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Statement No. 67 of the Governmental Accounting Standards Board

Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25

GASB

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Summary

The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes accounting and financial reporting requirements related to pensions for governments whose employees are provided with pensions through pension plans that are covered by the scope of this Statement, as well as for nonemployer governments that have a legal obligation to contribute to those plans.

This Statement and Statement 68 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due. The scope of this Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonem-

ployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered, as follows:

- Single-employer pension plans—those in which pensions are provided to the employees of only one employer (as defined in this Statement)
- Agent multiple-employer pension plans (agent pension plans)—those in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees
- Cost-sharing multiple-employer pension plans (cost-sharing pension plans) those in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

This Statement also details the note disclosure requirements for defined contribution pension plans administered through trusts that meet the identified criteria.

Defined Benefit Pension Plans

Financial Statements

This Statement requires defined benefit pension plans to present two financial statements—a statement of fiduciary net position and a statement of changes in fiduciary net position. The statement of fiduciary net position presents the following items as of the end of the pension plan's reporting period, as applicable:

- Assets, such as cash and cash equivalents, receivables from employers and plan members, investments (measured at fair value), and equipment and other assets used in pension plan operations
- Deferred outflows of resources
- Liabilities, such as benefit payments due to plan members
- Deferred inflows of resources
- Fiduciary net position, which equals assets, plus deferred outflows of resources, minus liabilities, minus deferred inflows of resources.

The statement of changes in fiduciary net position presents the following items for the pension plan's reporting period:

- Additions, such as contributions from employers, nonemployer contributing entities, and plan members, and net investment income
- Deductions, such as benefit payments and administrative expense
- Net increase (decrease) in fiduciary net position, which equals the difference between additions and deductions.

In addition to the requirements of this Statement, defined benefit pension plans also should follow all accounting and financial reporting requirements of other standards, as applicable.

Notes to Financial Statements

This Statement requires that notes to financial statements of defined benefit pension plans include descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the pension plan's board. Such pension plans also should disclose information about pension plan investments, including the pension plan's investment policies, a description of how fair value is determined, concentrations of investments with individual organizations equaling or exceeding 5 percent of the pension plan's fiduciary net position, and the annual money-weighted rate of return on pension plan investments. Other required note disclosures include information about contributions, reserves, and allocated insurance contracts.

Single-employer and cost-sharing pension plans also should disclose the following information:

- The portion of the actuarial present value of projected benefit payments to be provided through the pension plan to current active and inactive plan members that is attributed to those members' past periods of service (the total pension liability), the pension plan's fiduciary net position, the net pension liability, and the pension plan's fiduciary net position as a percentage of the total pension liability
- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc cost-of-living adjustments [COLAs]), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies.

Required Supplementary Information

This Statement requires single-employer and cost-sharing pension plans to present in required supplementary information the following information for each of the 10 most recent fiscal years about employer and nonemployer contributing entity obligations for pensions provided through the pension plan:

- Sources of changes in the net pension liability
- Information about the components of the net pension liability and related ratios, including the pension plan's fiduciary net position as a percentage of the total pension liability, and the net pension liability as a percentage of covered-employee payroll.

If the contributions of employers or nonemployer contributing entities to a single-employer or cost-sharing pension plan are actuarially determined, the pension plan should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. Significant methods and assumptions used in calculating the actuarially determined contributions should be presented as notes to the schedules.

All defined benefit pension plans, including agent pension plans, should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes the annual money-weighted rate of return on pension plan investments for each year. In addition, all pension plans should explain factors that significantly affect trends in the amounts reported in the schedules of required supplementary information, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Measurement of the Net Pension Liability

This Statement requires the net pension liability to be measured as the total pension liability, less the amount of the pension plan's fiduciary net position. Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the pension plan's fiscal year-end, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 24 months prior to the pension plan's fiscal year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

Projections of benefit payments are required to be based on the benefit terms and legal agreements existing at the pension plan's fiscal year-end and to incorporate the effects of projected salary changes (if the pension formula incorporates compensation levels) and service credits (if the pension formula incorporates periods of service), as well as projected automatic postemployment benefit changes (including automatic COLAs). Projections also are required to include the effects of ad hoc postemployment benefit changes (including ad hoc COLAs), if they are considered to be substantively automatic.

Projected benefit payments are required to be discounted to their actuarial present value using the single rate that reflects (1) a long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to pay benefits and pension plan assets are expected to be invested using a strategy to achieve that return and (2) a tax-exempt, high-quality municipal bond rate to the extent that the conditions for use of the long-term expected rate of return are not met.

The actuarial present value of projected benefit payments is required to be attributed to periods of plan member service using the entry age actuarial cost method with each period's service cost determined as a level percentage of pay. The actuarial present value is required to be attributed for each plan member individually, from the period when the plan member first accrues pensions through the period when the plan member retires.

Defined Contribution Pension Plans

In the notes to financial statements, defined contribution pension plans should disclose the classes of plan members covered; the number of plan members, participating employers, and, if any, nonemployer contributing entities; and the authority under which the pension plan is established and may be amended.

Effective Date and Transition

This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by the pension plans that are within its scope. The new information will enhance the decision-usefulness of the financial reports of these pension plans, their value for assessing accountability, and their transparency by providing information about measures of net pension liabilities and explanations of how and why those liabilities changed from year to year. The net pension liability information, including ratios, will offer an up-to-date indication of the extent to which the total pension liability is covered by the fiduciary net position of the pension plan. The comparability of the reported information for similar types of pension plans will be improved by the changes related to the attribution method used to determine the total pension liability. The contribution schedule will provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. In that circumstance, it also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with actuarially determined contribution measures. In addition, new information about rates of return on pension plan investments will inform financial report users about the effects of market conditions on the pension plan's assets over time and provide information for users to assess the relative success of the pension plan's investment strategy and the relative contribution that investment earnings provide to the pension plan's ability to pay benefits to plan members when they come due.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 5 discusses the applicability of this Statement.

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June 2012

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INTRODUCTION

1. The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental **pension plans**[1] for making decisions and assessing accountability.

2. Statement No. 68, *Accounting and Financial Reporting for Pensions,* establishes standards for governmental employer recognition, measurement, and presentation of information about **pensions** provided through pension plans that are within the scope of this Statement. It also establishes requirements for reporting information about pension-related financial support provided by entities that make contributions to pension plans that are used to provide pensions to the employees of other entities. The two Statements are closely related in some areas, and certain provisions of this Statement refer to Statement 68.

[1]Terms defined in the Glossary are shown in **boldface type** the first time they appear in this Statement.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes financial reporting standards for state and local governmental pension plans—**defined benefit pension plans** and **defined contribution pension plans**—that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

a. Contributions from employers[2] and **nonemployer contributing entities** to the pension plan and earnings on those contributions are irrevocable.[3]
b. Pension plan assets are dedicated to providing pensions to **plan members** in accordance with the benefit terms.[4]
c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

4. This Statement focuses on provisions specific to pension plans. Pension plans should continue to follow all other accounting and financial reporting requirements applicable to the transactions and other events reported in their basic financial statements, including notes to those statements, and required supplementary information.

5. The provisions of this Statement apply to state and local governmental pension plans. The requirements apply whether (a) the pension plan's financial statements are included in a separate financial report issued by the pension

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[2]In some circumstances, contributions are made by the employer to satisfy plan member contribution requirements. If the contribution amounts are recognized by the employer as salary expense, those contributions should be classified as plan member contributions for purposes of this Statement. Otherwise, those contributions should be classified as employer contributions.

[3]For purposes of this Statement, refunds to an employer or nonemployer contributing entity of the nonvested portion of its contributions that are forfeited by plan members in a defined contribution pension plan are consistent with this criterion.

[4]For purposes of this Statement, the use of pension plan assets to pay pension plan administrative costs or to refund plan member contributions in accordance with benefit terms is consistent with this criterion.

plan or by the **public employee retirement system** that administers the pension plan **(stand-alone pension plan financial report)** or (b) the pension plan is included as a pension trust fund of another government.

6. As used in this Statement, the term *pensions* includes the following:

a. Retirement income
b. **Postemployment** benefits other than retirement income (such as death benefits, life insurance, and disability benefits) that are provided through a pension plan.

Pensions do not include **postemployment healthcare benefits** and **termination benefits.**[5] When postemployment benefits other than retirement income are provided separately from a pension plan, they are classified as **other postemployment benefits (OPEB),**[6] and the plans through which those benefits are provided should be accounted for and reported as OPEB plans. For financial reporting purposes, assets accumulated and managed for the payment of postemployment healthcare benefits should be accounted for and reported as part of an OPEB plan.

7. **Defined benefit pensions** are pensions for which the income or other benefits that the plan member will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. **Defined contribution pensions** are pensions having terms that:

a. Provide an individual account for each plan member
b. Define the contributions that an employer is required to make (or credits that it is required to provide) to an active plan member's account for periods in which that member renders service

[5]Termination benefits primarily are addressed in Statement No. 47, *Accounting for Termination Benefits,* as amended. However, the effects of a termination benefit on the defined benefit pension liabilities of an employer or governmental nonemployer contributing entity should be included in measures of those pension liabilities that are required by this Statement.

[6]Financial reporting for OPEB plans primarily is addressed in Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended.

c. Provide that the pensions a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members, as well as pension plan administrative costs, that are allocated to the plan member's account.

If the pensions to be provided are a function of factors other than those identified in (c), above, the pension plan through which the pensions are provided should be classified as a defined benefit pension plan. Otherwise, the pension plan should be classified as a defined contribution pension plan.

8. Defined benefit pension plans are classified according to (a) the number of employers whose employees are provided with pensions through the pension plan and (b) whether pension obligations and pension plan assets are shared. For purposes of this classification, a primary government and its component units are considered to be one employer. If a defined benefit pension plan is used to provide pensions to the employees of only one employer, the pension plan should be classified for financial reporting purposes as a **single-employer defined benefit pension plan (single-employer pension plan).** Single-employer pension plans should apply the measurement and recognition requirements of paragraphs 14–29 of this Statement, as well as the requirements for note disclosures and required supplementary information in paragraphs 30–32 and 34–46.

9. If a defined benefit pension plan is used to provide pensions to the employees of more than one employer, the pension plan is classified for financial reporting purposes as a **multiple-employer defined benefit pension plan.** If the assets of a multiple-employer defined benefit pension plan are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees, the pension plan should be classified as an **agent multiple-employer defined benefit pension plan (agent pension plan).** Agent pension plans should apply the measurement and recognition requirements of paragraphs 14–29 of this Statement, as well as the requirements for note disclosures and required supplementary information in paragraphs 30, 33, and 34. For agent pension plans, the provisions of this Statement apply at the aggregate plan level for each agent pension plan administered.

10. In a multiple-employer defined benefit pension plan, if the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan, the pension plan is considered to be a **cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan).** Cost-sharing pension plans should apply the measurement and recognition requirements of paragraphs 14–29 of this Statement, as well as the requirements for note disclosures and required supplementary information in paragraphs 30–32 and 34–46.

11. In many cases, a state or local government acts as the fiduciary entrusted with administering one or more pension plans. Some governments also administer other types of plans, including deferred compensation plans and OPEB plans. If the financial report of a public employee retirement system or other government includes more than one pension plan that is within the scope of this Statement, the provisions of this Statement should be applied separately to each such pension plan administered. Considerations relevant to the determination of the number of defined benefit pension plans administered are discussed in paragraph 13.

12. This Statement amends Statement No. 14, *The Financial Reporting Entity,* paragraph 81; Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* paragraph 8; Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* footnotes 7 and 12; Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* paragraph 4; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraphs 107–109, 129, and 140, and footnotes 43, 44, 63, and 64; Statement No. 44, *Economic Condition Reporting: The Statistical Section,* footnote 4; Statement No. 50, *Pension Disclosures,* paragraph 3; and Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements,* paragraph 5 and footnote 2.

Defined Benefit Pension Plans

Number of Pension Plans

13. If, on an ongoing basis, all assets accumulated in a defined benefit pension plan for the payment of benefits may legally be used to pay benefits (including refunds of plan member contributions) to *any* of the plan members, the total assets should be reported as assets of one defined benefit pension plan even if administrative policy requires that separate reserves, funds, or accounts for specific groups of plan members, employers, or types of benefits be maintained (for example, a reserve for plan member contributions, a reserve for disability benefits, or separate accounts for the contributions of state government versus local government employers) or separate actuarial valuations are performed for different classes of plan members (for example, general employees and public safety employees) or different groups of plan members because different contribution rates may apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors. A separate defined benefit pension plan should be reported for a portion of the total assets, even if the assets are pooled with other assets for investment purposes, if that portion of assets meets both of the following criteria:

a. The portion of assets is accumulated solely for the payment of benefits to certain classes or groups of plan members or to plan members who are the active or inactive employees of certain entities (for example, state government employees).
b. The portion of assets may not legally be used to pay benefits to other classes or groups of plan members or other entities' plan members (for example, local government employees).

Financial Statements

14. A defined benefit pension plan should present the following financial statements, prepared on the accrual basis of accounting:

a. A *statement of fiduciary net position,* which includes information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, as applicable, as of the end of the pension plan's reporting period

b. A *statement of changes in fiduciary net position,* which includes information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the pension plan's reporting period.

Statement of Fiduciary Net Position

Assets

15. Pension plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in pension plan operations) and (b) the principal components of the receivables and investments categories.

Receivables

16. Pension plan receivables generally are short term and consist of contributions due as of the end of the reporting period from employers, nonemployer contributing entities, and plan members, and interest and dividends on investments. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

17. Receivables for contributions that are payable to the pension plan more than one year after the end of the reporting period (for example, pursuant to installment contracts) should be recognized in full in the period the receivable arises. If a receivable is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results.

Investments

18. Purchases and sales of investments should be recorded on a trade-date basis. Unless otherwise provided for in this paragraph, pension plan investments—whether equity or debt securities, real estate, investment derivative instruments, or other investments—should be reported at their fair value at the end of the pension plan's reporting period. The fair value of an investment is the amount that the pension plan could reasonably expect to receive in a current sale between a willing buyer and a willing seller—that is, other than in

a forced or liquidation sale.[7] Fair value should be measured by the market price if there is an active market for the investment. If such prices are not available, fair value should be estimated. The fair value of open-end mutual funds, external investment pools, and interest-earning investment contracts should be determined as provided in Statement 31, paragraphs 7–11, as amended, and in Statement No. 59, *Financial Instruments Omnibus,* paragraph 5. Investments in life insurance should be reported at cash surrender value. **Unallocated insurance contracts** should be reported as interest-earning investment contracts according to the provisions of Statement 31, paragraph 8. Synthetic guaranteed investment contracts that are fully benefit responsive (as defined in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* paragraph 67) should be reported at contract value.

19. **Allocated insurance contracts** should be excluded from pension plan assets if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contracts have been made, and (c) the likelihood is remote that the employer or the pension plan will be required to make additional payments to satisfy the benefit payments covered by the contract.

Liabilities

20. Pension plan liabilities generally consist of benefits (including refunds of plan member contributions) due to plan members and accrued investment and administrative expenses. Pension plan liabilities for benefits should be recognized when the benefits are currently due and payable in accordance with the benefit terms. Benefits payable from allocated insurance contracts excluded from pension plan assets in conformity with paragraph 19 should be excluded from pension plan liabilities.

Fiduciary net position

21. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources at the end of the pension plan's reporting period should be reported as *net position restricted for pensions.*

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[7] The fair value of an investment should reflect brokerage commissions and other costs normally incurred in a sale, if determinable.

Statement of Changes in Fiduciary Net Position

Additions

22. The additions section of the statement of changes in fiduciary net position should include separate display of the following, if applicable:

a. Contributions from employers
b. Contributions from nonemployer contributing entities (for example, state government contributions to a local government pension plan)
c. Contributions from plan members, including those transmitted by the employers
d. Net investment income, including separate display of (1) investment income (see paragraphs 23–25) and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs (see paragraph 26).

Investment income

23. For purposes of this Statement, investment income includes (a) the net increase (decrease) in the fair value of pension plan investments and (b) interest income, dividend income, and other income not included in (a). Components (a) and (b) of investment income may be separately displayed or combined and reported as one amount.

24. The net increase (decrease) in the fair value of investments should include realized gains and losses on investments that were both bought and sold during the period. Realized and unrealized gains and losses should not be separately displayed in the financial statements. Realized gains and losses, computed as the difference between the proceeds of sale and the original cost of the investments sold, may be disclosed in notes to financial statements.[8] The disclosure also should state:

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[8]The disclosure of default losses and recoveries on reverse repurchase agreements and securities lending transactions, as provided by paragraph 80 of Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* and paragraph 15 of Statement 28, respectively, does not constitute a reporting of realized losses that under the provisions of this Statement would require reporting of all realized gains and losses for the year.

a. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of pension plan investments.
b. Realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

25. Consistent with reporting investments at fair value, interest income should be reported at the stated interest rate. Any premiums or discounts on debt securities should not be amortized.

Investment expense

26. Investment-related costs should be reported as investment expense if they are separable from (a) investment income and (b) the administrative expense of the pension plan.

Deductions

27. The deductions section of the statement of changes in fiduciary net position should separately display, at a minimum, (a) benefit payments to plan members (including refunds of plan member contributions) and (b) total administrative expense.

28. Amounts paid by the pension plan to an insurance company pursuant to an allocated insurance contract that is excluded from pension plan assets in conformity with paragraph 19, including purchases of annuities with amounts allocated from existing investments with the insurance company, should be included in amounts recognized as benefits paid. Dividends from an allocated insurance contract should be recognized as a reduction of benefit payments recognized in the period. Benefit payments should not include benefits paid by an insurance company in accordance with such a contract.

Net increase (decrease) in fiduciary net position

29. The difference between total additions and total deductions presented in the statement of changes in fiduciary net position should be reported as the *net increase* (or *decrease*) *in net position.*

Notes to Financial Statements[9]

30. The following should be disclosed in notes to financial statements, as applicable:

a. Plan description:
   (1) The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a single-employer, agent, or cost-sharing pension plan.
   (2) The number of participating employers (if the pension plan is a multiple-employer pension plan) and the number of nonemployer contributing entities, if any.
   (3) Information regarding the pension plan's board and its composition (for example, the number of trustees by source of selection or the types of constituency or credentials applicable to selection).
   (4) Classes of plan members covered and the number of plan members, separately identifying numbers of the following:
      (a) Inactive plan members (or their beneficiaries) currently receiving benefits
      (b) Inactive plan members entitled to but not yet receiving benefits
      (c) Active plan members.

      If the pension plan is closed to new entrants, that fact should be disclosed.
   (5) The authority under which benefit terms are established or may be amended and the types of benefits provided through the pension plan. If the pension plan or the entity that administers the pension plan has the authority to establish or amend benefit terms, a brief description should be provided of the benefit terms, including the key elements of the pension formulas and the terms or policies, if any, with respect to **automatic postemployment benefit changes,** including **automatic**

[9]The notes to financial statements of a defined benefit pension plan should include all disclosures required by paragraphs 30 and 31, as applicable, when the financial statements are presented (a) in a stand-alone pension plan financial report or (b) solely in the financial report of another government (as a pension trust fund). If (a) a defined benefit pension plan is included in the financial report of a government that applies the requirements of Statement 68 for benefits provided through the pension plan and (b) similar information is required by this Statement and Statement 68, the government should present the disclosures in a manner that avoids unnecessary duplication.

cost-of-living adjustments (automatic COLAs), and **ad hoc postemployment benefit changes,** including **ad hoc cost-of-living adjustments (ad hoc COLAs).**

(6) A brief description of contribution requirements, including (a) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, if any, and plan members are established or may be amended and (b) the contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. If the pension plan or the entity that administers the pension plan has the authority to establish or amend contribution requirements, disclose the basis for determining contributions (for example, statute, contract, an actuarial basis, or some other manner).

b. Pension plan investments:
   (1) Investment policies, including:
      (a) Procedures and authority for establishing and amending investment policy decisions
      (b) Policies pertaining to asset allocation
      (c) Description of significant investment policy changes during the reporting period.
   (2) A brief description of how the fair value of investments is determined, including the methods and significant assumptions used to estimate the fair value of investments if that fair value is based on other than quoted market prices.
   (3) Identification of investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the pension plan's fiduciary net position.
   (4) The annual **money-weighted rate of return** on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, and an explanation that a money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Pension plan investment expense should be measured on the accrual basis of accounting. Inputs to the internal rate of return calculation should be determined at least monthly. The use of more frequently determined inputs is encouraged.

c. Receivables—The terms of any long-term contracts for contributions to the pension plan between (1) an employer or nonemployer contributing entity and (2) the pension plan, and the balances outstanding on any such long-term contracts at the end of the pension plan's reporting period.

d. Allocated insurance contracts excluded from pension plan assets:
   (1) The amount reported in benefit payments in the current period that is attributable to the purchase of allocated insurance contracts
   (2) A brief description of the pensions for which allocated insurance contracts were purchased in the current period
   (3) The fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred to one or more insurance companies.
e. Reserves—In circumstances in which there is a policy of setting aside, for purposes such as benefit increases or reduced employer contributions, a portion of the pension plan's fiduciary net position that otherwise would be available for existing pensions or for pension plan administration:
   (1) A description of the policy related to such reserves
   (2) The authority under which the policy was established and may be amended
   (3) The purposes for and conditions under which the reserves are required or permitted to be used
   (4) The balances of the reserves.
f. **Deferred retirement option program (DROP)** balances—If a pension plan includes terms that permit a plan member to be credited for benefit payments into an individual member account within the pension plan while continuing to provide services to the employer and to be paid a salary:
   (1) A description of the DROP terms
   (2) The balance of the amounts held by the pension plan pursuant to the DROP.

Disclosures Specific to Single-Employer and Cost-Sharing Pension Plans

31. In addition to the information required by paragraph 30, the information identified in subparagraphs (a)–(c), below, should be disclosed in notes to financial statements. All information should be measured as of the pension

plan's most recent fiscal year-end. Information about cost-sharing pension plans should be presented for the pension plan as a whole.

a. The components of the liability of the employers and nonemployer contributing entities to plan members for benefits provided through the pension plan **(net pension liability),**[10] calculated in conformity with the requirements of paragraphs 35–46:
   (1) The **total pension liability**
   (2) The pension plan's fiduciary net position
   (3) The net pension liability
   (4) The pension plan's fiduciary net position as a percentage of the total pension liability.
b. Significant assumptions and other inputs used to measure the total pension liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs). With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumption is based or that the assumptions are based on a study of the experience of the covered group) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. If different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement.
   (1) The following information should be disclosed about the **discount rate:**
      (a) The discount rate applied in the measurement of the total pension liability and the change in the discount rate since the pension plan's prior fiscal year-end, if any
      (b) Assumptions made about projected cash flows into and out of the pension plan, such as contributions from employers, nonemployer contributing entities, and plan members
      (c) The long-term expected rate of return on pension plan investments and a description of how it was determined, including significant methods and assumptions used for that purpose
      (d) If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate

[10]In this Statement, unless otherwise indicated, references to a net pension liability also apply to the situation in which the pension plan's fiduciary net position exceeds the total pension liability (see paragraph 36), resulting in a net pension asset. In Statement 68, the net pension liability for benefits provided through (a) a cost-sharing pension plan or (b) a single-employer or agent pension plan in certain circumstances in which a nonemployer entity has a legal requirement to contribute to the plan is referred to as the collective net pension liability.

(e) The periods of **projected benefit payments** to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate
(f) The assumed asset allocation of the pension plan's portfolio, the long-term expected **real rate of return** for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed
(g) Measures of the net pension liability calculated using (i) a discount rate that is 1-percentage-point higher than that required by paragraph 40 and (ii) a discount rate that is 1-percentage-point lower than that required by paragraph 40.

c. The date of the **actuarial valuation** on which the total pension liability is based and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the pension plan's fiscal year-end.

Required Supplementary Information[11]

Single-Employer and Cost-Sharing Pension Plans

32. Schedules of required supplementary information that include the information indicated in subparagraphs (a)–(d), below, should be presented. The information in subparagraphs (a) and (b) may be presented in a single schedule. Information for each year should be measured as of the pension plan's most recent fiscal year-end. Information about cost-sharing pension plans should be presented for the pension plan as a whole.

a. A 10-year schedule of changes in the net pension liability, presenting for each year (1) the beginning and ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability, calculated in conformity with paragraphs 35–46, and (2) the effects on those items during the year of the following, as applicable:
   (1) **Service cost**

[11]Required supplementary information presented by a defined benefit pension plan should include all information required by paragraphs 32–34, as applicable, when the financial statements are presented (a) in a stand-alone pension plan financial report or (b) solely in the financial report of another government (as a pension trust fund). If (a) a defined benefit pension plan is included in the financial report of a government that applies the requirements of Statement 68 for benefits provided through the pension plan and (b) similar information is required by this Statement and Statement 68, the government should present the information in a manner that avoids unnecessary duplication.

(2) Interest on the total pension liability
(3) Changes of benefit terms
(4) Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability
(5) Changes of assumptions about future economic or demographic factors or of other inputs
(6) Contributions from employers
(7) Contributions from nonemployer contributing entities
(8) Contributions from plan members
(9) Pension plan net investment income
(10) Benefit payments, including refunds of plan member contributions
(11) Pension plan administrative expense
(12) Other changes, separately identified if individually significant.

b. A 10-year schedule presenting the following for each year:
(1) The total pension liability
(2) The pension plan's fiduciary net position
(3) The net pension liability
(4) The pension plan's fiduciary net position as a percentage of the total pension liability
(5) The **covered-employee payroll**
(6) The net pension liability as a percentage of covered-employee payroll.

c. A 10-year schedule presenting for each year the information indicated in subparagraphs (1)–(6), below, if an **actuarially determined contribution** is calculated for employers or nonemployer contributing entities. The schedule should identify whether the information relates to the employers, nonemployer contributing entities, or both.
(1) The actuarially determined contributions of employers or nonemployer contributing entities. For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan.[12]
(2) For cost-sharing pension plans, the contractually required contribution of employers or nonemployer contributing entities, if different from (1). For purposes of this schedule, contractually required contributions should

[12]Examples of separately financed liabilities to the pension plan include long-term receivables recognized for contractually deferred contributions with separate payment schedules, and cash receipts or long-term receivables for amounts assessed to an individual employer upon joining a multiple-employer pension plan or for increases in the total pension liability for changes of benefit terms specific to an employer in a multiple-employer pension plan.

exclude amounts, if any, to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan.

(3) The amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution in (1). For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position resulting from cash contributions and from contributions recognized by the pension plan as current receivables.

(4) The difference between the actuarially determined contribution in (1) and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution in (3).

(5) The covered-employee payroll.

(6) The amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution in (3) as a percentage of covered-employee payroll in (5).

d. A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on pension plan investments calculated as required by paragraph 30b(4).

Agent Pension Plans

33. A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on pension plan investments calculated as required by paragraph 30b(4) should be presented in required supplementary information.

Notes to the Required Schedules

34. Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the schedule required by paragraph 32c. In addition, for each of the schedules required by paragraphs 32 or 33, information should be presented about factors that significantly affect trends in the amounts reported (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions). (The amounts presented for prior years should not be restated for the effects of changes—for example, changes of benefit terms or changes of assumptions—that occurred subsequent to the end of the fiscal year for which the information is reported.)

Measurement of the Net Pension Liability[13]

35. The net pension liability should be measured as the total pension liability (determined in conformity with paragraphs 36–46), net of the pension plan's fiduciary net position. The net pension liability should be measured as of the pension plan's most recent fiscal year-end.

Total Pension Liability

36. The total pension liability is the portion of the **actuarial present value of projected benefit payments** that is attributed to past periods of plan member service in conformity with the requirements of paragraphs 37–46.

Timing and frequency of actuarial valuations

37. The total pension liability should be determined by (a) an actuarial valuation as of the pension plan's most recent fiscal year-end or (b) the use of update procedures to roll forward to the pension plan's most recent fiscal year-end amounts from an actuarial valuation as of a date no more than 24 months earlier than the pension plan's most recent fiscal year-end. If update procedures are used and significant changes occur between the **actuarial valuation date** and the pension plan's fiscal year-end, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from the actuarial valuation to the pension plan's fiscal year-end, and consideration should be given to whether a new actuarial valuation is needed. For purposes of this determination, the effects of changes in the discount rate resulting from changes in the pension plan's fiduciary net position or from changes in the municipal bond rate, if applicable (see paragraphs 40–45), should be among the factors evaluated. For financial reporting purposes, an actuarial valuation of the total pension liability should be performed at least biennially. More frequent actuarial valuations are encouraged.

Selection of assumptions

38. Unless otherwise specified by this Statement, the selection of all assumptions used in determining the total pension liability should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

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[13]Statement 68 includes similar requirements for measuring the total pension liability.

The pension plan, employers, and, if any, governmental nonemployer contributing entities that make contributions to the pension plan should use the same assumptions when measuring similar or related pension information.

Projection of benefit payments

39. Projected benefit payments should include all benefits to be provided to current active and inactive plan members through the pension plan in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the pension plan's fiscal year-end. Projected benefit payments should include the effects of automatic postemployment benefit changes, including automatic COLAs. In addition, projected benefit payments should include the effects of (a) projected ad hoc postemployment benefit changes, including ad hoc COLAs, to the extent that they are considered to be substantively automatic;[14] (b) projected salary changes (in circumstances in which the pension formula incorporates future compensation levels); and (c) projected service credits (both in determining a plan member's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the pension formula incorporates years of service). Benefit payments to be provided by means of an allocated insurance contract excluded from pension plan assets in conformity with paragraph 19 should be excluded from projected benefit payments.

Discount rate

40. The discount rate should be the single rate that reflects the following:

a. The long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits, to the extent that (1) the pension plan's fiduciary net position is projected (in conformity with paragraphs 41–43) to be sufficient to make projected benefit payments (determined in conformity with paragraph 39) and (2) pension plan assets are expected to be invested using a strategy to achieve that return

[14]Considerations that might be relevant to determining whether such changes are substantively automatic include the historical pattern of granting the changes, the consistency in the amounts of the changes or in the amounts of the changes relative to a defined cost-of-living or inflation index, and whether there is evidence to conclude that changes might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such changes are substantively automatic.

b. A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent that the conditions in (a) are not met.

Comparing projections of the pension plan's fiduciary net position to projected benefit payments

41. For purposes of applying paragraph 40, the amount of the pension plan's projected fiduciary net position and the amount of projected benefit payments should be compared in each period of projected benefit payments. Projections of the pension plan's fiduciary net position should incorporate all cash flows for contributions from employers and nonemployer contributing entities, if any, intended to finance benefits of current active and inactive plan members (status at the pension plan's fiscal year-end) and all cash flows for contributions from current active plan members. It should not include (a) cash flows for contributions from employers or nonemployer contributing entities intended to finance the service costs of future plan members or (b) cash flows for contributions from future plan members, unless those contributions are projected to exceed service costs for those plan members. In each period, contributions from employers and nonemployer contributing entities should be considered to apply, first, to service costs of plan members in the period and, second, to past service costs, unless the effective pension plan terms related to contributions indicate that a different relationship between contributions to the pension plan from nonemployer contributing entities and service costs should be applied. Member contributions should be considered to be applied to service costs before contributions from employers and nonemployer contributing entities.

42. Professional judgment should be applied to project cash flows for contributions from employers and nonemployer contributing entities in circumstances in which (a) those contribution amounts are established by statute or contract or (b) a formal, written policy related to those contributions exists. Application of professional judgment should consider the most recent five-year contribution history of the employers and nonemployer contributing entities as a key indicator of future contributions from those sources and should reflect all other known events and conditions. In circumstances other than those described in (a) and (b), the amount of projected cash flows for contributions from employers and nonemployer contributing entities should be limited to an average of contributions from those sources over the most recent five-year period and may

be modified based on consideration of subsequent events. For this purpose, the basis for the average (for example, percentage of covered payroll contributed or percentage of actuarially determined contributions made) should be a matter of professional judgment.

43. If the evaluations required by paragraph 41 can be made with sufficient reliability without a separate projection of cash flows into and out of the pension plan, alternative methods may be applied in making the evaluations.

Calculating the discount rate

44. For each future period, if the amount of the pension plan's fiduciary net position is projected to be greater than or equal to the benefit payments that are projected to be made in that period and pension plan assets up to that point are expected to be invested using a strategy to achieve the long-term expected rate of return, the actuarial present value of benefit payments projected to be made in the period should be determined using the long-term expected rate of return on those investments. The long-term expected rate of return should be based on the nature and mix of current and expected pension plan investments over a period representative of the expected length of time between (a) the point at which a plan member begins to provide service to the employer and (b) the point at which all benefits to the plan member have been paid. For this purpose, the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The municipal bond rate discussed in paragraph 40 should be used to calculate the actuarial present value of all other benefit payments.

45. For purposes of this Statement, the discount rate is the single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values determined in conformity with paragraph 44.

Attribution of the actuarial present value of projected benefit payments to periods

46. The **entry age actuarial cost method** should be used to attribute the actuarial present value of projected benefit payments of each plan member to periods in conformity with the following:

a. Attribution should be made on an individual plan-member-by-plan-member basis.
b. Each plan member's service costs should be level as a percentage of that member's projected pay. For purposes of this calculation, if a member does not have projected pay, the projected inflation rate should be used in place of the projected rate of change in salary.
c. The beginning of the attribution period should be the first period in which the member's service accrues pensions under the benefit terms, notwithstanding vesting or other similar terms.
d. The service costs of all pensions should be attributed through all assumed exit ages, through retirement. In pension plans in which the benefit terms include a DROP, for purposes of this Statement, the date of entry into the DROP should be considered to be the plan member's retirement date.
e. Each plan member's service costs should be determined based on the same benefit terms reflected in that member's actuarial present value of projected benefit payments.

Defined Contribution Pension Plans

47. The following information should be disclosed in notes to financial statements:[15]

a. Identification of the pension plan as a defined contribution pension plan

[15]The notes to financial statements of a defined contribution pension plan should include all disclosures required by paragraph 47, as applicable, when the financial statements are presented (a) in a stand-alone pension plan financial report or (b) solely in the financial report of another government (as a pension trust fund). If (a) a defined contribution pension plan is included in the financial report of a government that applies the requirements of Statement 68 for benefits provided through the pension plan and (b) similar information is required by this Statement and Statement 68, the government should present the information in a manner that avoids unnecessary duplication.

b. Classes of plan members covered (for example, general employees or public safety employees), the number of plan members, participating employers (if the pension plan is a multiple-employer pension plan), and, if any, nonemployer contributing entities
c. The authority under which the pension plan is established or may be amended.

EFFECTIVE DATE AND TRANSITION

48. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. Earlier application is encouraged.

49. In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

50. In the fiscal year in which this Statement is first implemented (transition year), the 10-year schedule of information about contributions required by paragraph 32c should be presented, if applicable. Pension plans are encouraged, but not required, to present all years of other required supplementary information retroactively. If retroactive information is not presented for the full 10 years, required supplementary information should be presented for as many years for which information measured in conformity with the requirements of this Statement is available in the transition year and until 10 years of such information is available. The schedules should not include information that is not measured in conformity with the requirements of this Statement.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board.

Robert H. Attmore, *Chairman*
William W. Fish
Michael H. Granof
David E. Sundstrom
Jan I. Sylvis
Marcia L. Taylor
James M. Williams

GLOSSARY

51. This paragraph contains definitions of certain terms *as they are used in this Statement;* the terms may have different meanings in other contexts.

Actuarial present value of projected benefit payments
Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

Actuarial valuation
The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial valuation date
The date as of which an actuarial valuation is performed.

Actuarially determined contribution
A target or recommended contribution to a defined benefit pension plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.

Ad hoc cost-of-living adjustments (ad hoc COLAs)
Cost-of-living adjustments that require a decision to grant by the authority responsible for making such decisions.

Ad hoc postemployment benefit changes
Postemployment benefit changes that require a decision to grant by the authority responsible for making such decisions.

Agent multiple-employer defined benefit pension plan (agent pension plan)
A multiple-employer defined benefit pension plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Allocated insurance contracts

Contracts with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual plan members. Also may be referred to as annuity contracts.

Automatic cost-of-living adjustments (automatic COLAs)

Cost-of-living adjustments that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

Automatic postemployment benefit changes

Postemployment benefit changes that occur without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the pension plan) or to another variable (such as an increase in the consumer price index).

Cost-of-living adjustments

Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan)

A multiple-employer defined benefit pension plan in which the pension obligations to the employees of more than one employer are pooled and pension plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

Covered-employee payroll

The payroll of employees that are provided with pensions through the pension plan.

Deferred retirement option program (DROP)

A program that permits a plan member to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The plan member continues to provide service to the employer and is paid for that service by the employer after the DROP entry date; however, the pensions that would have been paid to the plan member (if the plan member had retired and not entered the DROP) are credited to an individual member account within the defined benefit pension plan until the end of the DROP period.

Defined benefit pension plans

Pension plans that are used to provide defined benefit pensions.

Defined benefit pensions

Pensions for which the income or other benefits that the plan member will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. (A pension that does not meet the criteria of a defined contribution pension is classified as a defined benefit pension for purposes of this Statement.)

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (a) provide an individual account for each plan member; (b) define the contributions that an employer is required to make (or the credits it is required to provide) to an active plan member's account for periods in which that member renders service; and (c) provide that the pensions a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members, as well as pension plan administrative costs, that are allocated to the plan member's account.

Discount rate

The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following:

1. The actuarial present value of benefit payments projected to be made in future periods in which (a) the amount of the pension plan's fiduciary net position is projected (under the requirements of this Statement) to be greater than the benefit payments that are projected to be made in that period and (b) pension plan assets up to that point are expected to be

invested using a strategy to achieve the long-term expected rate of return, calculated using the long-term expected rate of return on pension plan investments.

2. The actuarial present value of projected benefit payments not included in (1), calculated using the municipal bond rate.

Entry age actuarial cost method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost.*[16] The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *actuarial accrued liability.*[17] [This definition is from "Definitions from ASOPs [Actuarial Standards of Practice] and ACGs [Actuarial Compliance Guidelines] of the ASB [Actuarial Standards Board] (including those from current exposure drafts) February 2011." Actuarial Standards Board, http://www.actuarialstandardsboard.org/pdf/definitions.pdf. Accessed on June 25, 2012. Footnotes not part of original definition.]

Money-weighted rate of return

A method of calculating period-by-period returns on pension plan investments that adjusts for the the changing amounts actually invested. For purposes of this Statement, money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense.

Multiple-employer defined benefit pension plan

A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.

Net pension liability

The liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit pension plan.

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[16]For purposes of application to the requirements of this Statement, the term *normal cost* is the equivalent of *service cost*.

[17]For purposes of application to the requirements of this Statement, the term *actuarial accrued liability* is the equivalent of *total pension liability*.

Nonemployer contributing entities

Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of this Statement, plan members are not considered nonemployer contributing entities.

Other postemployment benefits (OPEB)

All postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are provided separately from a pension plan, as well as postemployment healthcare benefits, regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits.[18]

Pension plans

Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

Pensions

Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.[19]

Plan members

Individuals that are covered under the terms of a pension plan. Plan members generally include (a) employees in active service (active plan members) and (b) terminated employees who have accumulated benefits but are not yet receiving them and retirees or their beneficiaries currently receiving benefits (inactive plan members).

Postemployment

The period after employment.

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[18]The effects of a termination benefit on an employer's defined benefit obligations for OPEB should be accounted for and reported in conformity with the requirements for defined benefit OPEB.

[19]The effects of a termination benefit on an employer's or governmental nonemployer contributing entity's defined benefit obligations for pensions should be accounted for and reported in conformity with the requirements for defined benefit pensions.

Postemployment benefit changes
Adjustments to the pension of an inactive plan member.

Postemployment healthcare benefits
Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

Projected benefit payments
All benefits estimated to be payable through the pension plan to current active and inactive plan members as a result of their past service and their expected future service.

Public employee retirement system
A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.

Real rate of return
The rate of return on an investment after adjustment to eliminate inflation.

Service cost
The portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.

Single-employer defined benefit pension plan (single-employer pension plan)
A defined benefit pension plan that is used to provide pensions to employees of only one employer.

Stand-alone pension plan financial report
A report that contains the financial statements of a pension plan and is issued by the pension plan or by the public employee retirement system that administers the plan. The term *stand-alone* is used to distinguish such a financial report from pension plan financial statements that are included as a pension trust fund of another government.

Termination benefits
Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early retirement incentives, severance benefits, and other termination-related benefits.

Total pension liability

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of this Statement.

Unallocated insurance contracts

Contracts with an insurance company under which payments to the insurance company are accumulated in an unallocated pool or pooled account (not allocated to specific plan members) to be used either directly or through the purchase of annuities to meet benefit payments when plan members retire. Monies held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.

Appendix A

BACKGROUND

52. This Statement was preceded by Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* which was issued in November 1994 and was effective for financial reporting periods beginning after June 15, 1996. A companion Statement—Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*—which established accounting and financial reporting requirements for employers also was issued at that time.

53. Since its issuance, various provisions of Statement 25 have been updated or amended, and the GASB considered financial reporting issues similar to those for defined benefit pension plans during the development of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans,* which was issued in April 2004. In addition, significant work has been completed on the GASB's conceptual framework. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* was issued in April 2005, and Concepts Statement No. 4, *Elements of Financial Statements,* was issued in June 2007. Concepts Statement 3 established criteria for selecting the appropriate method of communication for items of reportable financial information—recognition in basic financial statements, disclosure in notes to basic financial statements, or presentation as required supplementary information or supplementary information. Concepts Statement 4 established definitions and characteristics of elements of financial statements, such as assets and liabilities.

54. Consistent with the GASB's commitment to periodically reexamine its standards, in January 2006, the Board approved a research project to gather information regarding how effective Statements 25 and 27 had been in meeting financial reporting objectives and to determine whether improvements were needed. The GASB staff prepared a research report describing the research efforts and related findings and presented it to the Board in April 2008.

55. In light of the issues identified in the research project and the conceptual developments that had taken place since the issuance of Statements 25 and 27, the postemployment benefit accounting and financial reporting project was added to the GASB's current technical agenda in April 2008.

56. The Board assembled a task force comprising persons broadly representative of the GASB's constituency. The task force members reviewed and commented on papers prepared for the Board's deliberations and on drafts of documents prepared for public comment throughout the project, as well as drafts of this Statement. In addition, further input also was sought from the members of the Governmental Accounting Standards Advisory Council (GASAC) at its meetings.

57. The project's initial document for public comment—an Invitation to Comment, *Pension Accounting and Financial Reporting*—was issued in March 2009. The Invitation to Comment solicited constituent views on issues and questions related to fundamental topics associated with employer accounting and financial reporting for pensions, as well as issues and questions specific to financial reporting by pension plans. The Board received 117 written responses to the Invitation to Comment from organizations and individuals. In addition, the Board received oral testimony from, and had the opportunity to further explore the views of, 17 individuals or groups at 2 public hearings.

58. In June 2010, the Board issued a Preliminary Views, *Pension Accounting and Financial Reporting by Employers,* which presented the Board's tentative conclusions on issues related to employer accounting and financial reporting. During the comment period on the Preliminary Views, the Board began its initial deliberations of issues related to financial reporting by pension plans. Deliberation of issues related to pension plans included consideration of the views and suggestions expressed by respondents to the Invitation to Comment, as well as comments received from members of the project task force and members of the GASAC throughout the project.

59. In June 2011, the Board approved for issuance an Exposure Draft of a proposed Statement, *Financial Reporting for Pension Plans,* which presented the Board's tentative conclusions on pension plan financial reporting. The Board received 58 written responses to the Exposure Draft from organizations and individuals. In addition, the Board received oral responses from, and had the opportunity to further explore the views of, 52 individuals or groups at 3 public hearings and 3 user forums held to obtain feedback on that Exposure Draft and on the related Exposure Draft, *Accounting and Financial Reporting for Pensions.*

60. In addition, during the comment period for the Exposure Drafts, 18 governments, including pension plans, completed a field test of the proposed requirements. The objective of the field test was to obtain feedback about the

cost and effort associated with implementation of the proposals in those documents. Respondents to the field test provided information about anticipated one-time and ongoing preparation time and costs associated with the proposals in the Exposure Drafts, identified areas in which clarification of the proposals might be considered, described the methodologies employed to produce certain information that would have been required by the Exposure Drafts, and prepared pro forma note disclosures and required supplementary information to assist the Board in making decisions about the requirements in this Statement and those in Statement No. 68, *Accounting and Financial Reporting for Pensions.* Issues raised by participants in the field test are reflected in the discussion of respondent comments about individual issues in Appendix B.

61. Feedback from all of these sources contributed to the Board's deliberations in finalizing the requirements of this Statement.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

62. This appendix summarizes factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

63. As described in Appendix A, the reexamination project that has led to the issuance of this Statement included consideration of issues related to financial reporting by pension plans, as well as those related to accounting and financial reporting by employers whose employees are provided with pensions through those plans and by governmental nonemployer entities that are responsible for contributions to pension plans. Because of the relationships among pension plans, employers, and nonemployer contributing entities, the Board has given joint consideration to this Statement and Statement 68. The Board believes that consistency in the measurement and disclosure of pension information reported by all governments associated with pension transactions will enhance the understandability and usefulness of pension information to users of governmental financial reports. Therefore, many of the measurement and disclosure requirements of the two Statements are the same or closely related.

Overview

64. The requirements of this Statement generally reflect an overall decision of the Board to carry forward without detailed reexamination the basic accounting and financial reporting model for fiduciary activities from Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* As applied in this Statement, that model focuses on the recognition and disclosure of information essential to assessing the accountability of those that have a fiduciary responsibility for holding and managing pension plan resources. The decision to continue to apply the fiduciary model is discussed in more detail in paragraphs 72–74.

65. Within the context of that fiduciary model, the Board evaluated the primary recognition issue for pension plans—the recognition of liabilities to plan members for pensions—and concluded that, in its fiduciary role, the event that creates a present obligation of the pension plan for a portion of the pension obligation created by the exchange of benefits for service between an employer and an employee is the attainment of the due date for payment. Therefore, this Statement carries forward the requirement from Statement 25 that defined benefit pension plans recognize a liability to plan members for pensions in the amount of benefits due and payable, limited by the availability of the pension plan's fiduciary net position. Considerations related to this requirement are discussed in more detail in paragraphs 77–81.

66. In addition, because accountability within the context of the fiduciary role of a pension plan includes the effective use of assets to generate additional resources, this Statement establishes recognition and disclosure requirements related to assets held and managed by the pension plan, with detailed requirements related to investment policies and performance. Factors considered with regard to investment-related requirements of this Statement are discussed in more detail in paragraphs 83–86 and 91–97. In addition, the Board concluded that information about the total pension liability—for which the assets of pension plans are restricted—is essential to understanding the fiduciary activities of the pension plan. Therefore, this Statement requires defined benefit pension plans to present summary information about the pension liability of employers and nonemployer contributing entities to plan members for benefits provided through the pension plan (net pension liability) in notes to financial statements. The Board's view regarding presentation of this information is discussed in more detail in paragraphs 99–103. This Statement also requires defined benefit pension plans to present schedules of required supplementary information, including those that present details of sources of changes in the net pension liability and, in certain circumstances, information about employer and nonemployer contributing entity contributions to such pension plans. These requirements result from the Board's conclusion that such information is essential to providing context for the fiduciary activities of the pension plan. Considerations related to these requirements are discussed in more detail in paragraphs 104–107.

Scope and Applicability

67. This Statement establishes financial reporting requirements for defined benefit pension plans and defined contribution pension plans that are administered through trusts that meet the criteria set forth in paragraph 3. Those criteria were developed based on similar criteria established in Statement 43 with regard to trusts through which defined benefit other postemployment benefit plans are administered. The criteria adopted in this Statement and in Statement 68 reflect the Board's conclusion that it would be misleading to report as contributions, and to include in measures of pension plan assets, resources over which an employer retains discretionary control and that potentially could be redirected to other purposes. It would be similarly misleading to report resources that are subject to claims on the parties associated with the benefits as assets. Until additional guidance is issued related to pension plans that are not within the scope of this Statement, those pension plans should continue to apply the requirements of all Statements effective prior to issuance of this Statement, including Statement 25, as amended, and Statement No. 50, *Pension Disclosures.*

68. Consistent with the approach of Statement 25, this Statement classifies defined benefit pension plans as single employer, agent, or cost sharing. The Board believes that the needs of users of the financial statements of all three types of pension plans generally are similar. Therefore, the requirements of this Statement related to all three types of defined benefit pension plans also generally are similar. An exception was made for the presentation of aggregated information about the pension liabilities of agent employers in notes to financial statements and required supplementary information of agent pension plans. This exception is discussed in more detail in paragraphs 102–106.

69. Also similar to Statement 25, this Statement provides guidance applicable to pension plans administered by public employee retirement systems. However, it does not include specific guidance related to financial reporting by public employee retirement systems or other governments that administer one or more pension plans. General requirements for those governments were established in Statement 34, paragraph 140. The scope of the project leading to the issuance of this Statement did not include reexamination of the requirements of Statement 34. Therefore, the Board did not address those requirements, and the provisions of that Statement and other applicable standards remain effective for such governments.

70. This Statement also establishes disclosure requirements for defined contribution pension plans. Because the scope of this Statement is limited to pensions, note disclosures for defined contribution OPEB plans are not addressed in this Statement, and the requirements of Statement 25 remain in effect for those plans.

Definition of Pension Plan

71. This Statement establishes a definition for financial reporting purposes of the term *pension plan.* Prior to this Statement, no formal definition had existed for that purpose, and the term has been used in different ways in different contexts. For example, the general arrangement for pensions between an employer and its employees has been referred to as a pension plan. In other contexts, the term *pension plan* has referred to the trust or other fund through which pensions are provided. The definition established for use in this Statement and the related Statement clarifies that the term describes the arrangement through which pensions are determined, assets for pensions are accumulated and managed, and benefits are paid as they become due to plan members.

Defined Benefit Pension Plans

Financial Reporting Objectives

72. The Board believes that the users of pension plan financial statements primarily include (a) the plan members and their representatives; (b) legislative and executive officials of the pension plan sponsor, participating employers, nonemployer contributing entities, and agencies with pension plan oversight responsibilities; (c) the pension plan's board of trustees or other governing body; (d) municipal analysts; and (e) citizens.

73. As noted earlier, in the project leading to this Statement, the Board decided to address issues related to pension plan financial reporting within the existing fiduciary reporting framework rather than to undertake a reexamination of the general model for reporting fiduciary activities. Therefore, this Statement reflects a continuation of a financial reporting approach that is intended to provide the primary users of pension plan financial statements with information that is useful in assessing (a) the stewardship of pension plan resources and the

ongoing ability of the pension plan to pay benefits when due, (b) the results of the pension plan's fiduciary operations, and (c) compliance with finance-related statutory, regulatory, and contractual requirements.

74. To accomplish these objectives, the Board concluded that the financial report of a defined benefit pension plan should provide information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position of the pension plan, as applicable, as well as period-to-period changes in the pension plan's fiduciary net position and disclosures about the pension plan's activities that are essential to understanding how the fiduciary responsibilities of the trustees and administrators have been discharged. In addition, the Board has concluded that financial reports of defined benefit pension plans should contain information about trends that allow the user to place information in the financial statements in appropriate historical and economic context. Such information includes the following:

a. Information about the net pension liability
b. The sources of changes in the components of the net pension liability
c. The contribution requirements of plan members, employers, and nonemployer contributing entities; the extent of compliance with those requirements; and trends associated with contribution requirements
d. The performance of pension plan investments.

General Approach to Developing Financial Reporting Standards for Defined Benefit Pension Plans

75. The requirements of this Statement were developed as a result of reexamining the guidance provided in Statement 25, which generally was intended to present a comprehensive reporting model for defined benefit pension plans. This Statement excludes requirements that are general and for which guidance is provided in other literature because the Board considered it impractical for this Statement to present a comprehensive reporting model specific to defined benefit pension plans within its scope. A comprehensive approach would require repeating requirements that are included in other pronouncements and would add complexity to the ongoing maintenance of standards for defined benefit pension plans because subsequent revisions to all general pronouncements applicable to pension plans would require revisions to this Statement. Therefore, this Statement includes only (a) requirements specific to defined benefit pension plans (for example, requirements related to the display of information in the pension plan's statement of fiduciary net position and state-

ment of changes in fiduciary net position, note disclosures about the net pension liability and pension plan investment returns, and requirements regarding transactions subsequently addressed more broadly in Statements that exclude pension plans from their scopes) and (b) requirements that are not specific to defined benefit pension plans but that establish guidance that is used as a basis for guidance in other literature (for example, the requirement to use the trade-date basis for purchases and sales of investments). This approach resulted in the omission from this Statement of some requirements that are included in Statement 25—for example, requirements related to accounting for assets used in pension plan operations, which are addressed in general requirements related to accounting for and reporting capital assets, and certain note disclosure requirements that were repetitive of similar requirements in other pronouncements. Those requirements in other pronouncements remain in effect for pension plans that are within the scope of this Statement.

76. Certain requirements specific to defined benefit pension plans that have been carried forward from Statement 25 are similar to requirements in other Statements that were issued subsequent to Statement 25 but that exclude pension plans from their scope. For those requirements, this Statement generally updates the language of Statement 25 to conform to subsequently issued pronouncements. For example, this approach was applied to the disclosure of realized gains and losses.

Statement of Fiduciary Net Position

Benefit Liability Recognition

77. For defined benefit pension plans within its scope, this Statement carries forward the requirement of Statement 25 to recognize a liability to plan members to the extent that benefits are currently due and payable, limited by the availability of its fiduciary net position. With regard to the benefit liability that should be reported by the pension plan, the Board considered three alternatives:

a. The pension plan should recognize a liability to employees for the total benefit liability, and consequently, the pension plan's statement of net position would report assets, deferred outflows of resources, liabilities (including the total pension liability), deferred inflows of resources, and the residual net position (underfunded position) of the pension plan.

b. The pension plan should recognize a liability to employees for benefits to the extent that the plan currently is able to service benefit payments (that is, for the portion of the total pension liability for which the components of the pension plan's fiduciary net position have been accumulated), and consequently, benefit liability recognition by the pension plan would complement recognition by employers and nonemployer contributing entities of their net pension liabilities. The sum of the benefit liabilities displayed on the face of the financial statements of the pension plan, the employers, and the nonemployer contributing entities would equal the total pension liability.
c. The pension plan should recognize a liability to employees for benefits to the extent that benefits are currently due and payable, and consequently, the pension plan's statement of net position would report the pension plan's fiduciary net position restricted for pensions.

78. In evaluating these alternatives, the Board considered comments from respondents to the Invitation to Comment regarding a question in that document that presented alternatives similar to those identified in paragraph 77—that is, whether a pension plan should report as its liability (a) a liability for benefits currently due and payable or (b) an accrued benefit obligation. The Invitation to Comment, however, did not define the manner in which an accrued benefit obligation would be measured, and several potential variations of this measurement were reflected in respondent comments. Despite these variations, respondents that advocated for pension plan recognition of a pension liability only for benefits currently due and payable generally believe that this measure better meets the definition of a liability in Concepts Statement 4, that it provides better information for assessing the stewardship of the trustees and administrator of the pension plan, and that the accrued benefit obligation, however measured, is a liability of employers and nonemployer contributing entities, not the pension plan. Respondents that believe that a pension plan's liability for benefits should be a measure of the accrued benefit obligation believe that measure better represents the obligation that is to be paid using the pension plan's fiduciary net position and that pension plan recognition of that measure, therefore, would present a more complete view of the pension plan's financial position. Some also suggested that, although the accrued benefit obligation originates with the employer—that is, it results from the employer–employee exchange—the establishment of a pension plan and employer adoption of a funding policy effectively transfers the accrued benefit obligation, in full, to the pension plan. Similar views of the relationships and responsibilities of the employer and the pension plan were expressed by respondents to the Preliminary Views within the context of employer accounting issues.

79. With regard to the alternative in which the pension plan would report as its benefit liability the total pension liability (alternative (a) in paragraph 77), the Board is not persuaded that the existence of a pension plan, combined with the adoption of a funding plan and the achievement of some degree of funding progress, is sufficient to transfer to the pension plan the obligations of employers and nonemployer contributing entities that exist as a result of the original employment-exchange transactions between the employer and employees. Further, the Board does not believe that the pension plan appropriately can be viewed as assuming the portion of the pension obligation that exceeds the amount of its net position restricted for pensions because the pension plan does not have an independent ability to obtain resources to satisfy that obligation.

80. With regard to the alternative that bases the benefit liability on available net position (alternative (b) in paragraph 77), the Board believes that the amount that would be recognized as a liability under this alternative would not be consistent with the definition of liabilities in Concepts Statement 4—"present obligations to sacrifice resources that the government [in this case, the pension plan] has little or no discretion to avoid."[20] Because of the purpose for which a pension plan is created—payment of benefits when due—a pension plan clearly has an obligation related to pensions. However, for that obligation also to be considered a liability and recognized in the statement of fiduciary net position, it also is required to be a present obligation—a condition that requires that the event creating the liability has taken place. The Board is not persuaded that the sole act of accumulating net position represents an event that creates a present obligation of the pension plan for pensions. Rather, the Board believes that the accumulation of net position provides the pension plan with a greater ability to fulfill its mission—that is, paying benefits when due. Within the context of the current model used for fiduciary fund reporting, the Board concluded that the event that makes a portion of the benefit obligation a present obligation of the pension plan is the attainment of the due date for payment of defined benefits to plan members. Therefore, the Exposure Draft proposed that defined benefit pension plans recognize a liability to employees for benefits to the extent that benefits are currently due and payable (alternative (c) in paragraph 77).

[20]Concepts Statement 4 establishes definitions of elements of the financial statements of governmental units generally. The definition and characteristics of liabilities and the other elements of financial statements in Concepts Statement 4 apply to pension plans.

81. Respondents to the Exposure Draft generally supported the proposal that the pension plan recognize as a liability the amount due to employees for benefits to the extent that benefits are currently due and payable. This Statement retains that proposal as a requirement.

Receivables

82. Under the requirements of Statement 25, pension plans are required to recognize receivables for contributions pursuant to formal commitments to contribute to the pension plan, as well as for those resulting from statutory or contractual contribution requirements. For pension plans within the scope of this Statement, recognition of contributions receivable is limited to those that are due pursuant to legal requirements, consistent with the definition of an asset in Concepts Statement 4, which was issued subsequent to Statement 25. Concepts Statement 4 defines assets as "resources with present service capacity that the government presently controls" (paragraph 8). With regard to formal commitments, the Board concluded that balances related to such commitments do not meet the definition of an asset because in those circumstances, employers or nonemployer contributing entities do not have a requirement to make the contributions to the pension plan. Consequently, formal commitments for contributions do not represent resources in the control of the pension plan.

Investments

83. This Statement carries forward from Statement 25 the requirement for defined benefit pension plans to report investments generally at fair value. The Board retained this approach because it continues to believe that pension plan financial statements should focus on providing information to assess accountability for the resources held and managed by the pension plan and that fair value measures support that objective. Within the context of pension plan fiduciary activities, accountability for resources comprises not only the safekeeping of assets but also the effective use of assets in order to generate additional resources. Therefore, information about investment performance is essential in assessing accountability.

84. Fair value provides the most relevant information about the composition, value, and recent changes in the value of pension investments. Fair value results in reporting identical and interchangeable securities at the same

amounts regardless of when they were acquired. Reporting changes in fair value provides information necessary for assessing investment performance, including the results of holding, as well as selling, investments.

85. The Board believes that changes in fair value should be included as a component of net investment income in the period in which they occur. Changes in fair value are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and the financial position of the pension plan. A pension plan is in a better financial position when investment values increase and in a worse position when they decline. From that perspective, failure to include changes in fair value in net investment income would result in a misstatement of the period-to-period changes in the pension plan's fiduciary net position. The Board also notes that reporting fair value eliminates the potential for distortions of investment income caused by timing investment sales to produce a particular result.

86. With regard to specific requirements for determining the fair value of various types of investments, this Statement carries forward guidance from Statement 25, as amended and clarified. Some respondents to the Exposure Draft questioned whether certain investments in life insurance should be reported at cash surrender value, as proposed in the Exposure Draft. These respondents noted that subsequent to the issuance of Statement 25, the Financial Accounting Standards Board (FASB) provided guidance that applies a method other than cash surrender value for measuring the fair value of certain types of life insurance contracts and questioned whether this Statement should be consistent with FASB requirements. The Board did not consider measurement issues associated with specific investment types as part of the project leading to this Statement. Instead, it believes that the assessment of methods of determining fair values of investments, including investments in life insurance, has broader implications for accounting and financial reporting than for pension plans alone. Consequently, if any such evaluation is necessary, it should be considered more comprehensively and, therefore, is outside the scope of this Statement.

Statement of Changes in Fiduciary Net Position—Classification of Certain Contributions

87. This Statement provides clarification related to the classification of contributions in circumstances in which payments are made by an employer to satisfy member contribution requirements. These contributions sometimes are referred to as *employer-paid member contributions.* Some respondents to the Exposure Draft were concerned that such contributions might be classified as employer contributions by some pension plans and as member contributions by other pension plans. In these arrangements, the member's salary is increased by the amount of the member's required contribution, and contributions are withheld from the member's salary on a pre-tax basis for purposes of federal income tax calculations in the period in which the contributions are made. The employer transmits the amount of the contribution to the pension plan. If the employer reports the contribution amount in salary expense in the period, the contribution amount cannot also be recognized by the pension plan as an employer contribution. Therefore, in that circumstance, the Board concluded that the contributions should be classified as member contributions. However, if the employer does not include the amount of the contributions in salary expense, this Statement requires that the contribution be classified as an employer contribution to the pension plan, which directly reduces the net pension liability. In both circumstances, the net effect on the employer's compensation expense (salaries plus pensions) would be the same, and the employer's net pension liability would be reduced by the amount of the contributions.

Notes to Financial Statements and Required Supplementary Information

88. As noted in Appendix A, subsequent to the issuance of Statement 25, the Board completed the conceptual framework project on methods of communication, culminating in the issuance of Concepts Statement 3. That Concepts Statement provides specific guidance for the Board in evaluating what information should be presented as notes to financial statements and what information should be presented as required supplementary information.

89. Paragraph 31 of Concepts Statement 3 explains that a financial statement "displays either (a) the financial position of the reporting unit (that is, the group of activities covered by the financial statement) at a moment in time or (b) inflows and outflows of resources from transactions or other events during a period of time" (footnote omitted). Paragraph 36 discusses the role of notes to financial statements as follows:

> Notes have a clear and demonstrable relationship to information in the financial statements to which they pertain and are essential to a user's understanding of those financial statements. In this context, "essential to a user's understanding" means so important as to be indispensable to a user (a) with a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting and (b) with a willingness to study the information with reasonable diligence. The use of professional judgment may be necessary for making a determination about whether an item of information is "essential to a user's understanding."

To be reported in *basic* financial statements or notes to basic financial statements, Concepts Statement 3 also requires that information be "essential for communicating with users the financial position or inflows and outflows of resources of the reporting unit in conformity with generally accepted accounting principles" (paragraph 39). In addition, Concepts Statement 3 describes required supplementary information as "supporting information that the GASB has concluded is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context" (paragraph 42).

90. The requirements for note disclosures and required supplementary information in Statement 25 were reviewed by the Board with respect to the guidance in Concepts Statement 3. New requirements for information that the Board concluded to be essential to a user's understanding of the pension plan's financial statements have been included in this Statement, and certain other requirements (for example, funding-based measures of pension plan assets relative to employer liabilities) have been omitted.

Concentrations of Investments

91. This Statement requires that pension plans disclose investments (other than those issued or guaranteed by the U.S. Government) in any one organization that represent 5 percent or more of fiduciary net position. This disclosure requirement is consistent with the disclosure requirements from Statement 25 as originally issued. Statement No. 40, *Deposit and Investment Risk Disclosures,* subsequently amended Statement 25 to narrow this disclosure to concentrations of credit risk—a notion associated with the risk of loss on fixed-income investments if a creditor or other counterparty fails to meet its obligations to repay. However, because pension plans tend to invest a higher percentage of their portfolios in equities than do general governments, the Board believes that it is appropriate to require disclosure of concentrations of investments, which is a broader notion. The Board also considered whether to clarify what is meant by the term *organization* in this disclosure requirement, for example, whether the term refers to separate legal entities or whether an organization includes a parent and its subsidiaries. The Board recognizes that this issue has ramifications for entities other than pension plans. As such, the Board believes that this issue should be considered as part of any future reexamination of deposit and investment risk disclosures.

Rates of Return on Investments

92. This Statement establishes a requirement that the financial reports of all defined benefit pension plans include certain information about the rate of return on pension plan investments, net of pension plan investment expense. As notes to financial statements, the Board concluded that this information is essential to understanding a pension plan's investment performance and, therefore, is an essential element in assessing stewardship responsibility. As required supplementary information, the Board concluded that actual annual rates of return are essential for providing historical and economic context about the amount of investment earnings reported in the pension plan's statement of changes in fiduciary net position. Pension plans generally invest in a portfolio designed in accordance with a long-term investment strategy. Rates of return for a single year should be considered in the context of the rates of return that have been earned over time. After observing the variability of rates of return over various periods, the Board was persuaded that 10 years of annual rates would provide an appropriate context for a rate of return of an individual year.

93. The Exposure Draft proposed that pension plans present information about two different measures of rate of return—a time-weighted rate of return and a money-weighted rate of return. A time-weighted rate of return considers investment performance of a hypothetical dollar invested from the beginning of an investment period to the period's end. The time-weighted rate of return does not consider the effect of varying amounts invested due to, for example, the receipt of contributions or the payment of benefits. The Board's research indicated that a time-weighted rate of return communicates information that is suitable for comparisons to relevant benchmark rates, provides information to assess investment manager performance, and provides comparability among pension plans and investment managers.

94. In contrast, a money-weighted rate of return provides information about the actual performance of the pension plan's investment portfolio because it takes into account the effects of transactions that increase the amount of pension plan investments (such as contributions from employers, nonemployer contributing entities, and plan members) and those that decrease the amount of pension plan investments (such as benefit payments). Additionally, the money-weighted rate of return provides information that is comparable with the long-term expected rate of return on pension plan investments, which is used in calculating information presented in other disclosures. When it issued the Exposure Draft, the Board believed that information about both aspects of performance was essential to a user's understanding of pension plan financial statements.

95. Some respondents to the Exposure Draft questioned the proposed requirement to disclose both annual time-weighted and money-weighted rates of return. Some respondents expressed concerns that requiring both rate-of-return disclosures would add cost and complexity and potentially would confuse users of financial statements about which measure to use when evaluating investment performance. Some respondents asserted that there would not be a significant difference between the two measures in most circumstances. The Board was persuaded that the expected benefit of requiring disclosure of both measures was not greater than the perceived additional cost and was concerned about the additional complexity and the potential for the two measures to be similar for many pension plans. Consequently, this Statement requires the disclosure only of annual money-weighted rates of return. The Board concluded that this measure is more relevant to users of pension plan financial statements because it is more useful for comparison with the long-term expected rate of return on pension plan investments.

96. Some respondents expressed concern about requiring the disclosure of a money-weighted rate of return because of the lack of investment-industry standards regarding how the measure is to be determined and requested that this Statement include guidance about the calculation of the required rate of return measures. To assist preparers and to promote comparability in the resultant measures, the Board concluded that the Statement should clarify certain basic aspects of the calculation. Therefore, this Statement clarifies that for financial reporting purposes, the money-weighted rate of return on pension plan investments should be determined as the pension plan's internal rate of return. Further, it establishes a minimum frequency with which flows into and out of the pension plan's investment portfolio should be measured for this purpose.

97. Because of the importance of providing information to assess single-period rates of return in the context of rates of return earned over time, the Board also considered the possibility of requiring presentation of multi-year rates of return. The Board concluded that a multi-year return requirement would add complexity and is not essential to provide context for the rate of return used in pension measurements due to the fact that these disclosures would be redundant to some degree of the information provided in the 10-year schedule of money-weighted rates of return.

Deferred Retirement Option Program Balances

98. This Statement establishes disclosure requirements for defined benefit pension plans that contain terms that allow a plan member to continue to work and to be paid a salary while also having retirement benefits paid to an individual account within the pension plan—referred to collectively as deferred retirement option programs (DROPs). Pension plans containing DROP terms should disclose information about the balances held in individual DROP accounts. The Board concluded that DROP balances, similar to other benefit payments, should be recognized as a pension plan liability only when ultimately due to the plan member. However, in response to a request by some respondents to the Exposure Draft and to questions that have been posed to the GASB about application of guidance in earlier Statements to DROP balances, the Board concluded that information about the DROP terms and the DROP balances held in the pension plan should be provided to improve the transparency of information about the pension plan's fiduciary net position.

Information about the Net Pension Liability

99. Statement 25, as amended, required all defined benefit pension plans to include information about the most recent actuarially calculated funded status of benefits in notes to financial statements, with multiple years of such information required to be presented as a schedule in required supplementary information.

100. In Statement 68, the Board has established a reporting approach that separates accounting measures from funding-oriented measures for employers whose employees are provided with defined benefit pensions through pension plans within the scope of this Statement. With this separation, the Board concluded that it is not within the scope of its activities to set standards that establish a specific method of financing pensions (that being a policy decision for government officials or other responsible authorities to make) or to regulate a government's compliance with the financing policy or method it adopts.

101. However, because assets accumulated in a defined benefit pension plan within the scope of this Statement cannot be used for purposes other than those related to the provision of pensions to plan members, the Board concluded that information about the magnitude of the total pension liability for which assets are being accumulated is essential to understand the balance of fiduciary net position reported by the pension plan. The Board believes that without this information, the balance of the pension plan's fiduciary net position potentially would be misleading. Therefore, this Statement requires that single-employer and cost-sharing pension plans disclose the components of the net pension liability as of the pension plan's fiscal year-end and the pension plan's fiduciary net position as a percentage of the total pension liability as of that date. In addition, because measurement of the net pension liability necessarily involves assumptions about future events, significant assumptions used to measure the total pension liability also should be disclosed. (For purposes of this Statement, the net pension liability is required to be measured in the same manner as required in Statement 68, with the exception of certain requirements related to the timing of the measurement of the net pension liability relative to the fiscal year-end of the entity reporting that measure.) The reasons for requiring the measurement method specified are discussed in detail in Appendix B of Statement 68.

102. For agent pension plans, however, disclosure of aggregated information about the net pension liabilities of individual agent employers is not required because the Board concluded that the potential relative benefit of plan-level

aggregated information about net pension liabilities is lower than for similar information about liabilities of employers in single-employer and cost-sharing pension plans. That is, aggregated information is thought to have limited decision utility because the relationship between the total pension liability associated with each individual employer and the portion of the fiduciary net position of the agent pension plan associated with that employer is obscured.

103. Because Statement 25, as amended by Statement 50, required all pension plans, including agent pension plans, to disclose funded status information similar to that considered by the Board for this Statement, research was conducted related to the potential use of the disclosures for agent pension plans. Based on users' feedback from surveys, the Board concluded that aggregated funded status information about agent pension plans is not essential to understanding the financial statements and for communicating the balance of the fiduciary net position of those pension plans.

104. With regard to the presentation of multi-year information about the net pension liability, the Board concluded that information about the components of the net pension liability and related information presented for each of the most recent 10 years would provide economic context regarding an amount in the pension plan's financial statements—the balance of the pension plan's fiduciary net position—as well as historical context for the pension plan's fiduciary net position relative to the total pension liability. Similar to the single-period note disclosure requirements for the same information, the Board concluded that, although essential for single-employer and cost-sharing pension plans, the expected benefit of this information about an agent pension plan would not exceed the perceived cost to provide the information. Therefore, this requirement similarly has been limited to single-employer and cost-sharing pension plans.

Information about Changes in the Net Pension Liability

105. This Statement requires that a 10-year schedule of changes in the net pension liability be presented as required supplementary information by single-employer and cost-sharing pension plans. This schedule presents detailed information about the pension liabilities for which the pension plan's assets are held and managed. As such, the Board concluded that the information in this schedule is essential for providing historical and economic context for the balance of fiduciary net position reported in the pension plan's financial statements. For the same cost–benefit reasons that influenced the Board's deci-

sions related to the presentation of aggregated information about the component balances of net pension liabilities of each individual agent employer in note disclosures and required supplementary information of an agent pension plan, the Board concluded that this requirement for presentation of detailed information about changes in the net pension liability should apply to single-employer or cost-sharing pension plans only.

Information about Actuarially Determined Contributions

106. Statement 25 requires that pension plans present a schedule of employer contributions as required supplementary information. The employer contributions reported in that schedule are presented in comparison to an annual required contribution, for which calculation requirements are established in Statement 25. As previously discussed, in this Statement and in Statement 68, for pensions provided through pension plans that are administered through trusts that meet certain criteria, the Board has removed the specific link between (a) the accounting measures of the net pension liability and pension expense and (b) the actuarially determined funding-based measures. However, the Board concluded that, in circumstances in which an actuarially determined contribution rate is established, a 10-year schedule providing information about that contribution rate, the contractually required contribution rate for cost-sharing pension plans, contributions to the pension plan, and certain ratios is essential for providing historical and economic context for the amount of contributions reported as additions to the pension plan's fiduciary net position. Therefore, this information should be presented as required supplementary information. The detail of contributions in relation to actuarially determined rates over a 10-year period provides historical context for the amount of contributions in the current period. Information about actuarially determined contributions (and, for cost-sharing pension plans, contractually required contributions), as well as covered-employee payroll, provides economic context for the amounts of contributions reported. As previously discussed with regard to other information aggregated for all employers whose employees are provided with benefits through an agent pension plan, the Board concluded that aggregated information about contributions to agent pension plans has limited decision utility because the pattern of contributions to each individual agent employer's pension plan would be obscured if the aggregated amounts were reported about the agent pension plan as a whole. Consequently, this Statement does not require information about contributions to be presented in required supplementary information by agent pension plans.

Ten-Year Schedules

107. The provisions of earlier standards include a requirement to present required supplementary information about (funding-based) funded status and employer contributions for six years—a period that, for some pension plans, includes only three actuarial valuations. The Board received feedback from some users of pension plan financial statements that, if the intent is to provide historical context, six years of information is not sufficient. To provide information that is essential to understanding trends and to placing the information reported for the current period into historical perspective, this Statement requires that all schedules of required supplementary information for pension plans within its scope present information for 10 years. The Board concluded that a period of 10 years will provide information to identify some cyclical factors and other trends in the information without resulting in an overly burdensome presentation.

Respondent-Requested Presentations

108. Some respondents to the Exposure Draft suggested that this Statement require information that would facilitate pension accounting and financial reporting by employers and governmental nonemployer contributing entities participating in agent and cost-sharing pension plans. Specifically, these respondents suggested that information about (a) each individual agent employer's amount of the agent pension plan's fiduciary net position and (b) each individual cost-sharing employer's proportionate share of the net pension liability for benefits provided through the pension plan be required to be presented as a basic financial statement, in notes to financial statements, or as required supplementary information by agent pension plans and cost-sharing pension plans, respectively. These respondents believe that presentation of this information in pension plan financial reports both would facilitate the availability of the information for use in accounting and financial reporting by applicable employers and would, to varying degrees, address some of the audit-related issues associated with the presentation of those balances and proportions in employer financial reports.

109. The Board evaluated this proposal in the context of Concepts Statement 3 and the definitions of basic financial statements, notes to basic financial statements, and required supplementary information. (These definitions are included in paragraph 89 of this Statement.) The Board concluded that the schedules recommended by respondents do not meet the criteria that identify

a basic financial statement because they do not display either the financial position of a reporting unit at a moment in time or inflows and outflows of resources from transactions or other events during a period of time. In the Board's view, these schedules do not meet the definition for notes to financial statements because the information does not relate to understanding the pension plan's financial position or inflows and outflows of resources. Rather, the information relates to the employers whose employees are provided with benefits through the pension plan or to nonemployer contributing entities. The Board also determined that information in these schedules does not meet the definition of information potentially presented in required supplementary information because it does not place the pension plan's basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. Rather, these schedules focus on information about the employers whose employees are provided with pensions through the pension plan or nonemployer contributing entities that are required to contribute to them. Consequently, the Board concluded that the requirements proposed by the respondents are not consistent with the GASB's conceptual framework with respect to communication methods.

110. Nevertheless, the Board recognizes that (a) the information included in those schedules is needed by employers and governmental nonemployer contributing entities that participate in agent or cost-sharing pension plans in order to apply the accounting and financial reporting provisions in Statement 68, and (b) an appropriate level of audit assurance on those amounts will need to be provided. The Board concluded that this most appropriately would be accomplished through coordination and communication between an agent or cost-sharing pension plan and the employers and governmental nonemployer contributing entities, and that it might be considered a best practice for agent and cost-sharing pension plans to provide such information on a timely basis to assist participating employers in meeting their accounting and financial reporting requirements.

Timing of Measurements

111. The information that should be disclosed by pension plans in notes to financial statements about employer and nonemployer contributing entity obligations for pensions provided through them is required to be measured as of the pension plan's fiscal year-end. Similar information in schedules of required supplementary information also should be presented as of the pension plan's most recent fiscal year-end. These disclosures and required supplementary

information include details about the components of the net pension liability. The Board believes that it would be confusing and potentially misleading if disclosures that include the pension plan's fiduciary net position were to present information about that balance as of a date other than the pension plan's fiscal year-end or if disclosures that include both the pension plan's fiduciary net position and the total pension liability were to present balances that are not as of the same date. Furthermore, disclosure of the relative amounts of the total pension liability and the pension plan's fiduciary net position would not be effective in providing information for understanding the pension plan's fiduciary net position reported in the financial statements unless the disclosure is presented as of the same date as the balance reported in the financial statements. Consequently, the Board concluded that all information disclosed in notes to the pension plan's financial statements should reflect measures as of the pension plan's fiscal year-end. Because (a) the information in the 10-year schedules that should be presented as required supplementary information is derived from amounts disclosed in notes to financial statements in the current or prior years, and (b) such information already would have been measured as of the pension plan's fiscal year-end for purposes of note disclosures, the Board believes that the information needed to present the required supplementary information as of the pension plan's fiscal year-end should be readily available.

Defined Contribution Pension Plans

112. This Statement and Statement 68 include in the definition of defined contribution pensions the possibility that the timing of payments into individual accounts does not coincide with the period of plan member service to which defined contributions pertain (as when a nonvested plan member accumulates credits for which the employer delays payment into the plan member's account until vesting provisions have been satisfied). The Board believes that arrangements in which amounts are credited to a member's account can qualify as defined contribution pensions. However, the underlying notion inherent in the definition in Statement 25 remains. That is, a pension is classified as defined contribution for accounting and financial reporting purposes if the amount of pensions that the plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on the underlying assets associated with contributions (or credits) to the plan member's account, and adjustments for forfeitures of contributions (or credits) made for other plan members, as well as pension plan administrative costs, that are allocated to the plan member's account. This definition excludes from the category of defined contribution pensions those pensions that are provided through pension plans

in which interest earnings in individual plan member accounts are not derived from actual earnings on underlying assets contributed or credited to the account. Such pensions include those in which the employer provides a defined rate of return on member balances and those in which interest crediting is based on a specified index rather than on actual investment earnings. It also excludes circumstances in which the employer has longevity risk associated with an annuitization feature of a pension that otherwise would be classified as defined contribution.

113. In addition, similar to the approach taken for defined benefit pension plans with regard to repetition of requirements that are contained in other pronouncements, the Board has included in this Statement only requirements that are specific to defined contribution pension plans. Therefore, this Statement omits measurement, recognition, and disclosure requirements (such as those for information in the summary of significant accounting policies and those related to investments) that are the subject of other pronouncements applicable to defined contribution pension plans. Nonetheless, defined contribution pension plans should continue to meet the requirements of all other applicable pronouncements.

Effective Date and Transition

114. In the Exposure Draft, the Board proposed that certain single-employer pension plans implement the provisions of this Statement one year earlier than other pension plans. This proposal reflected the Board's desire to respond to the importance that users of financial statements place on information about public pensions and the pension plans through which those pensions are provided by requiring that the provisions of this Statement be implemented as soon as practicable. Information from an actuarial valuation is needed in order to comply with all of the reporting requirements, and the Board is aware that larger pension plans, in particular, those with over $1 billion in net position, have annual actuarial valuations. The Board also considered the practicality of implementing the provisions of this Statement when there is a need for planning and coordination of activities between the pension plan, its participating employers, and nonemployer contributing entities. These activities would be more extensive for multiple-employer pension plans (as well as pension plans in which a nonemployer contributing entity is required to recognize a portion of the net pension liability), especially when there are multiple employer fiscal year-ends. As a result of these considerations, the Board proposed that larger single-employer pension plans without these planning and coordination issues

implement the provisions of this Statement one year earlier than other pension plans. The Board believed that the proposed effective dates would address the users' needs regarding information about public pensions and pension plans, while not requiring pension plans to perform actuarial valuations sooner than they would have ordinarily scheduled them.

115. Many respondents to the Exposure Draft requested that the Board provide additional time for those pension plans that would have been required to apply the requirements in periods beginning shortly after the issuance of this Statement. In making this request, some respondents cited concerns related to the perceived complexity of measuring employer liability information using potentially different approaches than traditionally used for funding purposes. Others requested that the Board adjust the effective date relative to the effective date of Statement 68 to ensure that information that would be needed from the pension plan would be available to employers to implement the requirements of that Statement. The Board concluded that a simplified effective date structure—one that permits an additional year of preparation for those pension plans that would have been required to implement earlier under the Exposure Draft proposal—would address many respondents' concerns without requiring most pension plans to perform actuarial valuations sooner than they would have ordinarily scheduled them.

Considerations Related to Benefits and Costs

116. The overall objective of financial reporting by state and local governments is to provide information to assist users (the citizenry, legislative and oversight bodies, and investors and creditors) in assessing the accountability of governments and in making economic, social, and political decisions. One of the principles guiding the Board's setting of standards for financial reporting is the assessment of expected benefits and the perceived costs. The Board strives to determine that standards (including disclosure requirements) address a significant need and that the costs incurred through the application of its standards, compared with possible alternatives, are justified when compared to the expected overall public benefit.

117. Present and potential users are the primary beneficiaries of improvements in financial reporting. Persons within governments who are responsible for keeping accounting records and preparing financial statements, as well as managers of public services, also benefit from the information that is collected and reported in conformity with GASB standards. The costs to implement the

standards are borne primarily by governments and, by extension, their citizens and taxpayers. Users also incur costs associated with the time and effort required to obtain and analyze information to meaningfully inform their assessments and decisions.

118. The Board's assessment of the expected benefits and perceived costs of issuing new standards is unavoidably more qualitative than quantitative because there is no reliable and objective method for quantifying the value of improved information in financial statements. Furthermore, it is difficult to accurately measure the costs of implementing new standards until implementation has actually taken place. Nonetheless, the Board undertakes this assessment based on the available evidence regarding expected benefits and perceived costs, with the objective of achieving an appropriate balance between increasing benefits and minimizing costs.

119. The Board gathered information on the expected benefits of improving the existing pension standards primarily through the extensive project research described in Appendix A. The Board concluded, based on the results of that research, that a substantial need for better information about pensions exists that can be fulfilled through standards setting. The research results were complemented by input received from respondent comments on the Invitation to Comment, Preliminary Views, and Exposure Draft, including participants in the three user forums the Board conducted in 2011. Further input on expected benefits was provided by members of the project task force and the GASAC.

120. Information that the Board considered regarding perceived costs came primarily from two sources—the field test of the June 2011 Exposure Draft and respondent comments on the Invitation to Comment, Preliminary Views, and Exposure Draft. Participants in the field test—a mix of employers and pension plans—provided the Board with their estimates of the initial costs to implement the proposed standards and the recurring annual costs in subsequent years. Participants provided estimates of both staff time and nonstaff costs related to accounting system changes, use of consultants, and other required services. To place these estimates in context, each participant also reported the total staff time and nonstaff costs related to preparing its entire financial report. Field test participants also identified aspects of the Exposure Draft that they found to be particularly difficult to apply. As detailed throughout this appendix, the Board also received considerable input through comment letters and public hearing testimony regarding the potential costs associated with implementing the new standards. Input on perceived costs also was provided by members of the project task force and the GASAC.

121. The Board assessed the expected benefits and perceived costs of its proposed requirements at two levels—for individual decisions and for the entirety of the Statement. Throughout its deliberations, the Board specifically considered the relative expected benefits and perceived costs of individual major decisions. For example, the Board did not require disclosure of information in notes and as required supplementary information about the aggregated liabilities of employers and nonemployer contributing entities in agent pension plans. The Board recognizes that this information has less decision utility than similar information for single and cost-sharing pension plans. Based upon respondent concerns about perceived cost and complexity associated with presenting two measures of the rate of return on investments, the Board concluded that money-weighted rates of return on pension plan investments should be disclosed and eliminated the proposed disclosure of time-weighted rates of return.

122. The Board also considered the aggregate expected benefits and perceived costs associated with the entirety of the requirements in this Statement. The Board is cognizant that the costs of implementing the changes required by this Statement may be significant, though principally in terms of the initial implementation effort rather than ongoing compliance in subsequent years. However, the Board believes that the expected benefits—improved decision-usefulness and enhanced value of information for assessing accountability and interperiod equity, greater comparability and consistency, and increased transparency—that will result from the information provided through implementation of this Statement, both initially and on an ongoing basis, are significant.

Appendix C

ILLUSTRATIONS

123. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Disclosures set forth in this Statement and in other GASB pronouncements, in addition to those shown in Illustrations 3 and 4, are required, if applicable. Illustrations 3 and 4 are coordinated with Illustrations 2 and 3 of Appendix C of Statement 68. Amounts presented may include rounding differences.

Illustration 1—Calculation of a Money-Weighted Rate of Return

Illustration 2—Calculation of the Discount Rate

Illustration 3—Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer Pension Plan (No Nonemployer Contributing Entities)

Illustration 4—Financial Statements, Note Disclosures, and Required Supplementary Information for a Cost-Sharing Pension Plan (No Nonemployer Contributing Entities)

Illustration 1: Calculation of a Money-Weighted Rate of Return

The following illustration depicts the calculation of a money-weighted rate of return on pension plan investments as required by paragraph 30b(4) of this Statement. A money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The rate of return is then calculated by solving, through an iterative process, for the rate that equates (1) the sum of the weighted external cash flows into and out of pension plan investments to (2) the ending fair value of pension plan investments.

In this illustration, the fair value of pension plan investments at the beginning of the fiscal year is $18,907,442, and the fair value of pension plan investments at the end of the fiscal year is $20,047,797. Inputs (external cash flows) are determined on a monthly basis and are assumed to occur at the end of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash outflow in each month of this illustration.

The following details the two broad steps of the calculation of the money-weighted rate of return for the period from July 1–June 30.

Step 1:

	Plan Investments/ Net External Cash Flows (a)	Periods Invested (b)	Period Weight (c) = (b) ÷ 12	(d) = (a) × $(1 + r_{mw})^{(c)}$
Beginning value—July 1	$ 18,907,442	12	1.00	$18,907,442 × $(1+ r_{mw})^{1.00}$
Monthly net external cash flows:				
July	(25,240)	11	0.92	(25,240) × $(1 + r_{mw})^{0.92}$
August	(32,334)	10	0.83	(32,334) × $(1 + r_{mw})^{0.83}$
September	(29,969)	9	0.75	(29,969) × $(1 + r_{mw})^{0.75}$
October	(27,605)	8	0.67	(27,605) × $(1 + r_{mw})^{0.67}$
November	(35,290)	7	0.58	(35,290) × $(1 + r_{mw})^{0.58}$
December	(24,649)	6	0.50	(24,649) × $(1 + r_{mw})^{0.50}$
January	(30,561)	5	0.42	(30,561) × $(1 + r_{mw})^{0.42}$
February	(25,831)	4	0.33	(25,831) × $(1 + r_{mw})^{0.33}$
March	(29,378)	3	0.25	(29,378) × $(1 + r_{mw})^{0.25}$
April	(32,925)	2	0.17	(32,925) × $(1 + r_{mw})^{0.17}$
May	(28,787)	1	0.08	(28,787) × $(1 + r_{mw})^{0.08}$
June	(29,969)	0	0.00	(29,969) × $(1 + r_{mw})^{0.00}$
Ending value—June 30	$ 20,047,797			

Step 2:

Solve for r_{mw} such that the ending value of pension plan investments, which is \$20,047,797, equals the sum of amounts in column (d). In this illustration, r_{mw} is 7.96 percent.

Illustration 2—Calculation of the Discount Rate

The following illustration is an example of the projections and calculations used to determine the discount rate as required by paragraphs 40–45 of this Statement. The discount rate is the single rate that reflects (1) the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits, to the extent that the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and pension plan assets are expected to be invested using a strategy to achieve that return, and (2) a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another scale), to the extent that the conditions for use of the long-term expected rate of return are not met.

In this illustration, projected cash flows into and out of the pension plan are assumed to be contributions to the pension plan (Table 1), benefit payments (Table 2), pension plan administrative expense (Table 2), and pension plan investment earnings (Table 2). These projected cash flows are used to project the pension plan's fiduciary net position at the beginning of each period (Table 2). The pension plan's projected fiduciary net position at the beginning of each period is compared to the amount of benefit payments projected to occur in that period (Table 3). In this illustration, it is assumed that the pension plan's fiduciary net position is expected to always be invested using a strategy to achieve the long-term expected rate of return on pension plan investments. Consequently, in this illustration, the benefit payments that are projected to occur in a period are discounted using the long-term expected rate of return on pension plan investments if the amount of the pension plan's beginning fiduciary net position is projected to be sufficient to make the benefit payments in that period (Table 3, column (f)). In periods in which benefit payments are projected to be greater than the amount of the pension plan's fiduciary net position, they are discounted using a municipal bond rate as required by paragraph 40 of this Statement (Table 3, column (g)).

Determining the single rate that is the discount rate for purposes of this Statement is an iterative process that involves the following steps:

1. A single rate that is between the long-term expected rate of return on pension plan investments and the municipal bond rate used to calculate amounts in Table 3, column (g), is selected.

2. The selected rate is used to calculate the total actuarial present value of all projected benefit payments.
3. The total actuarial present value resulting from step 2 is compared to the sum of the actuarial present values determined in Table 3, columns (f) and (g).
4. If the selected rate results in a total actuarial present value greater than the sum of the actuarial present values determined in columns (f) and (g) in Table 3, a new higher rate is selected. If the total actuarial present value is less than the sum of the actuarial present values determined in columns (f) and (g) in Table 3, a new lower rate is selected.
5. Steps 2–4 are repeated until the single rate that results in a total actuarial present value of all projected benefit payments equal to the sum of the actuarial present values determined in Table 3, columns (f) and (g), is determined.

In this illustration, solving for the single rate that satisfies the condition of step 5 results in a discount rate of 5.29 percent (rounded). The proof of this calculation is shown in Table 3, column (h).

Facts and Assumptions

The following facts are assumed in this illustration:

a. Total covered-employee payroll increases 4.25 percent per year.
b. Active employees (active plan members) are required by statute to contribute 5.00 percent of pay to the pension plan.
c. The employer is required by statute to contribute 10.00 percent of covered-employee payroll to the pension plan.
d. Benefit payments are projected as required by paragraph 39 of this Statement.
e. The service cost is 12.00 percent of covered-employee payroll.
f. The pension plan's initial fiduciary net position is $1,431,956.
g. Initial pension plan administrative expense is $1,000.
h. Pension plan administrative expense increases 3.00 percent per year.
i. Contributions, benefit payments, and pension plan administrative expense occur halfway through the year for purposes of projecting pension plan investment earnings.
j. The long-term expected rate of return on pension plan investments is 7.50 percent.
k. The tax-exempt, high-quality general obligation municipal bond index rate is 4.00 percent.

Table 1: Projection of Contributions

	Projected Covered-Employee Payroll			Projected Contributions			
Year	Payroll for Current Employees (a)	Payroll for Future Employees (b)	Total Employee Payroll* (c) = (a) + (b)	Contributions from Current Employees (d) = (a) × 5%	Employer Contributions for Current Employees (e) = (a) × 10%	Contributions Related to Payroll of Future Employees† (f) = (b) × 3%‡	Total Contributions (g) = (d) + (e) + (f)
1	$ 488,072	$ -	$ 488,072	$ 24,404	$ 48,807	$ -	$ 73,211
2	474,494	34,321	508,815	23,725	47,449	1,030	72,204
3	469,203	61,237	530,440	23,460	46,920	1,837	72,217
4	463,875	89,109	552,984	23,194	46,388	2,673	72,255
5	457,451	119,035	576,486	22,873	45,745	3,571	72,189
6	450,018	150,969	600,987	22,501	45,002	4,529	72,032
7	441,785	184,744	626,529	22,089	44,179	5,542	71,810
8	432,704	220,452	653,156	21,635	43,270	6,614	71,519
9	422,353	258,562	680,915	21,118	42,235	7,757	71,110
10	411,044	298,810	709,854	20,552	41,104	8,964	70,620

Note: Years subsequent to year 10 have been omitted from this table.

* Total covered-employee payroll increases 4.25% each year.

† Contributions related to future employees that are above service cost and, therefore, can be allocated to payment of benefits of current employees.

‡ Three percent is the difference between total contributions for future employees of 15% of the payroll of future employees (10% from employer contributions and 5% from future-employee contributions) and service cost of future employees (12%).

Table 2: Projection of the Pension Plan's Fiduciary Net Position

Year	Projected Beginning Fiduciary Net Position (a)	Projected Total Contributions* (b)	Projected Benefit Payments† (c)	Projected Administrative Expense‡ (d)	Projected Investment Earnings§ (e)	Projected Ending Fiduciary Net Position (f) = (a) + (b) – (c) – (d) + (e)
1	$ 1,431,956	$ 73,211	$ 109,951	$ 1,000	$ 105,981	$ 1,500,197
2	1,500,197	72,204	116,500	1,030	110,815	1,565,686
3	1,565,686	72,217	123,749	1,061	115,454	1,628,547
4	1,628,547	72,255	131,690	1,093	119,871	1,687,890
5	1,687,890	72,189	140,229	1,126	123,998	1,742,722
6	1,742,722	72,032	149,168	1,160	127,768	1,792,194
7	1,792,194	71,810	158,466	1,195	131,120	1,835,463
8	1,835,463	71,519	168,332	1,231	133,983	1,871,402
9	1,871,402	71,110	178,591	1,268	136,277	1,898,930
10	1,898,930	70,620	189,069	1,306	137,929	1,917,104

Note: Years subsequent to year 10 have been omitted from this table.

* From Table 1: Projection of Contributions, column (g).

† Projected as required by paragraph 39 of this Statement.

‡ Pension plan administrative expense increases 3.00% per year.

§ The contributions, benefit payments, and pension plan administrative expense occur halfway through the year.

Table 3: Actuarial Present Values of Projected Benefit Payments

			Projected Benefit Payments		Actuarial Present Values of Projected Benefit Payments		
Year (a)	Projected Beginning Fiduciary Net Position* (b)	Projected Benefit Payments† (c)	"Funded" Portion of Benefit Payments (d)	"Unfunded" Portion of Benefit Payments (e)	Present Value of "Funded" Benefit Payments $(f) = (d) \div (1 + 7.5\%)^{(a)}$	Present Value of "Unfunded" Benefit Payments $(g) = (e) \div (1 + 4\%)^{(a)}$	Present Value of Benefit Payments Using the Single Discount Rate‡ $(h) = (c) \div (1 + 5.29\%)^{(a)}$
1	$ 1,431,956	$ 109,951	$ 109,951	$ -	$ 102,280	$ -	$ 104,427
2	1,500,197	116,500	116,500	-	100,811	-	105,088
3	1,565,686	123,749	123,749	-	99,613	-	106,019
4	1,628,547	131,690	131,690	-	98,610	-	107,154
5	1,687,890	140,229	140,229	-	97,678	-	108,370
6	1,742,722	149,168	149,168	-	96,655	-	109,487
7	1,792,194	158,466	158,466	-	95,516	-	110,468
8	1,835,463	168,332	168,332	-	94,384	-	111,450
9	1,871,402	178,591	178,591	-	93,150	-	112,302
10	1,898,930	189,069	189,069	-	91,735	-	112,918
26	547,880	322,779	322,779	-	49,236	-	84,503
27	316,985	326,326	-	326,326	-	113,175	81,140
28	64,800	328,997	-	328,997	-	109,713	77,694
29	-	330,678	-	330,678	-	106,032	74,168
30	-	331,266	-	331,266	-	102,135	70,567
96	-	1	-	1	-	-	-
97	-	-	-	-	-	-	-
Total					$ 2,109,333 +	$ 1,724,534 =	$ 3,833,867

Note: Years 11–25 and 31–95 have been omitted from this table.

* From Table 2: Projection of the Pension Plan's Fiduciary Net Position, column (a).

† From Table 2: Projection of the Pension Plan's Fiduciary Net Position, column (c).

‡ In this illustration, the rate that produces a total actuarial present value that equals the sum of the actuarial present values of "funded" and "unfunded" benefit payments in columns (f) and (g) results in a discount rate of 5.29% (rounded).

Illustration 3—Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer Pension Plan (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the pension plan is included in the financial report of a government that applies the requirements of Statement 68, the pension plan should apply the requirements of footnotes 9 and 11 of this Statement, as applicable. The circumstances of this pension plan do not include all circumstances for which note disclosures and required supplementary information should be presented.]

COUNTY EMPLOYEES RETIREMENT SYSTEM

County Employees Pension Plan

Statement of Fiduciary Net Position
June 30, 20X9

(Dollar amounts in thousands)

	20X9
Assets	
Cash and deposits	$ 69,497
Securities lending cash collateral	170,055
Total cash	239,552
Receivables:	
Contributions	6,988
Due from broker for investments sold	59,777
Investment income	4,402
Other	114
Total receivables	71,281
Investments:	
Domestic fixed income securities	637,987
Domestic equities	1,006,595
International equities	430,486
Real estate	137,850
Total investments	2,212,918
Total assets	2,523,751
Liabilities	
Payables:	
Investment management fees	1,462
Due to broker for investments purchased	107,861
Collateral payable for securities lending	170,055
Other	7,265
Total liabilities	286,643
Net position restricted for pensions	$ 2,237,108

Statement of Changes in Fiduciary Net Position for the Year Ended June 30, 20X9

(Dollar amounts in thousands)

	20X9
Additions	
Contributions:	
Employer	$ 79,713
Member	31,451
Total contributions	111,164
Investment income:	
Net appreciation in fair value of investments	162,137
Interest and dividends	42,179
Less investment expense, other than from securities lending	(8,905)
Net income from investing, other than from securities lending	195,411
Securities lending income	989
Less securities lending expense	(246)
Net income from securities lending	743
Net investment income	196,154
Other	41
Total additions	307,359
Deductions	
Benefit payments, including refunds of member contributions	119,434
Administrative expense	3,373
Other	33
Total deductions	122,840
Net increase in net position	184,519
Net position restricted for pensions	
Beginning of year	2,052,589
End of year	$ 2,237,108

Notes to the Financial Statements for the Year Ended June 30, 20X9

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Plan Description

Plan administration. The County Employees Retirement System (CERS) administers the County Employees Pension Plan (CEPP)—a single-employer defined benefit pension plan that provides pensions for all permanent full-time general and public safety employees of the County. Article 15 of the Regulations of the State grants the authority to establish and amend the benefit terms to the CERS Board of Trustees (CERS Board).

Management of the CEPP is vested in the CERS Board, which consists of nine members—four elected by plan members, four appointed by the County Board, and the County Treasurer, who serves as an ex-officio member.

Plan membership. At June 30, 20X9, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	4,002
Inactive plan members entitled to but not yet receiving benefits	1,207
Active plan members	5,347
	10,556

[If the pension plan was closed to new entrants, the pension plan should disclose that fact, as required by paragraph 30a(4) of this Statement.]

Benefits provided. CEPP provides retirement, disability, and death benefits. Retirement benefits for general plan members are calculated as 2 percent of the member's final 5-year average salary times the member's years of service. Benefits for public safety plan members are calculated as 3 percent of the member's final 3-year average salary times the member's years of service. General plan members with 10 years of continuous service are eligible to retire at age 60. Public safety plan members with 10 years of continuous service are eligible to retire at age 55. General plan members may retire at any age after 30 years of service. Public safety plan members may retire at any age after 20 years of service. All plan members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two times the member's final full-year salary. A plan member who leaves County service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are one-half of the change in the Consumer Price Index, limited to a maximum increase in retirement allowance of 2 percent for general plan members and 3 percent for public safety plan members. [If the benefit terms included ad hoc postemployment benefit changes, the pension plan should disclose information about those terms, as required by paragraph 30a(5) of this Statement.]

Contributions. Article 15 of the Regulations of the State grants the authority to establish and amend the contribution requirements of the County and active plan members to the CERS Board. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended June 30, 20X9, the average active member contribution rate was 7.0 percent of annual pay, and the County's average contribution rate was 17.74 percent of annual payroll.

Investments

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the CERS Board by a majority vote of its members. It is the policy of the CERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 20X9:

Asset Class	Target Allocation
Domestic equity	46%
International equity	21
Fixed income	26
Real estate	6
Cash	1
Total	100%

[If there had been a change in the pension plan's investment policy during the reporting period, the pension plan should disclose information required by paragraph 30b(1)(c) of this Statement.]

Concentrations. [If the pension plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the pension plan's fiduciary net position, the pension plan should disclose information required by paragraph 30b(3) of this Statement.]

Rate of return. For the year ended June 30, 20X9, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 9.58 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables

[If the pension plan reported receivables from long-term contracts with the County for contributions, the pension plan should disclose information required by paragraph 30c of this Statement.]

Allocated Insurance Contracts

[If the pension plan had allocated insurance contracts that are excluded from pension plan assets, the pension plan should disclose information required by paragraph 30d of this Statement.]

Reserves

[If the pension plan had reserves, the pension plan should disclose information required by paragraph 30e of this Statement.]

Deferred Retirement Option Program

[If the pension plan had a deferred retirement option program, the pension plan should disclose information required by paragraph 30f of this Statement.]

Net Pension Liability of the County

The components of the net pension liability of the County at June 30, 20X9, were as follows:

Total pension liability	$ 2,988,861
Plan fiduciary net position	(2,237,108)
County's net pension liability	$ 751,753
Plan fiduciary net position as a percentage of the total pension liability	74.85%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 20X9, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 20X9 valuation were based on the results of an actuarial experience study for the period July 1, 20X5–April 30, 20X7.

[If the benefit terms included ad hoc postemployment benefit changes, the pension plan should disclose information about assumptions related to those changes, as required by paragraph 31b of this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 20X9 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Domestic equity	5.4%
International equity	5.5
Fixed income	1.3
Real estate	4.5
Cash	0.0

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. [If there had been a change in the discount rate since the end of the prior fiscal year, the pension plan should disclose information about that change, as required by paragraph 31b(1)(a) of this Statement.]

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.75 percent, as well as what the County's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's net pension liability	$826,928	$751,753	$661,543

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Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE COUNTY'S NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Total pension liability				
Service cost	$ 75,864	$ 74,276	$ 71,157	$ 69,344
Interest	216,515	205,038	188,845	174,694
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(37,539)	(15,211)	(3,562)	38,438
Changes of assumptions	-	-	61,011	-
Benefit payments, including refunds of member contributions	(119,434)	(112,603)	(104,403)	(95,376)
Net change in total pension liability	135,406	151,500	213,048	187,100
Total pension liability—beginning	2,853,455	2,701,955	2,488,907	2,301,807
Total pension liability—ending (a)	$ 2,988,861	$ 2,853,455	$ 2,701,955	$ 2,488,907
Plan fiduciary net position				
Contributions—employer	$ 79,713	$ 86,607	$ 89,828	$ 91,963
Contributions—member	31,451	30,550	29,137	28,547
Net investment income	196,154	(44,099)	(16,138)	298,260
Benefit payments, including refunds of member contributions	(119,434)	(112,603)	(104,403)	(95,376)
Administrative expense	(3,373)	(3,287)	(2,774)	(2,582)
Other	8	(83)	173	(175)
Net change in plan fiduciary net position	184,519	(42,915)	(4,177)	320,637
Plan fiduciary net position—beginning	2,052,589	2,095,504	2,099,681	1,779,044
Plan fiduciary net position—ending (b)	$ 2,237,108	$ 2,052,589	$ 2,095,504	$ 2,099,681
County's net pension liability—ending (a) – (b)	$ 751,753	$ 800,866	$ 606,451	$ 389,226
Plan fiduciary net position as a percentage of the total pension liability	74.85%	71.93%	77.56%	84.36%
Covered-employee payroll	$ 449,293	$ 436,424	$ 416,243	$ 407,812
County's net pension liability as a percentage of covered-employee payroll	167.32%	183.51%	145.70%	95.44%

Notes to Schedule:

Benefit changes. In 20X1, benefit terms were modified to base public safety member pensions on a final three-year average salary instead of a final five-year average salary.

Changes of assumptions. In 20X7, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general plan members. In 20X4, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety members. In 20X1, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

	20X5	20X4	20X3	20X2	20X1	20X0
	$ 66,875	$ 62,784	$ 59,463	$ 52,111	$ 49,258	$ 40,577
	162,509	147,973	136,457	127,251	106,311	97,756
	-	-	-	-	119,513	-
	19,927	(28,228)	34,335	13,464	30,981	35,780
	-	92,500	-	-	32,979	-
	(88,790)	(86,139)	(77,185)	(70,907)	(66,789)	(60,653)
	160,521	188,890	153,070	121,919	272,253	113,460
	2,141,286	1,952,396	1,799,326	1,677,407	1,405,154	1,291,694
	$ 2,301,807	$ 2,141,286	$ 1,952,396	$ 1,799,326	$ 1,677,407	$ 1,405,154
	$ 93,541	$ 85,681	$ 68,866	$ 29,849	$ 25,086	$ 22,826
	27,743	26,709	25,577	22,673	21,132	19,202
	166,826	140,132	193,107	39,142	(22,410)	(5,750)
	(88,790)	(86,139)	(77,185)	(70,907)	(66,789)	(60,653)
	(2,086)	(2,235)	(1,912)	(1,887)	(1,509)	(1,491)
	9	75	(493)	8	-	-
	197,243	164,223	207,960	18,878	(44,490)	(25,866)
	1,581,801	1,417,578	1,209,618	1,190,740	1,235,230	1,261,096
	$ 1,779,044	$ 1,581,801	$ 1,417,578	$ 1,209,618	$ 1,190,740	$ 1,235,230
	$ 522,763	$ 559,485	$ 534,818	$ 589,708	$ 486,667	$ 169,924
	77.29%	73.87%	72.61%	67.23%	70.99%	87.91%
	$ 396,332	$ 381,554	$ 365,385	$ 323,896	$ 301,891	$ 274,318
	131.90%	146.63%	146.37%	182.07%	161.21%	61.94%

SCHEDULE OF COUNTY CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Actuarially determined contribution	$ 79,713	$ 86,607	$ 89,828	$ 91,963
Contributions in relation to the actuarially determined contribution	79,713	86,607	89,828	91,963
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 449,293	$ 436,424	$ 416,243	$ 407,812
Contributions as a percentage of covered-employee payroll	17.74%	19.84%	21.58%	22.55%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	In the 20X7 actuarial valuation, expected retirement ages of general plan members were adjusted to more closely reflect actual experience. In the 20X4 actuarial valuation, expected retirement ages of public safety members were adjusted to more closely reflect actual experience.
Mortality	In the 20X1 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

Other information:

In 20X1, benefit terms were modified to base public safety member pensions on a final three-year average salary instead of a final five-year average salary.

20X5	20X4	20X3	20X2	20X1	20X0
$ 93,541	$ 85,681	$ 68,866	$ 29,849	$ 25,086	$ 22,826
93,541	85,681	68,866	29,849	25,086	22,826
$ -	$ -	$ -	$ -	$ -	$ -
$ 396,332	$ 381,554	$ 365,385	$ 323,896	$ 301,891	$ 274,318
23.60%	22.46%	18.85%	9.22%	8.31%	8.32%

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Annual money-weighted rate of return, net of investment expense	9.58%	(2.10%)	(0.77%)	16.67%	10.46%	9.81%	15.88%	3.31%	(1.83%)	(0.46%)

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

Illustration 4—Financial Statements, Note Disclosures, and Required Supplementary Information for a Cost-Sharing Pension Plan (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures and required supplementary information required by this Statement. If the pension plan is included in the financial report of a government that applies the requirements of Statement 68, the pension plan should apply the requirements of footnotes 9 and 11 of this Statement, as applicable. The circumstances of this pension plan do not include all circumstances for which note disclosures and required supplementary information should be presented.]

TEACHERS RETIREMENT SYSTEM

Teachers Pension Plan

Statement of Fiduciary Net Position
December 31, 20X8

(Dollar amounts in thousands)

	20X8
Assets	
Cash	$ 18,503
Receivables:	
Accounts receivable—sale of investments	427,029
Accrued interest and dividends	118,443
Accounts receivable—other	71,059
Total receivables	616,531
Investments:	
Fixed income	9,511,570
Domestic and international equities	17,295,289
Real estate	3,253,128
Private equity	2,201,225
Commodities	323,990
Total investments	32,585,202
Total assets	33,220,236
Liabilities	
Accounts payable—purchase of investments	581,021
Accrued expenses	29,326
Accounts payable—other	29,294
Total liabilities	639,641
Net position restricted for pensions	$ 32,580,595

Statement of Changes in Fiduciary Net Position for the Year Ended December 31, 20X8

(Dollar amounts in thousands)

	20X8
Additions	
Contributions:	
Employer	$ 1,004,730
Member	348,176
Total contributions	1,352,906
Investment income	2,642,221
Less investment expense	(155,037)
Net investment income	2,487,184
Other	1,803
Total additions	3,841,893
Deductions	
Benefit payments, including refunds of member contributions	1,818,376
Administrative expense	43,880
Other	197
Total deductions	1,862,453
Net increase in net position	1,979,440
Net position restricted for pensions	
Beginning of year	30,601,155
End of year	$ 32,580,595

Notes to the Financial Statements for the Year Ended December 31, 20X8

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Plan Description

Plan administration. The Teachers Retirement System (TRS) administers the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan that provides pensions for teaching-certified employees of 369 participating school districts. Article 33 of the State Statutes grants the authority to establish and amend the benefit terms to the TRS Board of Trustees (TRS Board).

Management of TPP is vested in the TRS Board, which consists of nine members—five elected by the active and retired plan members, and the state director of finance, the state superintendent, the state treasurer, and the state controller, who serve as ex-officio members.

Plan membership. At December 31, 20X8, pension plan membership consisted of the following:

Inactive plan members or beneficiaries currently receiving benefits	51,392
Inactive plan members entitled to but not yet receiving benefits	7,911
Active plan members	92,096
	151,399

[If the pension plan was closed to new entrants, the pension plan should disclose that fact, as required by paragraph 30a(4) of this Statement.]

Benefits provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the member's final 3-year average compensation times the member's years of service. Plan members with 10 years of continuous service are eligible to retire at age 60. Plan members are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal the member's final full-year salary. [If the benefit terms included postemployment benefit changes, the pension plan should disclose information about those terms, as required by paragraph 30a(5) of this Statement.]

Contributions. Per Article 33 of the State Statutes, contribution requirements of the active plan members and the participating school districts are established and may be amended by the TRS Board. Plan members are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year ended December 31, 20X8, was 17.89 percent of annual payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Investments

Investment policy. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TRS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The following was the TRS Board's adopted asset allocation policy as of December 31, 20X8:

Asset Class	Target Allocation
Fixed income	28%
Domestic equity	31
International equity	21
Real estate	10
Private equity	7
Commodities	1
Cash	2
Total	100%

The preceding target allocation was amended at the beginning of 20X8 to reduce the previous allocation to domestic equities and to increase the allocation to commodities. The previous target allocation was 32 percent domestic equity and no allocation to commodities.

Concentrations. [If the pension plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of the pension plan's fiduciary net position, the pension plan should disclose information required by paragraph 30b(3) of this Statement.]

Rate of return. For the year ended December 31, 20X8, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.19 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Receivables

In addition to actuarially determined contractually required contributions, certain school districts also make semiannual installment payments, including interest at 8 percent per year, for the cost of service credits granted retroactively when the school districts initially joined TPP. As of December 31, 20X8, the outstanding balance was $6,409. These payments are due over various time periods not exceeding 5 years at December 31, 20X8.

Allocated Insurance Contracts

[If the pension plan had allocated insurance contracts that are excluded from pension plan assets, the pension plan should disclose information required by paragraph 30d of this Statement.]

Reserves

[If the pension plan had reserves, the pension plan should disclose information required by paragraph 30e of this Statement.]

Deferred Retirement Option Program

[If the pension plan had a deferred retirement option program, the pension plan should disclose information required by paragraph 30f of this Statement.]

Net Pension Liability of Participating School Districts

The components of the net pension liability of the participating school districts at December 31, 20X8, were as follows:

Total pension liability	$ 40,035,619
Plan fiduciary net position	(32,580,595)
School districts' net pension liability	$ 7,455,024
Plan fiduciary net postion as a percentage of the total pension liability	81.38%

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of December 31, 20X8, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the December 31, 20X8 valuation were based on the results of an actuarial experience study for the period January 1, 20X6–October 31, 20X8.

[If the benefit terms included ad hoc postemployment benefit changes, the pension plan should disclose information about assumptions related to those changes, as required by paragraph 31b of this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 20X8 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	**Long-Term Expected Real Rate of Return**
Fixed income	1.3%
Domestic equity	5.4
International equity	5.6
Real estate	5.0
Private equity	7.4
Commodities	2.3
Cash	0.0

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from school districts will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. [If there had been a change in the discount rate since the end of the prior fiscal year, the pension plan should disclose information about that change, as required by paragraph 31b(1)(a) of this Statement.]

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the school districts calculated using the discount rate of 7.75 percent, as well as what the school districts' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
School districts' net pension liability	$ 8,237,802	$ 7,455,024	$ 6,545,511

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE SCHOOL DISTRICTS' NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X8	20X7	20X6
Total pension liability			
Service cost	$ 989,575	$ 916,021	$ 876,655
Interest	2,779,924	2,630,290	2,502,103
Changes of benefit terms	-	50,152	-
Differences between expected and actual experience	789,864	155,142	(22,933)
Changes of assumptions	515,454	-	-
Benefit payments, including refunds of member contributions	(1,818,376)	(1,823,311)	(1,580,272)
Net change in total pension liability	3,256,441	1,928,294	1,775,553
Total pension liability—beginning	36,779,178	34,850,884	33,075,331
Total pension liability—ending (a)	$ 40,035,619	$ 36,779,178	$ 34,850,884
Plan fiduciary net position			
Contributions—employer	$ 1,004,730	$ 1,026,928	$ 966,168
Contributions—member	348,176	322,760	308,889
Net investment income	2,487,184	3,092,410	2,396,193
Benefit payments, including refunds of member contributions	(1,818,376)	(1,823,311)	(1,580,272)
Administrative expense	(43,880)	(42,469)	(43,182)
Other	1,606	1,507	2,686
Net change in plan fiduciary net position	1,979,440	2,577,825	2,050,482
Plan fiduciary net position—beginning	30,601,155	28,023,330	25,972,848
Plan fiduciary net position—ending (b)	$ 32,580,595	$ 30,601,155	$ 28,023,330
School districts' net pension liability (asset)—ending (a) – (b)	$ 7,455,024	$ 6,178,023	$ 6,827,554

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

20X5	20X4	20X3	20X2	20X1	20X0	20W9
$ 851,689	$ 848,891	$ 803,019	$ 751,730	$ 702,085	$ 659,379	$ 616,674
2,327,144	2,167,129	2,013,678	1,877,411	1,729,523	1,586,362	1,465,227
-	-	440,809	-	-	-	-
(97,644)	453,496	19,715	571,295	590,600	634,956	698,072
696,984	-	-	(239,456)	-	-	(245,993)
(1,461,008)	(1,348,610)	(1,245,796)	(1,159,601)	(1,068,346)	(998,588)	(943,311)
2,317,165	2,120,906	2,031,425	1,801,379	1,953,862	1,882,109	1,590,669
30,758,166	28,637,260	26,605,835	24,804,456	22,850,594	20,968,485	19,377,816
$ 33,075,331	$ 30,758,166	$ 28,637,260	$ 26,605,835	$ 24,804,456	$ 22,850,594	$ 20,968,485
$ 732,455	$ 486,051	$ 437,935	$ 394,545	$ 380,114	$ 489,387	$ 539,593
306,892	305,884	294,149	272,703	254,694	239,202	220,870
3,118,500	924,991	(1,033,625)	(982,548)	2,935,941	2,342,362	2,460,959
(1,461,008)	(1,348,610)	(1,245,796)	(1,159,601)	(1,068,346)	(998,588)	(943,311)
(38,684)	(41,523)	(37,402)	(33,417)	(29,401)	(27,562)	(24,904)
2,318	150,991	(471)	2,319	440	(1,965)	1,223
2,660,473	477,784	(1,585,210)	(1,505,999)	2,473,442	2,042,836	2,254,430
23,312,375	22,834,591	24,419,801	25,925,800	23,452,358	21,409,522	19,155,092
$ 25,972,848	$ 23,312,375	$ 22,834,591	$ 24,419,801	$ 25,925,800	$ 23,452,358	$ 21,409,522
$ 7,102,483	$ 7,445,791	$ 5,802,669	$ 2,186,034	$ (1,121,344)	$ (601,764)	$ (441,037)

SCHEDULE OF THE SCHOOL DISTRICTS' NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X8	20X7	20X6	20X5
Total pension liability	$ 40,035,619	$ 36,779,178	$ 34,850,884	$ 33,075,331
Plan fiduciary net position	32,580,595	30,601,155	28,023,330	25,972,848
School districts' net pension liability (asset)	$ 7,455,024	$ 6,178,023	$ 6,827,554	$ 7,102,483
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%
Covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,949,878
School districts' net pension liability (asset) as a percentage of covered-employee payroll	132.75%	118.68%	137.04%	143.49%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

20X4	20X3	20X2	20X1	20X0	20W9
$ 30,758,166	$ 28,637,260	$ 26,605,835	$ 24,804,456	$ 22,850,594	$ 20,968,485
23,312,375	22,834,591	24,419,801	25,925,800	23,452,358	21,409,522
$ 7,445,791	$ 5,802,669	$ 2,186,034	$ (1,121,344)	$ (601,764)	$ (441,037)
75.79%	79.74%	91.78%	104.52%	102.63%	102.10%
$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
150.92%	122.31%	49.70%	(27.30%)	(15.60%)	(12.38%)

SCHEDULE OF SCHOOL DISTRICTS' CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X8	20X7	20X6	20X5
Actuarially determined contribution	$ 1,004,730	$ 1,026,928	$ 966,168	$ 732,455
Contributions in relation to the actuarially determined contribution	1,004,730	1,026,928	966,168	732,455
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,949,878
Contributions as a percentage of covered-employee payroll	17.89%	19.73%	19.39%	14.80%

20X4	20X3	20X2	20X1	20X0	20W9
$ 486,051	$ 437,935	$ 394,545	$ 380,114	$ 489,387	$ 539,593
486,051	437,935	394,545	380,114	489,387	539,593
$ -	$ -	$ -	$ -	$ -	$ -
$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
9.85%	9.23%	8.97%	9.25%	12.68%	15.15%

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0	20W9
Annual money-weighted rate of return, net of investment expense	8.19%	11.23%	9.28%	13.50%	4.09%	(4.28%)	(3.82%)	12.63%	11.01%	12.91%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which information is available.

Notes to Required Supplementary Information
for the Year Ended December 31, 20X8

Changes of benefit terms. In 20X7, disability benefits were increased to be equivalent to retirement benefits. In 20X3, benefit terms were modified to incorporate a new definition of base compensation.

Changes of assumptions. In 20X8, the expectation of life after disability was adjusted to more closely reflect actual experience. In 20X5 and later, the expectation of retired life mortality was based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table, which was used prior to 20X5. In 20X2, expected retirement ages were adjusted to more closely reflect actual experience. In 20W9, assumed life expectancies were adjusted to more closely reflect actual experience.

Method and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of school districts' contributions are calculated as of December 31, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	3-year smoothed market
Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Appendix D

CODIFICATION INSTRUCTIONS

124. The sections that follow update the June 30, 2011, *Codification of Governmental Accounting and Financial Reporting Standards,* for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

SUMMARY STATEMENT OF PRINCIPLES SECTION 1100

.110 [In subparagraph c, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5; in sources of section, revise reference to GASBS 34, ¶107 as follows:] GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS 67, ¶20

* * *

FUND ACCOUNTING SECTION 1300

.102 [In subparagraph c, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5; in sources of paragraph, revise reference to GASBS 34, ¶107 as follows:] GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS 67, ¶20

* * *

BASIS OF ACCOUNTING SECTION 1600

[In Statement of Principle, subparagraph c, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5; in sources of paragraph, revise reference to GASBS 34, ¶107 as follows:] GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS 67, ¶20

.134 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS 67, ¶20]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

.175 [In footnote 35, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; revise sources of footnote as follows:] [GASBS 34, fn44, as amended by GASBS 43, ¶11, and GASBS 67, ¶14]

.181 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 25, ¶44; GASBS 27, ¶39; GASBS 34, ¶6; GASBS 34, ¶129, as amended by GASBS 67, ¶32–¶34; GASBS 43, ¶46; GASBS 45, ¶40]

.184 [In footnote 41, update cross-reference to current Section Pe5.]

* * *

NOTES TO FINANCIAL STATEMENTS SECTION 2300

.107 [In subparagraph n, add cross-reference to new Sections Pe5 and Pe6 and update cross-references to current Sections Pe5 and Pe6; in subparagraph o, replace cross-reference to current Section Pe6 with reference to new Section Po51.]

* * *

INVESTMENTS SECTION I50

.103 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 31, ¶4, as amended by GASBS 43, ¶22, GASBS 53, ¶20 and ¶67, and GASBS 67, ¶18]

* * *

INVESTMENTS—SECURITIES LENDING — SECTION I60

Sources: [Add the following:] GASB Statement 67

.113 [In footnote 12, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; revise sources of footnote as follows:] [GASBS 28, fn12, as amended by GASBS 67, ¶24; GASBS 67, fn8]

* * *

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS — SECTION J50

.115 [Add cross-reference to new Sections Pe5 and Pe6 and update cross-references to current Sections Pe5 and Pe6.] [GASBS 14, ¶81, as amended by GASBS 43, ¶11, and GASBS 67, ¶13–¶32 and ¶34–¶46]

* * *

PENSION ACTIVITIES—REPORTING FOR BENEFITS NOT PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA — SECTION P21

[In text of current Section P20, update cross-references to current Sections Pe5 and Pe6; add new Sections Pe5 and Pe6 in “See also” references.]

* * *

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—EMPLOYER REPORTING — SECTION P50

See also: [Add cross-reference to new Sections Pe5 and Pe6 and update cross-references to current Sections Pe5 and Pe6.]

.129 [In footnote 25, update cross-reference.]

* * *

[Rename Section Pe5 and replace entire section as follows:]

PENSION PLANS ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT — SECTION Pe5

Sources: GASB Statement 67

See also: Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria"
Section P50, "Postemployment Benefits Other Than Pensions—Employer Reporting"
Section Pe6, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution"
Section Pe7, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Contribution"
Section Po50, "Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"
Section Sp20, "Special-Purpose Governments"
Section T25, "Termination Benefits"

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for state and local governmental **defined benefit pension plans**[1] that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

a. Contributions from employers[2] and **nonemployer contributing entities** to the **pension plan** and earnings on those contributions are irrevocable.
b. Pension plan assets are dedicated to providing **pensions** to **plan members** in accordance with the benefit terms.[3]

c. Pension plan assets are legally protected from the creditors of the employers, the nonemployer contributing entities, plan members, and the pension plan administrator.

[GASBS 67, ¶3]

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[1]Terms defined in paragraphs .501–.541 are shown in **boldface type** the first time they appear in this section. [GASBS 67, fn1]
[2][GASBS 67, fn2; change *Statement* to *section*.]
[3][GASBS 67, fn4; change *Statement* to *section*.]

.102–.104 [GASBS 67, ¶4–¶6, including footnotes; change *Statement* to *section* and update cross-references.]

.105 [GASBS 67, ¶7; revise last two sentences as follows:] If the pensions to be provided are a function of factors other than those identified in (c), above, the pension plan through which the pensions are provided should be classified as a defined benefit pension plan and should apply the requirements of this section for defined benefit pension plans administered through a trust that meets the criteria of paragraph .101 or of Section Pe7 for defined benefit pension plans not administered through such a trust, as applicable. Otherwise, the pension plan should be classified as a **defined contribution pension plan** and should apply the requirements in Section Pe6 or Section Pe8, as applicable.

.106–.109 [GASBS 67, ¶8–¶11; change *Statement* to *section* and update cross-references.]

[Insert new paragraphs .110–.143 as follows:]

Number of Pension Plans

.110 [GASBS 67, ¶13]

.111–.143 [GASBS 67, ¶14–¶46, including headings and footnotes; change *Statement* to *section* and update cross-references.]

DEFINITIONS

.501 Paragraphs .502–.541 contain definitions of certain terms as they are used in this section and in Section Pe6; the terms may have different meanings in other contexts. [GASBS 67, ¶51]

.502–.541 [GASBS 67, ¶51, including footnotes; change *Statement* to *section* and update cross-references; in .527, revise term and definition to be singular.]

* * *

[Rename Section Pe6 and replace entire section as follows:]

PENSION PLANS ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION

SECTION Pe6

Sources: GASB Statement 67

See also: Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria"
Section Pe5, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit"
Section Pe7, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Contribution"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"
Section Sp20, "Special-Purpose Governments"

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for state and local governmental **defined contribution pension plans**[1] that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

a. Contributions from employers[2] and **nonemployer contributing entities** to the **pension plan** and earnings on those contributions are irrevocable.[3]

b. Pension plan assets are dedicated to providing **pensions** to **plan members** in accordance with the benefit terms.[4]
c. Pension plan assets are legally protected from the creditors of the employers, the nonemployer contributing entities, and the pension plan administrator.

[GASBS 67, ¶3]

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[1]Terms defined in Section Pe5, paragraphs .502–.541, are shown in **boldface type** the first time they appear in this section. [GASBS 67, fn1]
[2][GASBS 67, fn2; change *Statement* to *section.*]
[3][GASBS 67, fn3; change *Statement* to *section.*]
[4][GASBS 67, fn4; change *Statement* to *section.*]

.102–.104 [GASBS 67, ¶4–¶6, omitting footnote 5 and including footnote 6; change *Statement* to *section* and update cross-reference.]

.105 [GASBS 67, ¶7; revise last two sentences as follows:] If the pensions to be provided are a function of factors other than those identified in (c), above, the pension plan through which the pensions are provided should be classified as a **defined benefit pension plan** and should apply the requirements of Section Pe5 or Section Pe7, as applicable. Otherwise, the pension plan should be classified as a defined contribution pension plan and should apply the requirements of this section for defined contribution pension plans administered through a trust that meets the criteria of paragraph .101 or of Section Pe8 for defined contribution pension plans not administered through such a trust, as applicable.

.106 [GASBS 67, ¶11; change *Statement* to *section,* update cross-reference, and omit last sentence.]

Notes to Financial Statements

.107 [GASBS 67, ¶47, including footnote; change *Statement* to *section* and update cross-references.]

* * *

[Insert new section as follows:]

PENSION PLANS NOT ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED BENEFIT — SECTION Pe7

Sources: [Insert sources from current Section Pe5.]

See also: [Insert references from current Section Pe5; update titles of sections and add the following:]

Section Pe5, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Contribution"

[Insert Note from current Section Pe5.]

[Insert remainder of current Section Pe5; revise paragraph .101 as follows and update cross-references throughout:]

.101 This section establishes financial reporting standards for **defined benefit pension plans**[1] that are used to provide pension benefits and that are not administered through trusts that meet the criteria in Section Pe5, paragraph .101. Requirements for presenting notes to financial statements of **defined contribution plans** not administered through trusts that meet the criteria of paragraph .101 of Section Pe5 are included in Section Pe8. Requirements for defined benefit and defined contribution pension plans that are administered through trusts that meet the criteria of paragraph .101 of Section Pe5 are included in Sections Pe5 and Pe6, respectively. Section P21 addresses financial reporting of the pension expenditures/expense of employers whose employees are provided with pensions through pension plans that are within the scope of this section. [GASBS 25, ¶8, as amended by GASBS 67, ¶3]

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[1][Insert current footnote 1 from Section Pe5.]

* * *

PENSION PLANS NOT ADMINISTERED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA—DEFINED CONTRIBUTION **SECTION Pe8**

Sources: [Insert sources from current Section Pe6; add GASB Statement 67.]

See also: [Insert references from current Section Pe6; update titles of sections and add the following:]

Section Pe6, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution"
Section Pe7, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Benefit"

[Insert Note from current Section Pe6.]

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for the notes to financial statements of **defined contribution plans**[1] that are used to provide pension benefits (defined contribution pension plans) and that do not meet the criteria in Section Pe6, paragraph .101. Requirements for presenting notes to financial statements of defined contribution pension plans that meet the criteria in paragraph .101 of Section Pe6 are included in that section. Section Sp20, paragraphs .108–.110, discusses financial reporting requirements for special-purpose governments engaged only in fiduciary activities (for example, a public employee retirement system). Section P20 addresses financial reporting of the pension expenditures/expense of employers whose employees are provided with pensions through pension plans that are within the scope of this section. [GASBS 25, ¶8, as amended by GASBS 67, ¶3]

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[1]Terms that are **boldfaced** in this section are defined in Section Pe7.

.102 [Insert current Section Pe6, paragraph .102; in footnote 2, replace *pensions or OPEB* with *pensions.*]

.103 A plan that has characteristics of both a defined benefit plan and a defined contribution plan requires analysis. If the substance of the plan is to provide a defined benefit in some form—that is, if the benefit to be provided is a function of factors other than the amounts contributed and amounts earned on contributed assets—the provisions of Section Pe5 or Pe7 apply. [GASBS 25, ¶10; GASBS 67, ¶7]

.104 [Insert current Section Pe6, paragraph .104, including heading and footnote; update cross-reference.]

* * *

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED BENEFIT **SECTION Po50**

See also: [Update section references.]

[In footnote 1, replace *Section Pe5* with *Section Pe7.*]

.132 [In subparagraph d, update cross-reference.]

* * *

[Insert new section as follows:]

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED CONTRIBUTION **SECTION Po51**

Sources: [Insert sources from current Section Pe6.]

See also: [Insert references from current Section Pe6; update titles of sections and add the following:]

Section Pe6, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution"

[Insert Note from current Section Pe6.]

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for the notes to financial statements of **defined contribution plans**[1] that are used to provide other postemployment benefits. Section Sp20, paragraphs .108–.110, discusses financial reporting requirements for special-purpose governments engaged only in fiduciary activities (for example, a public employee retirement system). Section P50 addresses financial reporting of the expenditures/expense of employers whose employees are provided with postemployment benefits other than pensions through pension plans that are within the scope of this section. [GASBS 25, ¶8; GASBS 43, ¶42]

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[1]Terms that are **boldfaced** in this section are defined in Section Pe7.

.102 [Insert current Section Pe6, paragraph .102; in footnote 2 replace *pensions or OPEB* with *OPEB.*]

.103 An OPEB plan may have both defined benefit and defined contribution characteristics. If the plan provides a defined benefit in some form—that is, if the benefit to be provided is a function of factors other than the amounts contributed and amounts earned on contributed assets—the provisions of Section Po50 apply. [GASBS 43, ¶7]

.104 [Insert current Section Pe6, paragraph .104, include heading and omit footnote; update cross-reference.]

*   *   *

SPECIAL-PURPOSE GOVERNMENTS **SECTION Sp20**

.109 [In footnote 7, add cross-references to new Section Pe5 and update cross-references to current Section Pe5; revise sources of footnote as follows:] [GASBS 34, fn63, as amended by GASBS 43, ¶12, and GASBS 67, ¶11 and ¶51]

[In footnote 8, add cross-references to new Section Pe5 and update cross-references to current Section Pe5; revise sources of footnote as follows:] [GASBS 34, fn64, as amended by GASBS 43, ¶13, and GASBS 67, ¶9]

*   *   *

125. The section that follows updates the Codification Instructions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* for the effects of this Statement. The requirements of Statement 62 were effective for periods beginning after December 15, 2011.

* * *

REAL ESTATE **SECTION R30**

.196 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.]

* * *

126. The sections that follow update the Codification Instructions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* for the effects of this Statement. The requirements of Statement 63 were effective for periods beginning after December 15, 2011.

* * *

FUND ACCOUNTING **SECTION 1300**

.102 [Revise footnote 1 as follows:] For defined benefit pension plans and other postemployment benefit plans, the statement of fiduciary net position and statement of changes in fiduciary net position required by this section are equivalent to the financial statements required by Sections Pe5, Pe7, and Po50. [GASBS 34, fn43, as amended by GASBS 43, ¶11, GASBS 63, ¶8, and GASBS 67, ¶14]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

.175 [Revise footnote 34 as follows:] For defined benefit pension plans and other postemployment benefit plans, the statement of fiduciary net position and statement of changes in fiduciary net position required by this section are equivalent to the financial statements required by Sections Pe5, Pe7, and Po50. [GASBS 34, fn43, as amended by GASBS 43, ¶11, GASBS 63, ¶8, and GASBS 67, ¶14]

.176 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; revise second sentence as follows:] The detailed display requirements of Sections Pe5, Pe6, and Po50 apply to the financial statements of pension and other employee benefit trust funds. [GASBS 34, ¶108, as amended by GASBS 43, ¶11, GASBS 63, ¶7 and ¶8, and GASBS 67, ¶15–¶21]

.177 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; revise third sentence as follows:] The detailed display requirements of Sections Pe5, Pe6, and Po50 apply to the financial statements of pension and other employee benefit trust funds. [GASBS 34, ¶109, as amended by GASBS 43, ¶11, GASBS 63, ¶8, and GASBS 67, ¶22–¶29]

* * *

STATISTICAL SECTION SECTION 2800

.107 [In footnote 4, insert *fiduciary net position* after *fund net position;* insert *changes in fiduciary net position* after *changes in fund net position.*] [GASBS 44, fn4, as amended by GASBS 63, ¶8, and GASBS 67, ¶14]

* * *

INVESTMENTS—REVERSE REPURCHASE AGREEMENTS SECTION I55

Sources: [Add the following:] GASB Statement 67

.113 [In footnote 5, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; revise sources of footnote as follows:] [GASBI 3, ¶5, as amended by GASBS 67, ¶24; GASBI 3, fn2, as amended by GASBS 63, ¶8, and GASBS 67, ¶14; GASBS 34, ¶13, ¶91, and ¶106; GASBS 67, fn9]

* * *

INVESTMENTS—SECURITIES LENDING SECTION I60

.106 [In footnote 7, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; add *or the statement of changes in fiduciary net position, as applicable* after *statement of changes in plan net position*; revise sources of footnote as follows:] [GASBS 28, fn7, as amended by GASBS 63, ¶8, and GASBS 67, ¶26]

* * *

SPECIAL-PURPOSE GOVERNMENTS SECTION Sp20

.109 [Revise second sentence of current paragraph .109 as follows:] A PERS that administers more than one defined benefit pension or OPEB plan is required to present in its financial report combining financial statements for all plans administered by the system and, if applicable, required schedules for each plan. [GASBS 34, ¶140, as amended by GASBS 43, ¶11, GASBS 63, ¶8, and GASBS 67, ¶5 and ¶11]

* * *