandatory for both the State and for local governments.

Pursuant to N.J.A.C. 5:31-7.1 et seq., all entities subject to the Local Authorities Fiscal Control Law (N.J.S.A. 40A:5A-1 et seq.) are subject to Generally Accepted Accounting Principles (GAAP).
As such, all local authorities and fire districts are subject to the requirements of GASB 68 and must comply in order to avoid a negative audit finding. Local authorities are required to recognize the pension liability in Statements of Revenues, Expenses, Changes in Net Assets (balance sheets) and Notes to the Financial Statements in accordance with GASB 68. The liability required to be displayed by GASB 68 is displayed as a separate line item in the Unrestricted Net Assets area of the balance sheet. For local authority budget analysis purpose, the GASB 68 liability must be shown on Form F-8 and displayed separately from negative balances that are required to be raised in the next succeeding year’s budget.

New Jersey’s municipalities and counties do not follow GAAP accounting principles and, as such, do not follow GASB requirements with respect to recording the net pension liability as a liability on their balance sheets. However, N.J.A.C. 5:30-6.1(c)(2) requires municipalities and counties to disclose GASB 68 information in the Notes to the Financial Statements. The disclosure must meet the requirements of GASB 68.

Conclusion

It is important to keep in mind that this reporting requirement will not change the amount of funds that must be budgeted for pension payments under existing law. It is important to keep in mind that this reporting requirement will not change the amount of funds local governments must budget for pension payments under existing law. The New Jersey Department of Treasury has communicated this to rating agencies. They have given no indication that GASB 68 disclosures will generally result in credit downgrades.

Also, it bears repeating that GASB statements solely govern accounting, financial reporting and disclosure requirements. Therefore, these new standards do not result in a change with respect to the calculation of statutory assets, liabilities and contribution requirements for state and local employers. Because the State does not establish the reporting requirements, those with technical questions concerning GASB 68 are encouraged to contact the Government Accounting Standards Board directly.

Approved: Timothy J. Cunningham, Director

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