

IMPLEMENTATION GUIDE

Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions

Questions and Answers

GASB IMPLEMENTATION GUIDES

2013–2014 Comprehensive Implementation Guide: Questions and Answers (GSIG14)

Guide to Implementation of GASB Statement 3 on Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements: Questions and Answers (GQA03)

Guide to Implementation of GASB Statement 9 on Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting: Questions and Answers (GQA09)

Guide to Implementation of GASB Statement 10 on Accounting and Financial Reporting for Risk Financing and Related Insurance Issues: Questions and Answers (GQA10)

Guide to Implementation of GASB Statement 14 on the Financial Reporting Entity: Questions and Answers (GQA14)

Guide to Implementation of GASB Statements 25, 26, and 27 on Pension Reporting and Disclosure by State and Local Government Plans and Employers: Questions and Answers (GQA25–27)

Guide to Implementation of GASB Statement 31 on Accounting and Financial Reporting for Certain Investments and for External Investment Pools: Questions and Answers (GQA31)

Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Questions and Answers (GQA34)

Guide to Implementation of GASB Statement 34 and Related Pronouncements: Questions and Answers (GQA34B)

Guide to Implementation of GASB Statement 40 on Deposit and Investment Risk Disclosures: Questions and Answers (GQA40)

Guide to Implementation of GASB Statements 43 and 45 on Other Postemployment Benefits: Questions and Answers (GQA43/45)

Guide to Implementation of GASB Statement 44 on the Statistical Section: Questions and Answers (GQA44)

Guide to Implementation of GASB Statement 53 on Accounting and Financial Reporting for Derivative Instruments: Questions and Answers (GQA53)

Guide to Implementation of GASB Statement 67 on Financial Reporting for Pension Plans: Questions and Answers (GQA67)

Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions: Questions and Answers (GQA68)

For information on prices and discount rates, please contact:

Order Department
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
1-800-748-0659

Please ask for our Product Code No. GQA68.

IMPLEMENTATION GUIDE

Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions

Questions and Answers

FOREWORD

This Implementation Guide was developed primarily to assist financial statement preparers and attestors in the implementation and application of Statement No. 68, *Accounting and Financial Reporting for Pensions*. During the development of the final Statement and since its approval in June 2012, many questions have been posed to the GASB staff regarding the application of Statement 68. Because staff responses to individual technical inquiries reach only a small portion of the GASB's constituents, the GASB uses Implementation Guides to more broadly communicate staff guidance.

Guidance in an Implementation Guide is limited to clarifying, explaining, or elaborating on an underlying standard (usually a Statement, Interpretation, or Technical Bulletin). The topics addressed may include issues raised by constituents in due process or as a result of subsequent application of a standard, as well as issues anticipated by the GASB staff. An Implementation Guide also may address issues related to the application of a standard to specific industries. Generally, a GASB Statement, Interpretation, or Technical Bulletin would be more appropriate to address new issues or to amend existing guidance on issues previously addressed.

This guide was prepared and published in accordance with the GASB's Implementation Guide procedures. These procedures require public announcement of the project, exposure of the proposed guide to the Board and an advisory committee, and approval of the final guide by the director of research and technical activities. Moreover, an Implementation Guide will not be published if a majority of Board members object to its issuance. In December 2013, the Board cleared the material in this guide for issuance.

The GASB's Implementation Guides are classified as category (d) in the hierarchy of generally accepted accounting principles, as set forth in Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and as a result, practitioners may be called upon to justify departures from guidance contained in this guide. However, the illustrative examples accompanying the text of this Implementation Guide are nonauthoritative guidance, and references to those examples do not modify their nonauthoritative status.

The publication of this guide would not have been possible without the concerted efforts of the GASB staff and the advisory committee. Project manager Michelle L. Czerkawski served as the primary staff author in the development of this guide. She was assisted by project manager Roberta E. Reese, project research associate Emily M. Clark, and postgraduate technical assistant Kelly I. Amos.

The application of GASB pronouncements is an ongoing process. A guiding principle in the GASB's mission statement addresses the need to review the effects of past decisions and to provide additional guidance when appropriate. This Implementation Guide represents just one of the many methods that the GASB uses to fulfill this important responsibility.

Norwalk, Connecticut
January 2014

David R. Bean
Director of Research
and Technical Activities

PREFACE

This Implementation Guide is intended to serve as a reference and an instructional tool. It is designed to help readers in applying the provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was approved in June 2012.

The body of this question-and-answer book consists of questions on various aspects of Statement 68. The questions and answers are based on constituent responses to the Preliminary Views and the Exposure Draft that led to the Statement, Board deliberations, technical inquiries arising since the issuance of the Statement, and insight by both the GASB staff and the guide's advisory committee. The questions and answers serve two purposes: (1) they are ready references for implementers who may encounter similar questions or situations and (2) they provide a basis for resolving issues that an implementer may apply to a question or situation not specifically addressed in this Implementation Guide.

The appendices included in the guide are intended to supplement the questions and answers. The glossary of terms presented in Appendix 1 is compiled from paragraph 139 of Statement 68. The Introduction, Standards, and Effective Date and Transition sections from Statement 68, as amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, are reproduced in Appendix 2. Appendix 3 presents illustrations based on those initially included in Statement 68, accompanied by five additional illustrations developed for this Implementation Guide. In addition, a topical index, which is intended to help readers locate questions and answers on specific matters, is included.

In preparing this Implementation Guide, we had the support of an advisory committee whose members represent diverse interests. Their comments and suggestions contributed significantly to the development of materials that are included in this guide. Members of the advisory committee are:

<u>Name</u>	<u>Affiliation</u>
Phillip Burkholder	California State Teachers' Retirement System
Nichole Burnap	Credit Suisse
Gavin Cohen	City of Rockville, Maryland
Dave DeJonge	Public Employees Retirement Association of Minnesota
Greg Driscoll	KPMG, LLP
Karl Greve	Colorado Public Employees' Retirement Association
Greg Griffin	Georgia State Auditor's Office
William Hallmark	Cheiron, Inc.
Joe Heffernan	Plante & Moran, LLP
Luke Huelskamp	Municipal Employees Retirement System of Michigan
Dax Johnson	State Street
David McDermott	State of Colorado Controller's Office
Brian Murphy	Gabriel, Roeder, Smith & Company
Michele Nix	Missouri State Employees Retirement System
Matthew Strom	The Segal Company
Marcia Van Wagner	Moody's Investors Service
Robert Wylie	South Dakota Retirement System

The members of the advisory committee do not necessarily approve of or agree with the answers given and are not responsible for the information provided in this Implementation Guide.

The authors would like to thank those involved in the editing and production of this guide, including GASB staff member Ragan P. Vincent; the Financial Accounting Foundation's Production department; and others who provided research assistance and support.

Michelle L. Czerkowski
Roberta E. Reese
Emily M. Clark
Kelly I. Amos

IMPLEMENTATION GUIDE

Guide to Implementation of GASB Statement 68 on Accounting and Financial Reporting for Pensions

Questions and Answers

CONTENTS

	Page Numbers
Foreword	iii
Preface	v
	Question Numbers
Questions and Answers	1–272
Scope and Applicability of Statement 68	1–11
Trusts or Equivalent Arrangements	10–11
Types of Pensions.....	12–15
Classifying Pensions as Defined Benefit or Defined Contribution	12–15
Types of Defined Benefit Pension Plans and Employers.....	16–21
Number of Defined Benefit Pension Plans	22–24
Special Funding Situations—Defined.....	25–32
Defined Benefit Pensions	33–264
Liabilities to Employees for Pensions.....	33–263
Reporting by Primary Governments and Component Units.....	33–35
Single and Agent Employers.....	36–120
Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting by Employers That Do Not Have a Special Funding Situation.....	36–93
Net Pension Liability	36–68
Measurement Date.....	37–38
The Pension Plan’s Fiduciary Net Position.....	39–41

	Question Numbers
Financial Statement Display	42–44
Total Pension Liability.....	45–68
Timing and Frequency of Actuarial Valuations	45–51
Projection of Benefit Payments.....	52–58
Discount Rate	59–65
Comparing Projections of the Pension Plan’s Fiduciary Net Position to Projected Benefit Payments	62–64
Calculating the Discount Rate.....	65
Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods	66–68
Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Support of Nonemployer Contributing Entities.....	69–93
Changes in the Net Pension Liability	69–92
Employer Contributions Subsequent to the Measurement Date.....	93
Recognition in Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting—All Single and Agent Employers	94–95
Notes to Financial Statements—All Single and Agent Employers.....	96–105
Pension Plan Description.....	99–101
Information about the Net Pension Liability	102
The Pension Plan’s Fiduciary Net Position.....	102
Changes in the Net Pension Liability	103–105
Required Supplementary Information—All Single and Agent Employers.....	106–120
Cost-Sharing Employers	121–217
Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting by Employers That Do Not Have a Special Funding Situation.....	121–195
Proportionate Share of the Collective Net Pension Liability	121–137
Measurement Date.....	123–124
Determining a Cost-Sharing Employer’s Proportion	125–134
Financial Statement Display	135–137

	Question Numbers
Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	138–147
Proportionate Share	142–143
Change in Proportion	144–145
Contributions during the Measurement Period	146
Employer Contributions Subsequent to the Measurement Date	147
Support of Nonemployer Contributing Entities That Are Not in a Special Funding Situation....	148–149
Measurement of the Collective Net Pension Liability, Collective Pension Expense, and Collective Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	150–195
Collective Net Pension Liability	150–174
The Pension Plan’s Fiduciary Net Position	150–151
Total Pension Liability	152–174
Timing and Frequency of Actuarial Valuations	152–158
Projection of Benefit Payments	159–165
Discount Rate	166–171
Comparing Projections of the Pension Plan’s Fiduciary Net Position to Projected Benefit Payments	168–170
Calculating the Discount Rate	171
Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods	172–174
Collective Pension Expense and Collective Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	175–195
Recognition in Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting—	
All Cost-Sharing Employers	196–197
Notes to Financial Statements—All Cost-Sharing Employers	198–208
Pension Plan Description	200–202
Information about the Employer’s Proportionate Share of the Collective Net Pension Liability	203
The Pension Plan’s Fiduciary Net Position	203
Other Information	204–208

	Question Numbers
Required Supplementary Information—All Cost-Sharing Employers	209–217
Special Funding Situations.....	218–262
Single or Agent Employers.....	218–223
Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting.....	218–223
Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	218–221
Change in Proportion	219
Contributions during the Measurement Period.....	220
Employer Contributions Subsequent to the Measurement Date	221
Support of Nonemployer Contributing Entities in a Special Funding Situation.....	222–223
Cost-Sharing Employers.....	224–227
Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting.....	224
Support of Nonemployer Contributing Entities in a Special Funding Situation.....	225–227
Governmental Nonemployer Contributing Entities.....	228–262
Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting.....	228–244
Proportionate Share of the Collective Net Pension Liability	228–239
Measurement Date	229–230
Determining a Governmental Nonemployer Contributing Entity’s Proportion	231–236
Financial Statement Display	237–239
Expense and Deferred Outflows of Resources and Deferred Inflows of Resources	240–244
Proportionate Share	241
Change in Proportion	242
Contributions during the Measurement Period.....	243
Governmental Nonemployer Contributing Entity Contributions Subsequent to the Measurement Date	244
Recognition in Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting	245–246

	Question Numbers
Notes to Financial Statements and Required Supplementary Information.....	247–262
Governmental Nonemployer Contributing Entities That Recognize a Substantial Proportion of the Collective Net Pension Liability.....	247–262
Notes to Financial Statements	247–257
Pension Plan Description	249–251
Pension Plan’s Fiduciary Net Position.....	252
Other Information.....	253–257
Required Supplementary Information	258–262
Circumstances in Which a Nonemployer Entity’s Legal Obligation for Contributions Directly to a Defined Benefit Pension Plan Does Not Meet the Definition of a Special Funding Situation	263
Governmental Nonemployer Contributing Entities	263
Payables to a Defined Benefit Pension Plan—All Employers and Governmental Nonemployer Contributing Entities	264
Defined Contribution Pensions	265
Employers That Do Not Have a Special Funding Situation.....	265
Other Issues	266
Effective Date and Transition.....	267–272
	Page Numbers
Appendix 1: Glossary	73
Appendix 2: Introduction, Standards, and Effective Date and Transition Sections from Statement 68, as amended by Statement 71	79
Appendix 3: Illustrations	117
Topical Index	189

The Governmental Accounting Standards Board has authorized its staff to prepare Implementation Guides that provide timely guidance on issues encountered during the implementation and application of GASB pronouncements. The GASB has reviewed this Implementation Guide and does not object to its issuance.

The information in this Implementation Guide need not be applied to immaterial items.

QUESTIONS AND ANSWERS

Scope and Applicability of Statement 68

1. Q—A single or agent employer provides pensions to its employees through a defined benefit pension plan that is administered through a trust that has the characteristics identified in paragraph 4 of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The employer does not have a special funding situation (as defined by paragraph 15 of Statement 68) and does not have a payable to the pension plan. If there is no requirement that the employer make contributions to the plan, does Statement 68 apply to the employer?

A—Yes. If the single or agent employer provides benefits to its employees through a defined benefit pension plan that is administered through a trust (or equivalent arrangement) in which contributions to the pension plan from employers and nonemployer contributing entities and earnings on those contributions are irrevocable; pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms; and pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the pension plan administrator, and plan members, an employer that does not have a special funding situation should follow the provisions of paragraphs 18–47 of Statement 68 for pension liabilities to employees.

2. Q—If the single or agent employer in Question 1 has a special funding situation, does Statement 68 apply to the employer?

A—Yes. Regardless of whether the single or agent employer in Question 1 has a special funding situation, if the employer provides pensions through a defined benefit pension plan that is administered through a trust (or equivalent arrangement) that has the characteristics identified in paragraph 4 of Statement 68, Statement 68 applies. A single or agent employer that has a special funding situation should follow the provisions of paragraphs 18, 19, and 83–91 of Statement 68 for pension liabilities to employees.

3. Q—An employer provides pensions to its employees through a cost-sharing defined benefit pension plan that is administered through a trust that has the characteristics identified in paragraph 4 of Statement 68. There is no requirement that the employer make annual contributions to the plan because the employer has a special funding situation (as defined by paragraph 15 of Statement 68) in which the nonemployer contributing entity is the only entity with a legal requirement to make contributions. The employer has no payables to the pension plan, and contributions to the plan are not made by any other nonemployer entities. Does Statement 68 apply to the employer?

A—Yes. Because the employer has a special funding situation for benefits provided through a pension plan that is administered through a trust that has the characteristics identified in paragraph 4 of Statement 68, Statement 68 applies. In this circumstance, the cost-sharing employer should apply the requirements of paragraphs 18, 19, and 94–96 of Statement 68 to recognize pension expense/expenditure and revenue for the support of the nonemployer contributing entity, as well as the requirements for note disclosures and required supplementary information (RSI) in paragraphs 74–82 of Statement 68.

4. Q—In the past, an employer provided pensions to its employees through a cost-sharing defined benefit pension plan that is administered through a trust that has the characteristics identified in paragraph 4 of Statement 68. The employer no longer provides benefits to active employees through the plan. Does Statement 68 apply?

A—If the cost-sharing employer has no requirement to make contributions to the plan, does not have a payable to the pension plan, and does not receive support from a nonemployer contributing entity through contributions made directly to the pension plan (whether as a result of a special funding situation or not), the requirements of Statement 68 do not apply to the financial reporting by the employer.

5. Q—A state makes contributions to an Internal Revenue Code Section 457 deferred compensation plan for its employees. Does Statement 68 apply to the employer's involvement in the Section 457 plan?

A—No. Despite similarities between Section 457 plans and certain plans that are reported by governments as pension plans (for example, Section 403(b) plans), paragraph 20 in the Basis for Conclusions of Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, indicates that for purposes of financial reporting, a Section 457 plan is not classified as a pension plan. This distinction was not modified by Statement 68. Therefore, Statement 68 does not apply to employer reporting for benefits provided through a Section 457 plan.

6. Q—An employer offers an unfunded ("pay-as-you-go") plan (that is, the employer's annual contributions are approximately equal to that year's benefit payments) that provides supplemental defined benefit pensions to certain employee classes. The plan is administered through a trust that has the characteristics identified in paragraph 4 of Statement 68. Does Statement 68 apply to pensions provided through an unfunded plan?

A—Yes. Regardless of the method or timing of funding the benefits, if the supplemental pensions are provided through a plan that is administered through a trust (or equivalent arrangement) that has the characteristics identified in paragraph 4 of Statement 68, the Statement applies.

7. Q—Would the answer to Question 6 be different if the plan were closed to new entrants?

A—No. All provisions of Statement 68 apply to pensions provided through closed plans, as well as to those provided through open plans, that are administered through a trust (or equivalent arrangement) that has the characteristics identified in paragraph 4 of that Statement.

8. Q—Does Statement 68 apply to a governmental employer that provides pensions through a single-employer plan that is administered by the employees' union if benefits are negotiated periodically (for example, every three to five years)?

A—If the pension plan is administered through a trust (or equivalent arrangement) that meets the criteria of paragraph 4 of Statement 68, Statement 68 is applicable to the state or local government whose employees are provided with pensions through the plan. This is the case regardless of the nature of the entity administering the plan or whether the benefits provided through the plan are subject to periodic negotiation.

9. Q—If an employer provides pensions through a pension plan that is administered through a trust that meets the criteria of paragraph 4 of Statement 68, do any of the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as amended, or Statement No. 50, *Pension Disclosures*, as amended, apply?

A—No. For pensions within its scope, Statement 68 replaces the requirements of Statements 27 and 50, as amended.

Trusts or Equivalent Arrangements

10. Q—A pension plan’s trust agreement includes a provision for return of amounts remaining in the trust to an employer if all obligations associated with a plan that is administered through the trust have been fulfilled. Is this provision consistent with the criterion in paragraph 4a of Statement 68 regarding the irrevocability of contributions?

A—Yes. As used in paragraph 4a of Statement 68, irrevocability is understood to mean that an employer no longer has ownership or control of the assets, except for any reversionary right once *all* benefits have been paid. That is, for purposes of the Statement, the trust should be so constituted that assets may flow from an employer to the plan, but not from the plan to an employer—unless and until all obligations to pay benefits in accordance with the plan terms have been satisfied by payment or by defeasance with no remaining risk regarding the amounts to be paid or the value of plan assets.

11. Q—A pension plan’s trust agreement includes a provision for the return of plan assets to an employer if the funded status of the plan reaches a specified level, regardless of whether all obligations associated with the plan that is administered through the trust have been fulfilled. Is this provision consistent with the criterion in paragraph 4a of Statement 68 regarding the irrevocability of contributions?

A—No. A provision for the reversion of plan assets to an employer prior to the point at which all obligations associated with the plan have been fulfilled is not consistent with the criterion related to irrevocability of contributions. Pensions that are provided through a plan that has such a provision are not within the scope of Statement 68, and an employer should continue to report those pensions by applying the requirements of Statements 27 and 50, as amended, as applicable.

Types of Pensions

Classifying Pensions as Defined Benefit or Defined Contribution

12. Q—The terms of a pension specify that an employer is required to contribute 7.5 percent of each employee’s annual salary to an individual employee account. Individual employee accounts are credited with interest at a rate of 5 percent per year, as specified in the benefit terms, and are assessed an administrative fee based on the average balance of assets in the account for the year. During retirement, an employee draws down the balance of the account, with interest continuing to accrue at the specified interest rate. Should this pension be classified as defined benefit or as defined contribution for purposes of applying Statement 68?

A—This pension is defined benefit for purposes of applying Statement 68. To be classified as a defined contribution pension, paragraph 10 of Statement 68 specifies that all three of the following criteria are required to be met:

- a. An individual account is provided for each employee.
- b. The plan terms define the amount of contributions that the employer is required to make (or credits that it is required to provide) to an active employee’s account for periods in which the employee renders service.
- c. The pension that an employee will receive will depend only on the contributions (or credits) to the employee’s account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee’s account.

Although the pension provided in this question meets the first two of these criteria, it does not meet the third criterion because the interest credited to an employee's account is based on a specified rate regardless of the actual earnings on the underlying investments made with the assets in the account. Because the pension does not meet all three of the criteria identified in paragraph 10 of Statement 68 to be classified as defined contribution, it should be classified as defined benefit for purposes of applying Statement 68.

13. *Q*—If, instead of crediting interest to the employees' accounts at a specified rate of return, the benefit terms described in Question 12 provide that interest on employees' account balances is determined based on an outside index, how should the pension be classified for accounting and financial reporting purposes?

A—Unless the investments of each employee's account mirror the investments that comprise the outside index, the crediting of interest earnings based on a rate that is tied to the performance of an outside index does not represent actual earnings on investments in the employees' accounts, and the pension should be classified as defined benefit for purposes of applying Statement 68.

14. *Q*—The terms of a pension meet the criteria in paragraphs 10a and 10b of Statement 68 to be classified as defined contribution but provide that, upon retirement, the balance in an employee's individual account is converted to an immediate life annuity paid by the pension plan. Annuity payments are calculated at the employee's retirement date based on mortality tables and an interest rate established by the pension plan's administrative board. The total amount of payments received is not otherwise limited by the amounts in the employee's account—that is, if the employee lives longer than projected at retirement, benefit payments continue at the amount calculated at retirement until the employee's death. Is the pension defined contribution or defined benefit for financial reporting purposes?

A—The pension is defined benefit. Although the amount of an employee's annuity payment is based on the individual account balance at retirement, the total amount of benefits received by the employee does not depend only on "the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account." The total amount of benefits also depends on the number of years the employee lives to receive benefit payments. Further, the amount of the benefit payments depends upon the interest rate established by the plan, rather than on actual earnings on the investment of assets in the account. Therefore, the annuitization of the employee's account balance under the benefit terms results in a pension that does not depend solely on the factors identified in paragraph 10c of Statement 68.

15. *Q*—The terms of a pension otherwise meet the criteria in paragraph 10 of Statement 68 to be classified as defined contribution but provide that after an employee retires, the employee has the option to annuitize some or all of their account balance through the purchase of an individual annuity contract with a third party. Is this plan defined contribution for financial reporting purposes?

A—Yes. In the circumstance described in this question, the purchase of the annuity is a separate transaction between the employee and the third party. Because there is no potential for a change in the obligation of the employer related to the amounts that will be provided to the employee as a result of the annuity purchase option, in this case, the annuitization of the employee's account balance does not impact the classification of the pension as defined contribution.

Types of Defined Benefit Pension Plans and Employers

16. Q—A public employee retirement system (PERS) administers the assets, the payment of benefits, and the general recordkeeping and support services for pensions provided to the employees of three employer governments. A separate actuarial valuation is performed for separate classes of employees (for example, general government employees versus public safety employees), and employers make contributions for each class at the rate for the class applied to the employer's active-employee covered payroll for the class. Plan assets legally are available to pay benefits to any employee. What type of plan(s) is the PERS administering?

A—The classification of the plan depends on whether there is a legal segregation of assets for purposes of providing benefits to the different classes of employees. In this situation, although different rates are calculated for different classes of employees, all plan assets legally are available to pay benefits of any employee, regardless of their employment class. Therefore, this plan is a cost-sharing multiple-employer plan for purposes of applying Statement 68.

17. Q—If the facts regarding the plan in Question 16 were changed, to the extent that separate actuarial valuations were performed for separate employers based on their employees and an allocation of assets to each employer, rather than for separate classes of employees, would the separate valuations change the classification of the plan from a cost-sharing multiple-employer plan to an agent multiple-employer plan?

A—No. The classification of the plan depends on whether assets held by the pension plan legally can be used to pay the benefits of the employees of any of the employers. In this situation, although different contribution rates are established for different employers, all plan assets legally are available to pay benefits pertaining to the employees of any employer. Therefore, this plan is classified as a cost-sharing multiple-employer plan for purposes of applying Statement 68.

18. Q—A defined benefit pension plan is used to provide pensions to the employees of a state government and several governments that are component units of the state. There are no other entities whose employees are provided with pensions through the plan. The assets in the plan legally can be used to pay benefits to the employees of the state or any of the component units. Is this plan a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan?

A—This plan is a single-employer plan for financial reporting purposes. Defined benefit pension plans are classified according to the number of employers whose employees are provided with benefits through the plan and whether pension obligations and pension plan assets are shared. Paragraph 11 of Statement 68 specifies that a primary government and its component units should be considered to be one employer for purposes of classifying a defined benefit pension plan as single employer or multiple employer. Therefore, the plan in this question is considered to be used to provide benefits to the employees of only one employer and is classified as a single-employer plan for financial reporting purposes.

19. Q—A defined benefit pension plan is used to provide pensions to the employees of a state government, several governments that are component units of the state, and governments other than the state and the component units. Is this plan a single-employer, agent multiple-employer, or cost-sharing multiple-employer plan?

A—The plan is a multiple-employer plan for financial reporting purposes. If (a) a separate account is maintained for each of the governments or (b) a separate account is maintained for the state and its component units together and separate accounts are maintained for each of the other governments, such that the assets in each of the separate accounts legally are available to pay the benefits of only the employees of the government or governments whose assets are maintained in the separate account, the plan would be classified as an agent multiple-employer plan. If, instead, the pension plan assets legally can be used to pay the benefits of the employees of any of the governments, the plan would be classified as a cost-sharing multiple-employer plan.

20. **Q**—For purposes of classifying a defined benefit pension plan as single employer or multiple employer under paragraph 11 of Statement 68, does it matter whether the component unit is discretely presented or blended by the primary government?

A—No. For purposes of paragraph 11 of Statement 68, the primary government and its component unit are considered to be one employer regardless of whether the component unit is discretely presented or blended by the primary government.

21. **Q**—A PERS administers a single trust fund through which pensions are provided to employees of local governments in a state. For certain employers (“nonpool employers”), the PERS maintains separate asset accounts. The assets and obligations of other employers (“pool employers”) are pooled. How should this arrangement be classified for purposes of applying Statement 68?

A—If the assets of each of the nonpool employers cannot legally be used to pay benefits to the employees of any other employer, the portion of the trust that is being used to administer benefits to the employees of the nonpool employers is a separate (agent multiple-employer) plan, and nonpool employers should apply the requirements of Statement 68 for agent employers. In this circumstance, the portion of the trust that is being used to administer the benefits of the employees of pool employers is a cost-sharing multiple-employer plan, and pool employers should apply the requirements of Statement 68 for cost-sharing employers. If, however, the assets in the trust may legally be used to pay benefits to the employees of any of the employers (pooled or nonpooled), the arrangement is one cost-sharing multiple-employer plan for financial reporting purposes, and all of the employers should apply the requirements of Statement 68 for cost-sharing employers.

Number of Defined Benefit Pension Plans

22. **Q**—A defined benefit plan is used to provide pensions to two classes of employees—those in elected positions and those in nonelected positions. Does Statement 68 require that the employer report the benefits provided to each class of employees as a separate plan?

A—If, on an ongoing basis, all assets are available for the payment of pension benefits to either class of employees, even if the benefits differ by class, there is only one plan for financial reporting purposes. If, on an ongoing basis, a portion of the assets is legally restricted for the payment of benefits to one of the two membership classes, there are two separate plans for financial reporting purposes, even if the assets are pooled for investment purposes.

23. **Q**—If, within a single trust, a portion of the assets are legally segregated to pay the defined benefit pensions of a particular class of the employees of all local governments within a state (for example, elected officials) and a portion is legally segregated to pay the defined benefit pensions of another class of employees of the local governments, should the portion of the assets associated with each class be considered assets of a separate plan?

A—Yes, if, on an ongoing basis, each portion of assets held in the trust may not legally be used to pay benefits to other classes of employees. Paragraph 14 of Statement 68 requires, in that circumstance, that the portion of trust assets segregated to pay benefits to each class of employees be considered assets of a separate defined benefit pension plan for financial reporting purposes. In this case, because each plan is used to provide benefits to more than one employer, each plan would be classified as a separate multiple-employer plan.

24. *Q*—Within a trust used to administer defined benefit pensions, a certain portion of employer contributions and earnings on those contributions are accumulated in a separate account to be used as the basis for determining ad hoc cost-of-living adjustments that, if granted, will adjust the benefits of all retirees. Should the assets in the separate account be considered assets of a separate pension plan?

A—No. Paragraph 14 of Statement 68 requires that “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 . . . to *any* of the employees, 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 employees, employers, or types of benefits be maintained. . . .” That paragraph further differentiates between a separate account used as described in this question—that is, to provide an additional benefit to *all* retirees—and an account legally restricted for the benefits to only certain classes or groups of employees or to employees who are employees of certain entities.

Special Funding Situations—Defined

25. *Q*—For purposes of evaluating whether there is a special funding situation under Statement 68, what does it mean for a nonemployer entity to be legally responsible for contributions to a pension plan?

A—For purposes of applying paragraph 15 of Statement 68, a nonemployer entity is legally responsible for contributions if it is required by legal or contractual provisions to make the contributions. Sources of legal provisions include those arising from constitutions, statutes, charters, ordinances, resolutions, governing body orders, and intergovernmental grant or contract regulations. Therefore, for purposes of Statement 68, a nonemployer contributing entity should be considered legally responsible for contributions if, for example, there is a statutory requirement that it make a contribution. (See also Questions 26–28.)

26. *Q*—If a state legislature is not bound by the decisions of a prior legislature and the state’s requirement to contribute directly to a pension plan as a nonemployer entity is established in statute, could the state ever have a special funding situation?

A—Yes. The fact that a decision of one legislature cannot bind a subsequent legislature should not be considered an indication that the nonemployer contributing entity does not have a legal obligation to make a contribution for the purposes of applying paragraph 15 of Statement 68. Nor should the circumstance be considered a condition that makes the contribution dependent upon an event or circumstance unrelated to the pensions. Therefore, if the amount of the contribution is defined in such a manner that it meets the criterion in paragraph 15a of Statement 68 or if the nonemployer entity is the only entity that is legally responsible to make contributions directly to the pension plan, the circumstances would be classified as a special funding situation for purposes of Statement 68.

27. *Q*—In the past, a governmental nonemployer entity that is not otherwise identified as being responsible for making contributions to a defined benefit pension plan has made contributions directly to the pension plan as a nonemployer entity. Should the nonemployer entity’s involvement be accounted for as a special funding situation? If not, which accounting and financial reporting standards apply?

A—No. The first characteristic of a special funding situation as described in paragraph 15 of Statement 68 is that the nonemployer entity is legally responsible for making contributions directly to the pension plan. A historical pattern of appropriating resources to make contributions directly to the pension plan is not equivalent to a legal obligation for the nonemployer entity to make contributions to the pension plan. Therefore, in this circumstance, the nonemployer entity’s involvement should not be accounted for as a special funding situation. The employers that provide benefits through the plan should apply the requirements of Statement 68 for employers that are not

in special funding situations. In periods in which it makes contributions, the nonemployer entity should apply the requirements of paragraph 13 of Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, as amended, for on-behalf payments of fringe benefits.

28. Q—Would the answer to Question 27 be different if the governmental nonemployer contributing entity's resources have been appropriated specifically for the purpose of making the contributions to the pension plan?

A—No. An appropriation of resources for purposes of making a contribution to the pension plan is not, by itself, sufficient to create a legal requirement for the contributions for purposes of applying paragraph 15 of Statement 68.

29. Q—If an employer's contributions to a pension plan are reimbursed through a federal grant, should this be accounted for as a special funding situation with the grantor as a nonemployer contributing entity?

A—No. Among other conditions, paragraph 15 of Statement 68 specifies that in order to be a special funding situation, the nonemployer contributing entity is required to make contributions directly to the pension plan. The federal grant is provided to the employer as a reimbursement of the employer's direct contributions to the pension plan. Therefore, the circumstances do not meet the definition of a special funding situation.

30. Q—In evaluating whether a special funding situation exists, does it matter if a nonemployer contributing entity is considered to be a state or local government for financial reporting purposes?

A—No. For purposes of evaluating whether a special funding situation exists, the type of entity (governmental or nongovernmental) for financial reporting purposes is not a factor.

31. Q—If a nonemployer contributing entity's contribution requirement is defined in statute to be a specified percentage of the actuarially determined contribution of the employer, is the amount of the contribution "dependent upon one or more events or circumstances unrelated to the pensions"?

A—No. A contribution amount that is defined as a percentage of an actuarially determined contribution is related to the pensions provided through the plan and, therefore, would meet the condition described in paragraph 15a of Statement 68.

32. Q—A governmental nonemployer contributing entity has a legal requirement to make contributions directly to a defined benefit pension plan. In the current measurement period, the nonemployer contributing entity's contribution requirement has the characteristics of a special funding situation under paragraph 15 of Statement 68. However, legislation has been passed that reduces the nonemployer contributing entity's contribution requirement to zero in steps over the next five years. Should the circumstances be accounted for by the nonemployer contributing entity as a special funding situation?

A—Yes. Because the circumstances meet the requirements of paragraph 15 of Statement 68 to be accounted for as a special funding situation in the current period, the nonemployer contributing entity should apply the requirements of Statement 68 applicable to those situations. However, in establishing the governmental nonemployer contributing entity's proportion under paragraphs 97–99 of Statement 68, the nonemployer contributing entity is encouraged to consider the provisions of the legislation. (See also Question 235.)

Defined Benefit Pensions

Liabilities to Employees for Pensions

Reporting by Primary Governments and Component Units

33. Q—A single-employer defined benefit pension plan is used to provide pensions to the employees of a state government and several governments that are component units of the state. In their stand-alone financial reports, should each of the component units report as a single employer?

A—No. Paragraph 18 of Statement 68 requires that component units apply the cost-sharing employer requirements of Statement 68 for their own stand-alone financial reports. Therefore, each government would report its proportionate share of the collective net pension liability¹ and would follow the requirements of paragraphs 48–82 of Statement 68 (for cost-sharing employers that do not have a special funding situation) or paragraphs 92–96 of that Statement (for cost-sharing employers that have a special funding situation). Only in the financial report of the reporting entity (that is, the financial report that includes both the state and its component units) would note disclosures and RSI be presented in conformity with the requirements of paragraphs 37–47 of Statement 68 for a single employer.

34. Q—In the circumstances described in Question 33, if the component units do not issue stand-alone financial reports, is a portion of the net pension liability required to be allocated to the component units as if they were cost-sharing employers for purposes of the reporting entity's financial report?

A—Yes. The notion of the reporting entity described in Statement No. 14, *The Financial Reporting Entity*, as amended, is one in which the financial data of the component units is included with the financial data of the primary government. Regardless of whether the financial data (in this case, the net pension liability and related measures) is issued in stand-alone financial reports of the component units, the reporting entity's financial report should include that data as if it had been. Paragraph 18 of Statement 68 requires that in stand-alone financial statements, the component units account for and report their participation in the pension plan as if they were cost-sharing employers. Therefore, the financial report of the reporting entity should include the primary government's and the component units' proportionate shares of the collective net pension liability and related measures as if the entities were cost-sharing employers.

35. Q—For purposes of applying the requirements of paragraph 18 of Statement 68 regarding the reporting of information about pensions in the stand-alone reports of a primary government and its component units when those governments provide benefits through the same single-employer or individual agent-employer pension plan, does it matter whether the component unit is discretely presented or blended by the primary government?

A—No. For purposes of paragraph 18 of Statement 68, in stand-alone financial reports, the primary government and its component units each should account for and report its participation in the single-employer or individual agent-employer pension plan as if it was a cost-sharing employer, regardless of whether the component units are discretely presented or blended by the primary government.

¹In this Implementation Guide, unless otherwise indicated, references to *net pension liability* also apply to the situation in which the pension plan's fiduciary net position exceeds the total pension liability, resulting in a net pension asset.

Single and Agent Employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that do not have a special funding situation

Net pension liability

36. Q—What guidance does Statement 68 provide regarding recognizing a portion of the net pension liability in fund financial statements if a portion of the net pension liability of a single or agent employer will be paid from an enterprise, internal service, or fiduciary fund?

A—Except for blended component units, which are discussed in Questions 34 and 35, Statement 68 does not establish specific requirements for allocation of the net pension liability or other pension-related measures to individual funds. However, for proprietary and fiduciary funds, consideration should be given to National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 42, as amended, which requires that long-term liabilities that are “directly related to and expected to be paid from” those funds be reported in the statement of net position or statement of fiduciary net position, respectively.

Measurement Date

37. Q—If a single employer’s fiscal year-end is the same as the fiscal year-end of the pension plan through which it provides benefits, can the employer report a net pension liability as of a measurement date that is one year earlier than the “as of” date of the net pension liability reported by the plan at the same fiscal year-end?

A—Yes. To avoid a circumstance in which employer financial reports potentially would be delayed awaiting information that also is included in the pension plan’s financial report, Statement 68 permits the measurement date of the net pension liability reported by a single or agent employer to be as of a date no earlier than the end of its prior fiscal year provided that the actuarial valuation used to determine the net pension liability meets the timing requirements of paragraph 22 of Statement 68 and that the measure meets the requirement of paragraph 23 of Statement 68 that the plan and the employer use the same assumptions when measuring similar or related information. (See Questions 45–47.) Single-employer pension plans are required by Statement No. 67, *Financial Reporting for Pension Plans*, to report information about the net pension liability of the employer as of the plan’s fiscal year-end. Therefore, for example, in financial statements as of June 30, 20X5, a single-employer pension plan is required to report a net pension liability measured as of June 30, 20X5, whereas the single employer that provides benefits through the plan can report a net pension liability with a measurement date of June 30, 20X4, if the requirements of paragraphs 22 and 23 of Statement 68 are met.

38. Q—If an employer participates in more than one defined benefit pension plan, is the employer required to use the same measurement date for each (collective) net pension liability?

A—No. Paragraph 18 of Statement 68 specifies that the requirements of that Statement related to liabilities to employees for pensions, which include the provisions of the Statement for the selection of the measurement date of the (collective) net pension liability, should be applied separately to the pensions provided through each defined benefit pension plan. Therefore, provided that the measurement date for each (collective) net pension liability meets the requirements of Statement 68, the related pension liabilities presented in an employer’s financial report can have different measurement dates. For example, in financial statements for its fiscal year ended June 30, 20X5, an employer can report a net pension liability with a measurement date of December 31,

20X4, for pensions provided through single-employer Pension Plan A and a proportionate share of the collective net pension liability with a measurement date of March 31, 20X5, for pensions provided through cost-sharing Pension Plan B. (See Question 95 regarding note disclosure requirements when different measurement dates are used.)

The Pension Plan's Fiduciary Net Position

39. *Q*—Do the provisions for update procedures for the total pension liability also apply to valuation of the pension plan's fiduciary net position component of the net pension liability? That is, can the measure of the pension plan's fiduciary net position from an earlier date be rolled forward for use in the measure of the net pension liability at the current measurement date?

A—No. Paragraph 20 of Statement 68 requires that the pension plan's fiduciary net position component of the net pension liability be determined at the measurement date using the same valuation methods that would be applied by the pension plan for purposes of preparing the pension plan's statement of fiduciary net position. (See Question 48 for additional discussion of update procedures for the total pension liability.)

40. *Q*—If a change occurs in a factor relevant to measurement of the pension plan's fiduciary net position between the measurement date of the net pension liability and the employer's current fiscal year-end, should the net pension liability that is reported by the employer in the current fiscal year be updated to include the effects of the change?

A—No. The employer should report the net pension liability determined as of the measurement date. The effects of a change in the pension plan's fiduciary net position that occurs subsequent to the measurement date of the net pension liability reported in the current fiscal year should be reflected in the net pension liability as of the next measurement date—that is, in the next fiscal year. (See Question 105 regarding note disclosures about changes subsequent to the measurement date.)

41. *Q*—In years in which investment returns exceed expectations, an agent multiple-employer pension plan reports a portion of those returns in an investment reserve at the aggregated plan level, and the amounts in the reserve account are excluded from the plan assets of the individual employers' plans for purposes of determining their contribution requirements. The amounts remain in the reserve account until a year in which investment returns are lower than expected, at which time a portion of the investment account is allocated to individual employers' plans. For purposes of Statement 68, can amounts in the reserve account be excluded from the measures of the pension plan's fiduciary net position used to determine the net pension liabilities reported by the individual employers?

A—No. For purposes of Statement 68, the assets in the reserve account should be allocated to the fiduciary net position of the pension plans of the individual employers. To exclude those assets would overstate the net pension liabilities of all of the employers that provide benefits through the agent multiple-employer pension plan.

Financial Statement Display

42. *Q*—If the total pension liability is less than the pension plan's fiduciary net position, should the net balance be displayed in a single or agent employer's statement of net position as a negative net pension liability or as a net pension asset?

A—A net pension liability that is negative is, and should be displayed as, an asset in the employer's statement of net position.

43. Q—Should a net pension liability (or aggregation of net pension liabilities) be displayed on a separate line on the face of the financial statements?

A—The net pension liability is not required to be displayed separately on the face of the financial statements. However, for some governments, it will be a significant balance, which may be displayed separately on the face of the financial statements. Liabilities for net pension liabilities associated with different pension plans may be aggregated for display, and pension assets for net pension assets associated with different plans may be aggregated for display. However, aggregated pension assets and aggregated pension liabilities should be separately displayed.

44. Q—Can net pension liabilities associated with different plans be displayed in the aggregate if the liabilities do not have the same measurement date?

A—Yes. Statement 68 does not limit the aggregation of pension liabilities based on measurement dates.

Total Pension Liability

Timing and Frequency of Actuarial Valuations

45. Q—Is the actuarial valuation date required to have the same relationship to the measurement date in each reporting period (or, for employers that have biennial actuarial valuations, to the measurement date in every other reporting period)?

A—No. Unlike the measurement date of the net pension liability, which is required to maintain the same relationship with the employer's fiscal year-end from period to period (for example, in every year, the employer uses a measurement date of June 30 of the prior fiscal year), the date of the actuarial valuation that is used to determine the employer's net pension liability at the measurement date can vary from period to period (or every 2 periods when biennial valuations are used) provided that it is within 30 months and 1 day of the employer's fiscal year-end.

46. Q—Actuarial valuations to determine the total pension liability for pensions provided through a single-employer plan are performed as of June 30 each year, which also is the fiscal year-end of the pension plan and the employer. Because the results of the actuarial valuation are not available until several months after the actuarial valuation date, the pension plan, in its financial report, discloses information about the total pension liability based on an update of the results of the actuarial valuation as of the end of its prior fiscal year. The employer elects to use a measurement date one year prior to its fiscal year-end—that is, in its financial statements as of June 30, 20X5, it reports a net pension liability with a measurement date of June 30, 20X4. At June 30, 20X5, as the basis for the total pension liability, should the employer use the results of the update of the June 30, 20X3 actuarial valuation that was used to report information about the total pension liability in the pension plan's financial report as of June 30, 20X4, or should the employer use the results of the actuarial valuation as of June 30, 20X4?

A—Paragraph 23 of Statement 68 requires that the pension plan and employer use the same assumptions when measuring similar or related pension information. Therefore, if any assumption used in the actuarial valuation as of June 30, 20X4, was different from an assumption used in the update of the June 30, 20X3 actuarial valuation used by the pension plan to report the net pension liability as of June 30, 20X4, the employer is required to use the results of the same update of the June 30, 20X3 actuarial valuation.

47. **Q**—What is the earliest date of an actuarial valuation that can be used as the basis for determining the total pension liability component of the net pension liability reported by a single or agent employer at its June 30, 20X5 fiscal year-end?

A—Paragraph 22 of Statement 68 permits use of an actuarial valuation as of a date 30 months and 1 day earlier than the employer's most recent fiscal year-end as the basis for the total pension liability reported by a single or agent employer. Therefore, in its June 30, 20X5 financial statements, the employer can use the results of an actuarial valuation as of December 31, 20X2, or later.

48. **Q**—The measurement date for the net pension liability of a single or agent employer is June 30. Actuarial valuations of the total pension liability component of the net pension liability are obtained annually as of December 31. In conformity with the requirements of paragraph 22 of Statement 68, the results from the mid-year actuarial valuation are updated to June 30. Are there specific procedures that are required for an update for financial reporting purposes?

A—No. Statement 68 does not establish specific procedures for this purpose. Therefore, professional judgment should be applied to determine the extent of procedures necessary to faithfully represent the total pension liability as of the measurement date. In all circumstances, the total pension liability should include all significant effects of transactions and other events between the actuarial valuation date and the measurement date. In some circumstances, for example, if there are few differences between expected and actual experience, no changes in benefit terms, and no circumstances suggesting that a significant change of assumption is needed, it might be reasonable to roll forward the results of the mid-year actuarial valuation to the measurement date with few adjustments. However, in other circumstances, more significant adjustments might be necessary to update the results of the mid-year actuarial valuation to the measurement date. (See Question 49 for examples of events that might have a significant effect on the total pension liability.) The Statement also requires that in evaluating the extent of procedures necessary to update the measure to the measurement date, among the factors that should be considered is whether a new actuarial valuation is needed for this purpose. (See Question 104 regarding note disclosures when update procedures are used.)

49. **Q**—What are some examples of transactions or other events that can occur between the actuarial valuation date and the measurement date that might have a significant effect on the total pension liability?

A—A change in the total pension liability can arise from a single factor or a combination of factors. Some examples of circumstances that might have a significant effect on the total pension liability include a change of benefit terms, a change in the size or composition of the covered group, a change in the municipal bond yield or index rate component of the discount rate, and a change in the pension plan's fiduciary net position such that the discount rate used in the calculation of the total pension liability is impacted.

50. **Q**—If a change occurs in a factor relevant to measurement of the total pension liability between the measurement date of the net pension liability and the employer's current fiscal year-end, should the net pension liability that is reported by the employer in its current fiscal year be updated to include the effects of the change?

A—No. The employer should report the net pension liability determined as of the measurement date. The effects on the total pension liability of a change that occurs subsequent to the measurement date of the net pension liability reported in the current fiscal year should be reflected in the net pension liability as of the next measurement date—that is, in the employer's next fiscal year. (See Question 105 regarding note disclosures related to changes subsequent to the measurement date.)

51. Q—When actuarial valuations are performed biennially, does Statement 68 require an update to the total pension liability in the intervening year for purposes of financial reporting by single or agent employers?

A—Yes. The total pension liability reported in a single or agent employer's financial statements should be a new measure each year, based either on a new actuarial valuation as of the measurement date or on an actuarial valuation performed as of a date no earlier than 30 months and 1 day prior to the end of the employer's fiscal year that is updated to the measurement date. If update procedures are used and significant changes occur in, for example, benefits, the covered population, or other factors affecting the valuation results between the actuarial valuation date and the measurement date of the net pension liability, professional judgment should be used to determine the extent of the procedures needed to roll forward the measurement of the total pension liability, and consideration should be given to whether a new actuarial valuation is needed. (See also Question 48.)

Projection of Benefit Payments

52. Q—Should refunds of employee contributions through a defined benefit pension plan be included in the projection of benefit payments for purposes of measuring the total pension liability of a single or agent employer?

A—Yes. When provided through a defined benefit pension plan, refunds of employee contributions are a form of benefit payment for purposes of Statement 68 and should be included in the projection of benefit payments for purposes of measuring the total pension liability of a single or agent employer, including determination of the discount rate to be applied in the measurement.

53. Q—The amount of a defined benefit pension is determined based on an employee's years of service and final three-year average pay. The calculation of pay for this purpose includes the employee's base salary and overtime pay. Should the projection of benefit payments include an assumption about overtime pay?

A—Yes. In this circumstance, overtime pay should be considered in the projection of benefit payments. Paragraph 24 of Statement 68 requires that the projection of benefit payments include all benefits to be provided to the employees in accordance with the benefit terms. That paragraph further specifically requires that the effects of projected salary changes be included in the projection of benefit payments in circumstances in which the pension formula incorporates future compensation levels. Although not part of the employee's base salary, the pension formula establishes overtime compensation as a relevant factor in determining the amount of an employee's pension. Therefore, consistent with the requirements of paragraph 24 of Statement 68, the projected impact of future overtime compensation on the benefit payments that will be made to the employee should be included in the measure.

54. Q—A defined benefit pension plan's enabling statute provides for a cost-of-living adjustment (COLA) if the investment earnings rate for the plan's fiscal year exceeds the actuarially assumed rate. Should this COLA be treated as an automatic COLA?

A—Yes. Paragraph 24 of Statement 68 requires that the effects of any COLAs that are embedded in the benefit terms and for which there is no discretion as to timing or amount be included in the projection of future benefit payments. In this example, although a certain economic condition is required to be met for the COLA to be effective, if that condition is met, there is no discretion regarding whether the COLA will be granted.

55. Q—A defined benefit pension plan's enabling statute provides that the board of trustees can annually authorize a COLA not to exceed a specified percentage increase or the change in the consumer price index, whichever is lower. The maximum allowable COLA has always been authorized. Should the effects of this COLA provision be included in the projection of future benefit payments?

A—This COLA is not automatic because approval of the board of trustees is required to authorize the benefit increase. Therefore, the effects of the COLA provision should be included in the projection of future benefit payments only if the provision is evaluated to be *substantively automatic*. Footnote 9 of Statement 68 identifies some of the factors that might be relevant in making this determination—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.

56. Q—When should the effects of an ad hoc COLA that is determined not to be substantively automatic be included in the projection of future benefit payments?

A—If an ad hoc COLA is determined not to be substantively automatic, the effects of benefit changes made as a result of the COLA should be included in the measurement of the total pension liability as of the first measurement date at which the ad hoc COLA has been granted and the amount is known or reasonably estimable.

57. Q—A collective-bargaining agreement that includes a provision for a postemployment benefit increase has been made prior to the measurement date of the net pension liability. However, the increase does not go into effect until after the current measurement date. Should the increase in projected benefit payments as a result of this agreement be included in the measurement of the total pension liability?

A—Yes. The actuarial present value of projected benefit payments should include benefits to be provided pursuant to a contractual agreement, including a collective-bargaining agreement, that is in effect at the measurement date. In other words, the issue is whether the *agreement* is in effect at that date, not whether the benefits included in the agreement will begin to accrue or begin to be paid by that date.

58. Q—A collective-bargaining agreement that includes a provision for a postemployment benefit increase has been made after the employer's June 30, 20X5 measurement date. Should the increase in projected benefits as a result of this agreement be included in the measurement of the total pension liability at June 30, 20X5?

A—No. Paragraph 24 of Statement 68 requires that projected benefit payments include “all benefits to be provided to current active and inactive employees through the pension plan in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the measurement date.” Because the *agreement* was not in effect at June 30, 20X5, the effect of the increased benefits should not be included in the total pension liability measured as of that date. (See also Question 105 regarding note disclosures related to changes subsequent to the measurement date.)

Discount Rate

59. Q—For employers whose employees are provided with pensions through an agent multiple-employer plan, should the discount rate used by each employer to measure its total pension liability be specific to the employer?

A—Paragraph 12 of Statement 68 specifies that the requirements of Statement 68 for agent employers “apply to the pensions provided to the employer's own employees.” Therefore, for purposes of Statement 68, the discount rate that is used by each employer whose employees are provided with pensions through an agent multiple-employer plan is required to be specific to the employer and is dependent upon the employer's individual facts and circumstances, including the timing and amount of projected benefit payments to employees provided with pensions through the employer's individual plan, the individual plan's fiduciary net position, and the employer's contribution policy.

60. Q—If the actuarial valuation date is earlier than a single or agent employer’s measurement date and the long-term expected rate of return assumption remains the same at the measurement date as it was at the actuarial valuation date, does the discount rate have to be evaluated for significant changes between the actuarial valuation date and the measurement date?

A—Yes. A change in the discount rate can occur due to factors other than a change in the long-term expected rate of return. For example, a change in the municipal bond yield or index rate (if used in the determination of the discount rate) or a change in the projected fiduciary net position of the pension plan that affects the relative weighting of the long-term expected rate of return and the municipal bond yield or index rate can affect the discount rate. Therefore, these and other factors, if applicable, should be considered when evaluating whether changes have occurred that should be reflected in the total pension liability at the measurement date, either through update procedures or through a new actuarial valuation. (See Question 48 for a discussion of update procedures.)

61. Q—If, within a single-employer or individual agent-employer pension plan, (a) multiple contribution rates are determined for the employer because different rates are determined for separate classes of employees, (b) each rate is the result of a separate actuarial valuation, and (c) there is separate tracking of the assets held for each employee class, should a separate discount rate be calculated for each employee class or should one discount rate be calculated for the employer?

A—Only one discount rate is required for each employer. However, paragraph 19 of Statement 68 permits separate application of the measurement requirements of the Statement to different classes of employees, provided that the results of the measurements for each class are aggregated for reporting purposes.

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

62. Q—An employer has an actuarially determined contribution rate and has a written policy of contributing the actuarially determined rate each period. The employer has consistently adhered to its policy for the past 10 years, and there are no known events or conditions that indicate that the employer will not continue to adhere to its policy in the future. In this circumstance, for purposes of determining the discount rate, how would the amount of projected employer contributions that should be included in the projection of the pension plan’s fiduciary net position be determined?

A—In this circumstance, the actuarially determined contribution rate of the employer would be used as the basis for the projection of future employer contributions. Future employer contributions based on the actuarially based funding method should be evaluated to determine the extent to which they are associated with the service costs of future employees. The portion of future contributions that is associated with the service costs of future employees would be excluded from the projection of the pension plan’s fiduciary net position, which would be compared to projected future benefit payments for current active and inactive employees to determine whether and, if so, to what extent, the municipal bond yield or index rate should be reflected in the discount rate.

63. Q—If the benefit payments in a period are projected to be partially covered by the pension plan’s projected fiduciary net position, should the covered portion be discounted using the long-term expected rate of return on pension plan investments, with only the remainder discounted at the required municipal bond yield or index rate?

A—Paragraphs 27 and 30 of Statement 68 require that projected benefit payments for a period be compared to the pension plan’s projected fiduciary net position in the period for purposes of determining whether the long-term expected rate of return or the municipal bond yield or index rate should be used to discount the benefit payments of the period when determining the discount rate. The Statement does not require that a specific approach be used to assign the total of the projected benefit payments in each period to the projected “funded”

and “unfunded” categories. Therefore, the total of the benefit payments that are projected to occur in a period during which the pension plan’s fiduciary net position is projected to not be sufficient to make those benefit payments may be divided into projected “funded” and “unfunded” portions or the entire total may be classified as “unfunded.”

64. Q—Paragraph 29 of Statement 68 indicates that, if the results are sufficiently reliable, any approach to evaluating the sufficiency of the pension plan’s projected fiduciary net position to make projected benefit payments can be used in place of the projections of cash flows that are described in paragraphs 27 and 28 of the Statement. Is a specific method contemplated?

A—No. The determination of whether the results of an alternative approach to making the evaluation required in paragraph 27 of Statement 68 are sufficiently reliable for this purpose is subject to professional judgment.

Calculating the discount rate

65. Q—As of what date should the long-term expected rate of return and the municipal bond yield or index rate that are used to establish the discount rate be determined—the valuation date or the measurement date?

A—The long-term expected rate of return on pension plan investments is an assumption, and assumptions generally are not required to be updated between actuarial valuation dates unless there is an indication that the assumption is no longer valid. Therefore, the expectation developed as of the actuarial valuation date can be used at the measurement date unless it is determined to no longer be appropriate. In contrast, the municipal bond yield or index rate is not an assumption and should be determined as of the measurement date. If the actuarial valuation to determine the total pension liability is performed earlier than the measurement date, consideration should be given to changes in the municipal bond yield or index rate, along with other factors that potentially affect the discount rate, such as the pension plan’s fiduciary net position, to evaluate whether those factors would result in changes that should be reflected in the total pension liability at the measurement date, either through update procedures or through a new actuarial valuation. (See Question 48 for a discussion of update procedures.)

Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

66. Q—In what way are multiple exit ages considered in the attribution of the actuarial present value of projected benefit payments to periods for financial reporting purposes?

A—Generally, the end point of the attribution period would not be a single age or single date. Rather, assumptions are made as to when employees will exit from active service. Examples of events that might result in an employee’s exit from active service are the termination of employment, incurrence of a disability, retirement, and death. Assumptions about events that result in exit from active employment are expressed as the probability of the occurrence of the triggering event based on, for example, the employee’s age or number of years of service. These probabilities are applied to all projected ages/years of service of an employee, resulting in multiple exit ages for each employee.

67. Q—If an employee that is provided with benefits through a single-employer or individual agent-employer pension plan is inactive but is expected to return to work for the single or agent employer, should the attribution period for the employee extend over expected future years of service?

A—Yes, generally an inactive employee that is expected to return to service for the employer would be assumed to have exit ages that extend through future periods. Therefore, to meet the requirement of paragraph 32d of Statement 68, the attribution period generally should extend through the employee’s assumed retirement age.

If, however, the employee is classified as inactive because of the employee's participation in a program that meets the Statement 68 definition of a deferred retirement option program (DROP), paragraph 32d of that Statement requires that the date of entry into the DROP be considered the employee's retirement date (and hence, the end of the attribution period).

68. Q—If benefit terms include a cap on employees' service credit that is not part of a DROP, should a portion of the actuarial present value of projected benefit payments be attributed to only those periods in which an employee is expected to earn service credit, or should the attribution period include all periods within an employee's projected working lifetime?

A—The exchange of benefits for services generally is viewed as related to an employee's entire career. Therefore, the attribution period should include all periods of an employee's projected service for the employer, regardless of whether additional service credit is expected to be earned.

Pension expense, deferred outflows of resources and deferred inflows of resources related to pensions, and support of nonemployer contributing entities

Changes in the Net Pension Liability

69. Q—At its December 31, 20X3 fiscal year-end, a single or agent employer recognizes a net pension liability with a measurement date of June 30, 20X3. For purposes of reporting pension expense and deferred outflows of resources and deferred inflows of resources related to pensions, over what period should changes in the net pension liability be determined?

A—The changes in the net pension liability to be recognized in conformity with paragraph 33 of Statement 68 are those occurring since the last measurement date—that is, the measurement period. In this circumstance, the measurement period includes all changes after June 30, 20X2 (the prior-year measurement date) and through June 30, 20X3 (the current-year measurement date). With the exception of contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability, which are required by paragraph 34 of Statement 68 to be reported as a deferred outflow of resources related to pensions at the employer's fiscal year-end, changes in the net pension liability that occur after the measurement date are not accounted for until the next fiscal year. (See also Question 105 regarding note disclosures about changes subsequent to the measurement date.)

70. Q—Should the balances of deferred outflows of resources and deferred inflows of resources related to pensions be adjusted for interest?

A—No. All changes, including interest on the total pension liability and changes in the pension plan's fiduciary net position, are included in the net pension liability. Therefore, interest should not separately be calculated on the balances of deferred outflows of resources and deferred inflows of resources related to pensions.

71. Q—Should balances of deferred outflows of resources and deferred inflows of resources arising from a single source—that is, from differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions, or differences between projected and actual earnings on pension plan investments—in different periods be reported as separate amounts or net of each other?

A—Consistent with the requirements of paragraph 33a of Statement 68, balances of deferred outflows of resources and deferred inflows of resources arising from differences between expected and actual experience in different periods should not be reported net. Similarly, balances of deferred outflows of resources and deferred inflows of resources arising from changes of assumptions in different periods should not be reported net. In contrast, paragraph 33b of Statement 68 requires that deferred outflows of resources and deferred inflows of

resources arising from differences between projected and actual earnings on pension plan investments in different periods be netted and reported as deferred outflows of resources related to pensions if the net balance is a debit and reported as deferred inflows of resources related to pensions if the net balance is a credit.

72. Q—For purposes of determining pension expense, should the balances of deferred outflows of resources or deferred inflows of resources arising from a single source—for example, differences between expected and actual experience with regard to economic or demographic factors—in different periods be aggregated?

A—No. For purposes of determining pension expense, records of the closed-period “layers” arising in each year, as well as the period over which each of the layers is required to be recognized in pension expense, are needed. However, for presentation in the notes to the financial statements, the layers of deferred outflows of resources should be aggregated to present balances of deferred outflows of resources by source, and the layers of deferred inflows of resources should be aggregated to present balances of deferred inflows of resources by source.

73. Q—For the measurement period ended June 30, 20X5, can the portion of the change in the net pension liability attributable to service cost be calculated based on the results of the actuarial valuation used to determine the prior year’s net pension liability with a measurement date of June 30, 20X4?

A—Yes. Use of a service cost measure based on the results of the actuarial valuation that determined the beginning net pension liability for the reporting period is consistent with the requirement to calculate interest on the total pension liability over the period. Interest on service cost should be included in the amount reported as interest on the total pension liability. (See Question 74.)

74. Q—If the approach described in Question 73 is used to determine the service cost for the measurement period ended June 30, 20X5, should the amounts identified as interest on the total pension liability be calculated on the beginning total pension liability, adjusted for service cost and *actual* benefit payments (including refunds of employee contributions), or should *projected* benefit payments from the actuarial valuation that is used to determine the service cost be used for purposes of the adjustment?

A—Interest on the total pension liability should be determined based on the beginning total pension liability, adjusted for service cost and *actual* benefit payments. Because the actual amounts of benefit payments and contributions are components of the total change in the plan’s fiduciary net position, it would be consistent to use actual amounts to determine other components of the change in the net pension liability, including the changes in the total pension liability resulting from benefit payments and interest on the total pension liability.

75. Q—How should the effects of an ad hoc COLA granted to retirees be classified for purposes of determining pension expense if the effects of the COLA were not included in the present value of projected benefit payments as of the prior measurement date because the COLA was not determined to be substantively automatic?

A—An ad hoc COLA that is determined not to be substantively automatic is a form of postemployment benefit change. Therefore, the effects of such an ad hoc COLA should be recognized in pension expense for the reporting period in which the change in the net pension liability is recognized, as required by paragraph 33 of Statement 68.

76. Q—The effects of a COLA that was determined to be substantively automatic were included in the present value of projected benefit payments in the total pension liability as of the prior measurement date. The COLA was not provided in the current measurement period. At the current measurement date, the COLA still is determined to be substantively automatic. In this circumstance, how should the effects on the total pension liability that result from not providing the COLA be classified for purposes of determining pension expense?

A—The effects on the total pension liability that result from not providing the COLA should be accounted for as a difference between expected and actual experience. Paragraph 33a of Statement 68 requires those differences to be recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

77. Q—Would the answer to Question 76 be different if, at the current measurement date, the COLA is no longer considered to be substantively automatic?

A—No. The effects on the total pension liability that result from the COLA not being provided in the current measurement period should be classified as a difference between expected and actual experience, even if the COLA is determined to no longer be substantively automatic at the current measurement date. Paragraph 33a of Statement 68 requires that portion of the change in the total pension liability to be recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period. The reclassification of the COLA during the measurement period as ad hoc rather than as substantively automatic is a separate event, and the effects of that reclassification on the total pension liability should be accounted for as a change of benefit terms, which is required by paragraph 33 of Statement 68 to be recognized in pension expense in the reporting period in which the net pension liability recognized by the employer reflects the change.

78. Q—If the terms of a defined benefit pension plan are amended and a change of assumption is made as a direct result of the amendment, should the effect of the change of assumption on the total pension liability be included with the effect of the change of benefit terms for purposes of determining pension expense?

A—Yes. Although, generally, the effect of a change of assumption on the total pension liability should be separated from the effect of a change of benefit terms, in circumstances in which the change of assumption is adopted as a direct result of the change of benefit terms, the effect of the change of assumption should be classified as a component of the change of benefit terms and recognized in pension expense in the reporting period in which the net pension liability recognized by the employer reflects the change. For example, if the mandatory retirement age in a plan is modified, changes of assumptions about the retirement ages of active employees that are made to adjust for the change of benefit terms would be directly related to the benefit change. Although mathematically separable, if the change of assumptions would not have occurred in the absence of the change of benefit terms, the change of assumptions is, in substance, a component of the change of benefit terms, and the effects of the change should be included in the effects of a change of benefit terms. In contrast, if, at the same actuarial valuation date, a change is made to mortality assumptions based on the results of a recent experience study and mortality rates are not associated with retirement age, the effect of the change of mortality assumption would not be directly related to the change of benefit terms and should be classified as a change of assumption, which is required by paragraph 33a of Statement 68 to be recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

79. Q—How should the effects of a change in the discount rate on the total pension liability be classified?

A—A change in the total pension liability arising from a change in the discount rate should be accounted for as a change of assumption or other input. A change in the discount rate can result from a change in the long-term expected rate of return on pension plan investments (an assumption), a change in the municipal bond yield or index rate (an other input), or a change in the relative weighting of the rates (the result of a change of assumption or other input that impacts projected plan fiduciary net position or projected benefit payments). The resultant effect of the change in the discount rate on the total pension liability should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

80. Q—If a pension plan purchases an allocated insurance contract that meets the criteria in paragraph 25 of Statement 68, how should the effects on the components of the net pension liability be classified for purposes of employer expense recognition?

A—The purchase of the allocated insurance contract results in a reduction of the pension plan's fiduciary net position for the amount paid for the contract and a reduction in the total pension liability for benefit payments. If there is a difference between the amount recognized as a benefit payment by the pension plan and the amount of the actuarial present value of projected benefit payments that is removed from the total pension liability as a result of the purchase, that amount should be classified as a difference between expected and actual experience and recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

81. Q—Paragraph 33b of Statement 68 requires that changes in the net pension liability arising from differences between projected and actual earnings on pension plan investments be recognized in pension expense over a closed five-year period beginning in the current measurement period, with any remaining balance from the current period reported net of the remaining balances that arose in prior periods. Can the amount of the net balance from prior periods that is recognized in pension expense in the current period be determined by multiplying the remaining net balance that arose in prior periods by 25 percent?

A—No. Determining the amount to recognize in pension expense by applying 25 percent to the remaining net balance is an example of an open-period method, and paragraph 33b of Statement 68 requires that these differences be recognized in expense using a closed-period method. For example, in 20X5, using a closed-period, straight-line method, the amount of the remaining net balance that arose in prior periods to recognize in pension expense in the current period would be 25 percent of the portion of the remaining balance that arose in 20X4, 33 percent of the portion of the remaining balance that arose in 20X3, 50 percent of the portion of the remaining balance that arose in 20X2, and 100 percent of the portion of the remaining balance that arose in 20X1. Alternatively, the amounts to recognize in pension expense in 20X5 could be determined as 20 percent of each of the differences that arose in 20X1–20X4.

82. Q—How should the projected earnings on pension plan investments be calculated for purposes of determining the difference between projected and actual earnings?

A—Projected earnings on pension plan investments should consider changes in invested amounts and should be calculated as the return that actual invested amounts would have earned at the assumed rate of return over the measurement period. For this purpose, the assumed rate of return should be net of investment expense, but not net of administrative expense, and should reflect the expectation of the rate as of the beginning of the measurement period.

83. Q—Can an employer apply a method for recognition of pension expense for differences between expected and actual experience, changes of assumptions or other inputs, or a difference between projected and actual earnings on pension plan investments that would result in all of the amount being recognized in the year in which the change is reflected in the net pension liability or all of the amount being recognized in the final year of the recognition period required in paragraph 33 of Statement 68?

A—No. Changes in the total pension liability arising from differences between expected and actual experience or changes of assumptions or other inputs are required to be recognized using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the plan (active employees and inactive employees), determined at the beginning of the measurement period. Differences between projected and actual earnings on pension plan investments are required to be recognized using a systematic and rational method over a closed five-year period. Recognizing all of the change associated with these events in the pension expense of a single year is inconsistent with these provisions of Statement 68.

84. Q—Paragraphs 33a and 33b of Statement 68 require that certain changes in the net pension liability be recognized in pension expense over specified periods using a systematic and rational method. What are examples of systematic and rational methods?

A—The simplest systematic and rational method is the straight-line method. The level-percentage-of-payroll is another example of a systematic and rational attribution method. However, any systematic and rational method can be used.

85. Q—The employees of a government include a large number of inactive employees who are entitled to, but have not yet requested, a refund of their contributions to the plan and earnings on those contributions. The amount of the refunds will change only in accordance with actual earnings on plan investments and, as such, are not associated with certain of the changes in the net pension liability that are reported as deferred outflows of resources and deferred inflows of resources related to pensions. Can these employees be excluded from the determination of the average of the expected remaining service lives of employees?

A—No. Statement 68 requires that the average of the expected service lives of employees include all active and inactive employees that are provided with benefits (including refunds of employee contributions) through the plan.

86. Q—If changes in the total pension liability arising from differences between expected and actual experience or a change of assumption or other input occur only in the portion of the total pension liability associated with active employees (for example, the actual change in salary since the last measurement period was different from the assumed change in salary), can the changes be recognized in pension expense over the average of the expected remaining service lives of active employees?

A—No. Paragraph 33a of Statement 68 requires differences between expected and actual experience and changes of assumptions to be recognized in pension expense over the average of the expected remaining service lives of *all* employees—active employees and inactive employees—regardless of whether the change is directly associated with certain individual employees.

87. Q—Over what period should a change in the total pension liability arising from differences between expected and actual experience or changes of assumptions or other inputs be recognized in pension expense if the average of the expected remaining service lives of employees is less than one year as of the beginning of the measurement period, for example, as might occur in a closed plan?

A—In this circumstance, changes in the total pension liability arising from differences between expected and actual experience or changes of assumptions should be recognized in pension expense over one period. This results in all changes in the total pension liability being recognized in pension expense in full in the reporting period in which they are reflected in the net pension liability reported by the employer.

88. Q—In determining the average of the expected remaining service lives of employees for purposes of measuring pension expense, should the probabilities of different decrements, such as disability, death, retirement, or separation from service, be considered?

A—Yes. Pension expense and the total pension liability are related measures, and application of the requirements of Statement 68 for attribution of the present value of projected benefit payments to periods generally would result in consideration of the probability of various decrements for purposes of determining the total pension liability. (See Question 66.) Because probabilities of decrements are required to be considered relative to expected service lives when measuring the total pension liability, it would be inconsistent to omit consideration of those events when measuring the average of the expected remaining service lives for use in determining pension expense.

89. Q—Paragraph 33c of Statement 68 requires that a single or agent employer not recognize pension expense for a change in a net pension liability resulting from its contributions to the pension plan during the measurement period. How should a single or agent employer account for its contributions to the pension plan during the measurement period?

A—Single or agent employer contributions to the pension plan during the measurement period increase the pension plan's fiduciary net position and, therefore, should be accounted for by the employer as a reduction of the net pension liability. (See Question 92 regarding accounting for contributions made subsequent to the measurement date.)

90. Q—An employer issues \$100 million of pension obligation bonds. The proceeds from the bond issue are remitted directly into the pension trust fund, which the employer includes in its annual financial statements; they do not flow through the employer's general fund. How should the transaction be accounted for?

A—Regardless of the funds' flow, the substance of the transaction is that the *employer* has issued general bonded debt, from which it has derived the proceeds, and has applied the proceeds to make a contribution to the *plan*. Even though the employer, in this case, includes the plan as a pension trust fund in its financial statements, the employer and the plan are separate legal entities, and this transaction should be viewed as an external transaction for financial reporting purposes. The employer's first entry, therefore, should be to recognize the bond issue. Its second, unless the amounts remitted to the pension plan are for payment of an existing payable to the pension plan, should be to recognize its contribution to the plan as a reduction of the net pension liability (or as a deferred outflow of resources if the contribution is made subsequent to the measurement date of the net pension liability reported in the current period).

If the amounts remitted to the pension plan are for payment of an existing payable to the plan, the employer's second entry should be to recognize the reduction of that payable. In this case, there would be no change in the pension plan's fiduciary net position resulting from the receipt of the bond proceeds, and there would be no effect on the net pension liability to be recognized as a result of the transaction.

91. Q—How should a single or agent employer classify revenue that is recognized in conformity with paragraph 33d of Statement 68 for the support provided by a nonemployer contributing entity that is not in a special funding situation?

A—The employer should classify this revenue in the same manner as it classifies grants from other entities.

Employer Contributions Subsequent to the Measurement Date

92. Q—What should be included in the amounts reported as deferred outflows of resources for a single or agent employer's contributions made subsequent to the measurement date?

A—For purposes of paragraph 34 of Statement 68, the deferred outflow of resources reported by an employer should include contributions made by the employer during its fiscal year that will be reflected in the net pension liability in the next measurement period—that is, the amount of contributions through the end of the employer's fiscal year to be recognized by the pension plan on the accrual basis of accounting in the next measurement period. The deferred outflow of resources would not include the employer's payments subsequent to the measurement date to satisfy a contribution receivable recognized by the plan prior to the end of the current measurement period.

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that have a special funding situation

[See Questions 218–223 and Questions 228–236 addressing paragraphs 83–90 and 97–99 of Statement 68, as well as Questions 36–91 and Questions 95–120 addressing paragraphs 20–33 and 37–47 of Statement 68.]

Recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting—all single and agent employers

93. Q—If, at the measurement date, the pension plan's fiduciary net position is sufficient to make benefit payments that are due and payable, should any portion of a single or agent employer's net pension liability be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting?

A—No. In circumstances in which the pension plan's fiduciary net position is sufficient to make benefit payments that are due and payable, no portion of the net pension liability should be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

94. Q—If, at the measurement date, the pension plan's fiduciary net position is not sufficient to make benefit payments that are due and payable, should any portion of a single or agent employer's net pension liability be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting?

A—Yes. In circumstances in which the pension plan's fiduciary net position is not sufficient to make benefit payments that are due and payable, the employer should recognize an amount equal to the amount of benefits due and payable that exceeds the pension plan's fiduciary net position as a net pension liability in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Notes to financial statements—all single and agent employers

95. Q—If an employer reports pension liabilities that have different measurement dates, is the employer required to update the measures to the same measurement date for purposes of presenting the total pension-related measures required by paragraph 37 of Statement 68 or for disclosing additional information about the pension liabilities that is required by Statement 68?

A—No. Information reported in notes about pension liabilities focuses on conditions as of the measurement date. For purposes of presenting information to meet the requirement of paragraph 37 of Statement 68 for disclosure of the total amounts of pension-related measures if those amounts are not otherwise identifiable from information presented in the financial statements, the employer should disclose the total of the amounts reported in the financial statements for pensions provided through each plan, regardless of differences in their measurement dates. As specified by paragraphs 38 and 75 of Statement 68, the information that is required to be provided in notes should be disclosed for benefits provided through each defined benefit pension plan in which the employer participates. If different measurement dates are used for pensions provided through different plans, the information in notes about each benefit arrangement should reflect its individual measurement date.

96. Q—The employees of a primary government and its component units are provided with pensions through a pension plan for which paragraph 18 of Statement 68 requires the reporting entity to apply the requirements for note disclosures applicable to a single or agent employer. Can the reporting entity meet the requirement of paragraph 39 of Statement 68 for separate identification in note disclosures of pension-related amounts associated with the primary government and those associated with its discretely presented component units by disclosing pension-related amounts for discretely presented component units in the aggregate?

A—Yes. The requirement of paragraph 39 of Statement 68 is intended to result in information about the primary government (including its blended component units), on the one hand, and the discretely presented component units in the aggregate, on the other hand.

97. Q—A single-employer or agent multiple-employer pension plan issues a stand-alone financial report in conformity with Statement 67 that includes certain information that also is required by Statement 68 to be reported by an employer that provides pensions through the plan. For example, a single-employer plan includes a 10-year schedule of changes in the net pension liability using information as of the same measurement date as required to be presented by the employer. Can the employer omit from its report the information included in the pension plan's stand-alone report if the employer's report refers to the pension plan's stand-alone report?

A—All information required by Statement 68 should be included in the single or agent employer's financial report. The only item for which Statement 68 permits reference to the pension plan's report in place of including the detail in the employer's report is the information required by paragraph 43 of Statement 68 about the elements of the pension plan's fiduciary net position if the pension plan's report is available on the Internet.

Pension plan description

98. Q—Should the information that is required by paragraphs 40b and 40c of Statement 68 about benefit terms and the number of employees that are covered by the benefit terms, respectively, be current as of the actuarial valuation date that is used as the basis for the total pension liability, the measurement date of the net pension liability, or the employer's fiscal year-end?

A—The requirements of paragraphs 40b and 40c of Statement 68 are intended to result in the disclosure of information about the benefit terms at the measurement date of the net pension liability. If a change occurs in the benefit terms or the number of employees that are covered by the benefit terms between the measurement date and the employer's fiscal year-end such that the effect of the change on the net pension liability is expected to be significant, paragraph 45f of Statement 68 requires information about the change to be disclosed.

99. Q—Under the benefit terms of pensions provided through an agent multiple-employer plan, an employee earns service credit for years of employment with any of the employers that provide benefits through the plan. Each employer remains responsible for financing the portion of an employee's benefits related to the service credit earned when the employee worked for that employer. As such, some portion of the change in the employer's

total pension liability may arise, for example, from differences between expected and actual experience related to an employee who no longer works for the employer but who still works for another employer that participates in the agent multiple-employer plan. In this circumstance, should the employee be considered an active employee or an inactive employee?

A—The employee should be considered active by the employee's current employer. The employee should be considered inactive by all of the employee's former employers within the agent plan. The amount of the total pension liability for an inactive employee may change due to differences between expected and actual experience or due to changes of assumptions or other inputs.

100. Q—Should all contributions made to the pension plan by a single or agent employer during the employer's fiscal year be included in the amount of contributions that paragraph 40d of Statement 68 requires to be disclosed?

A—No. For purposes of paragraph 40d of Statement 68, contributions should include only (a) the amount of actual contributions, which are cash contributions from the employer to the pension plan that would be recognized as additions from contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year, and (b) the amount of contributions from the employer to the pension plan that would be recognized by the pension plan as a current receivable during the period that coincides with the employer's fiscal year. This would exclude, for example, payments made to satisfy employer payables to the pension plan that arose in an earlier fiscal year. (See also Question 101.)

101. Q—For purposes of providing information about contributions that is required by paragraph 40d of Statement 68, what should be considered a contribution recognized by the pension plan as a current receivable?

A—For purposes of paragraph 40d of Statement 68, current receivables are the portion of pension plan receivables that (a) would be recognized as additions from the employer's contributions during the employer's reporting period and (b) would be collectible within a year as of the end of the employer's reporting period. For example, a receivable recognized by the pension plan for an employer's contributions related to the last month of the employer's fiscal year that have not been paid at that date but that are expected to be paid in the following month would be a current receivable of the pension plan.

Information about the net pension liability

The Pension Plan's Fiduciary Net Position

102. Q—If a single or agent employer's employees are provided with pensions through a defined benefit plan for which financial statements are not publicly available on the Internet, what information should be disclosed in the employer's financial statements regarding the pension plan's fiduciary net position?

A—The single or agent employer should apply paragraph 43 of Statement 68 regarding note disclosures about the pension plan's fiduciary net position. That paragraph requires that the employer disclose all information required by Statement 68 and other standards about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. Therefore, the employer would have to include information in its financial statements to comply with all note disclosure requirements applicable to the pension plan. This information includes the information required by Statement 67, as well as information required by other Statements. For example, the employer would be required to present information to comply with disclosure requirements related to pension plan deposits and investments, including information required by Statements No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, and No. 40, *Deposit and Investment Risk Disclosures*, as amended, as applicable.

Changes in the net pension liability

103. *Q*—If part of the total service cost for pensions provided through a single-employer or individual agent-employer pension plan is identified as being paid by the employees through their annual contribution requirement, should the amount presented in the schedule of changes in the net pension liability be only the portion of the total service cost that is required to be paid by the employer?

A—No. Paragraph 139 of Statement 68 defines service costs as “the portions of the actuarial present value of projected benefit payments that are attributed to valuation years.” The actuarial present value of projected benefit payments generally would not include a reduction for expected employee contributions. Therefore, the amount presented as service cost in the schedule of changes in the net pension liability should be the *total* service cost of the measurement period.

104. *Q*—If a single or agent employer reports a net pension liability that is based on the results from an actuarial valuation that has been updated to the measurement date, what information is the employer required to disclose regarding the update?

A—Information about the measure of total pension liability (for example, the assumptions used in the measurement) should reflect amounts and circumstances as of the measurement date. However, if update procedures were used to develop the measure of the total pension liability, paragraph 45a of Statement 68 requires that the employer disclose that fact. No other specific information about the update process is required.

105. *Q*—What information, if any, is required to be disclosed about a change in a relevant factor that occurs between the measurement date of the net pension liability and the employer’s current fiscal year-end?

A—For a change that is expected to have a significant effect on the net pension liability, in its financial report for the current fiscal year, the employer should provide information required by paragraph 45f of Statement 68 about the nature of the change, as well as the amount of the expected impact of the change on the net pension liability, if known. For example, if a change of benefit terms is made between the measurement date and the end of the employer’s current fiscal year and an estimate of the effect of the change of benefit terms on the net pension liability has been made and is evaluated by the employer to be significant, the employer should include in note disclosures a brief description of the benefit change and the estimated amount of the expected resultant change in the net pension liability. (See Questions 40 and 50 regarding the timing of the recognition of the effects of such changes.)

Required supplementary information (RSI)—all single and agent employers

106. *Q*—If employer contributions to the pension plan are determined based on the pensionable payroll of covered employees and the pensionable payroll is different from the total payroll of those employees, which measure of payroll should be presented in the 10-year schedules required by paragraphs 46b, 46c, and 46d of Statement 68?

A—The amount of the total payroll of the covered employees (termed *covered-employee payroll* in Statement 68) on the accrual basis of accounting for the relevant period should be presented in the 10-year schedules required by paragraph 46 of Statement 68, and that amount also should be used as the basis for the ratios required by that paragraph. See Question 107 for a discussion of the relevant period for each of the schedules required by paragraphs 46b, 46c, and 46d of Statement 68.

107. *Q*—The measurement date of a single or agent employer’s net pension liability is December 31, 20X4, and is different from its fiscal year-end, which is June 30, 20X5. For purposes of presenting information about the employer’s covered-employee payroll in the schedules of RSI required by paragraph 46 of Statement 68, which measure(s) of covered-employee payroll should be used?

A—In the employer’s schedule of RSI that presents the components of the net pension liability and related ratios as required by paragraph 46b of Statement 68, the amount of covered-employee payroll presented should be the annual covered-employee payroll during the measurement period that ends on the measurement date of the net pension liability—that is, the period from January 1, 20X4, to December 31, 20X4. If the employer presents a contribution-related schedule in conformity with paragraph 46c or paragraph 46d of Statement 68, the measure of covered-employee payroll included in that schedule should be the annual covered-employee payroll during the employer’s fiscal year—that is, the period from July 1, 20X4, to June 30, 20X5.

108. *Q*—Should all contributions made to the pension plan by a single or agent employer during the employer’s fiscal year be included in the amount of contributions reported in the schedule of RSI that is required by paragraph 46c or paragraph 46d of Statement 68, as applicable?

A—No. For purposes of paragraphs 46c and 46d of Statement 68, contributions are amounts that are not associated with separately financed specific liabilities of the individual employer and include only the amounts that would be recognized as additions from the employer’s contributions in the pension plan’s schedule of changes in fiduciary net position during the period that coincides with the employer’s fiscal year for (a) actual contributions, which are cash contributions from the employer to the pension plan, and (b) current receivables. This would include, for example, the amount of legally required employer contributions that are not associated with a specific liability of the individual employer to the pension plan and that would be recognized as a current receivable by the pension plan as of the end of the employer’s fiscal year. It would exclude, for example, employer payments made to satisfy pension plan receivables that arose in an earlier employer fiscal year. (See also Question 109 regarding current receivables.)

109. *Q*—For purposes of reporting contributions in the schedule of RSI that is required by paragraph 46c or 46d of Statement 68, as applicable, what should be considered a contribution recognized by the pension plan as a current receivable?

A—For purposes of paragraphs 46c and 46d of Statement 68, current receivables are the portion of pension plan receivables that (a) would be recognized as additions from the employer’s contributions during the employer’s reporting period, (b) would be collectible within a year, and (c) is not associated with separately financed specific liabilities of the employer. For example, a receivable recognized by the pension plan for an employer’s contributions related to the last month of the employer’s fiscal year that have not been paid at that date but that are expected to be paid in the following month would be a current receivable.

110. *Q*—If a single or agent employer has an actuarially determined contribution amount but contributes according to a statutorily established rate, which RSI schedule(s) related to contributions is the employer required to present?

A—The employer should present the information required in paragraph 46c of Statement 68, which includes amounts to compare the actuarially determined contribution of the employer during the employer’s fiscal year to the amount of employer contributions recognized by the pension plan in relation to the actuarially determined contribution during the same period. The requirements of paragraph 46c of Statement 68 apply if an actuarially determined contribution of the employer is calculated for any purpose, regardless of whether the employer’s contribution requirements or contribution policy is based on the actuarially determined contribution amount. Only if an actuarially determined contribution is not calculated should a single or agent employer whose contribution

requirements are statutorily or contractually established present the schedule required by paragraph 46d of Statement 68, which includes amounts to compare the employer's statutorily or contractually required contribution during the employer's fiscal year to contributions made by the employer during the same period.

111. *Q*—If a contribution rate for the period from July 1, 20X2, to June 30, 20X3, is adopted at October 31, 20X1, based on the results of an actuarial valuation as of June 30, 20X1, should the resulting actuarially determined contribution be reported in the schedule of contributions for the employer's fiscal year ended June 30, 20X2, or June 30, 20X3?

A—The actuarially determined contribution is an amount determined based on the most recent measurement available when the contribution for the reporting period was adopted. Therefore, in this example, assuming that the results of the June 30, 20X1 actuarial valuation are the most recent results available as of October 31, 20X1, amounts based on those results should first be presented in the contribution schedule required by paragraph 46c of Statement 68 for the employer's fiscal year ended June 30, 20X3.

112. *Q*—If an actuarially determined contribution is calculated for the pension plan's fiscal year and the employer's fiscal year does not coincide with the fiscal year of the plan, what amount should be reported in the contribution-related schedule required by paragraph 46c of Statement 68?

A—Information reported in the contribution schedule required by paragraph 46c of Statement 68 should be the amounts that are applicable to each of the employer's fiscal years presented. If the actuarially determined contribution is not calculated for the employer's fiscal year, the amount to be included in the schedule would be determined as the aggregate of the actuarially determined contributions for the portions of the plan's fiscal years that overlap the employer's fiscal year. For example, an employer's fiscal year is from July 1 to June 30, and the plan's fiscal year is from January 1 to December 31. The actuarially determined contribution applicable to the employer's fiscal year ended June 30, 20X6, would be the actuarially determined contribution for the last six months of the plan's fiscal year 20X5 (because that fiscal year overlapped the first six months of the employer's fiscal year) plus the actuarially determined contribution for the first six months of the plan's fiscal year 20X6 (because that fiscal year overlapped the last six months of the employer's fiscal year).

113. *Q*—Should the schedule of contribution-related information required by paragraph 46c of Statement 68 include information for the year between actuarial valuations if actuarially determined contributions are calculated biennially?

A—Yes. The actuarially determined contribution for the period between actuarial valuations should be reported, using the results of the actuarial valuation that establishes the contribution applicable to that period.

114. *Q*—What actuarial methods and assumptions should be used to calculate the actuarially determined contribution reported in conformity with the requirements of paragraph 46c of Statement 68?

A—For purposes of applying the requirements of paragraph 46c of Statement 68, an actuarially determined contribution is defined, in part, as a contribution calculated in conformity with Actuarial Standards of Practice. That is, a calculation that applies relevant guidance from Actuarial Standards of Practice, for example, standards related to the selection of economic or demographic assumptions. Statement 68 does not establish requirements for the specific methods and assumptions used to calculate an actuarially determined contribution.

115. Q—If the contribution requirements of an employer are determined using an actuarial value of assets that incorporates differences between projected and actual earnings on pension plan investments over a three-year period, can that method continue to be used to determine contribution requirements after implementation of Statement 68?

A—Yes. Statement 68 does not establish requirements for the specific methods and assumptions, if any, used for funding purposes. Therefore, an actuarial value of assets can continue to be used for funding purposes. However, for purposes of complying with Statement 68, all changes in the pension plan's fiduciary net position, including the full amount of the actual earnings on pension plan investments, should be included in the calculation of the net pension liability and changes in the net pension liability in the measurement period in which they occur.

116. Q—Paragraph 138 of Statement 68 states that schedules of RSI “should not include information that is not measured in accordance with the requirements of this Statement.” Does that mean that information about actuarially determined contributions should be presented only if it is calculated using the same methods and assumptions as are required to be applied for purposes of measuring the net pension liability?

A—No. As noted in Question 114, an actuarially determined contribution is defined, in part, as a contribution calculated in conformity with Actuarial Standards of Practice; however, Statement 68 does not establish requirements for the specific methods and assumptions that are used to calculate an actuarially determined contribution. Therefore, if calculated, a single or agent employer should present measures of actuarially determined contributions, regardless of the methods and assumptions used to calculate them.

117. Q—Should amounts recognized by a single-employer or individual agent-employer pension plan for contributions pursuant to a separately financed specific liability of the employer be included in the amount reported by the employer as contributions in relation to the actuarially determined contribution, as required by paragraph 46c of Statement 68, or as contributions in relation to statutorily or contractually required contributions, as required by paragraph 46d of Statement 68, as applicable?

A—No. The measure of the actuarially determined contribution that is required by paragraph 46c(1) of Statement 68 or the statutorily or contractually required contribution that is required by paragraph 46d(1) of Statement 68 excludes amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan. Similarly, the amount of contributions presented in relation to the actuarially determined or statutorily or contractually required contribution, as applicable, should exclude amounts recognized as additions to the pension plan for separately financed specific liabilities of the individual employer to the pension plan.

118. Q—When contribution rates are established for the employer in a single-employer or agent pension plan and a nonemployer contributing entity, should the schedule of RSI that presents contributions made as compared to actuarially determined or to statutorily or contractually required contributions (paragraph 46c or paragraph 46d of Statement 68, respectively) in the financial report of the employer include amounts for the nonemployer contributing entity?

A—No. The schedule should include information about contributions made by, and the actuarially determined or statutorily or contractually required contributions of, only the single or agent employer.

119. Q—May employee contributions be added to the RSI schedule that presents contributions made as compared to actuarially determined or statutorily or contractually required contributions (paragraph 46c or paragraph 46d of Statement 68, respectively)?

A—No. Including employee contributions in the schedule could obscure information about employer contribution decisions. Instead, employee contribution rates (in dollars or as a percentage of covered payroll) should be disclosed in the notes to the financial statements as required by paragraph 40d of Statement 68.

120. Q—The dollar amount of a single or agent employer’s actuarially determined contribution is calculated based on the projected covered payroll for the year to which the contribution will apply. An actuarially determined contribution rate, expressed as a percentage of the *projected* covered payroll also is calculated. The employer contributes based on that actuarially determined contribution rate, applied to its *actual* covered payroll, which frequently is not the same as the projected covered payroll. Thus, the dollar amount of employer contributions may differ from the dollar amount of the actuarially determined contribution that is calculated because of the difference between projected and actual covered payrolls. Which amount should be reported as the actuarially determined contribution in the employer’s schedule of contribution-related information required by paragraph 46c of Statement 68?

A—The intent of the schedule required by paragraph 46c of Statement 68 is to provide information to allow a reader to evaluate the degree to which an employer is meeting actuarially determined financing requirements. Therefore, the actuarially determined contribution and the amount of contributions recognized by the pension plan in relation to that contribution should be presented on a comparable basis. Thus, for this schedule, the dollar amount of the actuarially determined contribution should be adjusted, if necessary, so that the amount reported is based on the same measure of payroll as the contributions recognized as additions in the pension plan’s statement of changes in fiduciary net position. (See Illustration 7 in nonauthoritative Appendix 3 for an example.)

Cost-Sharing Employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that do not have a special funding situation

Proportionate share of the collective net pension liability

121. Q—Historically, a cost-sharing employer has contributed 100 percent of its contractually required contributions, which are actuarially determined. Is the employer required to recognize a portion of the collective net pension liability even though it has contributed an amount equal to its contractually required contributions in the past?

A—Yes. Statement 68 requires that a cost-sharing employer recognize its proportionate share of the collective net pension liability determined in conformity with the provisions of paragraphs 48–50 of Statement 68, regardless of whether it has made its contractually required contributions in the past.

122. Q—What guidance does Statement 68 provide regarding recognizing a cost-sharing employer’s proportionate share of the collective net pension liability if a portion of the liability will be paid from an enterprise, internal service, or fiduciary fund?

A—Except for blended component units, which are discussed in Questions 34 and 35, Statement 68 does not establish specific requirements for allocation of the employer’s proportionate share of the collective net pension liability or other pension-related measures to individual funds. However, for proprietary and fiduciary funds, consideration should be given to NCGA Statement 1, paragraph 42, as amended, which requires that long-term liabilities that are “directly related to and expected to be paid from” those funds be reported in the statement of net position or statement of fiduciary net position, respectively.

Measurement Date

123. Q—If a cost-sharing employer’s fiscal year-end is the same as the fiscal year-end of the pension plan through which it provides benefits, can the employer report its proportionate share of the collective net pension liability as of a measurement date that is one year earlier than the “as of” date of the (collective) net pension liability reported by the plan at the same fiscal year-end?

A—Yes. To avoid a circumstance in which employer financial reports potentially would be delayed awaiting information that also is included in the pension plan’s financial report, Statement 68 permits the measurement date of the collective net pension liability used by a cost-sharing employer to determine its reported pension liability to be as of a date no earlier than the end of its prior fiscal year, provided that the actuarial valuation used to determine the collective net pension liability meets the timing requirements of paragraph 60 of Statement 68 and that the measure meets the requirement of paragraph 61 of Statement 68 that the plan and the employers use the same assumptions when measuring similar or related information. (See Questions 152–154.) Cost-sharing pension plans are required by Statement 67 to report information about the (collective) net pension liability as of the plan’s fiscal year-end. Therefore, for example, in financial statements as of June 30, 20X5, a cost-sharing pension plan is required to report a (collective) net pension liability measured as of June 30, 20X5, whereas a cost-sharing employer that provides benefits through the plan can report a proportionate share of the collective net pension liability with a measurement date of June 30, 20X4, if the requirements of paragraphs 60 and 61 of Statement 68 are met.

124. Q—If an employer participates in more than one defined benefit pension plan, is the employer required to use the same measurement date for each (collective) net pension liability?

A—No. Paragraph 18 of Statement 68 specifies that the requirements of that Statement related to liabilities to employees for pensions, which include the provisions of the Statement for the selection of the measurement date of the (collective) net pension liability, should be applied separately to the pensions provided through each defined benefit pension plan. Therefore, provided that the measurement date for each (collective) net pension liability meets the requirements of Statement 68, the related pension liabilities presented in an employer’s financial report can have different measurement dates. For example, in financial statements for its fiscal year ended June 30, 20X5, an employer can report a net pension liability with a measurement date of December 31, 20X4, for pensions provided through single-employer Pension Plan A and a proportionate share of the collective net pension liability with a measurement date of March 31, 20X5, for pensions provided through cost-sharing Pension Plan B. (See Question 198 regarding note disclosure requirements when different measurement dates are used.)

Determining a Cost-Sharing Employer’s Proportion

125. Q—A cost-sharing plan is used to provide pensions to the employees of Employer A and Employer B. Employers are required to make contributions to the plan as a specified percentage of active-employee payroll. An employee is employed by Employer A for 18 years and then is employed by Employer B for 6 years. The employee retires from Employer B. Should Employer A and Employer B report proportionate shares of the collective net pension liability that reflect the length of service provided to each employer? That is, should Employer A report 75 percent of the net pension liability ($18 \text{ years} \div 24 \text{ years}$) for pensions of the employee and Employer B report 25 percent of that liability ($6 \text{ years} \div 24 \text{ years}$)?

A—No. The relative length of past service provided by an employee to an individual cost-sharing employer generally is not relevant to the proportionate share of the net pension liability that should be reported by the employer. In a cost-sharing plan, the cost of the pension provided to an individual employee is not directly associated with the employer to which the employee provides services. Instead, the pensions of all employees are pooled, and the pooled costs are shared among the participating employers through the assessment of

periodic contributions. Therefore, paragraphs 48 and 49 of Statement 68 require that a cost-sharing employer report a proportionate share of the collective net pension liability that is determined by multiplying the collective net pension liability by a proportion that is based on the manner in which contributions are assessed—for instance, in this example, projected active-employee payroll might be used as the basis for determining each employer’s proportion.

126. *Q*—Can the basis on which an employer’s proportion is determined be changed? For example, if in its prior fiscal year, an employer’s proportion was determined based on contributions during the measurement period, can the employer’s proportion be determined in the subsequent period using an average of contributions over the past five measurement periods?

A—Yes. The employer’s proportion is an assumption and, like other assumptions, is subject to change as, for example, new events occur, more experience is acquired, or additional information is obtained. A change in the basis for the employer’s proportion might affect the applicability of certain requirements of Statement 68, including those in paragraphs 54 and 55 of Statement 68, which address changes in the employer’s proportion and contributions made as compared to the employer’s proportionate share of total employer and nonemployer contributing entity contributions, respectively. For example, a change from a proportion based on contributions made during the measurement period to a proportion based on an average of contributions in past measurement periods might result in differences in each future measurement period between the employer’s contributions and its proportionate share of total employer and nonemployer entity contributions, for which paragraph 55 of Statement 68 establishes requirements. (See Question 206 for a discussion of note disclosures regarding changes in proportion.)

127. *Q*—Can a measure of employer plus employee contributions be used as the basis for an employer’s proportion?

A—No. Paragraph 48a of Statement 68 specifies that an employer’s proportion is “a measure of the proportionate relationship of (1) the employer . . . to (2) all employers and all nonemployer contributing entities.” Employees are specifically excluded from the definition of nonemployer contributing entities in paragraph 139 (glossary) of Statement 68. Therefore, employee contributions should not be considered in the determination of the employer’s proportion.

128. *Q*—A cost-sharing plan that is used to provide benefits to employees of several governmental employers also is used to provide benefits to certain nongovernmental employers. When a governmental employer determines its proportion for purposes of reporting its proportionate share of the collective net pension liability and related measures under Statement 68, should the proportion represent the relationship of the employer to all employers that provide benefits through the plan or the relationship of the employer to only the other governmental employers?

A—The governmental employer’s proportion should be representative of its relationship to *all* employers that provide benefits through the pension plan, regardless of whether those employers are governmental or nongovernmental for financial reporting purposes.

129. *Q*—In a cost-sharing pension plan in which employers’ proportions are based on each employer’s dollar amount of required contributions, an employer enters the plan with three months left in the measurement period. Should the employers’ proportions at the measurement date reflect only 3 months of required contributions from the new employer but 12 months of required contributions from the other employers?

A—No. An adjustment should be made so that each employer’s proportion is determined using a measure of required contributions over the same period of time.

130. Q—A state is legally required to make contributions to a cost-sharing defined benefit pension plan as a nonemployer contributing entity, but the circumstances do not meet the criteria for a special funding situation. The cost-sharing plan is used to provide pensions to the employees of two employers—Employer A and Employer B, which receive different levels of support from the state. In the current measurement period, the state made a contribution of \$24 million, of which \$8 million was associated with Employer A and \$16 million was associated with Employer B. In addition, during the measurement period, Employer A was required to contribute \$5 million to the pension plan and Employer B was required to contribute \$7 million to the pension plan. The employers determine their proportions based on contributions during the measurement period. None of the contributions were for separately financed specific liabilities to the pension plan. Do the state's contributions affect the determination of the employers' proportions for purposes of applying paragraph 48 of Statement 68? If so, how?

A—Yes. Paragraph 48 of Statement 68 requires that an employer's proportion consider the contributions made by nonemployer contributing entities that provide support for the employer but that are not in a special funding situation. Therefore, because the employer's proportions are based on contributions during the measurement period, Employer A's proportion would be 13/36, calculated as its direct contribution requirement of \$5 million plus the state's contribution of \$8 million associated with Employer A, divided by total contributions from the employers and the state of \$36 million (\$5 million + \$7 million + \$24 million). Similarly, Employer B's proportion would be 23/36, calculated as its direct contribution requirement of \$7 million plus the state's contribution of \$16 million associated with Employer B, divided by total contributions from the employers and the state of \$36 million (\$5 million + \$7 million + \$24 million).

131. Q—With regard to the requirement in paragraph 50 of Statement 68 related to the timing of the establishment of the employer's proportion, what are examples of an actuarially determined proportion?

A—Examples of actuarially determined proportions for purposes of paragraph 50 of Statement 68 include (a) a proportion based on the long-term projected payrolls of each of the employers that provide benefits through a plan in which contributions are assessed in relation to payroll and the employers do not have a special funding situation and (b) a proportion based on a projection of the future actuarially determined contribution amounts of each of the contributing entities if contribution requirements are based on those amounts.

132. Q—Are all employers whose employees are provided with pensions through the same cost-sharing plan required to use the same basis to establish their proportions under paragraphs 48 and 49 of Statement 68?

A—No. An employer's selection of a basis for the establishment of its proportion under paragraphs 48 and 49 of Statement 68 is independent of the selection of a basis by other employers whose employees are provided with pensions through the cost-sharing plan. For example, one cost-sharing employer can determine its proportion based on contributions during the measurement period, while another employer uses the average of contributions over the past five measurement periods as the basis for its proportion.

133. Q—An employer has an expectation that its future contribution requirements will diminish relative to the contribution requirements of all contributing entities and ultimately will be zero—for example, the employer begins providing pensions to new hires through a defined contribution plan, rather than through the cost-sharing plan, so that its future covered payroll and, hence, its future contributions will decrease relative to others over time because contributions are assessed as a percentage of covered payroll. For purposes of paragraphs 48–50 of Statement 68, can the employer assume that its proportion is zero percent because in the long term it expects its required contributions to reduce to zero?

A—No. Even though the employer expects that its share of required contributions ultimately will reduce to zero, it would not be appropriate to use zero percent as its share in the current period because it expects to be required to make contributions in some future periods. It should use an approach for determining its basis that is

consistent with the manner in which contributions are assessed, and if it chooses to use a forward-looking basis as is encouraged in paragraph 48a of Statement 68, that basis should consider both short-term and long-term contribution requirements. For example, the employer could determine its proportion by comparing the present value of its expected future contributions to the present value of the expected future contributions of all contributing entities.

134. Q—If some or all of an employer’s required contributions to a pension plan are reimbursed to the employer through a federal grant, should amounts to be reimbursed be counted as a contribution from the employer for purposes of determining the employer’s proportion?

A—Yes. The amount of required contributions that will be reimbursed to the employer should be considered employer contributions when determining the relationship of the employer to all contributing entities.

Financial Statement Display

135. Q—If the total pension liability is less than the pension plan’s fiduciary net position, should a cost-sharing employer’s proportionate share of the collective net balance be displayed in the employer’s statement of net position as a negative liability or as an asset?

A—A net pension liability that is negative is an asset. Therefore, the cost-sharing employer should display its proportionate share of the collective balance as an asset in its statement of net position.

136. Q—Should a cost-sharing employer’s proportionate share of the collective net pension liability (or an aggregation of the employer’s liabilities for net pension liabilities associated with different pension plans) be displayed on a separate line on the face of the financial statements?

A—The employer’s proportionate share of the collective net pension liability is not required to be displayed separately on the face of the financial statements. However, for some governments, it will be a significant balance, which may be displayed separately on the face of the financial statements. Liabilities for net pension liabilities associated with different plans may be aggregated for display, and assets for net pension assets associated with different plans may be aggregated for display. However, aggregated pension assets and aggregated pension liabilities should be separately displayed.

137. Q—Can liabilities for net pension liabilities associated with different plans be displayed in the aggregate if the liabilities do not have the same measurement date?

A—Yes. Statement 68 does not limit the aggregation of pension liabilities based on measurement dates.

Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

138. Q—Should a cost-sharing employer’s deferred outflows of resources and deferred inflows of resources arising from changes in proportion or contributions during the measurement period (as discussed in paragraphs 54 and 55 of Statement 68) be reported as separate amounts or net of each other?

A—Deferred outflows of resources and deferred inflows of resources arising from a change in proportion (as discussed in paragraph 54 of Statement 68) or from contributions during the measurement period (as discussed in paragraph 55 of Statement 68) in the same measurement period may be netted and reported, in a single year, as a deferred outflow of resources related to pensions if the net balance is a debit or as a deferred inflow of

resources related to pensions if the net balance is a credit. However, the resultant deferred outflow of resources or deferred inflow of resources balance in one period should not be netted against deferral balances arising in other periods from changes in proportion and contributions.

139. **Q**—Upon joining a cost-sharing plan (the new plan), an employer enters into a long-term installment contract with the new plan for the portion of the past service cost associated with its employees that exceeds assets transferred into the plan. How should the employer account for the installment contract and the transfer of assets into the new plan in financial statements prepared using the economic resources measurement focus and accrual basis of accounting?

A—The employer should account for the amount of the installment contract as a payable to the new plan under paragraph 120 of Statement 68. In addition, for purposes of applying the requirements of paragraphs 52–57 of Statement 68, both the amount of the installment contract payable and the amount of the assets transferred into the new plan should be accounted for as contributions from the employer for a separately financed specific liability of the individual employer.

140. **Q**—If the cost-sharing employer in Question 139 enters the new plan in the middle of the employer’s fiscal year (the entrance date) and the measurement date of the collective net pension liability is before the entrance date, what is the employer’s proportion relative to the new plan in the fiscal year that it enters the plan?

A—Paragraph 50 of Statement 68 requires that the employer’s proportion be determined at the measurement date. Therefore, the employer’s proportion would be zero in the fiscal year that it enters the plan.

141. **Q**—For the cost-sharing employer in Question 139, should payments made by the employer to the new plan relative to the installment contract payable affect the amount of pension expense recognized?

A—No. Payments made by the cost-sharing employer relative to the installment contract payable reduce the reported payable and do not affect the amounts reported by the employer as pension expense.

Proportionate Share

142. **Q**—If an employer enters into a cost-sharing pension plan in the middle of the measurement period, should the employer’s proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions in the period of its entrance be based on changes in the collective net pension liability over the entire measurement period, or should it prorate its proportionate shares to reflect the fact that it was a participant in the plan for less than the full measurement period?

A—The employer should report its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions based on the events of the full measurement period.

143. **Q**—If an employer uses different proportions to determine its share of different pieces of the collective net pension liability (for example, for different classes of employees), can it determine its total proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions using a single (overall) proportion applied to the collective measures, or for each collective measure, is it required to continue to attribute the piece associated with each class of employees using the relevant proportion?

A—Either approach is permitted. Paragraph 53 of Statement 68 requires that the employer’s proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions be determined using the employer’s proportion of the collective net pension

liability, which is a single proportion that is calculated as the employer's proportionate share of the collective net pension liability divided by the collective net pension liability. However, paragraph 19 of Statement 68 broadly establishes the permissibility of applying the measurement requirements of the Statement to individual classes or groups if "separate actuarial valuations are performed for different classes or groups of employees because different contribution rates apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors. . . ." Regardless of the approach that is used, an employer should recognize and report only the aggregated amount of the employer's proportionate share of each measure.

Change in Proportion

144. Q—If a cost-sharing employer's proportion changes from the proportion used in the prior period, how should the net effect of that change be determined?

A—The net effect of the change in proportion should be determined in conformity with paragraph 54 of Statement 68. That paragraph requires that the effect be measured as of the beginning of the period. Therefore, the net effect is the debit (deferred outflow of resources) or credit (deferred inflow of resources) that is required to reflect the employer's new proportion in its proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions as of the beginning of the measurement period. (See Illustrations 3b and 4b in nonauthoritative Appendix 3 for examples of the calculation of the net effect of the change of proportion for cost-sharing employers.)

145. Q—Should the length of the period over which the net effect of a change in a cost-sharing employer's proportion is recognized in the employer's pension expense be the average of the expected remaining service lives of the employer's own employees or the average of the expected remaining service lives of *all* employees that are provided with pensions through the plan?

A—Paragraph 54 of Statement 68 requires that the cost-sharing employer recognize the net effect of a change in its proportion over a period equal to the average of the expected remaining service lives of *all* employees that are provided with pensions through the plan. This is the same period that is used for the determination of collective pension expense for the effects of changes of assumptions on the collective net pension liability during the measurement period in which the employer is recognizing its change of proportion.

Contributions during the Measurement Period

146. Q—How should a cost-sharing employer account for its contributions to the pension plan during the measurement period?

A—A cost-sharing employer should apply the requirements of paragraphs 55 and 56 of Statement 68 to account for the effects of its own contributions to the pension plan. Paragraph 55 of Statement 68 requires that differences between (a) the employer's contributions other than those to separately finance specific liabilities of the individual employer to the pension plan and (b) its proportionate share of the total of such contributions made by all employers and nonemployer contributing entities be recognized in pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan beginning in the current measurement period. (See Illustrations 3b and 4b in nonauthoritative Appendix 3 for examples.) Paragraph 56 of Statement 68 requires that the employer recognize pension expense for the difference between its contributions made during the measurement period to separately finance specific liabilities of the individual employer and the employer's proportionate share of those contributions. (See Question 147 regarding accounting for contributions subsequent to the measurement date.)

Employer Contributions Subsequent to the Measurement Date

147. Q—What should be included in the amounts reported as deferred outflows of resources for a cost-sharing employer's contributions made subsequent to the measurement date?

A—For purposes of paragraph 57 of Statement 68, the deferred outflow of resources reported by an employer should include contributions made by the employer during its fiscal year that will be reflected in the net pension liability in the next measurement period—that is, the amount of contributions through the end of the employer's fiscal year to be recognized by the pension plan on the accrual basis of accounting in the next measurement period. The deferred outflow of resources would not include the employer's payments subsequent to the measurement date to satisfy a contribution receivable recognized by the plan prior to the end of the current measurement period. (See also Question 195.)

Support of nonemployer contributing entities that are not in a special funding situation

148. Q—As a nonemployer contributing entity, a state that is not in a special funding situation makes a direct contribution to a cost-sharing pension plan to improve the overall funded status of the plan. In the measurement period in which the contribution is reflected in the collective net pension liability, does each employer that provides pensions through the plan have to recognize revenue for a portion of the state's contribution to the plan?

A—Yes. Paragraph 58 of Statement 68 requires that each employer in a cost-sharing pension plan recognize revenue for contributions to the pension plan from the nonemployer contributing entity that is not in a special funding situation. The amount of revenue recognized should include contributions from the nonemployer contributing entity to separately finance liabilities of the individual employer, as well as the employer's proportionate share of the nonemployer contributing entity's contributions to the pension plan for purposes other than separate financing of employers' specific liabilities to the pension plan.

149. Q—How should a cost-sharing employer classify revenue that is recognized in conformity with paragraph 58 of Statement 68 for the support provided by a nonemployer contributing entity that is not in a special funding situation?

A—The employer should classify this revenue in the same manner as it classifies grants from other entities.

Measurement of the collective net pension liability, collective pension expense, and collective deferred outflows of resources and deferred inflows of resources related to pensions

Collective Net Pension Liability

Measurement Date

[See Questions 123 and 124.]

The Pension Plan's Fiduciary Net Position

150. **Q**—Do the provisions for update procedures for the total pension liability also apply to valuation of the pension plan's fiduciary net position component of the collective net pension liability? That is, can the measure of the pension plan's fiduciary net position from an earlier date be rolled forward for use in the measure of the collective net pension liability at the current measurement date?

A—No. Paragraph 59 of Statement 68 requires that the pension plan's fiduciary net position component of the collective net pension liability be determined at the measurement date using the same valuation methods that would be applied by the pension plan for purposes of preparing the plan's statement of fiduciary net position. (See Question 155 for additional discussion related to update procedures for the total pension liability.)

151. **Q**—If a change occurs in a factor relevant to measurement of the pension plan's fiduciary net position between the measurement date of the collective net pension liability and the employer's current fiscal year-end, should the employer's proportionate share of the collective net pension liability be updated in the employer's current fiscal year to include the effects of the change?

A—No. The employer should report its proportionate share of the collective net pension liability determined as of the measurement date. The effects of a change in the pension plan's fiduciary net position that occurs subsequent to the measurement date of the collective net pension liability that is used to determine the amounts reported by the employer in the current fiscal year should be reflected in the collective net pension liability as of the next measurement date—that is, in the employer's next fiscal year. (See Question 207 about note disclosures related to changes subsequent to the measurement date.)

Total Pension Liability

Timing and frequency of actuarial valuations

152. **Q**—Is the actuarial valuation date required to have the same relationship to the measurement date in each reporting period (or, for employers that have biennial actuarial valuations, to the measurement date in every other reporting period)?

A—No. Unlike the measurement date of the net pension liability, which is required to maintain the same relationship with the employer's fiscal year-end from period to period (for example, in every year, the employer uses a measurement date of June 30 of the prior fiscal year), the date of the actuarial valuation that is used to determine the collective net pension liability at the measurement date can vary from period to period (or every 2 periods when biennial valuations are used) provided that it is within 30 months and 1 day of the employer's fiscal year-end.

153. **Q**—Actuarial valuations to determine the total pension liability for pensions provided through a cost-sharing plan are performed as of June 30 each year, which also is the fiscal year-end of the pension plan. Because the results of the actuarial valuation are not available until several months after the actuarial valuation date, the pension plan, in its financial report, discloses information about the total pension liability based on an update of the results of the actuarial valuation as of the end of its prior fiscal year. An employer that provides benefits through the plan has a June 30 fiscal year-end and elects to use a measurement date one year prior to its fiscal year-end—that is, in its financial statements as of June 30, 20X5, it reports its proportionate share of the collective net pension liability with a measurement date of June 30, 20X4. At June 30, 20X5, as the basis for the total pension liability component of the collective net pension liability, should the employer use the results of the update of the June 30, 20X3 actuarial valuation that was used to report information about the total pension liability in the pension plan's financial report as of June 30, 20X4, or should the employer use the results of the actuarial valuation as of June 30, 20X4?

A—Paragraph 61 of Statement 68 requires that the pension plan and employer use the same assumptions when measuring similar or related pension information. Therefore, if any assumption used in the actuarial valuation as of June 30, 20X4, was different from an assumption used in the update of the June 30, 20X3 actuarial valuation used by the pension plan to report the collective net pension liability as of June 30, 20X4, the employer is required to use the results of the same update of the June 30, 20X3 actuarial valuation.

154. Q—What is the earliest date of an actuarial valuation that can be used as the basis for determining the total pension liability component of the collective net pension liability, a proportion of which is reported by a cost-sharing employer at its June 30, 20X5 fiscal year-end?

A—Paragraph 60 of Statement 68 permits use of an actuarial valuation as of a date 30 months and 1 day earlier than the employer's most recent fiscal year-end as the basis for the total pension liability that is used to determine a cost-sharing employer's proportionate share of the collective net pension liability. Therefore, in its June 30, 20X5 financial statements, the employer can use the results of an actuarial valuation as of December 31, 20X2, or later.

155. Q—The measurement date of the collective net pension liability for benefits provided through a cost-sharing plan is June 30. Actuarial valuations of the total pension liability component of the collective net pension liability are obtained annually as of December 31. In conformity with the requirements of paragraph 60 of Statement 68, the results from the mid-year actuarial valuation are updated to June 30. Are there specific procedures that are required for an update for financial reporting purposes?

A—No. Statement 68 does not establish specific procedures for this purpose. Therefore, professional judgment should be applied to determine the extent of procedures necessary to faithfully represent the total pension liability as of the measurement date. In all circumstances, the total pension liability should include all significant effects of transactions and other events between the actuarial valuation date and the measurement date. In some circumstances, for example, if there are few differences between expected and actual experience, no changes in benefit terms, and no circumstances suggesting that a significant change of assumption is needed, it might be reasonable to roll forward the results of the mid-year actuarial valuation to the measurement date with few adjustments. However, in other circumstances, more significant adjustments might be necessary to update the results of the mid-year actuarial valuation to the measurement date. (See Question 156 for examples of events that might have a significant effect on the total pension liability.) The Statement also requires that in evaluating the extent of procedures necessary to update the measure to the measurement date, among the factors that should be considered is whether a new actuarial valuation is needed for this purpose. (See Question 205 regarding note disclosures when update procedures are used.)

156. Q—What are some examples of transactions or other events that can occur between the actuarial valuation date and the measurement date that might have a significant effect on the total pension liability?

A—A change in the total pension liability can arise from a single factor or a combination of factors. Some examples of circumstances that might have a significant effect on the total pension liability include a change of benefit terms, a change in the size or composition of the covered group, a change in the municipal bond yield or index rate component of the discount rate, and a change in the pension plan's fiduciary net position such that the discount rate used in the calculation of the total pension liability is impacted.

157. Q—If a change occurs in a factor relevant to measurement of the total pension liability between the measurement date of the collective net pension liability and the employer's current fiscal year-end, should the employer update the amount reported as its proportionate share of the collective net pension liability in the employer's current fiscal year to include the effects of the change?

A—No. The employer should report its proportionate share of the collective net pension liability determined as of the measurement date. The effects on the total pension liability of a change that occurs subsequent to the measurement date of the collective net pension liability that is used in the employer's liability measure reported in the current fiscal year should be reflected in the collective net pension liability as of the next measurement date—that is, in the employer's next fiscal year. (See Question 207 regarding note disclosures related to changes subsequent to the measurement date.)

158. Q—When actuarial valuations are performed biennially, does Statement 68 require an update to the total pension liability in the intervening year for cost-sharing employer financial reporting purposes?

A—Yes. The total pension liability should be a new measure each year, based either on a new actuarial valuation as of the measurement date or on an actuarial valuation performed as of a date no earlier than 30 months and 1 day prior to the end of the employer's fiscal year that is updated to the measurement date. If update procedures are used and significant changes occur in, for example, benefits, the covered population, or other factors affecting the valuation results between the actuarial valuation date and the measurement date of the collective net pension liability, professional judgment should be used to determine the extent of the procedures needed to roll forward the measurement of the total pension liability, and consideration should be given to whether a new actuarial valuation is needed. (See also Question 155.)

Projection of benefit payments

159. Q—Should refunds of employee contributions through a cost-sharing pension plan be included in the projection of benefit payments for purposes of measuring the total pension liability?

A—Yes. When provided through a defined benefit pension plan, refunds of employee contributions are a form of benefit payment for purposes of Statement 68 and should be included in the projection of benefit payments for purposes of measuring the total pension liability, including determination of the discount rate to be applied in the measurement.

160. Q—The amount of a defined benefit pension is determined based on an employee's years of service and final three-year average pay. The calculation of pay for this purpose includes the employee's base salary and overtime pay. Should the projection of benefit payments include an assumption about overtime pay?

A—Yes. In this circumstance, overtime pay should be considered in the projection of benefit payments. Paragraph 62 of Statement 68 requires that the projection of benefit payments include all benefits to be provided to the employees in accordance with the benefit terms. That paragraph further specifically requires that the effects of projected salary changes be included in the projection of benefit payments in circumstances in which the pension formula incorporates future compensation levels. Although not part of the employee's base salary, the pension formula establishes overtime compensation as a relevant factor in determining the amount of an employee's pension. Therefore, consistent with the requirements of paragraph 62 of Statement 68, the projected impact of future overtime compensation on the benefit payments that will be made to the employee should be included in the measure.

161. Q—A defined benefit pension plan's enabling statute provides for a COLA if the investment earnings rate for the plan's fiscal year exceeds the actuarially assumed rate. Should this COLA be treated as an automatic COLA?

A—Yes. Paragraph 62 of Statement 68 requires that the effects of any COLAs that are embedded in the benefit terms and for which there is no discretion as to timing or amount be included in the projection of future benefit payments. In this example, although a certain economic condition is required to be met for the COLA to be effective, if that condition is met, there is no discretion regarding whether the COLA will be granted.

162. Q—A defined benefit pension plan’s enabling statute provides that the board of trustees can annually authorize a COLA not to exceed a specified percentage increase or the change in the consumer price index, whichever is lower. The maximum allowable COLA has always been authorized. Should the effects of this COLA provision be included in the projection of future benefit payments?

A—This COLA is not automatic because approval of the board of trustees is required to authorize the benefit increase. Therefore, the effects of the COLA provision should be included in the projection of future benefit payments only if the provision is evaluated to be *substantively automatic*. Footnote 17 of Statement 68 identifies some of the factors that might be relevant in making this determination—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.

163. Q—When should the effects of an ad hoc COLA that is determined not to be substantively automatic be included in the projection of future benefit payments?

A—If an ad hoc COLA is determined not to be substantively automatic, the effects of benefit changes made as a result of the COLA should be included in the measurement of the total pension liability as of the first measurement date at which the ad hoc COLA has been granted and the amount is known or reasonably estimable.

164. Q—A collective-bargaining agreement that includes a provision for a postemployment benefit increase has been made prior to the measurement date of the collective net pension liability. However, the increase does not go into effect until after the current measurement date. Should the increase in projected benefit payments as a result of this agreement be included in the measurement of the total pension liability?

A—Yes. The actuarial present value of projected benefit payments should include benefits to be provided pursuant to a contractual agreement, including a collective-bargaining agreement, that is in effect at the measurement date. In other words, the issue is whether the *agreement* is in effect at that date, not whether the benefits included in the agreement will begin to accrue or begin to be paid by that date.

165. Q—A collective-bargaining agreement that includes a provision for a postemployment benefit increase has been made after the employer’s June 30, 20X5 measurement date. Should the increase in projected benefits as a result of this agreement be included in the measurement of the total pension liability at June 30, 20X5?

A—No. Paragraph 62 of Statement 68 requires that projected benefit payments include “all benefits to be provided to current active and inactive employees through the pension plan in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the measurement date.” Because the *agreement* was not in effect at June 30, 20X5, the effect of the increased benefits should not be included in the total pension liability measured as of that date. (See also Question 207 regarding note disclosures about changes subsequent to the measurement date.)

Discount rate

166. Q—If the actuarial valuation date is earlier than a cost-sharing employer’s measurement date and the long-term expected rate of return assumption remains the same at the measurement date as it was at the actuarial valuation date, does the discount rate have to be evaluated for significant changes between the actuarial valuation date and the measurement date?

A—Yes. A change in the discount rate can occur due to factors other than a change in the long-term expected rate of return. For example, a change in the municipal bond yield or index rate (if used in the determination of the discount rate) or a change in the projected fiduciary net position of the pension plan that affects the relative weighting of the long-term expected rate of return and the municipal bond yield or index rate can affect the discount rate. Therefore, these and other factors, if applicable, should be considered when evaluating whether changes have occurred that should be reflected in the total pension liability at the measurement date, either through update procedures or through a new actuarial valuation. (See Question 155 for a discussion of update procedures.)

167. Q—In a cost-sharing pension plan in which (a) multiple contribution rates are determined for each employer because different rates are determined for separate classes of employees, (b) each rate is the result of a separate actuarial valuation, and (c) there is separate tracking of the assets held for each employee class, should a separate discount rate be calculated for each employee class or should one discount rate be calculated for the benefit arrangement as a whole?

A—Only one discount rate is required. However, paragraph 19 of Statement 68 permits separate application of the measurement requirements of the Statement to different classes of employees, provided that the results of the measurements for each class are aggregated for reporting purposes.

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

168. Q—Employers in a cost-sharing plan are contractually required to make contributions to the pension plan at an actuarially determined rate. The employers have consistently made their required contributions for the past 10 years, and there are no known events or conditions that indicate that the employers will not continue to make their required contributions in the future. In this circumstance, for purposes of determining the discount rate, how would the amount of projected employer contributions that should be included in the projection of the pension plan's fiduciary net position be determined?

A—In this circumstance, the required contribution rate of the employers would be used as the basis for the projection of future employer contributions. Future employer contributions based on the actuarially based funding method should be evaluated to determine the extent to which they are associated with the service costs of future employees. The portion of future contributions that is associated with the service costs of future employees would be excluded from the projection of the pension plan's fiduciary net position, which would be compared to projected future benefit payments for current active and inactive employees to determine whether and, if so, to what extent, the municipal bond yield or index rate should be reflected in the discount rate.

169. Q—If the benefit payments in a period are projected to be partially covered by the pension plan's projected fiduciary net position, should the covered portion be discounted using the long-term expected rate of return on pension plan investments, with only the remainder discounted at the required municipal bond yield or index rate?

A—Paragraphs 65 and 68 of Statement 68 require that projected benefit payments for a period be compared to the pension plan's projected fiduciary net position in the period for purposes of determining whether the long-term expected rate of return or the municipal bond yield or index rate should be used to discount the benefit payments of the period when determining the discount rate. The Statement does not require that a specific approach be used to assign the total of the projected benefit payments in each period to the projected "funded" and "unfunded" categories. Therefore, the total of the benefit payments that are projected to occur in a period during which the pension plan's fiduciary net position is projected to not be sufficient to make those benefit payments may be divided into projected "funded" and "unfunded" portions or the entire total may be classified as "unfunded."

170. *Q*—Paragraph 67 of Statement 68 indicates that, if the results are sufficiently reliable, any approach to evaluating the sufficiency of the pension plan’s projected fiduciary net position to make projected benefit payments can be used in place of the projections of cash flows that are described in paragraphs 65 and 66 of the Statement. Is a specific method contemplated?

A—No. The determination of whether the results of an alternative approach to making the evaluation required in paragraph 65 of Statement 68 are sufficiently reliable for this purpose is subject to professional judgment.

Calculating the discount rate

171. *Q*—As of what date should the long-term expected rate of return and the municipal bond yield or index rate that are used to establish the discount rate be determined—the valuation date or the measurement date?

A—The long-term expected rate of return on pension plan investments is an assumption, and assumptions generally are not required to be updated between actuarial valuation dates unless there is an indication that the assumption is no longer valid. Therefore, the expectation developed as of the actuarial valuation date can be used at the measurement date unless it is determined to no longer be appropriate. In contrast, the municipal bond yield or index rate is not an assumption and should be determined as of the measurement date. If the actuarial valuation to determine the total pension liability is performed earlier than the measurement date, consideration should be given to changes in the municipal bond yield or index rate, along with other factors that potentially affect the discount rate, such as the pension plan’s fiduciary net position, to evaluate whether those factors would result in changes that should be reflected in the total pension liability at the measurement date, either through update procedures or through a new actuarial valuation. (See Question 155 for a discussion of update procedures.)

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

172. *Q*—In what way are multiple exit ages considered in the attribution of the actuarial present value of projected benefit payments to periods for financial reporting purposes?

A—Generally, the end point of the attribution period would not be a single age or single date. Rather, assumptions are made as to when employees will exit from active service. Examples of events that might result in an employee’s exit from active service are the termination of employment, incurrence of a disability, retirement, and death. Assumptions about events that result in exit from active employment are expressed as the probability of the occurrence of the triggering event based on, for example, the employee’s age or number of years of service. These probabilities are applied to all projected ages/years of service of an employee, resulting in multiple exit ages for each employee.

173. *Q*—If an employee that is provided with benefits through a cost-sharing plan is inactive but is expected to return to work for an employer that provides benefits through the plan, should the attribution period for the employee extend over expected future years of service?

A—Yes, generally an inactive employee that is expected to return to service for an employer that provides benefits through the cost-sharing plan would be assumed to have exit ages that extend through future periods. Therefore, to meet the requirement of paragraph 70d of Statement 68, the attribution period generally should extend through the employee’s assumed retirement age. If, however, the employee is classified as inactive because of the employee’s participation in a program that meets the Statement 68 definition of a DROP, paragraph 70d of that Statement requires that the date of entry into the DROP be considered the employee’s retirement date (and hence, the end of the attribution period).

174. Q—If benefit terms include a cap on employees' service credit that is not part of a DROP, should a portion of the actuarial present value of projected benefit payments be attributed to only those periods in which an employee is expected to earn service credit, or should the attribution period include all periods within an employee's projected working lifetime?

A—The exchange of benefits for services generally is viewed as related to an employee's entire career. Therefore, the attribution period should include all periods of an employee's projected service for an employer that provides benefits through the plan, regardless of whether additional service credit is expected to be earned.

Collective Pension Expense and Collective Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

175. Q—For purposes of measuring collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions, over what period should changes in the collective net pension liability be determined?

A—The changes in the collective net pension liability to be included in collective pension expense in conformity with paragraph 71 of Statement 68 are those occurring since the last measurement date—that is, the measurement period. Changes in the collective net pension liability that occur after the measurement date are not incorporated into collective pension expense or collective deferred outflows of resources or deferred inflows of resources related to pensions until the next measurement period. (See also Question 207 regarding note disclosures about changes subsequent to the measurement date.)

176. Q—Should the balances of collective deferred outflows of resources and collective deferred inflows of resources related to pensions be adjusted for interest?

A—No. All changes, including interest on the total pension liability and changes in the pension plan's fiduciary net position, are included in the collective net pension liability. Therefore, interest should not separately be calculated on the balances of collective deferred outflows of resources and deferred inflows of resources related to pensions.

177. Q—For purposes of determining collective deferred outflows of resources and deferred inflows of resources related to pensions, should balances of collective deferred outflows of resources and deferred inflows of resources arising from a single source—that is, from differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions, or differences between projected and actual earnings on pension plan investments—in different periods be treated as separate amounts or net of each other?

A—Consistent with the requirements of paragraph 71a of Statement 68, collective balances of deferred outflows of resources and deferred inflows of resources arising from differences between expected and actual experience in different periods should not be treated net. Similarly, collective balances of deferred outflows of resources and deferred inflows of resources arising from changes of assumptions in different periods should not be treated net. In contrast, paragraph 71b of Statement 68 requires that deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual earnings on pension plan investments in different periods be netted and treated as collective deferred outflows of resources related to pensions if the net balance is a debit and treated as collective deferred inflows of resources related to pensions if the net balance is a credit.

178. Q—For purposes of determining collective pension expense, should the balances of amounts resulting from changes in the collective net pension liability from a single source—for example, differences between expected and actual experience with regard to economic or demographic factors—in different years be aggregated?

A—No. In order to determine collective pension expense, records of the closed-period “layers” arising in each year, as well as the period over which each of the layers is required to be included in collective pension expense, are needed.

179. Q—For the measurement period ended June 30, 20X5, can the portion of the change in the collective net pension liability attributable to service cost be calculated based on the results of the actuarial valuation used to determine the prior year’s collective net pension liability with a measurement date of June 30, 20X4?

A—Yes. Use of a service cost measure based on the results of the actuarial valuation that determined the beginning collective net pension liability for the reporting period is consistent with the requirement to calculate interest on the total pension liability over the period. Interest on service cost should be included in interest on the total pension liability. (See Question 180.)

180. Q—If the approach described in Question 179 is used to determine the service cost for the measurement period ended June 30, 20X5, should the amounts identified as interest on the total pension liability be calculated on the beginning total pension liability, adjusted for service cost and *actual* benefit payments (including refunds of employee contributions), or should *projected* benefit payments from the actuarial valuation that is used to determine the service cost be used for purposes of the adjustment?

A—Interest on the total pension liability should be determined based on the beginning total pension liability, adjusted for service cost and *actual* benefit payments. Because the actual amounts of benefit payments and contributions are components of the total change in the plan’s fiduciary net position, it would be consistent to use actual amounts to determine other components of the change in the collective net pension liability, including the changes in the total pension liability resulting from benefit payments and interest on the total pension liability.

181. Q—How should the effects of an ad hoc COLA granted to retirees be classified for purposes of determining collective pension expense if the effects of the COLA were not included in the present value of projected benefit payments as of the prior measurement date because the COLA was not determined to be substantively automatic?

A—An ad hoc COLA that is determined not to be substantively automatic is a form of postemployment benefit change. Therefore, the effects of such an ad hoc COLA should be included in collective pension expense in the measurement period in which the change is included in the collective net pension liability, as required by paragraph 71 of Statement 68.

182. Q—The effects of a COLA that was determined to be substantively automatic were included in the present value of projected benefit payments in the total pension liability as of the prior measurement date. The COLA was not provided in the current measurement period. At the current measurement date, the COLA still is determined to be substantively automatic. In this circumstance, how should the effects on the total pension liability that result from not providing the COLA be classified for purposes of determining collective pension expense?

A—The effects on the total pension liability that result from not providing the COLA should be accounted for as a difference between expected and actual experience. Paragraph 71a of Statement 68 requires those differences to be included in collective pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

183. Q—Would the answer to Question 182 be different if, at the current measurement date, the COLA is no longer considered to be substantively automatic?

A—No. The effects on the total pension liability that result from the COLA not being provided in the current measurement period should be classified as a difference between expected and actual experience, even if the COLA is determined to no longer be substantively automatic at the current measurement date. Paragraph 71a of Statement 68 requires that portion of the change in the total pension liability to be included in collective pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period. The reclassification of the COLA during the measurement period as ad hoc rather than as substantively automatic is a separate event, and the effects of that reclassification on the total pension liability should be accounted for as a change of benefit terms, which is required by paragraph 71 of Statement 68 to be included in collective pension expense in the measurement period in which the change is included in the collective net pension liability.

184. Q—If the terms of a defined benefit pension plan are amended and a change of assumption is made as a direct result of the amendment, should the effect of the change of assumption on the total pension liability be included with the effect of the change of benefit terms for purposes of determining collective pension expense?

A—Yes. Although, generally, the effect of a change of assumption on the total pension liability should be separated from the effect of a change of benefit terms, in circumstances in which the change of assumption is adopted as a direct result of the change of benefit terms, the effect of the change of assumption should be classified as a component of the change of benefit terms and included in collective pension expense in the measurement period in which the change is included in the net pension liability. For example, if the mandatory retirement age in a plan is modified, changes of assumptions about the retirement ages of active employees that are made to adjust for the change of benefit terms would be directly related to the benefit change. Although mathematically separable, if the change of assumptions would not have occurred in the absence of the change of benefit terms, the change of assumptions is, in substance, a component of the change of benefit terms, and the effects of the change should be included in collective pension expense as a change of benefit terms. In contrast, if, at the same actuarial valuation date, a change is made to mortality assumptions based on the results of a recent experience study and mortality rates are not associated with retirement age, the effect of the change of mortality assumption would not be directly related to the change of benefit terms and should be classified as a change of assumption, which is required by paragraph 71a of Statement 68 to be included in collective pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

185. Q—How should the effects of a change in the discount rate on the total pension liability be classified?

A—A change in the total pension liability arising from a change in the discount rate should be accounted for as a change of assumption or other input. A change in the discount rate can result from a change in the long-term expected rate of return on pension plan investments (an assumption), a change in the municipal bond yield or index rate (an other input), or a change in the relative weighting of the rates (the result of a change of assumption or other input that impacts projected plan fiduciary net position or projected benefit payments). The resultant effect of the change in the discount rate on the total pension liability should be included in collective pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

186. Q—If a pension plan purchases an allocated insurance contract that meets the criteria in paragraph 63 of Statement 68, how should the effects on the components of the collective net pension liability be classified for purposes of determining collective pension expense?

A—The purchase of the allocated insurance contract results in a reduction of the pension plan's fiduciary net position for the amount paid for the contract and a reduction in the total pension liability for benefit payments. If there is a difference between the amount recognized as a benefit payment by the pension plan and the amount of the actuarial present value of projected benefit payments that is removed from the total pension liability as a result of the purchase, that amount should be classified as a difference between expected and actual experience and included in collective pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan, determined at the beginning of the measurement period.

187. Q—Paragraph 71b of Statement 68 requires that changes in the collective net pension liability arising from differences between projected and actual earnings on pension plan investments be included in collective pension expense over a closed five-year period beginning in the current measurement period, with any remaining balance from the current period netted with the remaining balances that arose in prior periods. Can the amount of the collective net balance from prior periods that is included in collective pension expense in the current period be determined by multiplying the remaining net balance that arose in prior periods by 25 percent?

A—No. Determining the amount to include in pension expense by applying 25 percent to the remaining collective net balance is an example of an open-period method, and paragraph 71b of Statement 68 requires that these differences be included in collective pension expense using a closed-period method. For example, in 20X5, using a closed-period, straight-line method, the amount of the remaining collective net balance that arose in prior periods to include in collective pension expense in the current period would be 25 percent of the portion of the remaining balance that arose in 20X4, 33 percent of the portion of the remaining balance that arose in 20X3, 50 percent of the portion of the remaining balance that arose in 20X2, and 100 percent of the portion of the remaining balance that arose in 20X1. Alternatively, the amounts to include in pension expense in 20X5 could be determined as 20 percent of each of the differences that arose in 20X1–20X4.

188. Q—How should the projected earnings on pension plan investments be calculated for purposes of determining the difference between projected and actual earnings?

A—Projected earnings on pension plan investments should consider changes in invested amounts and should be calculated as the return that actual invested amounts would have earned at the assumed rate of return over the measurement period. For this purpose, the assumed rate of return should be net of investment expense, but not net of administrative expense, and should reflect the expectation of the rate as of the beginning of the measurement period.

189. Q—For purposes of determining collective pension expense, can a method be applied to differences between expected and actual experience, changes of assumptions or other inputs, or a difference between projected and actual earnings on pension plan investments that would result in all of the amount being included in the measurement period in which the change is reflected in the collective net pension liability or all of the amount being included in collective pension expense in the final year of the period for inclusion that is required in paragraph 71 of Statement 68?

A—No. Changes in the total pension liability arising from differences between expected and actual experience or changes of assumptions or other inputs are required to be included in collective pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the plan (active employees and inactive employees), determined at the beginning of the measurement period. Differences between projected and actual

earnings on pension plan investments are required to be included in collective pension expense using a systematic and rational method over a closed five-year period. Including all of the change associated with these events in the collective pension expense of a single year is inconsistent with these provisions of Statement 68.

190. *Q*—Paragraphs 71a and 71b of Statement 68 require that certain changes in the collective net pension liability be included in collective pension expense over specified periods using a systematic and rational method. What are examples of systematic and rational methods?

A—The simplest systematic and rational method is the straight-line method. The level-percentage-of-payroll is another example of a systematic and rational attribution method. However, any systematic and rational method can be used.

191. *Q*—The employees that are provided with benefits through a cost-sharing pension plan include a large number of inactive employees who are entitled to, but have not yet requested, a refund of their contributions to the plan and earnings on those contributions. The amount of the refunds will change only in accordance with actual earnings on plan investments and, as such, are not associated with certain of the changes in the net pension liability that are reported as deferred outflows of resources and deferred inflows of resources related to pensions. Can these employees be excluded from the determination of the average of the expected remaining service lives of employees?

A—No. Statement 68 requires that the average of the expected service lives of employees include all active and inactive employees that are provided with benefits (including refunds of employee contributions) through the plan.

192. *Q*—If changes in the total pension liability arising from differences between expected and actual experience or a change of assumption or other input occur only in the portion of the total pension liability associated with active employees (for example, the actual change in salary since the last measurement period was different from the assumed change in salary), can the changes be included in collective pension expense over the average of the expected remaining service lives of active employees?

A—No. Paragraph 71a of Statement 68 requires differences between expected and actual experience and changes of assumptions to be included in collective pension expense over the average of the expected remaining service lives of *all* employees—active employees and inactive employees—regardless of whether the change is directly associated with certain individual employees.

193. *Q*—Over what period should a change in the total pension liability arising from differences between expected and actual experience or changes of assumptions or other inputs be included in collective pension expense if the average of the expected remaining service lives of employees is less than one year as of the beginning of the measurement period, for example, as might occur in a closed plan?

A—In this circumstance, changes in the total pension liability arising from differences between expected and actual experience or changes of assumptions should be included in collective pension expense over one period. This results in all changes in the total pension liability other than the effect of collective employer contributions being included in collective pension expense in full in the measurement period in which they are reflected in the collective net pension liability.

194. Q—In determining the average of the expected remaining service lives of employees for purposes of measuring collective pension expense, should the probabilities of different decrements, such as disability, death, retirement, or separation from service, be considered?

A—Yes. Collective pension expense and the total pension liability are related measures, and application of the requirements for attribution of the present value of projected benefit payments to periods generally would result in consideration of the probability of various decrements for purposes of determining the total pension liability. (See Question 172.) Because probabilities of decrements are required to be considered relative to expected service lives when measuring the total pension liability, it would be inconsistent to omit consideration of those events when measuring the average of the expected remaining service lives for use in determining collective pension expense.

195. Q—What should be included in collective deferred outflows of resources for contributions made by cost-sharing employers subsequent to the measurement date?

A—Collective deferred outflows of resources should not include amounts related to contributions made subsequent to the measurement date. A contribution made after the measurement date should be reported individually by the cost-sharing employer that made the contribution as a deferred outflow of resources in conformity with paragraph 57 of Statement 68. (See also Question 147.)

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that have a special funding situation

[See Questions 224–227, addressing paragraphs 92–96 of Statement 68, as well as Questions 121–147 and Questions 196–217, addressing paragraphs 48–57 and 73–82 of Statement 68.]

Recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting—all cost-sharing employers

196. Q—If, at the measurement date, the pension plan’s fiduciary net position is sufficient to make benefit payments that are due and payable, should any portion of a cost-sharing employer’s proportionate share of the collective net pension liability be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting?

A—No. In circumstances in which the pension plan’s fiduciary net position is sufficient to make benefit payments that are due and payable, no portion of the employer’s proportionate share of the collective net pension liability should be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

197. Q—If, at the measurement date, the pension plan’s fiduciary net position is not sufficient to make benefit payments that are due and payable, should any portion of a cost-sharing employer’s proportionate share of the collective net pension liability be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting?

A—Yes. In circumstances in which the pension plan’s fiduciary net position is not sufficient to make benefit payments that are due and payable, the employer should recognize an amount equal to its proportionate share of the amount of benefits due and payable that exceeds the pension plan’s fiduciary net position as its proportionate share of the collective net pension liability in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Notes to financial statements—all cost-sharing employers

198. *Q*—If an employer reports pension liabilities that have different measurement dates, is the employer required to update the measures to the same measurement date for purposes of presenting the total pension-related measures required by paragraph 74 of Statement 68 or for disclosing additional information about the pension liabilities that is required by Statement 68?

A—No. Information reported in notes about pension liabilities focuses on conditions as of the measurement date. For purposes of presenting information to meet the requirement of paragraph 74 of Statement 68 for disclosure of the total amounts of pension-related measures if those amounts are not otherwise identifiable from information presented in the financial statements, the employer should disclose the totals of the amounts reported in the financial statements for pensions provided through each plan, regardless of differences in their measurement dates. As specified by paragraphs 38 and 75 of Statement 68, the information that is required to be provided in notes should be disclosed for benefits provided through each defined benefit pension plan in which the employer participates. If different measurement dates are used for pensions provided through different plans, the information in notes about each benefit arrangement should reflect its individual measurement date.

199. *Q*—A cost-sharing pension plan issues a stand-alone financial report in conformity with Statement 67 that includes certain information that also is required by Statement 68 to be reported by an employer that provides pensions through the plan. For example, the plan discloses information about the assumptions and other inputs that are used in the measurement of the total pension liability for the same period that is used as the measurement period by the employer. Can the employer omit from its report the information included in the pension plan's stand-alone report if the employer's report refers to the pension plan's stand-alone report?

A—All information required by Statement 68 should be included in the cost-sharing employer's financial report. The only item for which Statement 68 permits reference to the pension plan's report in place of including the detail in the employer's report is the information required by paragraph 79 of Statement 68 about the elements of the pension plan's fiduciary net position if the pension plan's report is available on the Internet.

Pension plan description

200. *Q*—Should the information that is required by paragraph 76b of Statement 68 about benefit terms be current as of the actuarial valuation date that is used as the basis for the total pension liability, the measurement date of the collective net pension liability, or the employer's fiscal year-end?

A—The requirement of paragraph 76b of Statement 68 is intended to result in the disclosure of information about the benefit terms at the measurement date of the collective net pension liability. If a change occurs in the benefit terms between the measurement date and the employer's fiscal year-end such that the effect of the change on the employer's proportionate share of the collective net pension liability is expected to be significant, paragraph 80f of Statement 68 requires information about the change to be disclosed.

201. *Q*—Should all contributions made to the pension plan by a cost-sharing employer during the employer's fiscal year be included in the amount of contributions that paragraph 76c of Statement 68 requires to be disclosed?

A—No. For purposes of paragraph 76c of Statement 68, contributions should include only (a) the amount of actual contributions, which are cash contributions from the employer to the pension plan that would be recognized as additions from contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year, and (b) the amount of contributions from the employer to the pension plan that would be recognized by the pension plan as a current receivable during the period that coincides with the employer's fiscal year. This would exclude, for example, payments made to satisfy employer payables to the pension plan that arose in an earlier fiscal year. (See also Question 202.)

202. Q—For purposes of providing information about contributions that is required by paragraph 76c of Statement 68, what should be considered a contribution recognized by the pension plan as a current receivable?

A—For purposes of paragraph 76c of Statement 68, current receivables are the portion of pension plan receivables that (a) would be recognized as additions from the employer's contributions during the employer's reporting period and (b) would be collectible within a year as of the end of the employer's reporting period. For example, a receivable recognized by the pension plan for an employer's contributions related to the last month of the employer's fiscal year that have not been paid at that date but that are expected to be paid in the following month would be a current receivable of the pension plan.

Information about the employer's proportionate share of the collective net pension liability

The Pension Plan's Fiduciary Net Position

203. Q—If a cost-sharing employer provides pensions through a defined benefit plan for which financial statements are not publicly available on the Internet, what information should be disclosed in the employer's financial statements regarding the pension plan's fiduciary net position?

A—The cost-sharing employer should apply paragraph 79 of Statement 68 regarding note disclosures about the pension plan's fiduciary net position. That paragraph requires that the employer disclose all information required by Statement 68 and other standards about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. Therefore, the employer would have to include information in its financial statements to comply with all note disclosure requirements applicable to the pension plan. This information includes the information required by Statement 67, as well as information required by other Statements. For example, the employer would be required to present information to comply with disclosure requirements related to pension plan deposits and investments, including information required by Statements 3, 31, and 40, as amended, as applicable.

Other information

204. Q—If a cost-sharing employer uses different proportions to determine its share of different pieces of the collective net pension liability (for example, for different classes of employees), is the employer required to disclose its proportion of the net pension liability for each class?

A—No. Paragraph 80b of Statement 68 requires disclosure of only the employer's overall proportion of the collective net pension liability, with a discussion of the basis on which the proportion is determined.

205. Q—If a cost-sharing employer reports a proportionate share of a collective net pension liability that results from an actuarial valuation that has been updated to the measurement date, what information is the employer required to disclose regarding the update?

A—Information about the measure of total pension liability (for example, the assumptions used in the measurement) should reflect amounts and circumstances as of the measurement date. However, if update procedures were used to develop the measure of the total pension liability, paragraph 80c of Statement 68 requires that the employer disclose that fact. No other specific information about the update process is required.

206. *Q*—If the proportion used to determine a cost-sharing employer’s proportionate share of the collective net pension liability reported in the current period changed from the proportion used to determine the liability reported in the prior period, is the employer required to disclose the effect of the change in proportion on each of the measures reported in its financial statements—that is, its proportionate share of the collective net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense?

A—No. Although a change in the employer’s proportion affects the amount of the employer’s proportionate shares of the collective net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, the cost-sharing employer is not required to identify the effect of a change in proportion on each of those amounts. Instead, the employer should disclose the change in its proportion as required by paragraph 80b of Statement 68 by providing, for example, its former proportion and its new proportion, and it should disclose the portion of its reported balance of deferred outflows of resources or deferred inflows of resources that is associated with changes in proportion, as required by paragraph 80h(4) of Statement 68.

207. *Q*—What information, if any, is required to be disclosed about a change in a relevant factor that occurs between the measurement date of the collective net pension liability and the employer’s current fiscal year-end?

A—For a change that is expected to have a significant effect on the employer’s proportionate share of the collective net pension liability, in its financial report for the current fiscal year, the employer should provide information required by paragraph 80f of Statement 68 about the nature of the change, as well as the amount of the expected impact of the change on the employer’s proportionate share of the collective net pension liability, if known. For example, if a change of benefit terms is made between the measurement date and the end of the employer’s current fiscal year and an estimate of the effect of the change of benefit terms on the employer’s proportionate share of the collective net pension liability has been made and is evaluated by the employer to be significant, the employer should include in note disclosures a brief description of the benefit change and the estimated amount of the expected resultant change in the employer’s proportionate share of the collective net pension liability. (See Questions 151 and 157 regarding the timing of the recognition of the effects of such changes.)

208. *Q*—For purposes of the disclosure of pension expense that is expected to be recognized as a result of amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as required by paragraph 80i(1) of Statement 68, at what date should the proportion that is applied to calculate the amounts be determined?

A—The amounts of pension expense disclosed for each of the subsequent periods required by paragraph 80i(1) of Statement 68 should be determined using the employer’s proportion at the measurement date of the collective net pension liability on which the pension liability reported by the employer in the current period is based.

Required supplementary information—all cost-sharing employers

209. *Q*—A cost-sharing multiple-employer plan is used to provide pensions only to volunteer firemen. The volunteers are not paid a salary. Therefore, there is no covered-employee payroll. How does this affect requirements for cost-sharing employer presentation of information in schedules of RSI about measures of the employer’s proportionate share of the collective net pension liability and employer contributions in relation to covered-employee payroll?

A—The requirements of Statement 68, paragraphs 81a and 81b, for ratios that present the employer's proportionate share of the collective net pension liability and employer contributions, respectively, as a percentage of covered-employee payroll would not be applicable for employers that provide benefits through this plan. Therefore, those ratios should not be presented in the RSI schedules.

210. Q—If employer contributions to the pension plan are determined based on the pensionable payroll of covered employees and the pensionable payroll is different from the total payroll of those employees, which measure of payroll should be presented in the 10-year schedules required by paragraphs 81a and 81b of Statement 68?

A—The amount of the total payroll of the covered employees (termed *covered-employee payroll* in Statement 68) on the accrual basis of accounting for the relevant period should be presented in the 10-year schedules required by paragraph 81 of Statement 68, and that amount also should be used as the basis for the ratios required by that paragraph. See Question 211 for a discussion of the relevant periods for each of the schedules required by paragraphs 81a and 81b of Statement 68.

211. Q—The measurement date of the collective net pension liability is December 31, 20X4, and is different from the employer's fiscal year-end, which is June 30, 20X5. For purposes of presenting information about the employer's covered-employee payroll in the schedules of RSI required by paragraph 81 of Statement 68, which measure(s) of covered-employee payroll should be used?

A—In the employer's schedule of RSI that presents the amounts associated with the employer's proportionate share of the collective net pension liability and related ratios as required by paragraph 81a of Statement 68, the amount of covered-employee payroll presented should be the annual covered-employee payroll during the measurement period that ends on the measurement date of the collective net pension liability—that is, the period from January 1, 20X4, to December 31, 20X4. If the employer presents the contribution-related schedule in conformity with paragraph 81b of Statement 68, the measure of covered-employee payroll included in that schedule should be the annual covered-employee payroll during the employer's fiscal year—that is, the period from July 1, 20X4, to June 30, 20X5.

212. Q—Should all contributions made to the pension plan by a cost-sharing employer during the employer's fiscal year be included in the amount of contributions reported in the schedule of RSI that is required by paragraph 81b of Statement 68?

A—No. For purposes of paragraph 81b of Statement 68, contributions are amounts that are not associated with separately financed specific liabilities of the individual employer and include only the amounts that would be recognized as additions from the employer's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the employer's fiscal year for (a) actual contributions, which are cash contributions from the employer to the pension plan, and (b) current receivables. This would include, for example, the amount of legally required employer contributions that are not associated with a specific liability of the individual employer to the pension plan and that would be recognized as a current receivable by the pension plan as of the end of the employer's fiscal year. It would exclude, for example, employer payments made to satisfy pension plan receivables that arose in an earlier employer fiscal year. (See also Question 213 regarding current receivables.)

213. Q—For purposes of reporting contributions in the schedule of RSI that is required by paragraph 81b of Statement 68, what should be considered a contribution recognized by the pension plan as a current receivable?

A—For purposes of paragraph 81b of Statement 68, current receivables are the portion of pension plan receivables that (a) would be recognized as additions from the employer's contributions during the employer's reporting period, (b) would be collectible within a year, and (c) is not associated with separately financed specific

liabilities of the employer. For example, a receivable recognized by the pension plan for an employer's contributions related to the last month of the employer's fiscal year that have not been paid at that date but that are expected to be paid in the following month would be a current receivable.

214. *Q*—If the contribution requirements of a cost-sharing employer are determined using an actuarial value of assets that incorporates differences between projected and actual earnings on pension plan investments over a three-year period, can that method continue to be used to determine contribution requirements after implementation of Statement 68?

A—Yes. Statement 68 does not establish requirements for the specific methods and assumptions, if any, used for funding purposes. Therefore, an actuarial value of assets can continue to be used for funding purposes. However, for purposes of complying with Statement 68, all changes in the pension plan's fiduciary net position, including the full amount of the actual earnings on pension plan investments, should be included in the calculation of the collective net pension liability and changes in the collective net pension liability in the measurement period in which they occur.

215. *Q*—Should contributions recognized by a pension plan for amounts payable to the plan by a cost-sharing employer pursuant to an installment contract for the amount of the employer's unfunded past service liability when it entered the cost-sharing plan be included in the amount reported by the employer as contributions in relation to statutorily or contractually required contributions, as required by paragraph 81b of Statement 68?

A—No. The amount financed by the employer under the installment contract is an example of an individual employer's separately financed liability to the pension plan. The measure of the statutorily or contractually required contribution that is required by paragraph 81b(1) of Statement 68 excludes amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan. Similarly, the amount of contributions presented in relation to the statutorily or contractually required contribution, as applicable, should exclude amounts recognized as additions to the pension plan for separately financed specific liabilities of the individual employer to the pension plan.

216. *Q*—When statutorily or contractually required contribution rates are established for the employer in a cost-sharing pension plan and a nonemployer contributing entity, should the schedule of RSI that presents contributions made as compared to statutorily or contractually required contributions (paragraph 81b of Statement 68) in the financial report of the employer include amounts for the nonemployer contributing entity?

A—No. The schedule should include information about contributions made by, and the statutorily or contractually required contributions of, only the cost-sharing employer.

217. *Q*—May employee contributions be added to the RSI schedule that presents contributions made as compared to statutorily or contractually required contributions (paragraph 81b of Statement 68)?

A—No. Including employee contributions in the schedule could obscure information about employer contribution decisions. Instead, employee contribution rates (in dollars or as a percentage of covered payroll) should be disclosed in the notes to the financial statements as required by paragraph 76c of Statement 68.

Special Funding Situations

Single or agent employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting

Proportionate Share of the Collective Net Pension Liability

[See Questions 36–68 addressing paragraphs 20–32 of Statement 68 and Questions 228–236 addressing paragraphs 97–99 of Statement 68.]

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

218. Q—For a single or agent employer that has a special funding situation, should the balances of deferred outflows of resources and deferred inflows of resources arising from changes in proportion or contributions during the measurement period (as discussed in paragraphs 86 and 87 of Statement 68) be reported as separate amounts or net of each other?

A—Deferred outflows of resources and deferred inflows of resources arising from a change in proportion (as discussed in paragraph 86 of Statement 68) or from contributions during the measurement period (as discussed in paragraph 87 of Statement 68) in the same measurement period may be netted and reported, in a single year, as a deferred outflow of resources related to pensions if the net balance is a debit or as a deferred inflow of resources related to pensions if the net balance is a credit. However, the resultant deferred outflow of resources or deferred inflow of resources balance in one period should not be netted against deferral balances arising in other periods from changes in proportion and contributions.

Proportionate Share

[See Questions 69–91 addressing paragraph 33 of Statement 68.]

Change in Proportion

219. Q—If the proportion that is associated with a single or agent employer that has a special funding situation changes from the proportion used in the prior period, how should the net effect of that change be determined?

A—The net effect of the change in proportion should be determined in conformity with paragraph 86 of Statement 68. That paragraph requires that the effect be measured as of the beginning of the period. Therefore, the net effect is the debit (deferred outflow of resources) or credit (deferred inflow of resources) that is required to reflect the employer's new proportion in its proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions as of the beginning of the measurement period. (See Illustration 4b in nonauthoritative Appendix 3 for an example of the calculation of the net effect of the change of proportion for a cost-sharing employer that has a special funding situation.)

Contributions during the Measurement Period

220. *Q*—How should a single or agent employer that has a special funding situation account for its contributions to the pension plan during the measurement period?

A—A single or agent employer that has a special funding situation should apply the requirements of paragraphs 87 and 88 of Statement 68 to account for the effects of its own contributions to the pension plan. Paragraph 87 of Statement 68 requires that differences between (a) the employer's contributions other than those to separately finance specific liabilities of the individual employer to the pension plan and (b) its proportionate share of the total of such contributions made by the employer and nonemployer contributing entities be recognized in pension expense over a closed period equal to the average of the expected remaining service lives of all employees provided with pensions through the plan beginning in the current measurement period. Paragraph 88 of Statement 68 requires that the employer recognize pension expense for the difference between its contributions made during the measurement period to separately finance specific liabilities of the individual employer and the employer's proportionate share of those contributions. (See Question 221 regarding accounting for contributions made subsequent to the measurement date.)

Employer Contributions Subsequent to the Measurement Date

221. *Q*—What should be included in the amounts reported as deferred outflows of resources for a single or agent employer's contributions made subsequent to the measurement date?

A—For purposes of paragraph 89 of Statement 68, the deferred outflow of resources reported by an employer should include only contributions made by the employer during its fiscal year that will be reflected in the net pension liability in the next measurement period—that is, the amount of contributions through the end of the employer's fiscal year to be recognized by the pension plan on the accrual basis of accounting in the next measurement period. The deferred outflow of resources would not include the employer's payments subsequent to the measurement date to satisfy a contribution receivable recognized by the plan prior to the end of the current measurement period.

Support of Nonemployer Contributing Entities in a Special Funding Situation

222. *Q*—For what measurement period should the revenue required by paragraph 90 of Statement 68 be recognized? For example, if an employer's fiscal year-end is December 31 and the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions are determined as of June 30 each year, what should be the measurement period for the recognition of a revenue for the support provided by a nonemployer contributing entity?

A—The employer should use the same measurement period for purposes of applying paragraph 90 of Statement 68 as is used to determine collective pension expense. For example, the pension-related amounts reported in the employer's financial statements as of December 31, 20X4, are based on the collective net pension liability with a measurement date of June 30, 20X4. Therefore, the pension expense and the related revenue associated with the support provided by a nonemployer contributing entity in a special funding situation would be based upon changes in the collective net pension liability between July 1, 20X3, and June 30, 20X4 (the measurement period).

223. *Q*—If a nonemployer contributing entity in a special funding situation makes a contribution subsequent to the measurement date of the collective net pension liability, is there a collective deferred outflow of resources related to that contribution that should be allocated to the single or agent employer and nonemployer contributing entities based on their proportionate shares?

A—No. Measurement of collective amounts is limited to the measurement period. In a special funding situation, a contribution by a nonemployer contributing entity subsequent to the measurement date of the collective net pension liability is recognized as a deferred outflow of resources related to pensions by only the entity that made the contribution.

Additional requirements

[See Questions 93–120 addressing paragraphs 36–47 of Statement 68.]

Cost-sharing employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting

224. Q—A state is the only entity that has a legal obligation to make contributions directly to a cost-sharing pension plan that is used to provide benefits to employees of local governments. Therefore, the state reports 100 percent of the net pension liability associated with benefits provided through the cost-sharing plan. In this circumstance, are the local governments required to recognize any pension-related amounts in their financial statements?

A—Yes. Although the local governments would not recognize any portion of the collective net pension liability or collective deferred outflows of resources and deferred inflows of resources related to pensions because each employer's proportionate share determined under paragraph 48 of Statement 68 is zero percent, paragraphs 94 and 95 of Statement 68, respectively, require that a cost-sharing employer in a special funding situation recognize pension expense and a revenue equal to the portion of the nonemployer contributing entity's pension expense that is associated with the employer. (See Questions 225 and 226.) Even though the employer does not recognize a proportionate share of the collective net pension liability, paragraphs 75 and 81 of Statement 68 require that the employer present note disclosures and schedules of RSI that include the information that is detailed in paragraphs 76–82 of Statement 68 for each cost-sharing pension plan through which pensions are provided to the employer's employees.

Proportionate Share of the Collective Net Pension Liability

[See Questions 121–137 addressing paragraphs 48–51 of Statement 68.]

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

[See Questions 138–147 addressing paragraphs 52–57 of Statement 68.]

Support of Nonemployer Contributing Entities in a Special Funding Situation

225. Q—For purposes of determining the portion of the expense of a nonemployer contributing entity in a special funding situation that is associated with each of the employers in a cost-sharing plan, what basis should be used to determine the relevant employer proportion?

A—Statement 68 does not specify the basis to be used for this purpose. However, the resulting proportion should represent the relationship of the employer to the total of all employers that are provided support as a result of the special funding situation.

226. Q—For what measurement period should the pension expense and the revenue required by paragraphs 94 and 95 of Statement 68, respectively, be recognized? For example, if an employer’s fiscal year-end is December 31 and the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions are determined as of June 30 each year, what should be the measurement period for the recognition of pension expense and a revenue for the support provided by a nonemployer contributing entity?

A—The employer should use the same measurement period for purposes of applying paragraphs 94 and 95 of Statement 68 as is used to determine collective pension expense. For example, the pension-related amounts reported in the employer’s financial statements as of December 31, 20X4, are based on the collective net pension liability with a measurement date of June 30, 20X4. Therefore, the pension expense and the related revenue associated with the support provided by a nonemployer contributing entity in a special funding situation would be based upon changes in the collective net pension liability between July 1, 20X3, and June 30, 20X4 (the measurement period).

227. Q—If a nonemployer contributing entity in a special funding situation makes a contribution subsequent to the measurement date of the collective net pension liability, is there a collective deferred outflow of resources related to that contribution that should be allocated to all employers and nonemployer contributing entities based on their proportionate shares?

A—No. Measurement of collective amounts is limited to the measurement period. In a special funding situation, a contribution by a nonemployer contributing entity subsequent to the measurement date of the collective net pension liability is recognized as a deferred outflow of resources related to pensions by only the entity that made the contribution.

Additional requirements

[See Questions 196–217 addressing paragraphs 73–82 of Statement 68.]

Governmental nonemployer contributing entities

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting

Proportionate Share of the Collective Net Pension Liability

228. Q—Historically, a governmental nonemployer contributing entity has contributed 100 percent of its statutorily required contributions, which are actuarially determined. Is the government required to recognize a portion of the collective net pension liability even though it has contributed an amount equal to its statutorily required contributions in the past?

A—Yes. Statement 68 requires that a governmental nonemployer contributing entity recognize its proportionate share of the collective net pension liability determined in conformity with the provisions of paragraphs 97–99 of Statement 68, regardless of whether it has made its statutorily required contributions in the past.

Measurement Date

229. Q—If a governmental nonemployer contributing entity’s fiscal year-end is the same as the fiscal year-end of the pension plan to which it contributes, can the entity report its proportionate share of the collective net pension liability as of a measurement date that is one year earlier than the “as of” date of the (collective) net pension liability reported by the plan at the same fiscal year-end?

A—Yes. To avoid a circumstance in which the nonemployer contributing entity’s financial reports potentially would be delayed awaiting information that also is included in the pension plan’s financial report, Statement 68 permits the measurement date of the collective net pension liability used by a governmental nonemployer contributing entity to determine its recognized pension liability to be as of a date no earlier than the end of its prior fiscal year provided that the actuarial valuation used to determine the total pension liability meets the timing requirements of paragraph 22 or paragraph 60 of Statement 68, as applicable, and that the measurement meets the requirement of paragraph 23 or paragraph 61 of Statement 68, as applicable, that the plan, the employer(s), and nonemployer contributing entities use the same assumptions when measuring similar or related information. (See Questions 45–47 and 152–154.) Cost-sharing pension plans are required by Statement 67 to report information about the (collective) net pension liability as of the plan’s fiscal year-end. Therefore, for example, in financial statements as of June 30, 20X5, a cost-sharing pension plan is required to report a (collective) net pension liability measured as of June 30, 20X5, whereas a governmental nonemployer contributing entity that has a special funding situation for benefits provided through the plan can report a proportionate share of the collective net pension liability with a measurement date of June 30, 20X4, if the requirements of paragraphs 22 and 23 or paragraphs 60 and 61 of Statement 68, as applicable, are met.

230. Q—If a governmental nonemployer contributing entity participates in more than one defined benefit pension plan (as an employer or as a nonemployer contributing entity in a special funding situation), is the government required to use the same measurement date for each (collective) net pension liability?

A—No. Paragraph 18 of Statement 68 specifies that the requirements of that Statement related to liabilities to employees for pensions, which include the provisions of the Statement for the selection of the measurement date of the (collective) net pension liability, should be applied separately to the pensions provided through each defined benefit pension plan. Therefore, provided that the measurement date for each (collective) net pension liability meets the requirements of Statement 68, the related pension liabilities presented in the government’s financial report can have different measurement dates. For example, in financial statements for its fiscal year ended June 30, 20X5, the governmental nonemployer contributing entity can report a proportionate share of the collective net pension liability with a measurement date of December 31, 20X4, for pensions provided through single-employer Pension Plan A and a proportionate share of the collective net pension liability with a measurement date of March 31, 20X5, for pensions provided through cost-sharing Pension Plan B. (See Question 247 regarding note disclosure requirements when different measurement dates are used.)

Determining a Governmental Nonemployer Contributing Entity’s Proportion

231. Q—Can the basis on which a governmental nonemployer contributing entity’s proportion is determined be changed? For example, if in its prior fiscal year, an entity’s proportion was determined based on contributions during the measurement period, can the entity’s proportion be determined in the subsequent period using an average of contributions over the past five measurement periods?

A—Yes. The entity’s proportion is an assumption and, like other assumptions, is subject to change as, for example, new events occur, more experience is acquired, or additional information is obtained. A change in the basis for the entity’s proportion might affect the applicability of certain requirements of Statement 68, including those in paragraphs 103 and 104 of Statement 68, which address changes in the nonemployer contributing entity’s proportion and contributions made as compared to the entity’s proportionate share of total employer and nonemployer contributing entity contributions, respectively. For example, a change from a proportion based on contributions made during the measurement period to a proportion based on an average of contributions in past measurement periods might result in differences in each future measurement period between the entity’s contributions and its proportionate share of total employer and nonemployer entity contributions, for which paragraph 104 of Statement 68 establishes requirements. (See Question 255 for a discussion of note disclosures regarding changes in proportion.)

232. Q—A cost-sharing plan that is used to provide benefits to employees of several governmental employers also is used to provide benefits to certain nongovernmental employers. When a governmental nonemployer contributing entity determines its proportion for purposes of reporting its proportionate share of the collective net pension liability and related measures under Statement 68, should the proportion represent the relationship of the governmental nonemployer contributing entity to all employers that provide benefits through the plan and nonemployer contributing entities or the relationship of the governmental nonemployer contributing entity to only the governmental employers and nonemployer contributing entities?

A—The governmental nonemployer contributing entity's proportion should be representative of its relationship to *all* employers that provide benefits through the pension plan and *all* nonemployer contributing entities, regardless of whether those employers and nonemployer contributing entities are governmental or nongovernmental for financial reporting purposes.

233. Q—With regard to the requirement in paragraph 99 of Statement 68 related to the timing of the establishment of the governmental nonemployer contributing entity's proportion, what is an example of an actuarially determined proportion?

A—An example of an actuarially determined proportion for purposes of paragraph 99 of Statement 68 is a proportion based on a projection of the future actuarially determined contribution amounts of each of the contributing entities if contribution requirements are based on those amounts.

234. Q—Are the employers whose employees are provided with pensions through a defined benefit plan with a special funding situation and the governmental nonemployer contributing entity that makes contributions to the plan required to use the same basis to establish their proportions under Statement 68?

A—No. An employer or governmental nonemployer contributing entity's selection of a basis for the establishment of its proportion under Statement 68 is independent of the selection of a basis by other employers whose employees are provided with pensions through the cost-sharing plan or nonemployer contributing entities in a special funding situation for those pensions. For example, the governmental nonemployer contributing entity can determine its proportion based on contributions during the measurement period, while an employer uses the average of contributions over the past five measurement periods as the basis for its proportion.

235. Q—A governmental nonemployer contributing entity in a special funding situation has an expectation that its future contribution requirements will diminish relative to the contribution requirements of the other contributing entities and ultimately will be zero—for example, legislation has been passed that includes a phase-out of the nonemployer entity's contributions over a defined period of time, with 100 percent of the contribution requirement eliminated at the end of the phase-out period. For purposes of paragraphs 97–99 of Statement 68, can the entity assume that its proportion is zero percent because in the long-term it expects its required contributions to reduce to zero?

A—No. Even though the governmental nonemployer contributing entity expects that its share of required contributions ultimately will reduce to zero, it would not be appropriate to use zero percent as its share in the current period because it expects to be required to make contributions in some future periods. It should use an approach for determining its basis that is consistent with the manner in which contributions are assessed, and if it chooses to use a forward-looking basis as is encouraged in paragraph 97a of Statement 68, that basis should consider both short-term and long-term contribution requirements. For example, the governmental nonemployer contributing entity could determine its proportion by comparing the present value of its expected future contributions to the present value of the expected future contributions of all contributing entities.

236. *Q*—If a governmental nonemployer contributing entity is in a special funding situation for benefits provided through a pension plan in which some or all of the employers' required contributions to the plan are reimbursed to the employers through federal grants, should amounts to be reimbursed to the employers be counted as contributions from the employers for purposes of determining the nonemployer contributing entity's proportion?

A—Yes. The amount of required contributions that will be reimbursed to the employers should be considered employer contributions when determining each entity's proportion.

Financial Statement Display

237. *Q*—If the total pension liability is less than the pension plan's fiduciary net position, should a governmental nonemployer contributing entity's proportionate share of the collective net balance be displayed in the entity's statement of net position as a negative liability or as an asset?

A—A net pension liability that is negative is an asset. Therefore, the entity should display its proportionate share of the collective balance as an asset in its statement of net position.

238. *Q*—Should a governmental nonemployer contributing entity's proportionate share of the collective net pension liability (or an aggregation of the entity's liabilities for net pension liabilities associated with different pension plans) be displayed on a separate line on the face of the financial statements?

A—The entity's proportionate share of the collective net pension liability is not required to be displayed separately on the face of the financial statements. However, for some governments, it will be a significant balance, which may be displayed separately on the face of the financial statements. Liabilities for net pension liabilities associated with different plans may be aggregated for display, and assets for net pension assets associated with different plans may be aggregated for display. However, aggregated pension assets and aggregated pension liabilities should be separately displayed.

239. *Q*—Can liabilities for net pension liabilities associated with different plans be displayed in the aggregate if the liabilities do not have the same measurement date?

A—Yes. Statement 68 does not limit the aggregation of pension liabilities based on measurement dates.

Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

240. *Q*—Should a governmental nonemployer contributing entity's balances of deferred outflows of resources and deferred inflows of resources arising from changes in proportion or contributions during the measurement period (as discussed in paragraphs 103 and 104 of Statement 68) be reported as separate amounts or net?

A—Deferred outflows of resources and deferred inflows of resources arising from a change in proportion (as discussed in paragraph 103 of Statement 68) or from contributions during the measurement period (as discussed in paragraph 104 of Statement 68) in the same measurement period may be netted and reported, in a single year, as a deferred outflow of resources related to pensions if the net balance is a debit or as a deferred inflow of resources related to pensions if the net balance is a credit. However, the resultant deferred outflow of resources or deferred inflow of resources balance in one period should not be netted against deferral balances arising in other periods from changes in proportion and contributions.

Proportionate Share

241. *Q*—If a governmental nonemployer contributing entity uses different proportions to determine its share of different pieces of the collective net pension liability (for example, for different classes of employees), can it determine its total proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions using a single (overall) proportion applied to the collective measures or, for each collective measure, is it required to continue to attribute the piece associated with each class of employees using the relevant proportion?

A—Either approach is permitted. Paragraph 102 of Statement 68 requires that the entity's proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions be determined using the entity's proportion of the collective net pension liability, which is a single proportion that is calculated as the entity's proportionate share of the collective net pension liability divided by the collective net pension liability. However, paragraph 19 of Statement 68 broadly establishes the permissibility of applying the measurement requirements of the Statement to individual classes or groups if "separate actuarial valuations are performed for different classes or groups of employees because different contribution rates apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors. . . ." Regardless of the approach that is used, the governmental nonemployer contributing entity should recognize and report only the aggregated amount of its proportionate share of each measure.

Change in Proportion

242. *Q*—If a governmental nonemployer contributing entity's proportion changes from the proportion used in the prior period, how should the net effect of that change be determined?

A—The net effect of the change in proportion should be determined in conformity with paragraph 103 of Statement 68. That paragraph requires that the effect be measured as of the beginning of the period. Therefore, the net effect is the debit (deferred outflow of resources) or credit (deferred inflow of resources) that is required to reflect the governmental nonemployer contributing entity's new proportion in its proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions as of the beginning of the measurement period. (See Illustrations 3b and 4b in nonauthoritative Appendix 3 for examples of similar calculations of the net effect of the change of proportion for cost-sharing employers.)

Contributions during the Measurement Period

243. *Q*—How should a governmental nonemployer contributing entity in a special funding situation account for its contributions to the pension plan during the measurement period?

A—A governmental nonemployer contributing entity in a special funding situation should apply the requirements of paragraphs 104 and 105 of Statement 68 to account for the effects of its own contributions to the pension plan. Paragraph 104 of Statement 68 requires that differences between (a) the governmental nonemployer contributing entity's contributions other than those to separately finance specific liabilities of the individual entity to the pension plan and (b) its proportionate share of the total of all such contributions made by all employers and nonemployer contributing entities be recognized in pension expense over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the plan beginning in the current measurement period. Paragraph 105 of Statement 68 requires that the governmental nonemployer contributing entity recognize pension expense for the difference between its contributions made

during the measurement period to separately finance specific liabilities of the individual governmental nonemployer contributing entity and the governmental nonemployer contributing entity's proportionate share of those contributions. (See Question 244 regarding accounting for contributions made subsequent to the measurement date.)

Governmental Nonemployer Contributing Entity Contributions Subsequent to the Measurement Date

244. Q—What should be included in the amounts reported as deferred outflows of resources for a governmental nonemployer contributing entity's contributions made subsequent to the measurement date?

A—For purposes of paragraph 106 of Statement 68, the deferred outflow of resources reported by a nonemployer contributing entity should include contributions made during its fiscal year that will be reflected in the net pension liability in the next measurement period—that is, the amount of contributions through the end of the nonemployer contributing entity's fiscal year to be recognized by the pension plan on the accrual basis of accounting in the next measurement period. The deferred outflow of resources would not include the nonemployer contributing entity's payments subsequent to the measurement date to satisfy a contribution receivable recognized by the plan prior to the end of the current measurement period.

Recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting

245. Q—If, at the measurement date, the pension plan's fiduciary net position is sufficient to make benefit payments that are due and payable, should any portion of a governmental nonemployer contributing entity's proportionate share of the collective net pension liability be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting?

A—No. In circumstances in which the pension plan's fiduciary net position is sufficient to make benefit payments that are due and payable, no portion of the entity's proportionate share of the collective net pension liability should be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

246. Q—If, at the measurement date, the pension plan's fiduciary net position is not sufficient to make benefit payments that are due and payable, should any portion of a governmental nonemployer contributing entity's proportionate share of the collective net pension liability be recognized in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting?

A—Yes. In circumstances in which the pension plan's fiduciary net position is not sufficient to make benefit payments that are due and payable, the governmental nonemployer contributing entity should recognize an amount equal to its proportionate share of the amount of benefits due and payable that exceeds the pension plan's fiduciary net position as its proportionate share of the collective net pension liability in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Notes to financial statements and required supplementary information

Governmental Nonemployer Contributing Entities That Recognize a Substantial Proportion of the Collective Net Pension Liability

Notes to Financial Statements

247. Q—If a governmental nonemployer contributing entity employer reports pension liabilities that have different measurement dates, is the entity required to update the measures to the same measurement date for purposes of disclosing the pension-related measures required by paragraphs 109–113 of Statement 68?

A—No. Information reported in notes about pension liabilities focuses on conditions as of the measurement date. As specified by paragraph 108 of Statement 68, the information that is required by paragraphs 109–113 of that Statement should be disclosed for benefits provided through each defined benefit pension plan for which the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability. If different measurement dates are used for pensions provided through different plans, the information in notes for each benefit arrangement should reflect its individual measurement date.

248. Q—A pension plan issues a stand-alone financial report in conformity with Statement 67 that includes certain information that also is required by Statement 68 to be reported by a governmental nonemployer contributing entity that reports a substantial proportion of the collective net pension liability associated with pensions provided through the plan. For example, the plan discloses information about the assumptions and other inputs that are used in the measurement of the total pension liability for the same period that is used as the measurement period by the nonemployer entity. Can the governmental nonemployer contributing entity omit from its report the information included in the pension plan’s stand-alone report if the entity’s report refers to the pension plan’s stand-alone report?

A—All information required by Statement 68 should be included in the governmental nonemployer contributing entity’s financial report. The only item for which Statement 68 permits reference to the pension plan’s report in place of including the detail in the entity’s report is the information required by paragraph 112 of Statement 68 about the elements of the pension plan’s fiduciary net position if the pension plan’s report is available on the Internet.

Pension plan description

249. Q—Should the information that is required by paragraph 109b of Statement 68 about benefit terms be current as of the actuarial valuation date that is used as the basis for the total pension liability, the measurement date of the collective net pension liability, or the governmental nonemployer contributing entity’s fiscal year-end?

A—The requirement of paragraph 109b of Statement 68 is intended to result in the disclosure of information about the benefit terms at the measurement date of the collective net pension liability. If a change occurs in the benefit terms between the measurement date and the governmental nonemployer contributing entity’s fiscal year-end such that the effect of the change on the governmental nonemployer contributing entity’s proportionate share of the collective net pension liability is expected to be significant, paragraph 113e of Statement 68 requires information about the change to be disclosed.

250. Q—Should all contributions made to the pension plan by a governmental nonemployer contributing entity during the entity’s fiscal year be included in the amount of contributions that paragraph 109c of Statement 68 requires to be disclosed?

A—No. For purposes of paragraph 109c of Statement 68, contributions should include only (a) the amount of actual contributions, which are cash contributions from the nonemployer contributing entity to the pension plan that would be recognized as additions from contributions in the pension plan’s schedule of changes in fiduciary net position during the period that coincides with the nonemployer contributing entity’s fiscal year, and (b) the amount of contributions from the nonemployer contributing entity to the pension plan that would be recognized by the pension plan as a current receivable during the period that coincides with the nonemployer contributing entity’s fiscal year. This would exclude, for example, payments made to satisfy payables to the pension plan that arose in an earlier fiscal year. (See also Question 251.)

251. Q—For purposes of providing information about contributions that is required by paragraph 109c of Statement 68, what should be considered a contribution recognized by the pension plan as a current receivable?

A—For purposes of paragraph 109c of Statement 68, current receivables are the portion of pension plan receivables that (a) would be recognized as additions from the nonemployer contributing entity's contributions during the nonemployer contributing entity's reporting period and (b) would be collectible within a year as of the end of the nonemployer contributing entity's reporting period. For example, a receivable recognized by the pension plan for a nonemployer contributing entity's contributions related to the last month of the nonemployer contributing entity's fiscal year that have not been paid at that date but that are expected to be paid in the following month would be a current receivable of the pension plan.

Pension plan's fiduciary net position

252. Q—If a governmental nonemployer contributing entity has a special funding situation for pensions through a defined benefit plan for which financial statements are not publicly available on the Internet, what information should be disclosed in the nonemployer contributing entity's financial statements regarding the pension plan's fiduciary net position?

A—The governmental nonemployer contributing entity should apply paragraph 112 of Statement 68 regarding note disclosures about the pension plan's fiduciary net position. That paragraph requires that the entity disclose all information required by Statement 68 and other standards about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position. Therefore, the entity would have to include information in its financial statements to comply with all note disclosure requirements applicable to the pension plan. This information includes the information required by Statement 67, as well as information required by other Statements. For example, the nonemployer contributing entity would be required to present information to comply with disclosure requirements related to pension plan deposits and investments, including information required by Statements 3, 31, and 40, as amended, as applicable.

Other information

253. Q—If a governmental nonemployer contributing entity that reports a substantial proportion of the collective net pension liability uses different proportions to determine its share of different pieces of the collective net pension liability (for example, for different classes of employees), is the nonemployer contributing entity required to disclose its proportion of the net pension liability for each class?

A—No. Paragraph 113a of Statement 68 requires disclosure of only the governmental nonemployer contributing entity's overall proportion of the collective net pension liability, with a discussion of the basis on which the proportion is determined.

254. Q—If a governmental nonemployer contributing entity reports a substantial proportion of a collective net pension liability that results from an actuarial valuation that has been updated to the measurement date, what information is the entity required to disclose regarding the update?

A—Information about the measure of total pension liability (for example, the assumptions used in the measurement) should reflect amounts and circumstances as of the measurement date. However, if update procedures were used to develop the measure of the total pension liability, paragraph 113b of Statement 68 requires that the governmental nonemployer contributing entity disclose that fact. No other specific information about the update process is required.

255. *Q*—If the proportion used to determine a governmental nonemployer contributing entity’s proportionate share of the collective net pension liability reported in the current period changed from the proportion used to determine the liability reported in the prior period, is the entity required to disclose the effect of the change in proportion on each of the measures reported in its financial statements—that is, its proportionate share of the collective net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense?

A—No. Although a change in the entity’s proportion affects the amount of the nonemployer contributing entity’s proportionate shares of the collective net pension liability, deferred outflows of resources related to pensions, deferred inflows of resources related to pensions, and pension expense, the nonemployer contributing entity is not required to identify the effect of a change in proportion on each of those amounts. Instead, the nonemployer contributing entity should disclose the change in its proportion as required by paragraph 113a of Statement 68 by providing, for example, its former proportion and its new proportion, and it should disclose the portion of its reported balance of deferred outflows of resources or deferred inflows of resources that is associated with changes in proportion, as required by paragraph 113g(4) of Statement 68.

256. *Q*—What information, if any, is required to be disclosed about a change in a relevant factor that occurs between the measurement date of the collective net pension liability and the governmental nonemployer contributing entity’s current fiscal year-end?

A—For a change that is expected to have a significant effect on the governmental nonemployer contributing entity’s proportionate share of the collective net pension liability, in its financial report for the current fiscal year, the nonemployer contributing entity should provide information required by paragraph 113e of Statement 68 about the nature of the change, as well as the amount of the expected impact of the change on the nonemployer contributing entity’s proportionate share of the collective net pension liability, if known. For example, if a change of benefit terms is made between the measurement date and the end of the nonemployer contributing entity’s current fiscal year and an estimate of the effect of the change of benefit terms on the nonemployer contributing entity’s proportionate share of the collective net pension liability has been made and is evaluated by the entity to be significant, the nonemployer contributing entity should include in note disclosures a brief description of the benefit change and the estimated amount of the expected resultant change in the nonemployer contributing entity’s proportionate share of the collective net pension liability. (See Questions 40 and 50 [single or agent] or Questions 151 and 157 [cost-sharing], as applicable, regarding the timing of the inclusion of the effects of such changes in the collective net pension liability.)

257. *Q*—For purposes of the disclosure of pension expense that is expected to be recognized as a result of amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions as required by paragraph 113h(1) of Statement 68, at what date should the proportion that is applied to calculate the amounts be determined?

A—The amounts of expense disclosed for each of the subsequent periods required by paragraph 113h(1) of Statement 68 should be determined using the governmental nonemployer contributing entity’s proportion at the measurement date of the collective net pension liability on which the pension liability reported by the nonemployer contributing entity in the current period is based.

Required Supplementary Information

258. Q—Should all contributions made to the pension plan by a governmental nonemployer contributing entity during the entity's fiscal year be included in the amount of contributions reported in the schedule of RSI that is required by paragraph 114b of Statement 68?

A—No. For purposes of paragraph 114b of Statement 68, contributions are amounts that are not associated with separately financed specific liabilities of the individual nonemployer contributing entity and include only the amounts that would be recognized as additions from the nonemployer contributing entity's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the nonemployer contributing entity's fiscal year for (a) actual contributions, which are cash contributions from the nonemployer contributing entity to the pension plan, and (b) current receivables. This would include, for example, the amount of the entity's legally required contributions that are not associated with a specific liability of the individual entity to the pension plan and that would be recognized as a current receivable by the pension plan as of the end of the entity's fiscal year. It would exclude, for example, the entity's payments made to satisfy pension plan receivables that arose in an earlier fiscal year of the entity. (See also Question 259 regarding current receivables.)

259. Q—For purposes of reporting contributions in the schedule of RSI that is required by paragraph 114b of Statement 68, what should be considered a contribution recognized by the pension plan as a current receivable?

A—For purposes of paragraph 114b of Statement 68, current receivables are the portion of pension plan receivables that (a) would be recognized as additions from the entity's contributions during the nonemployer contributing entity's reporting period, (b) would be collectible within a year, and (c) is not associated with separately financed specific liabilities of the nonemployer contributing entity. For example, a receivable recognized by the pension plan for an entity's contributions related to the last month of the entity's fiscal year that have not been paid at that date but that are expected to be paid in the following month would be a current receivable.

260. Q—If the contribution requirements of a governmental nonemployer contributing entity are determined using an actuarial value of assets that incorporates differences between projected and actual earnings on pension plan investments over a three-year period, can that method continue to be used to determine contribution requirements after implementation of Statement 68?

A—Yes. Statement 68 does not establish requirements for the specific methods and assumptions, if any, used for funding purposes. Therefore, an actuarial value of assets can continue to be used for funding purposes. However, for purposes of complying with Statement 68, all changes in the pension plan's fiduciary net position, including the full amount of the actual earnings on pension plan investments, should be included in the calculation of the collective net pension liability and changes in the collective net pension liability in the measurement period in which they occur.

261. Q—Should amounts recognized by a pension plan for contributions from a governmental nonemployer contributing entity pursuant to a separately financed liability of the nonemployer contributing entity be included in the amount reported by the nonemployer contributing entity as contributions in relation to statutorily or contractually required contributions, as required by paragraph 114b of Statement 68?

A—No. The measure of the statutorily or contractually required contribution that is required by paragraph 114b(1) of Statement 68 excludes amounts, if any, to separately finance specific liabilities of the individual entity to the pension plan. Similarly, the amount of contributions presented in relation to the statutorily or contractually required contribution, as applicable, should exclude amounts recognized as additions to the pension plan for separately financed specific liabilities of the individual entity to the pension plan.

262. *Q*—When statutorily or contractually required contribution rates are established for employers in a cost-sharing pension plan and a governmental nonemployer contributing entity in a special funding situation, should the schedule of RSI that presents contributions made as compared to statutorily or contractually required contributions (paragraph 114b of Statement 68) in the financial report of the governmental nonemployer contributing entity include amounts for the employers?

A—No. The schedule should include information about contributions made by, and the statutorily or contractually required contributions of, only the governmental nonemployer contributing entity.

Circumstances in Which a Nonemployer Entity’s Legal Obligation for Contributions Directly to a Defined Benefit Pension Plan Does Not Meet the Definition of a Special Funding Situation

Employers

[See Questions 33–35, as well as Questions 36–120 (single and agent employers) or Questions 121–217 (cost-sharing employers), as applicable.]

Governmental nonemployer contributing entities

263. *Q*—A governmental nonemployer contributing entity is legally required to make contributions directly to a single-employer defined benefit pension plan but the circumstance does not have the characteristics of a special funding situation. Should the governmental nonemployer contributing entity report a proportionate share of the (collective) net pension liability for benefits provided through the pension plan?

A—No. Because this circumstance is not a special funding situation, the employer, not the nonemployer contributing entity, should report the pension liability for benefits provided through the pension plan. The nonemployer contributing entity should apply the requirements of paragraph 119 of Statement 68, which requires the governmental nonemployer contributing entity to recognize expense/expenditures for its contributions to the pension plan and to classify those amounts in the same manner as it classifies similar grants to other entities, for example, as aid to local governments.

Payables to a Defined Benefit Pension Plan—All Employers and Governmental Nonemployer Contributing Entities

264. *Q*—In a cost-sharing plan, employers’ contractually required contributions are based on an actuarially determined contribution rate, but they have the option to pay the required amount in installments over a 10-year period. How should this arrangement be reported by the employers?

A—Each employer should recognize a contribution equal to its contractually required actuarially determined contributions for its fiscal year. At the end of the fiscal year, the unpaid portion of the amount should be reported as a payable in conformity with the requirements of paragraph 120 of Statement 68. Each employer also should disclose information required by paragraph 122 of Statement 68 about the significant terms and amount of payables outstanding at the end of its reporting period, as well as an explanation that the payables are a result of electing the option to pay the required contributions in installments.

Defined Contribution Pensions

Employers That Do Not Have a Special Funding Situation

265. Q—If an employer has more than one defined contribution plan, is it required to separately display pension liabilities (or pension assets) for each plan in its financial statements?

A—No. Separate display of liabilities (or assets) for each plan is not required. However, aggregated pension liabilities should be displayed separately from aggregated pension assets.

Other Issues

266. Q—If an employer is required to include amounts paid for compensated absences balances in the amount of payroll on which the employer's contributions to a defined benefit pension plan is based, should the employer accrue the anticipated amounts as a liability for salary-related payments in conformity with the requirements of Statement No. 16, *Accounting for Compensated Absences*, paragraph 11?

A—No. The employer's additional contributions to the pension plan that are expected to arise as a result of the payment of compensated absences should not be accrued as an additional liability under Statement 16. Instead, the pension benefits, if any, that are expected to arise as a result of the projected payment of the compensated absences to the employee should be included in the projection of benefit payments for purposes of Statement 68 and, therefore, would be included in the net pension liability. Payments to the pension plan that are made as a result of the compensated absence would be recognized as an increase in the pension plan's fiduciary net position in the period in which the payments are due and would, at that time, reduce the employer's net pension liability.

Effective Date and Transition

267. Q—An employer with a June 30 fiscal year is first implementing Statement 68, as amended, in its June 30, 2015 financial statements. The employer's net pension liability reported at June 30, 2015, has a measurement date of June 30, 2014 (and a corresponding measurement period of July 1, 2013, to June 30, 2014). The employer does not present comparative financial statements. What is the date for measurement of the prior-period adjustment?

A—The prior-period adjustment amount should include amounts as of the beginning of the employer's fiscal year—that is, July 1, 2014. For example, it should include the effects of (a) the deferred outflow of resources *determined at the beginning of the fiscal year* for the amount, if any, of the employer's contributions since the beginning of the measurement period—in this example, contributions from July 1, 2013, to June 30, 2014—and (b) the net pension liability and other deferred outflows of resources and deferred inflows of resources, if applicable (see Questions 270 and 271), *determined as of the measurement date that is used to determine the beginning net pension liability in the year of initial implementation*—in this example, June 30, 2013.

268. Q—What are the components of the prior-period adjustment to beginning net position when Statement 68, as amended, is first implemented?

A—The prior-period adjustment should (a) remove the net pension obligation (asset) balance determined in accordance with Statement 27, as amended, if any, and any payables to the pension plan, associated with formal commitments; (b) add the balance of the net pension liability (or proportionate share of the collective net pension liability), if any, as of the beginning of the initial period of implementation (determined as of the measurement date that would have been applied in the prior fiscal year if Statement 68 had been in effect—see

Question 267); (c) add a deferred outflows of resources balance for the government's contributions to the pension plan made between the measurement date of the beginning net pension liability and the beginning of the government's fiscal year, if any; and (d) add balances associated with all other deferred outflows of resources and deferred inflows of resources, if applicable (see Questions 270 and 271), determined as of the same date as the beginning net pension liability. If there are payables to the pension plan as of the beginning of the initial period of implementation, those balances should remain because Statement 68 continues the measurement and recognition requirements of Statement 27 for those transactions.

269. Q—Biennial actuarial valuations are performed for pensions provided through a single-employer plan. The employer has a June 30 fiscal year-end and is planning to use the results of the December 31, 2014 actuarial valuation to report a net pension liability with a measurement date of December 31, 2014, at June 30, 2015, the end of its initial year of implementation of Statement 68, as amended. The employer also will use the results of the December 31, 2014 actuarial valuation as the basis for reporting a net pension liability with a measurement date of December 31, 2015 (determined using roll-forward procedures), in its June 30, 2016 financial statements. Can the results of this same actuarial valuation be "rolled back" to be used as the basis for the employer's net pension liability that will be included in the amount of the prior-period adjustment reported upon implementation of Statement 68, as amended?

A—The fact that this actuarial valuation is used to determine measurements at three different fiscal year-ends is not inconsistent with the requirement that actuarial valuations be performed at least biennially. However, the net pension liability reported by the pension plan and the employer as of a single date is required to be measured using the same assumptions. Therefore, the actuarial valuation can be rolled back to December 31, 2013, to determine the employer's net pension liability at the beginning of the initial period of implementation for purposes of determining the amount of the prior-period adjustment (see Questions 267 and 268), provided that (a) the net pension liability that results from the rollback reflects the significant effects of only transactions and other events that occurred to that date and (b) if the plan reported a net pension liability as of December 31, 2013, the measure reported by the plan used the same assumptions as used in the rolled back measure.

270. Q—An employer has historical records of the investment activity for a pension plan such that, at the beginning of the initial period of implementation of Statement 68, as amended, the amounts of the deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual earnings on pension plan investments can be determined. It also has records for contributions made before that date. However, the employer cannot determine the amounts of the deferred outflows of resources and deferred inflows of resources arising from differences between expected and actual experience or changes of assumptions because actuarial valuations for prior years used different methods or assumptions than those required by Statement 68. At transition, should the employer report the deferred outflows of resources and deferred inflows of resources associated with investment earnings and contributions?

A—At transition, paragraph 3 of Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, requires the employer to report a prior-period adjustment that includes amounts for deferred outflows of resources arising from contributions, if any, made between the measurement date of the beginning net pension liability and the beginning of the employer's fiscal year. However, that paragraph requires an employer to report either all other deferral balances or none of the others at transition. Therefore, because the employer cannot determine the total beginning deferral balances for differences between expected and actual experience and changes of assumptions, it should not report a prior-period adjustment for the deferral balances arising from differences between projected and actual earnings on pension plan investments.

271. *Q*—At the beginning of the initial period of implementation of Statement 68, as amended, a government is able to determine the amount of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability associated with differences between expected and actual experience and changes of assumptions in one prior year. However, information is not available to determine the amounts of the changes in the net pension liability associated with those types of events in earlier years. Should the government report beginning deferred outflows of resources and deferred inflows of resources that include the effects of only the prior year's changes in the net pension liability?

A—No. At transition, if a government is not able to determine the amounts of deferred outflows of resources or deferred inflows of resources arising from changes in the net pension liability resulting from differences between expected and actual experience and changes of assumptions in all prior periods, it should report none of them. However, paragraph 3 of Statement 71 requires the government to report a prior-period adjustment for deferred outflows of resources arising from contributions, if any, made between the measurement date of the beginning net pension liability (see Questions 267, 268, and 270) and the beginning of the government's fiscal year.

272. *Q*—If an employer reported a net pension asset of \$150 million and no payables to the pension plan associated with formal commitments under the requirements of Statement 27 but at the beginning of the initial year of implementation of Statement 68 will report a net pension liability of \$175 million and no deferred outflows of resources or deferred inflows of resources related to pensions, what would the employer recognize as a prior-period adjustment?

A—The employer would report an adjustment to (reduction of) beginning net position in the amount of \$325 million, calculated as the total of \$150 million (to reverse the net pension asset previously reported) and \$175 million (to record the beginning net pension liability).

Appendix 1

GLOSSARY

This appendix contains definitions of certain terms *as they are used in Statement 68*; the terms may have different meanings in other contexts.

Active employees

Individuals employed at the end of the reporting or measurement period, as applicable.

Actual contributions

Cash contributions recognized as additions to a pension plan's fiduciary net position.

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 employer

An employer whose employees are provided with pensions through an agent multiple-employer defined benefit pension plan.

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 contract

A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual employees. Also may be referred to as an annuity contract.

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).

Closed period

A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

Collective deferred outflows of resources and deferred inflows of resources related to pensions

Deferred outflows of resources and deferred inflows of resources related to pensions arising from certain changes in the collective net pension liability.

Collective net pension liability

The net pension liability for benefits provided through (1) a cost-sharing pension plan or (2) a single-employer or agent pension plan in circumstances in which there is a special funding situation.

Collective pension expense

Pension expense arising from certain changes in the collective net pension liability.

Contributions

Additions to a pension plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension plan), or employees. Contributions can result from cash receipts by the pension plan or from recognition by the pension plan of a receivable from one of these sources.

Cost-of-living adjustments

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

Cost-sharing employer

An employer whose employees are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan.

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 an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee 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 employee (if the employee had retired and not entered the DROP) are credited to an individual employee 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 employee 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 Statement 68.)

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (1) provide an individual account for each employee; (2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service; and (3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee'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 Statement 68) 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*.² 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*.³ [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.]

Inactive employees

Terminated individuals that have accumulated benefits but are not yet receiving them, and retirees or their beneficiaries currently receiving benefits.

Measurement period

The period between the prior and the current measurement dates.

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 employees for benefits provided through a defined benefit pension plan.

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 Statement 68, employees are not considered nonemployer contributing entities.

Other postemployment benefits

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.⁴

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.⁵

²For purposes of application to the requirements of Statement 68, the term *normal cost* is the equivalent of *service cost*.

³For purposes of application to the requirements of Statement 68, the term *actuarial accrued liability* is the equivalent of *total pension liability*.

⁴The effects of a termination benefit on an employer’s defined benefit obligations for other postemployment benefits should be accounted for and reported in conformity with the requirements for defined benefit other postemployment benefits.

⁵The 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.

Plan members

Individuals that are covered under the terms of a pension plan. Plan members generally include (1) employees in active service (active plan members) and (2) 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.

Postemployment benefit changes

Adjustments to the pension of an inactive employee.

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 employees 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 costs

The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.

Single employer

An employer whose employees are provided with pensions through a single-employer defined benefit pension plan.

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.

Special funding situations

Circumstances in which a nonemployer entity is legally responsible for making contributions directly to a pension plan that is used to provide pensions to the employees of another entity or entities and either of the following conditions exists:

1. The amount of contributions for which the nonemployer entity legally is responsible is *not* dependent upon one or more events or circumstances unrelated to the pensions.
2. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.

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 employee service in conformity with the requirements of Statement 68.

Appendix 2

INTRODUCTION, STANDARDS, AND EFFECTIVE DATE AND TRANSITION SECTIONS FROM STATEMENT 68, AS AMENDED BY STATEMENT 71

Introduction

1. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both **active employees**¹ and **inactive employees**—are provided with **pensions**. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations and the resources available to satisfy those obligations.

2. An additional objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to **pension plans** that are used to provide benefits to the employees of other entities.

3. Statement No. 67, *Financial Reporting for Pension Plans*, establishes standards of financial reporting for **defined benefit pension plans** and **defined contribution pension plans** that are used to provide pensions that are within the scope of this Statement. The two Statements are closely related in some areas, and certain provisions of this Statement refer to Statement 67.

Standards of Governmental Accounting and Financial Reporting

Scope and Applicability of This Statement

4. This Statement establishes standards of accounting and financial reporting for **defined benefit pensions** and **defined contribution pensions** provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) in which:

- a. **Contributions** from employers² 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.

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

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

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

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

5. The requirements of this Statement apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts that meet the criteria of paragraph 4 and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. References in this Statement to employees include volunteers. The requirements apply whether the government's financial statements are presented in stand-alone financial reports or are included in the financial reports of another government.

6. For state and local governmental employers whose employees are provided with pensions through pension plans that are not administered through trusts that meet the criteria in paragraph 4 and for state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans, the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as amended, and the requirements of Statement No. 50, *Pension Disclosures*, as amended, remain applicable.

7. This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, paragraph 2; Statement No. 14, *The Financial Reporting Entity*, paragraph 63; Statement No. 16, *Accounting for Compensated Absences*, footnote 7; Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, paragraph 3; Statement 27, paragraph 3; Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, paragraph 5; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraph 129 and footnote 47; Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 13; Statement No. 47, *Accounting for Termination Benefits*, paragraphs 4, 17, and 19; Statement 50, paragraph 3; NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 157; NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, paragraph 4; and Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers*, paragraphs 1, and 5–7.

Types of Pensions

8. 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**. However, the effects of a termination benefit on liabilities for defined benefit pensions that are within the scope of this Statement should be accounted for in accordance with this Statement.⁵ Postemployment benefits other than retirement income that are provided separately from a pension plan and postemployment healthcare benefits should be accounted for and reported as **other postemployment benefits**.⁶

9. The requirements of paragraphs 17–122 of this Statement address accounting and financial reporting for defined benefit pensions provided through pension plans that are administered through trusts that meet the criteria in paragraph 4. Defined benefit pensions are pensions for which the income or other benefits that the employee 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 an amount that is calculated based on one or more factors such as age, years of service, and compensation.

⁵Termination benefits primarily are addressed in Statement 47, as amended. Statement 47 includes disclosure requirements applicable to all termination benefits, regardless of the manner in which they are provided.

⁶Employer accounting for other postemployment benefits primarily is addressed in Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended.

10. Accounting and financial reporting requirements for defined contribution pensions provided through pension plans that are administered through trusts that meet the criteria in paragraph 4 are set forth in paragraphs 123–135. Defined contribution pensions are pensions having terms that:

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

If the pensions to be provided are a function of factors other than those identified in (c), above, the requirements of this Statement related to defined benefit pensions apply. Otherwise, the requirements for defined contribution pensions apply.

Types of Defined Benefit Pension Plans and Employers

11. 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)**, and, except as provided in paragraph 18, the employer should apply the requirements of paragraphs 20–47, 83–91, or 120–122 of this Statement, as applicable, for a **single employer**.

12. 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)**. Except as provided in paragraph 18, each employer that provides pensions through such a plan should apply the requirements of paragraphs 20–47, 83–91, or 120–122 of this Statement, as applicable, for an **agent employer**. For agent employers, the provisions of this Statement apply to the pensions provided to the employer's own employees.

13. 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)**. Each employer that provides pensions through such a plan should apply the requirements of paragraphs 48–82, 92–96, or 120–122 of this Statement, as applicable, for a **cost-sharing employer**.

Number of Defined Benefit Pension Plans

14. 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 employee contributions) to *any* of the employees, 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 employees, employers, or types of benefits be maintained (for example, a reserve for employee 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 employees (for example, general employees and public safety employees) or different groups of employees 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 employees or to 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 employees or other entities' employees (for example, local government employees).

Special Funding Situations

15. **Special funding situations** are circumstances in which a nonemployer entity is legally responsible for making contributions *directly to* a pension plan that is used to provide pensions to the employees of another entity or entities *and* either of the following conditions exists:

- a. The amount of contributions for which the nonemployer entity legally is responsible is *not* dependent upon one or more events or circumstances unrelated to the pensions. Examples of conditions that meet this criterion include (1) a circumstance in which the nonemployer entity is required by statute to contribute a defined percentage of an employer's covered-employee payroll directly to the pension plan and (2) a circumstance in which the nonemployer entity is required by the terms of a pension plan to contribute directly to the pension plan a statutorily defined proportion of the employer's required contributions to the pension plan. In contrast, examples of situations in which the amount of contributions is dependent upon an event or circumstance that is unrelated to pensions include (i) a circumstance in which the nonemployer entity is required to make contributions to the pension plan based on a specified percentage of a given revenue source and (ii) a circumstance in which the nonemployer entity is required to make contributions to the pension plan equal to the amount by which the nonemployer entity's ending fund balance exceeds a defined threshold amount.
- b. The nonemployer entity is the only entity with a legal obligation to make contributions directly to a pension plan.

Special funding situations do not include circumstances in which resources are provided *to the employer*, regardless of the purpose for which those resources are provided.

16. Requirements for accounting and financial reporting by employers and by governmental nonemployer contributing entities for defined benefit pensions with special funding situations are presented in paragraphs 83–117 and 120–122 of this Statement. Requirements for accounting and financial reporting by employers and by governmental nonemployer contributing entities for defined contribution pensions with special funding situations are presented in paragraphs 127–133. Requirements for governmental nonemployer entities that have a legal requirement to make contributions directly to a pension plan but that do not meet either of the criteria in paragraph 15, and for the employers to which they provide support are presented in paragraphs 118–122, 134, and 135.

Defined Benefit Pensions

17. Liabilities, expense/expenditures, deferred outflows of resources, and deferred inflows of resources should be reported as required by this Statement for the following, as applicable:

- a. Liabilities to employees for pensions
- b. Payables to a defined benefit pension plan.

Liabilities to Employees for Pensions

18. The requirements of paragraphs 20–119, as applicable, should be applied separately to the pensions provided through separate defined benefit pension plans. If a primary government and its component units provide pensions through the same single-employer or agent pension plan, in the reporting entity's financial report, the requirements of paragraphs 37–47 of this Statement for note disclosures and required supplementary information for a single or agent employer should be applied. In that circumstance, in stand-alone financial statements, each government should account for and report its participation in the single-employer or agent pension plan as if it was a cost-sharing employer and should apply the requirements of paragraphs 48–82.

19. If within one pension plan, determined in conformity with paragraph 14, separate actuarial valuations are performed for different classes or groups of employees because different contribution rates apply for each class or group depending on the applicable benefit structures, benefit formulas, or other factors, the measurement requirements of this Statement may be applied for each class or group. However, in this circumstance, the separate measures for the classes and groups should be recognized and reported in the aggregate.

Single and agent employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that do not have a special funding situation

Net Pension Liability⁷

20. A liability should be recognized for the **net pension liability**.⁸ The net pension liability should be measured as the portion of the **actuarial present value of projected benefit payments** that is attributed to past periods of employee service in conformity with the requirements of paragraphs 22–32 (**total pension liability**), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position should be determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position. The net pension liability should be measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

21. Whether pensions are provided through single-employer, agent, or cost-sharing pension plans, liabilities for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

Timing and Frequency of Actuarial Valuations

22. The total pension liability should be determined by (a) an **actuarial valuation** as of the measurement date or (b) the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. If update procedures are used and significant changes occur between the **actuarial valuation date** and the measurement date, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from the actuarial valuation to the measurement date, 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

⁷Statement 67 includes similar measurement requirements.

⁸In this Statement, unless otherwise indicated, references to *net pension liability* also apply to the situation in which the pension plan's fiduciary net position exceeds the total pension liability, resulting in a net pension asset. For benefits provided through a single-employer or agent pension plan in which there is a special funding situation, the net pension liability, measured in conformity with this paragraph, is referred to as the collective net pension liability.

the pension plan's fiduciary net position or from changes in the municipal bond rate, if applicable (see paragraphs 26–31), should be among the factors evaluated. For accounting and 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

23. Unless otherwise specified by this Statement, the selection of all assumptions used in determining the total pension liability and related measures should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. The pension plan, employer, 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

24. **Projected benefit payments** should include all benefits to be provided to current active and inactive employees through the pension plan in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the measurement date. Projected benefit payments should include the effects of **automatic postemployment benefit changes**, including **automatic cost-of-living adjustments (automatic COLAs)**. In addition, projected benefit payments should include the effects of (a) projected **ad hoc postemployment benefit changes**, including **ad hoc cost-of-living adjustments (ad hoc COLAs)**, to the extent that they are considered to be substantively automatic;⁹ (b) projected salary changes (in circumstances in which the pension formula incorporates future compensation levels); and (c) projected service credits (both in determining an employee's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the pension formula incorporates years of service).

25. Benefit payments to be provided by means of an **allocated insurance contract** should be excluded from projected benefit payments if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contract 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.

Discount Rate

26. 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 27–29) to be sufficient to make projected benefit payments (determined in conformity with paragraphs 24 and 25) and (2) pension plan assets are expected to be invested using a strategy to achieve that return
- 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.

⁹Considerations 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.

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

27. For purposes of applying paragraph 26, 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 the employer and nonemployer contributing entities, if any, intended to finance benefits of current active and inactive employees (status at the measurement date) and all cash flows for contributions from current active employees. It should not include (a) cash flows for contributions from the employer or nonemployer contributing entities intended to finance the **service costs** of future employees or (b) cash flows for contributions from future employees, unless those contributions are projected to exceed service costs for those employees. In each period, contributions from the employer and nonemployer contributing entities should be considered to apply, first, to service costs of employees 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. Employee contributions should be considered to be applied to service costs before contributions from the employer and nonemployer contributing entities.

28. Professional judgment should be applied to project cash flows for contributions from the employer 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 employer 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 the employer 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.

29. If the evaluations required by paragraph 27 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

30. 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 an employee begins to provide service to the employer and (b) the point at which all benefits to the employee 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 26 should be used to calculate the actuarial present value of all other benefit payments.

31. 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 30.

Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

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

- a. Attribution should be made on an individual employee-by-employee basis.
- b. Each employee's service costs should be level as a percentage of that employee's projected pay. For purposes of this calculation, if an employee 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 employee'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 **deferred retirement option program (DROP)**, for purposes of this Statement, the date of entry into the DROP should be considered to be the employee's retirement date.
- e. Each employee's service costs should be determined based on the same benefit terms reflected in that employee's actuarial present value of projected benefit payments.

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Support of Nonemployer Contributing Entities

33. Changes in the net pension liability¹⁰ should be recognized in pension expense in the current reporting period except as indicated below:

- a. Each of the following should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a **closed period** equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the **measurement period**:
 - (1) Differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) in the measurement of the total pension liability
 - (2) Changes of assumptions about future economic or demographic factors or of other inputs (changes of assumptions or other inputs).The portion of (1) and (2) not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions.
- b. The difference between projected and actual earnings on pension plan investments should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and reported as a net deferred outflow of resources related to pensions or a net deferred inflow of resources related to pensions.
- c. Contributions to the pension plan from the employer should not be recognized in pension expense.
- d. Contributions to the pension plan from nonemployer contributing entities that are not in a special funding situation should be recognized as revenue.

34. Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period should be reported as a deferred outflow of resources related to pensions.

¹⁰The period for determining changes in the net pension liability is the measurement period applied to the net pension liability that is recognized in the current reporting period.

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that have a special funding situation

35. An employer that has a special funding situation should apply the requirements of paragraphs 83–91.

Recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting—all single and agent employers

36. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a net pension liability¹¹ should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (a) amounts paid by the employer to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured—that is, benefit payments are due and payable and the pension plan’s fiduciary net position is not sufficient for payment of those benefits.

Notes to financial statements—all single and agent employers¹²

37. The total (aggregate for all pensions, whether provided through single-employer, agent, or cost-sharing pension plans) of the employer’s pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.

38. The information identified in paragraphs 39–45 should be disclosed for benefits provided through each single-employer or agent pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

39. In circumstances in which the employees of a primary government and its component units are provided with pensions through the same single-employer or agent pension plan, the note disclosures in the reporting entity’s financial statements should separately identify amounts associated with the primary government (including its blended component units) and those associated with its discretely presented component units.

Pension Plan Description

40. The following information should be disclosed about the pension plan through which benefits are provided:

- a. 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 or agent pension plan.
- b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.

¹¹For purposes of applying paragraphs 36–47, unless otherwise indicated, the term *net pension liability* applies to the proportionate share of the collective net pension liability of a single or agent employer that has a special funding situation. (See paragraph 83.)

¹²If similar information is required by this Statement and Statement 67, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

- c. The number of employees covered by the benefit terms, separately identifying numbers of the following:
 - (1) Inactive employees (or their beneficiaries) currently receiving benefits
 - (2) Inactive employees entitled to but not yet receiving benefits
 - (3) Active employees.
- d. A brief description of contribution requirements, including (1) the basis for determining the employer's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of the employer, nonemployer contributing entities, if any, and employees are established or may be amended; and (3) the contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the employer during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from **actual contributions** and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed.
- e. Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the Net Pension Liability

Assumptions and Other Inputs

41. 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) should be disclosed. 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.

42. 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 prior measurement date, if any
- b. Assumptions made about projected cash flows into and out of the pension plan, such as contributions from the employer, nonemployer contributing entities, and employees
- c. The long-term expected rate of return on pension plan investments and a brief 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
- 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 (1) a discount rate that is 1-percentage-point higher than that required by paragraph 26 and (2) a discount rate that is 1-percentage-point lower than that required by paragraph 26.

The Pension Plan's Fiduciary Net Position

43. All information required by this and other financial reporting standards about the elements of the pension plan's basic financial statements (that is, all information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position) should be disclosed. However, if (a) a financial report that includes disclosure about the elements of the pension plan's basic financial statements is available on the

Internet, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government, and (b) information is provided about how to obtain the report, reference may instead be made to the other report for these disclosures. In this circumstance, it also should be disclosed that the pension plan's fiduciary net position has been determined on the same basis used by the pension plan, and a brief description of the pension plan's basis of accounting, including the policies with respect to benefit payments (including refunds of employee contributions) and the valuation of pension plan investments should be included. If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.

Changes in the Net Pension Liability

44. For the current reporting period, a schedule of changes in the net pension liability should be presented. The schedule should separately include the information indicated in subparagraphs (a)–(d), below. If the employer has a special funding situation, the information in subparagraphs (a)–(c) should be presented for the **collective net pension liability**.

- a. The beginning balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability
- b. The effects during the period of the following items, if applicable, on the balances in subparagraph (a):
 - (1) Service cost
 - (2) Interest on the total pension liability
 - (3) Changes of benefit terms
 - (4) Differences between expected and actual experience in the measurement of the total pension liability
 - (5) Changes of assumptions or other inputs
 - (6) Contributions from the employer
 - (7) Contributions from nonemployer contributing entities
 - (8) Contributions from employees
 - (9) Pension plan net investment income
 - (10) Benefit payments, including refunds of employee contributions
 - (11) Pension plan administrative expense
 - (12) Other changes, separately identified if individually significant.
- c. The ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability
- d. If the employer has a special funding situation:
 - (1) The nonemployer contributing entities' total proportionate share of the collective net pension liability
 - (2) The employer's proportionate share of the collective net pension liability.

45. In addition to the information required by paragraph 44, the following information should be disclosed, if applicable:

- a. The measurement date of the net pension liability, 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 measurement date
- b. If the employer has a special funding situation, the employer's proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
- c. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
- d. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date

- e. The amount of benefit payments in the measurement period attributable to the purchase of allocated insurance contracts, a brief description of the benefits for which allocated insurance contracts were purchased in the measurement period, and the fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred from the employer to one or more insurance companies
- f. A brief description of the nature of changes between the measurement date of the net pension liability and the employer's reporting date that are expected to have a significant effect on the net pension liability, and the amount of the expected resultant change in the net pension liability, if known
- g. The amount of pension expense recognized by the employer in the reporting period
- h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:
 - (1) Differences between expected and actual experience in the measurement of the total pension liability
 - (2) Changes of assumptions or other inputs
 - (3) Net difference between projected and actual earnings on pension plan investments
 - (4) If the employer has a special funding situation, changes in the employer proportion (paragraph 86) and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan¹³) and the employer's proportionate share of contributions (paragraph 87)
 - (5) The employer's contributions to the pension plan subsequent to the measurement date of the net pension liability
- i. A schedule presenting the following:
 - (1) For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in subparagraph (h) that will be recognized in the employer's pension expense
 - (2) If the employer does not have a special funding situation, the amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be recognized as a reduction of the net pension liability
 - (3) If the employer has a special funding situation, the amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be included as a reduction of the collective net pension liability
- j. The amount of revenue recognized for the support provided by nonemployer contributing entities (see paragraphs 33d and 90), if any.

Required supplementary information—all single and agent employers¹⁴

46. The required supplementary information identified in subparagraphs (a)–(d), as applicable, should be presented separately for each single-employer and agent pension plan through which pensions are provided. The information indicated in subparagraphs (a) and (b) should be determined as of the measurement date of the net pension liability and may be presented in a single schedule. The information in subparagraphs (c) and (d) should be determined as of the employer's most recent fiscal year-end. If a primary government and one or more of its component units provide pensions through the same single-employer or agent pension plan, required supplementary information in the reporting entity's financial statements should present information for the reporting entity as a whole.

- a. A 10-year schedule of changes in the net pension liability that separately presents the information required by paragraph 44 for each year.
- b. A 10-year schedule presenting the following for each year:
 - (1) If the employer does not have a special funding situation:
 - (a) The total pension liability
 - (b) The pension plan's fiduciary net position
 - (c) The net pension liability

¹³In a single-employer or agent pension plan, an example of a separately financed liability to the pension plan is a long-term payable recognized for contractually deferred contributions with a separate payment schedule. (See paragraph 120.)

¹⁴See footnote 12.

- (d) The pension plan's fiduciary net position as a percentage of the total pension liability
- (e) The **covered-employee payroll**
- (f) The net pension liability as a percentage of covered-employee payroll.
- (2) If the employer has a special funding situation, information about the collective net pension liability:
 - (a) The total pension liability
 - (b) The pension plan's fiduciary net position
 - (c) The collective net pension liability
 - (d) The nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability
 - (e) The employer's proportionate share (amount) of the collective net pension liability
 - (f) The covered-employee payroll
 - (g) The employer's proportionate share (amount) of the collective net pension liability as a percentage of covered-employee payroll
 - (h) The pension plan's fiduciary net position as a percentage of the total pension liability.
- c. If an **actuarially determined contribution** is calculated, a 10-year schedule presenting the following for each year:
 - (1) The actuarially determined contribution of the employer. For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
 - (2) The amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
 - (3) The difference between the actuarially determined contribution of the employer and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer.
 - (4) The covered-employee payroll.
 - (5) The amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer as a percentage of covered-employee payroll.
- d. If an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established, a 10-year schedule presenting the following for each year:
 - (1) The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
 - (2) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
 - (3) The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
 - (4) The covered-employee payroll.
 - (5) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered-employee payroll.

Notes to Required Schedules

47. Significant methods and assumptions used in calculating the actuarially determined contributions, if any, should be presented as notes to the schedule required by paragraph 46c. In addition, for each of the schedules required by paragraph 46, 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 measurement date of that information.)

Cost-sharing employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that do not have a special funding situation

Proportionate Share of the Collective Net Pension Liability

48. A liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The employer's proportionate share of the collective net pension liability should be measured by:

- a. Determining the employer's proportion—a measure of the proportionate relationship of (1) the employer (and, to the extent associated with the employer, nonemployer contributing entities, if any, that provide support for the employer but that are not in a special funding situation) to (2) all employers and all nonemployer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer to the pension plan,¹⁵ are determined. The use of the employer's projected long-term contribution effort to the pension plan (including that of nonemployer contributing entities that provide support for the employer but that are not in a special funding situation) as compared to the total projected long-term contribution effort of all employers and all nonemployer contributing entities to determine the employer's proportion is encouraged.
- b. Multiplying the collective net pension liability (determined in conformity with paragraphs 59–70) by the employer's proportion calculated in (a).

49. To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships.

50. The employer's proportion should be established as of the measurement date, unless the employer's proportion is actuarially determined, in which case a proportion established at the date of the actuarial valuation used to determine the collective net pension liability may be used.

51. Whether pensions are provided through cost-sharing, single-employer, or agent pension plans, liabilities for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

¹⁵In a cost-sharing pension plan, examples of separately financed liabilities to the pension plan include cash payments or long-term payables for amounts assessed to an individual employer upon joining the pension plan or for increases in the total pension liability for changes of benefit terms specific to the employer. (See paragraph 120.)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

52. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions should be recognized for the items in paragraphs 53–57, as applicable. The effects of items in paragraphs 54 and 55 may be recognized on a net basis.

Proportionate Share

53. Pension expense, as well as deferred outflows of resources and deferred inflows of resources related to pensions, should be recognized for the employer's proportionate shares of **collective pension expense** and **collective deferred outflows of resources and deferred inflows of resources related to pensions**. The employer's proportionate shares should be determined using the employer's proportion of the collective net pension liability.

Change in Proportion

54. If there is a change in the employer's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

Contributions during the Measurement Period

55. For contributions to the pension plan other than those to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan, the difference during the measurement period between (a) the total amount of such contributions from the employer (and amounts associated with the employer from nonemployer contributing entities that are not in a special funding situation) and (b) the amount of the employer's proportionate share of the total of such contributions from all employers and all nonemployer contributing entities should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

56. For contributions to the pension plan to separately finance specific liabilities of the individual employer to the pension plan, the difference during the measurement period between (a) the amount of such contributions from the employer (and amounts associated with the employer from nonemployer contributing entities that are not in a special funding situation) and (b) the amount of the employer's proportionate share of the total of the contributions in (a), determined using the employer's proportion of the collective net pension liability, should be recognized in the employer's pension expense.

Employer Contributions Subsequent to the Measurement Date

57. Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period should be reported as a deferred outflow of resources related to pensions.

Support of Nonemployer Contributing Entities That Are Not in a Special Funding Situation

58. Revenue should be recognized in an amount equal to (a) contributions to the pension plan from nonemployer contributing entities that are not in a special funding situation to separately finance specific liabilities of the individual employer to the pension plan and (b) the employer's proportionate share of the contributions to the pension plan from nonemployer contributing entities for purposes other than the separate financing of specific liabilities to the pension plan.

Measurement of the Collective Net Pension Liability, Collective Pension Expense, and Collective Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Collective Net Pension Liability¹⁶

59. The collective net pension liability should be measured as the total pension liability (determined in conformity with the requirements of paragraphs 60–70), net of the pension plan's fiduciary net position. The pension plan's fiduciary net position should be determined using the same valuation methods that are used by the pension plan for purposes of preparing its statement of fiduciary net position.

Timing and frequency of actuarial valuations

60. The total pension liability should be determined by (a) an actuarial valuation as of the measurement date or (b) the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and 1 day earlier than the employer's most recent fiscal year-end. If update procedures are used and significant changes occur between the actuarial valuation date and the measurement date, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from the actuarial valuation to the measurement date, 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 64–69), should be among the factors evaluated. For accounting and 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

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

62. Projected benefit payments should include all benefits to be provided to current active and inactive employees through the pension plan in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the measurement date. 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

¹⁶Statement 67 includes similar measurement requirements.

are considered to be substantively automatic;¹⁷ (b) projected salary changes (in circumstances in which the pension formula incorporates future compensation levels), and (c) projected service credits (both in determining an employee's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the pension formula incorporates years of service).

63. Benefit payments to be provided by means of an allocated insurance contract should be excluded from projected benefit payments if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contract have been made, and (c) the likelihood is remote that the employers or the pension plan will be required to make additional payments to satisfy the benefit payments covered by the contract.

Discount rate

64. 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 65–67) to be sufficient to make projected benefit payments (determined in conformity with paragraphs 62 and 63) and (2) pension plan assets are expected to be invested using a strategy to achieve that return
- 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

65. For purposes of applying paragraph 64, 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 employees (status at the measurement date) and all cash flows for contributions from current active employees. It should not include (a) cash flows for contributions from employers or nonemployer contributing entities intended to finance the service costs of future employees or (b) cash flows for contributions from future employees, unless those contributions are projected to exceed service costs for those employees. In each period, contributions from employers and nonemployer contributing entities should be considered to apply, first, to service costs of employees 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. Employee contributions should be considered to be applied to service costs before contributions from employers and nonemployer contributing entities.

66. 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.

¹⁷Considerations 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.

67. If the evaluations required by paragraph 65 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

68. 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 an employee begins to provide service to the employer and (b) the point at which all benefits to the employee 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 64 should be used to calculate the actuarial present value of all other benefit payments.

69. 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 68.

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

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

- a. Attribution should be made on an individual employee-by-employee basis.
- b. Each employee's service costs should be level as a percentage of that employee's projected pay. For purposes of this calculation, if an employee 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 employee'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 employee's retirement date.
- e. Each employee's service costs should be determined based on the same benefit terms reflected in that employee's actuarial present value of projected benefit payments.

Collective Pension Expense and Collective Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

71. Changes in the collective net pension liability should be included in collective pension expense in the current measurement period except as indicated below:

- a. Each of the following should be included in collective pension expense, beginning in the current measurement period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period:
 - (1) Differences between expected and actual experience with regard to economic and demographic factors (differences between expected and actual experience) in the measurement of the total pension liability

(2) Changes of assumptions about future economic or demographic factors or of other inputs (changes of assumptions or other inputs).

The portion of (1) and (2) not included in collective pension expense should be included in collective deferred outflows of resources or deferred inflows of resources related to pensions.

- b. The difference between projected and actual earnings on pension plan investments should be included in collective pension expense using a systematic and rational method over a closed five-year period, beginning in the current measurement period. The amount not included in collective pension expense should be included in collective deferred outflows of resources or deferred inflows of resources related to pensions. Collective deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and included as a net collective deferred outflow of resources related to pensions or a net collective deferred inflow of resources related to pensions.
- c. Contributions to the pension plan from employers or nonemployer contributing entities should not be included in collective pension expense.

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that have a special funding situation

72. An employer that has a special funding situation should apply the requirements of paragraphs 92–96.

Recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting—all cost-sharing employers

73. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer's proportionate share of the collective net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of (a) amounts paid by the employer to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured—that is, benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits.

Notes to financial statements—all cost-sharing employers¹⁸

74. The total (aggregate for all pensions, whether provided through cost-sharing, single-employer, or agent pension plans) of the employer's pension liabilities, pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.

75. The information identified in paragraphs 76–80 should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

¹⁸If similar information is required by this Statement and Statement 67, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

Pension Plan Description

76. The following information should be disclosed about the pension plan through which benefits are provided:

- a. 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 cost-sharing pension plan.
- b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.
- c. A brief description of contribution requirements, including (1) the basis for determining the employer's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, if any, and employees are established or may be amended; and (3) the contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the employer during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed.
- d. Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the Employer's Proportionate Share of the Collective Net Pension Liability

Assumptions and Other Inputs

77. 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) should be disclosed. 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 employees) 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.

78. 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 prior measurement date, 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 employees
- c. The long-term expected rate of return on pension plan investments and a brief 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
- 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 employer's proportionate share of the collective net pension liability calculated using (1) a discount rate that is 1-percentage-point higher than that required by paragraph 64 and (2) a discount rate that is 1-percentage-point lower than that required by paragraph 64.

The Pension Plan's Fiduciary Net Position

79. All information required by this and other financial reporting standards about the elements of the pension plan's basic financial statements (that is, all information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position) should be disclosed. However, if (a) a financial report that includes disclosure about the elements of the pension plan's basic financial statements is available on the Internet, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government and (b) information is provided about how to obtain the report, reference may instead be made to the other report for these disclosures. In this circumstance, it also should be disclosed that the pension plan's fiduciary net position has been determined on the same basis used by the pension plan, and a brief description of the pension plan's basis of accounting, including the policies with respect to benefit payments (including refunds of employee contributions) and the valuation of pension plan investments should be included. If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.

Other Information

80. The following additional information should be disclosed, if applicable:

- a. The employer's proportionate share (amount) of the collective net pension liability and, if an employer has a special funding situation, (1) the portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer¹⁹ and (2) the total of the employer's proportionate share (amount) of the collective net pension liability and the portion of the nonemployer contributing entities' total proportionate share of the collective net pension liability that is associated with the employer
- b. The employer's proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
- c. The measurement date of the collective net pension liability, 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 measurement date
- d. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
- e. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
- f. A brief description of the nature of changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the employer's proportionate share of the collective net pension liability, and the amount of the expected resultant change in the employer's proportionate share of the collective net pension liability, if known
- g. The amount of pension expense recognized by the employer in the reporting period
- h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as follows, if applicable:
 - (1) Differences between expected and actual experience in the measurement of the total pension liability
 - (2) Changes of assumptions or other inputs
 - (3) Net difference between projected and actual earnings on pension plan investments

¹⁹The requirements of paragraphs 97–99 address measurement by *governmental* nonemployer contributing entities. For purposes of paragraph 80, the requirements of those paragraphs also apply to the determination of the proportionate share of the net pension liability attributed to a *nongovernmental* nonemployer contributing entity in a special funding situation.

- (4) Changes in the employer's proportion (paragraph 54) and differences between the employer's contributions (other than those to separately finance specific liabilities of the individual employer to the pension plan) and the employer's proportionate share of contributions (paragraph 55)
- (5) The employer's contributions to the pension plan subsequent to the measurement date of the collective net pension liability
- i. A schedule presenting the following:
 - (1) For each of the subsequent five years and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in subparagraph (h) that will be recognized in the employer's pension expense
 - (2) The amount of the employer's balance of deferred outflows of resources in subparagraph (h) that will be included as a reduction of the collective net pension liability
- j. The amount of revenue recognized for the support provided by nonemployer contributing entities (see paragraphs 58 and 95), if any.

Required supplementary information—all cost-sharing employers²⁰

81. The required supplementary information identified in subparagraphs (a) and (b), as applicable, should be presented separately for each cost-sharing pension plan through which pensions are provided. The information indicated in subparagraph (a) should be determined as of the measurement date of the collective net pension liability. The information in subparagraph (b) should be determined as of the employer's most recent fiscal year-end.

- a. A 10-year schedule presenting the following for each year:
 - (1) If the employer does not have a special funding situation:
 - (a) The employer's proportion (percentage) of the collective net pension liability
 - (b) The employer's proportionate share (amount) of the collective net pension liability
 - (c) The employer's covered-employee payroll
 - (d) The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
 - (e) The pension plan's fiduciary net position as a percentage of the total pension liability.
 - (2) If the employer has a special funding situation:
 - (a) The employer's proportion (percentage) of the collective net pension liability
 - (b) The employer's proportionate share (amount) of the collective net pension liability
 - (c) The portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer
 - (d) The total of (b) and (c)
 - (e) The employer's covered-employee payroll
 - (f) The employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll
 - (g) The pension plan's fiduciary net position as a percentage of the total pension liability.
- b. If the contribution requirements of the employer are statutorily or contractually established, a 10-year schedule presenting the following for each year:
 - (1) The statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
 - (2) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
 - (3) The difference between the statutorily or contractually required employer contribution and the amount of

²⁰See footnote 18.

contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.

(4) The employer's covered-employee payroll.

(5) The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of the employer's covered-employee payroll.

Notes to Required Schedules

82. Information about factors that significantly affect trends in the amounts reported in the schedules required by paragraph 81 (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) should be presented as notes to the schedules. (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 measurement date of that information.)

Special funding situations

Single or agent employers

Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting

Proportionate Share of the Collective Net Pension Liability

83. A liability should be recognized for the employer's proportionate share of the collective net pension liability. The employer's proportionate share of the collective net pension liability should be measured as the collective net pension liability (determined in conformity with paragraphs 20–32), net of the nonemployer contributing entities' total proportionate share of the collective net pension liability (determined in conformity with paragraphs 97–99).²¹

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

84. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions should be recognized for the items in paragraphs 85–89, as applicable. The effects of items in paragraphs 86 and 87 may be recognized on a net basis.

Proportionate share

85. Pension expense should be recognized in an amount equal to collective pension expense, determined in conformity with paragraph 33. Deferred outflows of resources and deferred inflows of resources related to pensions should be recognized for the employer's proportionate shares of collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate shares should be determined using the employer's proportion of the collective net pension liability—the ratio of (a) the employer's proportionate share of the collective net pension liability (paragraph 83) to (b) the collective net pension liability (paragraphs 20–32).

Change in proportion

86. If there is a change in the employer's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and the collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the employer's pension expense, beginning in the

²¹The requirements of paragraphs 97–99 address measurement by *governmental* nonemployer contributing entities. For purposes of paragraph 83, the requirements of those paragraphs also apply to the determination of the proportionate share of the collective net pension liability attributed to a *nongovernmental* nonemployer contributing entity in a special funding situation.

current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

Contributions during the measurement period

87. For contributions to the pension plan other than those to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan, the difference during the measurement period between (a) the total amount of such contributions from the employer and (b) the amount of the employer's proportionate share of the total of such contributions from the employer and all nonemployer contributing entities should be recognized in the employer's pension expense beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

88. For contributions to the pension plan to separately finance specific liabilities of the individual employer to the pension plan, the difference during the measurement period between (a) the amount of such contributions from the employer and (b) the amount of the employer's proportionate share of the contributions in (a), determined using the employer's proportion of the collective net pension liability, should be recognized in the employer's pension expense.

Employer contributions subsequent to the measurement date

89. Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period should be reported as a deferred outflow of resources related to pensions.

Support of Nonemployer Contributing Entities in a Special Funding Situation

90. Revenue should be recognized in an amount equal to the nonemployer contributing entities' total proportionate share of collective pension expense measured in conformity with paragraph 102.²²

Additional Requirements

91. The requirements in paragraphs 36–47 for recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, notes to financial statements, and required supplementary information should be applied.

²²The requirements of paragraph 102 address measurement by *governmental* nonemployer contributing entities. For purposes of paragraph 90, the requirements of paragraph 102 also apply to the determination of the proportionate share of collective pension expense attributed to a *nongovernmental* nonemployer contributing entity in a special funding situation.

Cost-sharing employers

Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting

Proportionate Share of the Collective Net Pension Liability

92. A liability should be recognized for the employer's proportionate share of the collective net pension liability determined in conformity with paragraphs 48–51. For purposes of applying those paragraphs, if the effective pension plan terms define a specific relationship of the contribution requirements of a nonemployer contributing entity to those of the employer and other contributing entities, the employer's proportion should be established in a manner consistent with those terms, notwithstanding differences between the measurement basis used to determine contributions and that used to determine the collective net pension liability. For example, if the governmental nonemployer contributing entity's contribution requirements are defined by the plan terms to be 25 percent of the employers' total actuarially determined contribution, each employer's proportion of the collective net pension liability should be based on 75 percent of its total individual actuarially determined contribution. For another example, if (a) the governmental nonemployer contributing entity's required contribution, consistently contributed, is defined in the pension plan terms to be the amount necessary to finance 100 percent of past service cost on the actuarial funding basis used by the employers and nonemployer contributing entities and (b) the employers' required contribution rate is defined in the pension plan terms to be an amount to satisfy the portion of the actuarially determined service cost of each period that is not offset by employee contributions, the employer's proportion of the collective net pension liability should be considered to be zero percent.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

93. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions should be recognized in conformity with paragraphs 52–57.

94. Pension expense also should be recognized for the nonemployer contributing entities' total proportionate share of collective pension expense (measured in conformity with paragraph 102)²³ that is associated with the employer.

Support of Nonemployer Contributing Entities in a Special Funding Situation

95. Revenue should be recognized in an amount equal to the nonemployer contributing entities' total proportionate share of the collective pension expense (measured in conformity with paragraph 102) that is associated with the employer.

Additional Requirements

96. The requirements in paragraphs 73–82 for recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, notes to financial statements, and required supplementary information should be applied.

²³The requirements of paragraph 102 address measurement by *governmental* nonemployer contributing entities. For purposes of paragraphs 94 and 95, the requirements of paragraph 102 also apply to the determination of the proportionate share of collective pension expense attributed to a *nongovernmental* nonemployer contributing entity in a special funding situation.

Governmental nonemployer contributing entities

Recognition and Measurement in Financial Statements Prepared Using the Economic Resources Measurement Focus and Accrual Basis of Accounting

Proportionate Share of the Collective Net Pension Liability

97. A liability should be recognized for the governmental nonemployer contributing entity's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the governmental nonemployer contributing entity's prior fiscal year, consistently applied from period to period. The governmental nonemployer contributing entity's proportionate share of the collective net pension liability should be measured by:

- a. Determining the governmental nonemployer contributing entity's proportion—a measure of the proportionate relationship of (1) the governmental nonemployer contributing entity to (2) all employers and all nonemployer contributing entities. The basis for the governmental nonemployer contributing entity's proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan, are determined. The use of the governmental nonemployer contributing entity's projected long-term contribution effort to the pension plan as compared to the total projected long-term contribution effort of all employers and all nonemployer contributing entities to determine the governmental nonemployer contributing entity's proportion is encouraged.
- b. Multiplying the collective net pension liability (determined in conformity with paragraphs 20–32 or 59–70, as applicable) by the governmental nonemployer contributing entity's proportion calculated in (a).

98. To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of the governmental nonemployer contributing entity's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships. In addition, for this purpose, if the effective pension plan terms define a specific relationship of the contribution requirements of the nonemployer contributing entity to those of other contributing entities, the governmental nonemployer contributing entity's proportion should be established in a manner consistent with those terms, notwithstanding differences between the measurement basis used to determine contributions and that used to determine the collective net pension liability. For example, if the governmental nonemployer contributing entity's contribution requirements are defined by the plan terms to be 25 percent of the employers' total actuarially determined contribution, the governmental nonemployer contributing entity's proportion of the collective net pension liability should be considered to be 25 percent. For another example, if (a) the governmental nonemployer contributing entity's required contribution, consistently contributed, is defined in the pension plan terms to be the amount necessary to finance 100 percent of past service cost on the actuarial funding basis used by the employers and nonemployer contributing entities and (b) the employers' required contribution rate is defined in the pension plan terms to be an amount to satisfy the portion of the actuarially determined service cost of each period that is not offset by employee contributions, the governmental nonemployer contributing entity's proportion of the collective net pension liability should be considered to be 100 percent.

99. The governmental nonemployer contributing entity's proportion should be established as of the measurement date, unless its proportion is actuarially determined, in which case a proportion established at the date of the actuarial valuation used to determine the collective net pension liability may be used.

100. Whether pensions are provided through single-employer, agent, or cost-sharing pension plans, liabilities resulting from special funding situations for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets resulting from special funding situations for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated liabilities should be displayed separately from aggregated assets.

Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

101. Expense and deferred outflows of resources and deferred inflows of resources should be recognized for the items in paragraphs 102–106, as applicable. The effects of items in paragraphs 103 and 104 may be recognized on a net basis. A governmental nonemployer contributing entity should classify its expense as a result of a special funding situation in the same manner as it classifies similar grants to other entities.

Proportionate share

102. Expense, as well as deferred outflows of resources and deferred inflows of resources, should be recognized for the governmental nonemployer contributing entity's proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The governmental nonemployer contributing entity's proportionate shares should be determined using the governmental nonemployer contributing entity's proportion of the collective net pension liability.

Change in proportion

103. If there is a change in the governmental nonemployer contributing entity's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the governmental nonemployer contributing entity's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the governmental nonemployer contributing entity's expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the governmental nonemployer contributing entity's expense should be reported as a deferred outflow of resources or deferred inflow of resources.

Contributions during the measurement period

104. For contributions to the pension plan other than those to separately finance specific liabilities of an individual employer or nonemployer contributing entity to the pension plan, the difference during the measurement period between (a) the total amount of such contributions from the governmental nonemployer contributing entity and (b) the amount of the entity's proportionate share of the total of such contributions from all employers and all nonemployer contributing entities should be recognized in the governmental nonemployer contributing entity's expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the governmental nonemployer contributing entity's expense should be reported as a deferred outflow of resources or deferred inflow of resources.

105. For contributions to the pension plan to separately finance specific liabilities of the individual governmental nonemployer contributing entity to the pension plan, the difference during the measurement period between (a) the amount of such contributions from the governmental nonemployer contributing entity and (b) the amount of the governmental nonemployer contributing entity's proportionate share of the contributions in (a), determined using the governmental nonemployer contributing entity's proportion of the net pension liability, should be recognized in the entity's expense.

Governmental nonemployer contributing entity contributions subsequent to the measurement date

106. Contributions to the pension plan from the governmental nonemployer contributing entity subsequent to the measurement date of the collective net pension liability and before the end of the governmental nonemployer contributing entity's reporting period should be reported as a deferred outflow of resources.

Recognition in Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting

107. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a governmental nonemployer contributing entity's proportionate share of the collective net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Expenditures should be recognized equal to the total of (a) amounts paid by the governmental nonemployer contributing entity to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured—that is, benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those benefits. Expenditures should be classified in the same manner as the governmental nonemployer contributing entity classifies similar grants to other entities.

Notes to Financial Statements and Required Supplementary Information²⁴

Governmental Nonemployer Contributing Entities That Recognize a Substantial Proportion of the Collective Net Pension Liability

108. The information identified in paragraphs 109–113 should be disclosed, and information required in paragraphs 114 and 115 should be presented as required supplementary information, for benefits provided through each defined benefit pension plan for which the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Notes to financial statements

Pension plan description

109. The following information should be disclosed about the pension plan through which benefits are provided:

- a. 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.
- b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.
- c. A brief description of contribution requirements, including (1) the basis for determining the governmental nonemployer contributing entity's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of employers, nonemployer contributing entities, and employees are established or may be amended; and (3) the contribution

²⁴If similar information is required by this Statement and Statement 67, a governmental nonemployer contributing entity that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present the information in a manner that avoids unnecessary duplication.

rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the governmental nonemployer contributing entity during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed.

- d. Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Information about the governmental nonemployer contributing entity's proportionate share of the collective net pension liability

Assumptions and other inputs

110. 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) should be disclosed. 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.

111. 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 prior measurement date, 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 employees
- c. The long-term expected rate of return on pension plan investments and a brief 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
- 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 governmental nonemployer contributing entity's proportionate share of the collective net pension liability calculated using (1) a discount rate that is 1-percentage-point higher than that required by paragraph 26 or 64, as applicable, and (2) a discount rate that is 1-percentage-point lower than that required by paragraph 26 or 64, as applicable.

The pension plan's fiduciary net position

112. All information required by this and other financial reporting standards about the elements of the pension plan's basic financial statements (that is, all information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position) should be disclosed. However, if (a) a financial report that includes disclosure about the elements of the pension plan's basic financial statements is available on the Internet, either as a stand-alone financial report or included as a fiduciary fund in the financial report of another government, and (b) information is provided about how to obtain the report, reference may instead be made to the other report for these disclosures. In this circumstance, it also should be disclosed that the pension plan's fiduciary net position has been determined on the same basis used by the pension plan, and a brief description of the pension plan's basis of accounting, including the policies with respect to benefit payments (including refunds of employee

contributions) and the valuation of pension plan investments should be included. If significant changes have occurred that indicate that the disclosures included in the pension plan's financial report generally do not reflect the facts and circumstances at the measurement date, information about the substance and magnitude of the changes should be disclosed.

Other information

113. The following additional information should be disclosed, if applicable:

- a. The governmental nonemployer contributing entity's proportionate share (amount) of the collective net pension liability, its proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date
- b. The measurement date of the collective net pension liability, 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 measurement date
- c. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date
- d. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date
- e. A brief description of the nature of changes between the measurement date of the collective net pension liability and the governmental nonemployer contributing entity's reporting date that are expected to have a significant effect on the governmental nonemployer contributing entity's proportionate share of the collective net pension liability, and the amount of the expected resultant change in the governmental nonemployer contributing entity's proportionate share of the collective net pension liability, if known
- f. The amount of expense recognized by the governmental nonemployer contributing entity in the reporting period as a result of the special funding situation
- g. The governmental nonemployer contributing entity's balances of deferred outflows of resources and deferred inflows of resources as a result of the special funding situation, classified as follows, if applicable:
 - (1) Differences between expected and actual experience in the measurement of the total pension liability
 - (2) Changes of assumptions or other inputs
 - (3) Net difference between projected and actual earnings on pension plan investments
 - (4) Changes in the governmental nonemployer contributing entity's proportion (paragraph 103) and differences between the governmental nonemployer contributing entity's contributions (other than those to separately finance specific liabilities of the individual nonemployer contributing entity to the pension plan) and the governmental nonemployer contributing entity's proportionate share of contributions (paragraph 104)
 - (5) The governmental nonemployer contributing entity's contributions to the pension plan subsequent to the measurement date of the collective net pension liability
- h. A schedule presenting the following:
 - (1) For each of the subsequent five years and in the aggregate thereafter, the net amount of the governmental nonemployer contributing entity's balances of deferred outflows of resources and deferred inflows of resources in subparagraph (g) that will be recognized in the governmental nonemployer contributing entity's expense
 - (2) The amount of the governmental nonemployer contributing entity's balance of deferred outflows of resources in subparagraph (g) that will be included as a reduction of the collective net pension liability.

Required supplementary information

114. The required supplementary information identified in subparagraphs (a) and (b), as applicable, should be presented separately for each defined benefit pension plan for which the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability. The information indicated in subparagraph (a) should be determined as of the measurement date of the collective net pension liability. The information in subparagraph (b) should be determined as of the governmental nonemployer contributing entity's most recent fiscal year-end.

- a. A 10-year schedule presenting the following for each year:
 - (1) The governmental nonemployer contributing entity's proportion (percentage) of the collective net pension liability
 - (2) The governmental nonemployer contributing entity's proportionate share (amount) of the collective net pension liability
 - (3) The pension plan's fiduciary net position as a percentage of the total pension liability.
- b. If the contribution requirements of the governmental nonemployer contributing entity are statutorily or contractually established, a 10-year schedule presenting the following for each year:
 - (1) The governmental nonemployer contributing entity's statutorily or contractually required contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual governmental nonemployer contributing entity to the pension plan.
 - (2) The amount of contributions recognized by the pension plan in relation to the governmental nonemployer contributing entity's statutorily or contractually required contribution. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the governmental nonemployer contributing entity's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
 - (3) The difference between the governmental nonemployer contributing entity's statutorily or contractually required contribution and the amount of contributions recognized by the pension plan in relation to its statutorily or contractually required contribution.

Notes to required schedules

115. Information about factors that significantly affect trends in the amounts reported in the schedules required by paragraph 114 (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) should be presented as notes to the schedules. (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 measurement date of that information.)

Governmental Nonemployer Contributing Entities That Recognize a Less-Than-Substantial Proportion of the Collective Net Pension Liability

Notes to financial statements

116. The information identified in this paragraph should be disclosed for benefits provided through each defined benefit pension plan for which the governmental nonemployer contributing entity recognizes a less-than-substantial proportion of the collective net pension liability. If the governmental nonemployer contributing entity recognizes more than one such liability, information may be presented in the aggregate for all such liabilities.

- a. The name of the pension plan through which benefits are provided, 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

- b. The basis for determining the governmental nonemployer contributing entity's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner), identification of the authority under which the governmental nonemployer contributing entity's contribution requirements are established or may be amended, and the amount of contributions recognized by the pension plan from the governmental nonemployer contributing entity during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables)
- c. The governmental nonemployer contributing entity's proportionate share (amount) of the collective net pension liability, its proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change, if any, in its proportion since the prior measurement date
- d. The amount of expense recognized by the governmental nonemployer contributing entity in the reporting period as a result of the special funding situation, and its balances of deferred outflows of resources and deferred inflows of resources as a result of the special funding situation.

Required supplementary information

117. For benefits provided through each defined benefit pension plan for which the governmental nonemployer contributing entity recognizes a less-than-substantial proportion of the collective net pension liability, the required supplementary information indicated in subparagraphs (a) and (b) should be presented in a 10-year schedule. If a governmental nonemployer contributing entity recognizes more than one such liability, the information for each year may be presented in the aggregate for all such liabilities.

- a. The governmental nonemployer contributing entity's proportionate share (amount) of the collective net pension liability
- b. The amount of contributions to the pension plan from the governmental nonemployer contributing entity.

Circumstances in which a nonemployer entity's legal obligation for contributions directly to a pension plan does not meet the definition of a special funding situation

Employers

118. In circumstances in which a nonemployer entity has a legal obligation to make contributions directly to a defined benefit pension plan but that entity's involvement does not meet the criteria in paragraph 15, the employer should apply the requirements of paragraphs 18–82, as applicable.

Governmental nonemployer contributing entities

119. Expense/expenditures for contributions to a defined benefit pension plan should be classified in the same manner as the entity classifies similar grants to other entities.

Payables to a Defined Benefit Pension Plan—All Employers and Governmental Nonemployer Contributing Entities

120. Payables to a defined benefit pension plan include short-term payables for legally or contractually required contributions outstanding as of the end of the reporting period, as well as long-term payables, such as those arising from amounts assessed to an individual employer upon joining a multiple-employer pension plan. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a payable to a defined benefit pension plan should be recognized separately from liabilities for a net pension liability, if any.

121. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a payable to a defined benefit pension plan should be recognized to the extent it is normally expected to be liquidated with expendable available financial resources. Payables to a defined benefit pension plan are normally expected to be liquidated with expendable available financial resources to the extent that amounts are due and payable pursuant to contractual arrangements or legal requirements.

Notes to financial statements²⁵

122. The amount of payables to a defined benefit pension plan outstanding at the end of the reporting period, significant terms related to the payables, and a description of what gave rise to the payable (for example, legally required contributions to the pension plan, a contractual arrangement for contributions to a cost-sharing pension plan related to past service cost upon entrance into the arrangement, or a contractual arrangement for contributions to the pension plan related to a change of benefit terms enacted by an individual cost-sharing employer) should be included in notes to financial statements.

Defined Contribution Pensions

Employers That Do Not Have a Special Funding Situation

123. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, the following should be recognized:

- a. Pension expense equal to the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.
- b. A change in the pension liability equal to the difference between amounts recognized as pension expense and amounts paid by the employer to the pension plan.

124. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. A liability for defined contribution pensions should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Liabilities for defined contribution pensions are normally expected to be liquidated with expendable available financial resources to the extent that contributions are due and payable pursuant to legal requirements, including contractual arrangements.

125. Pension liabilities and pension assets for pensions provided through different pension plans each may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

²⁵If similar information is required by this Statement and Statement 67, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

Notes to financial statements²⁶

126. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which an employer is required to contribute:

- a. 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 defined contribution pension plan
- b. A brief description of the benefit terms (including terms, if any, related to vesting and forfeitures and the policy related to the use of forfeited amounts) and the authority under which benefit terms are established or may be amended
- c. The contribution (or crediting) rates (in dollars or as a percentage of salary) for employees, the employer, and nonemployer contributing entities, if any, and the authority under which those rates are established or may be amended
- d. The amount of pension expense recognized by the employer in the reporting period
- e. The amount of forfeitures reflected in pension expense recognized by the employer in the reporting period
- f. The amount of the employer's liability outstanding at the end of the period, if any.

Special Funding Situations

Employers

127. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, the following should be recognized:

- a. Pension expense equal to the employer's share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose.
- b. A change in the pension liability equal to the difference between amounts recognized as pension expense and amounts paid by the employer to the pension plan.
- c. Additional pension expense for the amount of expense recognized by nonemployer contributing entities for pensions provided through the pension plan, determined in conformity with paragraph 129.²⁷
- d. Revenue equal to the amount of expense recognized by nonemployer contributing entities for pensions provided through the pension plan, determined in conformity with paragraph 129.

128. The requirements in paragraphs 124–126 for financial statement display, recognition in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, and notes to financial statements should be applied. In addition, the employer should disclose (a) the proportion of the total pension expense for pensions provided through the pension plan that is represented by the employer's expense and (b) the amount of revenue recognized as a result of the support provided by nonemployer contributing entities.

²⁶If similar information is required by this Statement and Statement 67, an employer that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

²⁷The requirements of paragraph 129 address *governmental* nonemployer contributing entities. For purposes of paragraph 127, the requirements of that paragraph also apply to the determination of the expense attributed to a *nongovernmental* nonemployer contributing entity in a special funding situation.

Governmental nonemployer contributing entities

129. In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, the following should be recognized:

- a. Expense equal to the governmental nonemployer contributing entity's share of the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributed to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. Amounts that are reallocated to the accounts of other employees should not be considered forfeited amounts for this purpose. Expense should be classified in the same manner as the governmental nonemployer contributing entity classifies similar grants to other entities.
- b. A change in the liability resulting from the special funding situation equal to the difference between amounts recognized as expense and amounts paid by the governmental nonemployer contributing entity to the pension plan.

130. In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, expenditures should be recognized equal to the total of (a) amounts paid by the governmental nonemployer contributing entity to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. A liability resulting from a special funding situation for defined contribution pensions should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Liabilities for defined contribution pensions are normally expected to be liquidated with expendable available financial resources to the extent that contributions are due and payable pursuant to legal requirements, including contractual arrangements. Expenditures should be classified in the same manner as the governmental nonemployer contributing entity classifies similar grants to other entities.

131. Liabilities resulting from special funding situations for pensions provided through different pension plans may be displayed in the aggregate, and assets resulting from special funding situations for pensions provided through different pension plans may be displayed in the aggregate in the financial statements. Aggregated liabilities should be displayed separately from aggregated assets.

Notes to financial statements²⁸

132. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which a governmental nonemployer contributing entity is required to contribute a substantial proportion of the total contributions from the employer and nonemployer contributing entities:

- a. 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 defined contribution pension plan
- b. A brief description of the benefit terms (including terms, if any, related to vesting and forfeitures and the policy related to the use of forfeited amounts) and the authority under which benefit terms are established or may be amended
- c. The contribution (or crediting) rates (in dollars or as a percentage of salary) for employees, the employer, and nonemployer contributing entities, and the authority under which those rates are established or may be amended

²⁸If similar information is required by this Statement and Statement 67, a governmental nonemployer contributing entity that includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit should present information in a manner that avoids unnecessary duplication.

- d. The amount of expense recognized by the governmental nonemployer contributing entity in the reporting period as a result of the special funding situation, the amount of forfeitures reflected in expense recognized by the governmental nonemployer contributing entity, and the proportion of the total pension expense for pensions provided through the pension plan that is represented by the governmental nonemployer contributing entity's expense
- e. The amount of the governmental nonemployer contributing entity's liability resulting from the special funding situation outstanding at the end of the period, if any.

133. The following information should be disclosed in notes to financial statements about each defined contribution pension plan to which the governmental nonemployer contributing entity is required to contribute a less-than-substantial proportion of the total contributions from the employer and nonemployer contributing entities:

- a. 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 defined contribution pension plan
- b. The contribution (or crediting) rates (in dollars or as a percentage of salary) for the governmental nonemployer contributing entity, and the authority under which those rates are established or may be amended
- c. The amount of expense recognized by the governmental nonemployer contributing entity in the reporting period as a result of the special funding situation and the proportion of the total pension expense for pensions provided through the pension plan that is represented by the governmental nonemployer contributing entity's expense
- d. The amount of the governmental nonemployer contributing entity's liability outstanding at the end of the period, if any.

Circumstances in Which a Nonemployer Entity's Legal Obligation for Contributions Directly to a Defined Contribution Pension Plan Does Not Meet the Definition of a Special Funding Situation

Employers

134. In circumstances in which a nonemployer entity has a legal obligation to make contributions directly to a defined contribution pension plan but that entity's involvement does not meet the criteria in paragraph 15, the requirements of paragraphs 127 and 128 should be applied.

Governmental nonemployer contributing entities

135. The requirements for recognition and measurement of liabilities and expense/expenditures in paragraphs 129–131 should be applied. In addition, the following information should be disclosed in notes to financial statements about each defined contribution pension plan to which it is required to contribute:

- a. 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 defined contribution pension plan
- b. The amount of expense recognized by the governmental nonemployer contributing entity in the reporting period as a result of its legal requirement to contribute to the defined contribution pension plan and the amount, if any, of the governmental nonemployer contributing entity's liability outstanding at the end of the period.

Effective Date and Transition

136. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

137. To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of *all* applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. If restatement of all prior periods presented 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, including whether the restatement of beginning balances included deferred inflows of resources or deferred outflows of resources, as applicable. Also, the reason for not restating prior periods presented should be explained.

138. The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.

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

Appendix 3

ILLUSTRATIONS

This appendix illustrates certain requirements of Statement 68. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of Statement 68 or to indicate the Board's endorsement of the policies or practices shown. Disclosures set forth in Statement 68 and in other GASB pronouncements, in addition to those shown in Illustrations 2a, 3a, 4a, 5a, and 6, are required, if applicable. Amounts presented may include rounding differences.

Illustration 1—Calculation of the Discount Rate

Illustration 2a—Note Disclosures and Required Supplementary Information for a Single Employer (No Nonemployer Contributing Entities)

Illustration 2b—Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions for Sample County in Illustration 2a

Illustration 3a—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer (No Non-employer Contributing Entities)

Illustration 3b—Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense for Sample School District in Illustration 3a

Illustration 4a—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation (No Other Nonemployer Contributing Entities)

Illustration 4b—Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense for Sample School District in Illustration 4a

Illustration 5a—Note Disclosures and Required Supplementary Information for a Governmental Nonemployer Contributing Entity in a Special Funding Situation (Substantial Proportion of Collective Net Pension Liability)

Illustration 5b—Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Expense for Sample State in Illustration 5a

Illustration 6—Note Disclosures for an Employer with Defined Contribution Pensions (No Nonemployer Contributing Entities)

Illustration 7—Determination of Certain Amounts to Be Presented in a Single or Agent Employer's Required Supplementary Information Schedule of Contribution-Related Information

Illustration 1—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 26–31 or 64–69 of Statement 68, as applicable. 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 26 or 64 of Statement 68, as applicable (Table 3, column (g)).

Determining the single rate that is the discount rate for purposes of Statement 68 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 is determined 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).

In this illustration, solving for the single rate that satisfies the condition of step 5 results in a discount rate of 5.27 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 are required by statute to contribute 5.00 percent of pay to the pension plan.

- c. In all years, the employer is required by statute to contribute 13.63 percent of covered-employee payroll to the pension plan. In years 1–10, the employer is required by statute to contribute an additional 3.00 percent of covered-employee payroll.
- d. Benefit payments are projected as required by paragraphs 24 and 25, or 62 and 63 of Statement 68, as applicable.
- e. The service cost is 18.63 percent of covered-employee payroll.
- f. The pension plan's initial fiduciary net position is \$1,241,029.
- g. Initial pension plan administrative expense is \$1,000.
- h. Total pension plan administrative expense increases 3.00 percent per year and is allocated to current employees based on the ratio of current employees to total employees.
- i. Contributions, benefit payments, and pension plan administrative expense occur halfway through the year.
- 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

Year	Projected Covered-Employee Payroll			Projected Contributions			
	Payroll for Current Employees (a)	Payroll for Future Employees (b)	Total Employee Payroll* (c) = (a) + (b)	Contributions from Current Employees (d) = (a) × 5.00%	Employer Contributions for Current Employees (e) = (a) × 13.63% [all years] + (a) × 3.00% [years 1–10]	Contributions Related to Payroll of Future Employees† (f) = (b) × 3.00%‡ [years 1–10]	Total Contributions (g) = (d) + (e) + (f)
	\$	\$	\$	\$	\$	\$	\$
1	488,072	-	488,072	24,404	81,166	-	105,570
2	474,494	34,321	508,815	23,725	78,909	1,030	103,664
3	469,203	61,237	530,440	23,460	78,028	1,837	103,325
4	463,875	89,109	552,984	23,194	77,142	2,673	103,009
5	457,451	119,035	576,486	22,873	76,075	3,571	102,519
6	450,018	150,969	600,987	22,501	74,838	4,529	101,868
7	441,785	184,744	626,529	22,089	73,469	5,542	101,100
8	432,704	220,452	653,156	21,635	71,959	6,614	100,208
9	422,353	258,562	680,915	21,118	70,238	7,757	99,113
10	411,044	298,810	709,854	20,552	68,356	8,964	97,872
11	399,081	340,942	740,023	19,954	54,395	-	74,349
12	386,445	385,029	771,474	19,322	52,672	-	71,994
13	373,249	431,013	804,262	18,662	50,874	-	69,536
14	359,806	478,637	838,443	17,990	49,042	-	67,032
15	345,809	528,268	874,077	17,290	47,134	-	64,424
16	331,758	579,467	911,225	16,588	45,219	-	61,807
17	317,399	632,553	949,952	15,870	43,261	-	59,131
18	302,505	687,820	990,325	15,125	41,231	-	56,356
19	287,452	744,962	1,032,414	14,373	39,180	-	53,553
20	272,260	804,032	1,076,292	13,613	37,109	-	50,722
21	256,903	865,131	1,122,034	12,845	35,016	-	47,861
22	241,396	928,324	1,169,720	12,070	32,902	-	44,972
23	225,615	993,818	1,219,433	11,281	30,751	-	42,032
24	209,796	1,061,463	1,271,259	10,490	28,595	-	39,085
25	193,691	1,131,597	1,325,288	9,685	26,400	-	36,085
26	177,261	1,204,352	1,381,613	8,863	24,161	-	33,024

27	160,757	1,279,575	1,440,332	8,038	21,911	-	29,949
28	144,549	1,356,997	1,501,546	7,227	19,702	-	26,929
29	128,712	1,436,650	1,565,362	6,436	17,543	-	23,979
30	113,527	1,518,363	1,631,890	5,676	15,474	-	21,150
31	99,245	1,602,000	1,701,245	4,962	13,527	-	18,489
32	85,871	1,687,677	1,773,548	4,294	11,704	-	15,998
33	73,498	1,775,426	1,848,924	3,675	10,018	-	13,693
34	62,520	1,864,983	1,927,503	3,126	8,521	-	11,647
35	52,697	1,956,725	2,009,422	2,635	7,183	-	9,818
36	44,162	2,050,660	2,094,822	2,208	6,019	-	8,227
37	36,535	2,147,317	2,183,852	1,827	4,980	-	6,807
38	29,765	2,246,901	2,276,666	1,488	4,057	-	5,545
39	24,001	2,349,423	2,373,424	1,200	3,271	-	4,471
40	18,938	2,455,357	2,474,295	947	2,581	-	3,528
41	14,487	2,564,966	2,579,453	724	1,975	-	2,699
42	10,799	2,678,281	2,689,080	540	1,472	-	2,012
43	7,637	2,795,729	2,803,366	382	1,041	-	1,423
44	5,176	2,917,333	2,922,509	259	705	-	964
45	3,285	3,043,431	3,046,716	164	448	-	612
46	1,919	3,174,282	3,176,201	96	262	-	358
47	1,100	3,310,090	3,311,190	55	150	-	205
48	577	3,451,339	3,451,916	29	79	-	108
49	260	3,598,362	3,598,622	13	35	-	48
50	110	3,751,453	3,751,563	6	15	-	21
51	29	3,910,975	3,911,004	1	4	-	5
52	5	4,077,217	4,077,222	-	1	-	1

Table 1 (continued)

Year	Projected Covered-Employee Payroll			Projected Contributions			
	Payroll for Current Employees (a)	Payroll for Future Employees (b)	Total Employee Payroll* (c) = (a) + (b)	Contributions from Current Employees (d) = (a) × 5.00%	Employer Contributions for Current Employees (e) = (a) × 13.63% [all years] + (a) × 3.00% [years 1–10]	Contributions Related to Payroll of Future Employees† (f) = (b) × 3.00%‡ [years 1–10]	Total Contributions (g) = (d) + (e) + (f)
53	-	4,250,504	4,250,504	-	-	-	-
54	-	4,431,150	4,431,150	-	-	-	-
55	-	4,619,474	4,619,474	-	-	-	-
56	-	4,815,802	4,815,802	-	-	-	-
57	-	5,020,474	5,020,474	-	-	-	-
58	-	5,233,844	5,233,844	-	-	-	-
59	-	5,456,282	5,456,282	-	-	-	-
60	-	5,688,174	5,688,174	-	-	-	-
61	-	5,929,921	5,929,921	-	-	-	-
62	-	6,181,943	6,181,943	-	-	-	-
63	-	6,444,676	6,444,676	-	-	-	-
64	-	6,718,575	6,718,575	-	-	-	-
65	-	7,004,114	7,004,114	-	-	-	-
66	-	7,301,789	7,301,789	-	-	-	-
67	-	7,612,115	7,612,115	-	-	-	-
68	-	7,935,630	7,935,630	-	-	-	-
69	-	8,272,894	8,272,894	-	-	-	-
70	-	8,624,492	8,624,492	-	-	-	-
71	-	8,991,033	8,991,033	-	-	-	-
72	-	9,373,152	9,373,152	-	-	-	-
73	-	9,771,511	9,771,511	-	-	-	-
74	-	10,186,800	10,186,800	-	-	-	-
75	-	10,619,739	10,619,739	-	-	-	-
76	-	11,071,078	11,071,078	-	-	-	-
77	-	11,541,599	11,541,599	-	-	-	-
78	-	12,032,117	12,032,117	-	-	-	-
79	-	12,543,482	12,543,482	-	-	-	-
80	-	13,076,580	13,076,580	-	-	-	-

81	-	13,632,335	13,632,335	-	-	-
82	-	14,211,709	14,211,709	-	-	-
83	-	14,815,707	14,815,707	-	-	-
84	-	15,445,375	15,445,375	-	-	-
85	-	16,101,803	16,101,803	-	-	-
86	-	16,786,130	16,786,130	-	-	-
87	-	17,499,541	17,499,541	-	-	-
88	-	18,243,271	18,243,271	-	-	-
89	-	19,018,610	19,018,610	-	-	-
90	-	19,826,901	19,826,901	-	-	-
91	-	20,669,544	20,669,544	-	-	-
92	-	21,548,000	21,548,000	-	-	-
93	-	22,463,790	22,463,790	-	-	-
94	-	23,418,501	23,418,501	-	-	-
95	-	24,413,787	24,413,787	-	-	-

* 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.

‡ In years 1–10, 3.00% is the difference between total contributions for future employees of 21.63% of the payroll of future employees (16.63% from employer contributions and 5.00% from future-employee contributions) and service cost of future employees (18.63%).

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	\$ 1,241,029	\$ 105,570	\$ 109,951	\$ 1,000	\$ 92,875	\$ 1,328,523
2	1,328,523	103,664	116,500	976	99,121	1,413,832
3	1,413,832	103,325	123,749	966	105,235	1,497,677
4	1,497,677	103,009	131,690	957	111,214	1,579,253
5	1,579,253	102,519	140,229	947	116,994	1,657,590
6	1,657,590	101,868	149,168	937	122,510	1,731,863
7	1,731,863	101,100	158,466	927	127,704	1,801,274
8	1,801,274	100,208	168,332	917	132,507	1,864,740
9	1,864,740	99,113	178,591	907	136,841	1,921,196
10	1,921,196	97,872	189,069	896	140,636	1,969,739
11	1,969,739	74,349	199,709	885	142,996	1,986,490
12	1,986,490	71,994	210,444	875	143,762	1,990,927
13	1,990,927	69,536	221,018	865	143,607	1,982,187
14	1,982,187	67,032	231,551	855	142,463	1,959,276
15	1,959,276	64,424	241,740	845	140,265	1,921,380
16	1,921,380	61,807	251,612	835	136,955	1,867,695
17	1,867,695	59,131	261,250	826	132,467	1,797,217
18	1,797,217	56,356	270,430	816	126,733	1,709,060
19	1,709,060	53,553	279,067	805	119,693	1,602,434
20	1,602,434	50,722	287,144	794	111,287	1,476,505
21	1,476,505	47,861	294,628	782	101,455	1,330,411
22	1,330,411	44,972	301,546	769	90,130	1,163,198
23	1,163,198	42,032	307,778	756	77,246	973,942
24	973,942	39,085	313,387	742	62,732	761,630
25	761,630	36,085	318,416	726	46,508	525,081
26	525,081	33,024	322,779	710	28,489	263,105

27	263,105	29,949	326,326	693	8,593	-
28	-	26,929	328,997	675	-	-
29	-	23,979	330,678	656	-	-
30	-	21,150	331,266	637	-	-
31	-	18,489	330,744	617	-	-
32	-	15,998	329,097	597	-	-
33	-	13,693	326,055	577	-	-
34	-	11,647	321,782	556	-	-
35	-	9,818	316,271	534	-	-
36	-	8,227	309,732	513	-	-
37	-	6,807	302,279	492	-	-
38	-	5,545	293,894	470	-	-
39	-	4,471	284,794	448	-	-
40	-	3,528	275,111	427	-	-
41	-	2,699	264,817	405	-	-
42	-	2,012	254,114	384	-	-
43	-	1,423	242,954	363	-	-
44	-	964	231,459	342	-	-
45	-	612	219,720	322	-	-
46	-	358	207,787	302	-	-
47	-	205	195,829	283	-	-
48	-	108	183,930	264	-	-
49	-	48	172,152	245	-	-
50	-	21	160,577	228	-	-
51	-	5	149,243	211	-	-
52	-	1	138,196	194	-	-

Table 2 (continued)

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)
53	-	-	127,470	178	-	-
54	-	-	117,088	163	-	-
55	-	-	107,070	148	-	-
56	-	-	97,433	134	-	-
57	-	-	88,196	121	-	-
58	-	-	79,375	108	-	-
59	-	-	70,989	96	-	-
60	-	-	63,056	85	-	-
61	-	-	55,595	75	-	-
62	-	-	48,625	65	-	-
63	-	-	42,164	56	-	-
64	-	-	36,229	48	-	-
65	-	-	30,831	41	-	-
66	-	-	25,974	34	-	-
67	-	-	21,657	28	-	-
68	-	-	17,868	23	-	-
69	-	-	14,586	19	-	-
70	-	-	11,780	15	-	-
71	-	-	9,415	12	-	-
72	-	-	7,448	9	-	-
73	-	-	5,832	7	-	-
74	-	-	4,522	6	-	-
75	-	-	3,472	4	-	-
76	-	-	2,639	3	-	-
77	-	-	1,986	2	-	-
78	-	-	1,478	2	-	-
79	-	-	1,088	1	-	-
80	-	-	791	1	-	-

81	-	-	568	1	-	-
82	-	-	402	-	-	-
83	-	-	281	-	-	-
84	-	-	194	-	-	-
85	-	-	131	-	-	-
86	-	-	88	-	-	-
87	-	-	58	-	-	-
88	-	-	38	-	-	-
89	-	-	24	-	-	-
90	-	-	15	-	-	-
91	-	-	10	-	-	-
92	-	-	6	-	-	-
93	-	-	4	-	-	-
94	-	-	2	-	-	-
95	-	-	1	-	-	-
96	-	-	1	-	-	-

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

† Projected as required by paragraphs 24 and 25, or 62 and 63 of Statement 68, as applicable.

‡ Total pension plan administrative expense increases 3.00% per year and is allocated to current employees based on the ratio of current employees to total employees.

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

Table 3: Actuarial Present Values of Project Benefit Payments

Year (a)	Projected Beginning Fiduciary Net Position* (b)	Projected Benefit Payments [†] (c)	Projected Benefit Payments		Actuarial Present Values of Projected Benefit Payments		
			"Funded" Portion of Benefit Payments (d)	"Unfunded" Portion of Benefit Payments (e)	Present Value of "Funded" Benefit Payments (f) = (d) ÷ (1 + 7.50%) ^(a-0.5)	Present Value of "Unfunded" Benefit Payments (g) = (e) ÷ (1 + 4.00%) ^(a-0.5)	Present Value of Benefit Payments Using the Single Discount Rate [‡] (h) = (c) ÷ (1 + 5.27%) ^(a-0.5)
1	\$ 1,241,029	\$ 109,951	\$ 109,951	\$ -	\$ 106,046	\$ -	\$ 107,162
2	1,328,523	116,500	116,500	-	104,523	-	107,857
3	1,413,832	123,749	123,749	-	103,281	-	108,829
4	1,497,677	131,690	131,690	-	102,241	-	110,011
5	1,579,253	140,229	140,229	-	101,274	-	111,276
6	1,657,590	149,168	149,168	-	100,214	-	112,440
7	1,731,863	158,466	158,466	-	99,033	-	113,466
8	1,801,274	168,332	168,332	-	97,860	-	114,492
9	1,864,740	178,591	178,591	-	96,580	-	115,385
10	1,921,196	189,069	189,069	-	95,113	-	116,036
11	1,969,739	199,709	199,709	-	93,456	-	116,426
12	1,986,490	210,444	210,444	-	91,609	-	116,539
13	1,990,927	221,018	221,018	-	89,500	-	116,263
14	1,982,187	231,551	231,551	-	87,223	-	115,703
15	1,959,276	241,740	241,740	-	84,708	-	114,743
16	1,921,380	251,612	251,612	-	82,016	-	113,446
17	1,867,695	261,250	261,250	-	79,217	-	111,891
18	1,797,217	270,430	270,430	-	76,279	-	110,021
19	1,709,060	279,067	279,067	-	73,224	-	107,848
20	1,602,434	287,144	287,144	-	70,087	-	105,410
21	1,476,505	294,628	294,628	-	66,896	-	102,740
22	1,330,411	301,546	301,546	-	63,690	-	99,885
23	1,163,198	307,778	307,778	-	60,471	-	96,842
24	973,942	313,387	313,387	-	57,277	-	93,668
25	761,630	318,416	318,416	-	54,136	-	90,403
26	525,081	322,779	322,779	-	51,049	-	87,052

27	263,105	326,326	-	326,326	-	115,417	83,600
28	-	328,997	-	328,997	-	111,886	80,062
29	-	330,678	-	330,678	-	108,132	76,440
30	-	331,266	-	331,266	-	104,158	72,740
31	-	330,744	-	330,744	-	99,994	68,987
32	-	329,097	-	329,097	-	95,670	65,205
33	-	326,055	-	326,055	-	91,140	61,366
34	-	321,782	-	321,782	-	86,486	57,529
35	-	316,271	-	316,271	-	81,735	53,711
36	-	309,732	-	309,732	-	76,967	49,965
37	-	302,279	-	302,279	-	72,226	46,320
38	-	293,894	-	293,894	-	67,521	42,780
39	-	284,794	-	284,794	-	62,914	39,378
40	-	275,111	-	275,111	-	58,437	36,134
41	-	264,817	-	264,817	-	54,087	33,040
42	-	254,114	-	254,114	-	49,905	30,116
43	-	242,954	-	242,954	-	45,878	27,351
44	-	231,459	-	231,459	-	42,027	24,752
45	-	219,720	-	219,720	-	38,361	22,319
46	-	207,787	-	207,787	-	34,882	20,050
47	-	195,829	-	195,829	-	31,610	17,950
48	-	183,930	-	183,930	-	28,548	16,014
49	-	172,152	-	172,152	-	25,692	14,238
50	-	160,577	-	160,577	-	23,043	12,615
51	-	149,243	-	149,243	-	20,593	11,138
52	-	138,196	-	138,196	-	18,335	9,797

Table 3 (continued)

Year (a)	Projected Beginning Fiduciary Net Position* (b)	Projected Benefit Payments		Actuarial Present Values of Projected Benefit Payments			
		Projected Benefit Payments† (c)	"Funded" Portion of Benefit Payments (d)	"Unfunded" Portion of Benefit Payments (e)	Present Value of "Funded" Benefit Payments (f) = (d) ÷ (1 + 7.50%) ^(a - 0.5)	Present Value of "Unfunded" Benefit Payments (g) = (e) ÷ (1 + 4.00%) ^(a - 0.5)	Present Value of Benefit Payments Using the Single Discount Rate‡ (h) = (c) ÷ (1 + 5.27%) ^(a - 0.5)
53	-	127,470	-	127,470	-	16,261	8,584
54	-	117,088	-	117,088	-	14,362	7,490
55	-	107,070	-	107,070	-	12,628	6,506
56	-	97,433	-	97,433	-	11,050	5,624
57	-	88,196	-	88,196	-	9,618	4,835
58	-	79,375	-	79,375	-	8,323	4,134
59	-	70,989	-	70,989	-	7,157	3,512
60	-	63,056	-	63,056	-	6,113	2,963
61	-	55,595	-	55,595	-	5,182	2,482
62	-	48,625	-	48,625	-	4,358	2,062
63	-	42,164	-	42,164	-	3,634	1,698
64	-	36,229	-	36,229	-	3,002	1,386
65	-	30,831	-	30,831	-	2,457	1,121
66	-	25,974	-	25,974	-	1,990	897
67	-	21,657	-	21,657	-	1,595	710
68	-	17,868	-	17,868	-	1,266	557
69	-	14,586	-	14,586	-	993	432
70	-	11,780	-	11,780	-	771	331
71	-	9,415	-	9,415	-	593	251
72	-	7,448	-	7,448	-	451	189
73	-	5,832	-	5,832	-	340	141
74	-	4,522	-	4,522	-	253	103
75	-	3,472	-	3,472	-	187	75
76	-	2,639	-	2,639	-	137	54
77	-	1,986	-	1,986	-	99	39
78	-	1,478	-	1,478	-	71	28
79	-	1,088	-	1,088	-	50	19
80	-	791	-	791	-	35	13

81	-	568	-	568	-	24	9				
82	-	402	-	402	-	16	6				
83	-	281	-	281	-	11	4				
84	-	194	-	194	-	7	3				
85	-	131	-	131	-	5	2				
86	-	88	-	88	-	3	1				
87	-	58	-	58	-	2	1				
88	-	38	-	38	-	1	-				
89	-	24	-	24	-	1	-				
90	-	15	-	15	-	-	-				
91	-	10	-	10	-	-	-				
92	-	6	-	6	-	-	-				
93	-	4	-	4	-	-	-				
94	-	2	-	2	-	-	-				
95	-	1	-	1	-	-	-				
96	-	1	-	1	-	-	-				
97	-	-	-	-	-	-	-				
Total				\$	2,187,003	+	\$	1,758,690	=	\$	3,945,693

* 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 5.27% (rounded).

Illustration 2a—Note Disclosures and Required Supplementary Information for a Single Employer (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures and required supplementary information required by Statement 68. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 12, 14, and 25 of Statement 68, as applicable. The circumstances of this employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]

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

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County Employees Pension Plan (CEPP) and additions to/deductions from CEPP's fiduciary net position have been determined on the same basis as they are reported by CEPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

[If the County's employees were provided with benefits through more than one defined benefit pension plan, the County should disclose information required by paragraph 37 of Statement 68 and should apply the requirements of paragraph 38 of Statement 68. If the County had component units whose employees were provided with pensions through the pension plan, the County should apply the requirements of paragraph 39 of Statement 68 when presenting financial statements of the reporting entity.]

General Information about the Pension Plan

Plan description. The County's defined benefit pension plan, County Employees Pension Plan (CEPP), provides pensions for all permanent full-time general and public safety employees of the County. CEPP is a single-employer defined benefit pension plan administered by the County Employees Retirement System (CERS). 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). CERS issues a publicly available financial report that can be obtained at [Internet address].

Benefits provided. CEPP provides retirement, disability, and death benefits. Retirement benefits for general employees are calculated as 2 percent of the employee's final 5-year average salary times the employee's years of service. Benefits for public safety employees are calculated as 3 percent of the employee's final 3-year average salary times the employee's years of service. General employees with 10 years of continuous service are eligible to retire at age 60. Public safety employees with 10 years of continuous service are eligible to retire at age 55. General employees may retire at any age after 30 years of service. Public safety employees may retire at any age after 20 years of service. All employees 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 employee's final full-year salary. An employee 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 employee's retirement allowance subsequent to the employee'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 employees and 3 percent for public safety employees. [If the benefit terms included ad hoc postemployment benefit changes, the County should disclose information about those terms, as required by paragraph 40b of Statement 68.]

Employees covered by benefit terms. At June 30, 20X9, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4,002
Inactive employees entitled to but not yet receiving benefits	1,207
Active employees	<u>5,347</u>
	<u><u>10,556</u></u>

[If the pension plan was closed to new entrants, the County should disclose that fact, as required by paragraph 40b of Statement 68.]

Contributions. Article 15 of the Regulations of the State grants the authority to establish and amend the contribution requirements of the County and active employees 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 employees 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 employees. For the year ended June 30, 20X9, the average active employee contribution rate was 7.0 percent of annual pay, and the County's average contribution rate was 17.74 percent of annual payroll. [If the amount of contributions to the pension plan from the County required to be disclosed by paragraph 40d of Statement 68 differed from the amount of contributions to the pension plan from the County required to be disclosed by paragraph 44b(6) of Statement 68 in the schedule of changes in the net pension liability, the County should disclose the contribution amount information required by paragraph 40d of Statement 68.]

Net Pension Liability

The County's net pension liability was measured as of June 30, 20X9, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 20X9 actuarial valuation was determined 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 County should disclose information about assumptions related to those changes, as required by paragraph 41 of Statement 68.]

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	46%	5.4%
International equity	21	5.5
Fixed income	26	1.3
Real estate	6	4.5
Cash	1	0.0
Total	100%	

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 employee 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 employee 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 active and inactive employees. 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 prior measurement date, the County should disclose information about that change, as required by paragraph 42a of Statement 68.]

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at 6/30/X8	\$ 2,853,455	\$ 2,052,589	\$ 800,866
Changes for the year:			
Service cost	73,034		73,034
Interest	219,345		219,345
Differences between expected and actual experience	(37,539)		(37,539)
Contributions—employer		79,713	(79,713)
Contributions—employee		31,451	(31,451)
Net investment income		196,154	(196,154)
Benefit payments, including refunds of employee contributions	(119,434)	(119,434)	-
Administrative expense		(3,373)	3,373
Other changes		8	(8)
Net changes	135,406	184,519	(49,113)
Balances at 6/30/X9	\$ 2,988,861	\$ 2,237,108	\$ 751,753

[If there had been a change of assumption or other input or a change of benefit terms that affected the measurement of the total pension liability since the prior measurement date, the County should disclose information required by paragraph 45c or 45d of Statement 68, as applicable. If benefit payments in the measurement period included amounts for the purchase of allocated insurance contracts, the County should disclose information required by paragraph 45e of Statement 68.]

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	\$1,050,638	\$751,753	\$393,091

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued CERS financial report. [If significant changes had occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, the County should disclose additional information, as required by paragraph 43 of Statement 68.]

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 20X9, the County recognized pension expense of \$158,378. At June 30, 20X9, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 33,327	\$ 53,999
Changes of assumptions	62,953	-
Net difference between projected and actual earnings on pension plan investments	133,732	-
Total	<u>\$ 230,012</u>	<u>\$ 53,999</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
20Y0	\$ 57,872
20Y1	86,393
20Y2	43,018
20Y3	(1,802)
20Y4	1,463
Thereafter	(10,931)

Payable to the Pension Plan

At June 30, 20X9, the County reported a payable of \$6,988 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 20X9.

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	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability										
Service cost	\$ 73,034	\$ 71,505	\$ 68,503	\$ 66,757	\$ 64,380	\$ 60,442	\$ 57,245	\$ 50,167	\$ 47,420	\$ 39,063
Interest	219,345	207,809	191,499	177,281	165,004	150,315	138,675	129,195	108,149	99,270
Changes of benefit terms	-	-	-	-	-	-	-	-	119,513	-
Differences between expected and actual experience	(37,539)	(15,211)	(3,562)	38,438	19,927	(28,228)	34,335	13,464	30,981	35,780
Changes of assumptions	-	-	61,011	-	-	92,500	-	-	32,979	-
Benefit payments, including refunds of employee contributions	(119,434)	(112,603)	(104,403)	(95,376)	(88,790)	(86,139)	(77,185)	(70,907)	(66,789)	(60,653)
Net change in total pension liability	135,406	151,500	213,048	187,100	160,521	188,890	153,070	121,919	272,253	113,460
Total pension liability—beginning	2,853,455	2,701,955	2,488,907	2,301,807	2,141,286	1,952,396	1,799,326	1,677,407	1,405,154	1,291,894
Total pension liability—ending (a)	<u>\$ 2,988,861</u>	<u>\$ 2,853,455</u>	<u>\$ 2,701,955</u>	<u>\$ 2,488,907</u>	<u>\$ 2,301,807</u>	<u>\$ 2,141,286</u>	<u>\$ 1,952,396</u>	<u>\$ 1,799,326</u>	<u>\$ 1,677,407</u>	<u>\$ 1,405,154</u>
Plan fiduciary net position										
Contributions—employer	\$ 79,713	\$ 86,607	\$ 89,828	\$ 91,963	\$ 93,541	\$ 85,681	\$ 68,866	\$ 29,849	\$ 25,086	\$ 22,826
Contributions—employee	31,451	30,550	29,137	28,547	27,743	26,709	25,577	22,673	21,132	19,202
Net investment income	196,154	(44,099)	(16,138)	298,260	166,826	140,132	193,107	39,142	(22,410)	(5,750)
Benefit payments, including refunds of employee contributions	(119,434)	(112,603)	(104,403)	(95,376)	(88,790)	(86,139)	(77,185)	(70,907)	(66,789)	(60,653)
Administrative expense	(3,373)	(3,287)	(2,774)	(2,582)	(2,086)	(2,235)	(1,912)	(1,887)	(1,509)	(1,491)
Other	8	(83)	173	(175)	9	75	(493)	8	-	-
Net change in plan fiduciary net position	184,519	(42,915)	(4,177)	320,637	197,243	164,223	207,960	18,878	(44,490)	(25,866)
Plan fiduciary net position—beginning	2,052,589	2,095,504	2,099,681	1,779,044	1,581,801	1,417,578	1,209,618	1,190,740	1,235,230	1,261,096
Plan fiduciary net position—ending (b)	<u>\$ 2,237,108</u>	<u>\$ 2,052,589</u>	<u>\$ 2,095,504</u>	<u>\$ 2,099,681</u>	<u>\$ 1,779,044</u>	<u>\$ 1,581,801</u>	<u>\$ 1,417,578</u>	<u>\$ 1,209,618</u>	<u>\$ 1,190,740</u>	<u>\$ 1,235,230</u>
County's net pension liability—ending (a) – (b)	<u>\$ 751,753</u>	<u>\$ 800,866</u>	<u>\$ 606,451</u>	<u>\$ 389,226</u>	<u>\$ 522,763</u>	<u>\$ 559,485</u>	<u>\$ 534,818</u>	<u>\$ 589,708</u>	<u>\$ 486,667</u>	<u>\$ 169,924</u>
Plan fiduciary net position as a percentage of the total pension liability	74.85%	71.93%	77.56%	84.36%	77.29%	73.87%	72.61%	67.23%	70.99%	87.91%
Covered-employee payroll										
County's net pension liability as a percentage of covered-employee payroll	\$ 449,293	\$ 436,424	\$ 416,243	\$ 407,812	\$ 396,332	\$ 381,554	\$ 365,385	\$ 323,896	\$ 301,891	\$ 274,318
	167.32%	183.51%	145.70%	95.44%	131.90%	146.63%	146.37%	182.07%	161.21%	61.94%

Notes to Schedule:

Benefit changes. In 20X1, benefit terms were modified to base public safety employee 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 employees. In 20X4, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. 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, governments should present information for those years for which information is available.

SCHEDULE OF COUNTY CONTRIBUTIONS

Last 10 Fiscal Years

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially determined contribution	\$ 79,713	\$ 86,607	\$ 89,828	\$ 91,963	\$ 93,541	\$ 85,681	\$ 68,866	\$ 29,849	\$ 25,086	\$ 22,826
Contributions in relation to the actuarially determined contribution	79,713	86,607	89,828	91,963	93,541	85,681	68,866	29,849	25,086	22,826
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 449,293	\$ 436,424	\$ 416,243	\$ 407,812	\$ 396,332	\$ 381,554	\$ 365,385	\$ 323,896	\$ 301,891	\$ 274,318
Contributions as a percentage of covered-employee payroll	17.74%	19.84%	21.58%	22.55%	23.60%	22.46%	18.85%	9.22%	8.31%	8.32%

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 employees were adjusted to more closely reflect actual experience. In the 20X4 actuarial valuation, expected retirement ages of public safety employees 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 employee pensions on a final three-year average salary instead of a final five-year average salary.

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

Illustration 2b—Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions for Sample County in Illustration 2a

This illustration provides additional detail about the calculation of pension expense and the balances of deferred outflows of resources and deferred inflows of resources related to pensions that are presented for Sample County in Illustration 2a, and it assumes the same facts and circumstances of that illustration. The detailed calculations presented in this illustration are not required by Statement 68 to be included in the financial reports of employers.

Part 1: Components of Sample County's Pension Expense for the Fiscal Year Ended June 30, 20X9

Note	Description	Amount
A	Service cost	\$ 73,034
A, B	Interest on the total pension liability	219,345
C	Differences between expected and actual experience	3,454
D	Changes of assumptions	20,101
A	Employee contributions	(31,451)
E	Projected earnings on pension plan investments	(158,625)
F	Differences between projected and actual earnings on plan investments	29,155
A	Pension plan administrative expense	3,373
A	Other changes in fiduciary net position	(8)
	Total pension expense	\$ 158,378

Notes:

- A See the RSI schedule of changes in the net pension liability in Illustration 2a.
- B In this example, events that impact the total pension liability are assumed to occur evenly throughout the period. In addition, the amount of interest on the total pension liability is calculated using an interest rate equal to the discount rate that was used to determine service cost. The amount is determined as follows:

	Amount for Period (a)	Portion of Period (b)	Interest Rate (c)	Interest on the Total Pension Liability (a) × (b) × (c)
Beginning total pension liability	\$ 2,853,455	100%	7.75%	\$ 221,143
Service cost	73,034	50	7.75	2,830
Benefit payments, including refunds of employee contributions	(119,434)	50	7.75	(4,628)
Total interest on the total pension liability				<u>\$ 219,345</u>

- C Differences between expected and actual experience recognized in the current period in accordance with paragraph 33a of Statement 68. For the detailed calculation of this amount, see the Schedule of Differences between Expected and Actual Experience in Part 2 of this illustration.
- D Changes of assumptions recognized in pension expense in the current period in accordance with paragraph 33a of Statement 68. For the detailed calculation of this amount, see the Schedule of Changes of Assumptions in Part 2 of this illustration.
- E In this example, changes in the amounts invested are assumed to occur evenly throughout the period. In addition, the amount of projected earnings on pension plan investments is calculated using the assumed rate of return on pension plan investments as of the beginning of the period. (See Question 82.) The amount is determined as follows:

	Amount for Period (a)	Portion of Period (b)	Projected Rate of Return (c)	Projected Earnings (a) × (b) × (c)
Beginning plan fiduciary net position	\$ 2,052,589	100%	7.75%	\$ 159,075
Employer contributions	79,713	50	7.75	3,089
Employee contributions	31,451	50	7.75	1,219
Benefit payments, including refunds of employee contributions	(119,434)	50	7.75	(4,628)
Administrative expense and other	(3,365)	50	7.75	(130)
Total projected earnings				<u>\$ 158,625</u>

- F Differences between projected and actual earnings recognized in the current period in accordance with paragraph 33b of Statement 68. For the detailed calculation of this amount, see the Schedule of Differences between Projected and Actual Earnings on Pension Plan Investments in Part 2 of this illustration.

Part 2: Application of Statement 68, paragraphs 33a and 33b

The following schedules illustrate the application of paragraphs 33a and 33b of Statement 68 to determine the amount of pension expense reported for differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments in Part 1 of this illustration.

Schedule of Differences between Expected and Actual Experience

In conformity with paragraph 33a of Statement 68, the effects of differences between expected and actual experience are recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees), determined as of the beginning of the measurement period. The following table illustrates the application of this requirement.

Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Differences between Expected and Actual Experience

Year	Differences between Expected and Actual Experience*	Recognition Period (Years)	20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7
20X0	\$ 35,780	8.3	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311	\$ 4,311
20X1	30,981	8.3		3,733	3,733	3,733	3,733	3,733	3,733	3,733
20X2	13,464	8.3			1,622	1,622	1,622	1,622	1,622	1,622
20X3	34,335	8.3				4,137	4,137	4,137	4,137	4,137
20X4	(28,228)	8.2					(3,442)	(3,442)	(3,442)	(3,442)
20X5	19,927	8.2						2,430	2,430	2,430
20X6	38,438	8.2							4,688	4,688
20X7	(3,562)	8.0								(445)
20X8	(15,211)	8.0								
20X9	(37,539)	7.9								
Net increase (decrease) in pension expense			<u>\$ 4,311</u>	<u>\$ 8,044</u>	<u>\$ 9,666</u>	<u>\$ 13,803</u>	<u>\$ 10,361</u>	<u>\$ 12,791</u>	<u>\$ 17,479</u>	<u>\$ 17,034</u>

* See the RSI schedule of changes in the net pension liability in Illustration 2a. Positive amounts represent actual experience that increases the total pension liability greater than projected or decreases the total pension liability less than projected (experience losses). Positive amounts result in increases in pension expense and deferred outflows of resources. Negative amounts represent actual experience that increases the total pension liability less than projected or decreases the total pension liability greater than projected (experience gains). Negative amounts result in decreases in pension expense and increases in deferred inflows of resources.

† Amount recognized in pension expense for year ended June 30, 20X9. See Differences between expected and actual experience in Part 1 of this illustration.

20X8	20X9	20Y0	20Y1	20Y2	20Y3	20Y4	20Y5	20Y6
\$ 1,292								
3,733	\$ 1,117							
1,622	1,622	\$ 488						
4,137	4,137	4,137	\$ 1,239					
(3,442)	(3,442)	(3,442)	(3,442)	\$ (692)				
2,430	2,430	2,430	2,430	2,430	\$ 487			
4,688	4,688	4,688	4,688	4,688	4,688	\$ 934		
(445)	(445)	(445)	(445)	(445)	(445)	(447)		
(1,901)	(1,901)	(1,901)	(1,901)	(1,901)	(1,901)	(1,901)	\$ (1,904)	
	(4,752)	(4,752)	(4,752)	(4,752)	(4,752)	(4,752)	(4,752)	\$ (4,275)
<u>\$ 12,114</u>	<u>\$ 3,454</u> †	<u>\$ 1,203</u>	<u>\$ (2,183)</u>	<u>\$ (672)</u>	<u>\$ (1,923)</u>	<u>\$ (6,166)</u>	<u>\$ (6,656)</u>	<u>\$ (4,275)</u>

Schedule of Changes of Assumptions

In conformity with paragraph 33a of Statement 68, the effects of changes of assumptions should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees), determined as of the beginning of the measurement period. The following table illustrates the application of this requirement.

(This page intentionally left blank.)

			Increase (Decrease) in Pension Expense Arising from the Recognition of the Effects of Changes of Assumptions							
Year	Changes of Assumptions*	Recognition Period (Years)	20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7
20X0	\$ -	8.3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
20X1	32,979	8.3		3,973	3,973	3,973	3,973	3,973	3,973	3,973
20X2	-	8.3			-	-	-	-	-	-
20X3	-	8.3				-	-	-	-	-
20X4	92,500	8.2					11,280	11,280	11,280	11,280
20X5	-	8.2						-	-	-
20X6	-	8.2							-	-
20X7	61,011	8.0								7,626
20X8	-	8.0								
20X9	-	7.9								
Net increase (decrease) in pension expense			<u>\$ -</u>	<u>\$ 3,973</u>	<u>\$ 3,973</u>	<u>\$ 3,973</u>	<u>\$ 15,253</u>	<u>\$ 15,253</u>	<u>\$ 15,253</u>	<u>\$ 22,879</u>

* See the RSI schedule of changes in the net pension liability in Illustration 2a. Positive amounts represent increases in the total pension liability from assumption changes and result in increases in pension expense and deferred outflows of resources. Negative amounts represent decreases in the total pension liability from assumption changes and result in decreases in pension expense and increases in deferred inflows of resources.

† Amount recognized in pension expense for year ended June 30, 20X9. See Changes of assumptions in Part 1 of this illustration.

20X8	20X9	20Y0	20Y1	20Y2	20Y3	20Y4	20Y5	20Y6
\$ -								
3,973	\$ 1,195							
-	-	\$ -						
-	-		\$ -					
11,280	11,280	11,280	11,280	\$ 2,260				
-	-	-	-	-	\$ -			
-	-	-	-	-	-	\$ -		
7,626	7,626	7,626	7,626	7,626	7,626	7,629		
-	-	-	-	-	-	-	\$ -	
-	-	-	-	-	-	-	-	\$ -
<u>\$ 22,879</u>	<u>\$ 20,101</u> †	<u>\$ 18,906</u>	<u>\$ 18,906</u>	<u>\$ 9,886</u>	<u>\$ 7,626</u>	<u>\$ 7,629</u>	<u>\$ -</u>	<u>\$ -</u>

Schedule of Differences between Projected and Actual Earnings on Pension Plan Investments

In conformity with paragraph 33b of Statement 68, the effects of differences between projected and actual earnings on pension plan investments are recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The following table illustrates the application of this requirement.

(This page intentionally left blank.)

**Increase (Decrease) in Pension Expense Arising from the Recognition of Differences
between Projected and Actual Earnings on Pension Plan Investments**

Year	Differences between Projected and Actual Earnings on Pension Plan Investments*	Recognition Period (Years)	20X0	20X1	20X2	20X3	20X4	20X5
20X0	\$ 102,705	5	\$ 20,541	\$ 20,541	\$ 20,541	\$ 20,541	\$ 20,541	
20X1	117,285	5		23,457	23,457	23,457	23,457	\$ 23,457
20X2	52,355	5			10,471	10,471	10,471	10,471
20X3	(98,786)	5				(19,757)	(19,757)	(19,757)
20X4	(29,336)	5					(5,867)	(5,867)
20X5	(43,058)	5						(8,612)
20X6	(159,517)	5						
20X7	179,327	5						
20X8	206,546	5						
20X9	(37,529)	5						
Net increase (decrease) in pension expense			<u>\$ 20,541</u>	<u>\$ 43,998</u>	<u>\$ 54,469</u>	<u>\$ 34,712</u>	<u>\$ 28,845</u>	<u>\$ (308)</u>

* Amounts are equal to net investment income (see RSI schedule of changes in the net pension liability in Illustration 2a) less projected earnings. Positive amounts represent investment returns that are less than projected and, therefore, increase pension expense. Negative amounts represent investment returns that are greater than projected and, therefore, decrease pension expense.

† Amount recognized in pension expense for year ended June 30, 20X9. See Differences between projected and actual earnings on pension plan investments in Part 1 of this illustration.

<u>20X6</u>	<u>20X7</u>	<u>20X8</u>	<u>20X9</u>	<u>20Y0</u>	<u>20Y1</u>	<u>20Y2</u>	<u>20Y3</u>
\$ 10,471							
(19,757)	\$ (19,758)						
(5,867)	(5,867)	\$ (5,868)					
(8,612)	(8,612)	(8,612)	\$ (8,610)				
(31,903)	(31,903)	(31,903)	(31,903)	\$ (31,905)			
	35,865	35,865	35,865	35,865	\$ 35,867		
		41,309	41,309	41,309	41,309	\$ 41,310	
			(7,506)	(7,506)	(7,506)	(7,506)	\$ (7,505)
<u>\$ (55,668)</u>	<u>\$ (30,275)</u>	<u>\$ 30,791</u>	<u>\$ 29,155</u> [†]	<u>\$ 37,763</u>	<u>\$ 69,670</u>	<u>\$ 33,804</u>	<u>\$ (7,505)</u>

Part 3: Determination of Deferred Outflows of Resources and Deferred Inflows of Resources Balances at June 30, 20X9

The following schedules illustrate calculation of the balances of deferred outflows of resources and deferred inflows of resources related to pensions that are reported for differences between expected and actual experience, changes of assumptions, and differences between projected and actual returns on pension plan investments in Part 2 of this illustration.

Deferred Outflows of Resources and Deferred Inflows of Resources Arising from Differences between Expected and Actual Experience

Year	Experience Losses* (a)	Experience Gains* (b)	Amounts Recognized in Pension Expense through June 30, 20X9 [†] (c)	Balances at June 30, 20X9 [‡]	
				Deferred Outflows of Resources (a) – (c)	Deferred Inflows of Resources (b) – (c)
20X2	\$ 13,464		\$ 12,976	\$ 488	
20X3	34,335		28,959	5,376	
20X4		\$ (28,228)	(20,652)		\$ (7,576)
20X5	19,927		12,150	7,777	
20X6	38,438		18,752	19,686	
20X7		(3,562)	(1,335)		(2,227)
20X8		(15,211)	(3,802)		(11,409)
20X9		(37,539)	(4,752)		(32,787)
				<u>\$ 33,327</u>	<u>\$ (53,999)</u>

* See the RSI schedule of changes in the net pension liability in Illustration 2a or the Schedule of Differences between Expected and Actual Experience in Part 2 of this illustration. At June 30, 20X9, differences between expected and actual experience in periods prior to 20X2 have been fully recognized in pension expense. Experience losses are presented as positive amounts. Experience gains are presented as negative amounts.

† Amounts are equal to the sum of increases (decreases) in pension expense through 20X9 in Part 2 of this illustration for the differences between expected and actual experience in column (a) or column (b) in this table. Positive amounts increase pension expense and decrease deferred outflows of resources balances. Negative amounts decrease pension expense and decrease deferred inflows of resources balances.

‡ Deferred outflows of resources are presented as positive amounts. Deferred inflows of resources are presented as negative amounts.

Deferred Outflows of Resources and Deferred Inflows of Resources Arising from Changes of Assumptions

Year	Increases in the Total Pension Liability* (a)	Decreases in the Total Pension Liability* (b)	Amounts Recognized in Pension Expense through June 30, 20X9† (c)	Balances at June 30, 20X9‡	
				Deferred Outflows of Resources (a) – (c)	Deferred Inflows of Resources (b) – (c)
20X4	\$ 92,500		\$ 67,680	\$ 24,820	
20X7	61,011		22,878	38,133	
				<u>\$ 62,953</u>	

* See the RSI schedule of changes in the net pension liability in Illustration 2a or the Schedule of Changes of Assumptions in Part 2 of this illustration. At June 30, 20X9, changes of assumptions in periods prior to 20X4 have been fully recognized in pension expense.

† Amounts are equal to the sum of increases (decreases) in pension expense through 20X9 in Part 2 of this illustration for the changes of assumptions in column (a) or column (b) in this table. Positive amounts increase pension expense and decrease deferred outflows of resources balances. Negative amounts decrease pension expense and decrease deferred inflows of resources balances.

‡ Deferred outflows of resources are presented as positive amounts. Deferred inflows of resources are presented as negative amounts.

Deferred Outflows of Resources and Deferred Inflows of Resources Arising from Differences between Projected and Actual Earnings on Pension Plan Investments

Year	Balances at June 30, 20X9 [‡]				
	Investment Earnings Less Than Projected* (a)	Investment Earnings Greater Than Projected* (b)	Amounts Recognized in Pension Expense through June 30, 20X9 [†] (c)	Deferred Outflows of Resources (a) – (c)	Deferred Inflows of Resources (b) – (c)
20X6		\$ (159,517)	\$ (127,612)		\$ (31,905)
20X7	\$ 179,327		107,595	\$ 71,732	
20X8	206,546		82,618	123,928	
20X9		(37,529)	(7,506)		(30,023)
				<u>\$ 195,660</u>	<u>\$ (61,928)</u>

* Amounts equal to net investment income (see the RSI schedule of changes in the net pension liability in Illustration 2a) less projected earnings. See the Schedule of Differences between Projected and Actual Earnings on Pension Plan Investments in Part 2 of this illustration. At June 30, 20X9, differences between projected and actual earnings on pension plan investments in periods prior to 20X6 have been fully recognized in pension expense. Investment earnings less than projected are presented as positive amounts. Investment earnings greater than projected are presented as negative amounts.

† Amounts are equal to the sum of increases (decreases) in pension expense through 20X9 in Part 2 of this illustration for the differences between projected and actual earnings on pension plan investments in column (a) or column (b) in this table. Positive amounts increase pension expense and decrease deferred outflows of resources balances. Negative amounts decrease pension expense and decrease deferred inflows of resources balances.

‡ Deferred outflows of resources are presented as positive amounts. Deferred inflows of resources are presented as negative amounts. In conformity with paragraph 33b of Statement 68, deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual earnings on pension plan investments in different measurement periods are aggregated and reported as a net deferred outflow of resources or a net deferred inflow of resources. Therefore, at June 30, 20X9, Sample County reports a net deferred outflow of resources arising from differences between projected and actual earnings on pension plan investments of \$133,732, calculated as the deferred outflow balance of \$195,660 net of the deferred inflow balance of \$61,928.

Illustration 3a—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures and required supplementary information required by Statement 68. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 18, 20, and 25 of Statement 68, as applicable. The circumstances of this employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]

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

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension Plan (TPP) and additions to/deductions from TPP's fiduciary net position have been determined on the same basis as they are reported by TPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

[If the District's employees were provided with benefits through more than one defined benefit pension plan, the District should disclose information required by paragraph 74 of Statement 68 and should apply the requirements of paragraph 75 of Statement 68.]

General Information about the Pension Plan

Plan description. Teaching-certified employees of the District are provided with pensions through the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS). Article 33 of the State Statutes grants the authority to establish and amend the benefit terms to the TRS Board of Trustees (TRS Board). TRS issues a publicly available financial report that can be obtained at [Internet address].

Benefits provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retire at age 60. Employees 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 employee's final full-year salary. [If the benefit terms included post-employment benefit changes, the District should disclose information about those terms, as required by paragraph 76b of Statement 68.]

[If the pension plan was closed to new entrants, the District should disclose that fact, as required by paragraph 76b of Statement 68.]

Contributions. Per Article 33 of the State Statutes, contribution requirements of the active employees and the participating school districts are established and may be amended by the TRS Board. Employees are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year

ended June 30, 20X9, was 17.32 percent of annual payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the District were \$2,095 for the year ended June 30, 20X9.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the District reported a liability of \$14,910 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. At December 31, 20X8, the District's proportion was 0.20 percent, which was an increase of 0.01 from its proportion measured as of December 31, 20X7.

[If there had been a change of benefit terms that affected the measurement of the total pension liability since the prior measurement date, the District should disclose information required by paragraph 80e of Statement 68.]

[If changes expected to have a significant effect on the measurement of the District's proportionate share of the net pension liability had occurred between the measurement date and the reporting date, the District should disclose information required by paragraph 80f of Statement 68.]

For the year ended June 30, 20X9, the District recognized pension expense of \$2,394. At June 30, 20X9, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,657	\$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,194
Changes in proportion and differences between District contributions and proportionate share of contributions	753	156
District contributions subsequent to the measurement date	1,065	-
Total	<u>\$ 6,189</u>	<u>\$ 2,622</u>

\$1,065 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
20Y0	\$ (272)
20Y1	159
20Y2	220
20Y3	543
20Y4	553
Thereafter	1,299

Actuarial assumptions. The total pension liability in the December 31, 20X8 actuarial valuation was determined 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 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. As a result of the 20X8 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 20X8 actuarial valuation to more closely reflect actual experience.

[If the benefit terms included ad hoc postemployment benefit changes, the District should disclose information about assumptions related to those changes, as required by paragraph 77 of Statement 68.]

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	<u>100%</u>	

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 employee contributions 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 active and inactive employees. 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 prior measurement date, the District should disclose information about that change, as required by paragraph 78a of Statement 68.]

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 23,320	\$ 14,910	\$ 5,141

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report. [If significant changes had occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, the District should disclose additional information, as required by paragraph 79 of Statement 68.]

Payables to the pension plan

[If the District reported payables to the defined benefit pension plan, it should disclose information required by paragraph 122 of Statement 68.]

Schedules of Required Supplementary Information

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Teachers Pension Plan

Last 10 Fiscal Years*

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%	0.20%	0.20%	0.21%	0.21%	0.21%
District's proportionate share of the net pension liability (asset)	\$ 14,910	\$ 11,738	\$ 12,972	\$ 13,495	\$ 14,892	\$ 11,605	\$ 4,372	\$ (2,355)	\$ (1,264)	\$ (926)
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522	\$ 9,299	\$ 8,709	\$ 8,175	\$ 7,909	\$ 7,659
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	129.52%	112.74%	133.53%	141.26%	156.40%	124.80%	50.20%	(28.81%)	(15.98%)	(12.09%)
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

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

SCHEDULE OF DISTRICT CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Contractually required contribution	\$ 2,095	\$ 2,057	\$ 1,969	\$ 1,849	\$ 1,176	\$ 898	\$ 820	\$ 769	\$ 880	\$ 1,082
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,849)	(1,176)	(898)	(820)	(769)	(880)	(1,082)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ 9,538	\$ 9,410	\$ 9,004	\$ 8,442	\$ 8,042	\$ 7,784
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%	12.33%	9.54%	9.10%	9.11%	10.94%	13.90%

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

**Notes to Required Supplementary Information
for the Year Ended June 30, 20X9**

Changes of benefit terms. Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits. Amounts reported in 20X4 reflect a modification to the benefit terms to incorporate a new definition of base compensation.

Changes of assumptions. Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 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 to determine amounts reported prior to 20X6. Amounts reported in 20X3 reflect an adjustment of expected retirement ages to more closely reflect actual experience. Amounts reported in 20X0 reflect an adjustment of assumed life expectancies to more closely reflect actual experience.

Illustration 3b—Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Pension Expense for Sample School District in Illustration 3a

The material that follows illustrates application of the requirements of paragraphs 48–57 of Statement 68 to the cost-sharing employer (Sample School District) for which note disclosures and required supplementary information are presented in Illustration 3a. This illustration assumes the same facts and circumstances as Illustration 3a. The detailed calculations presented in this illustration are not required by Statement 68 to be included in the financial reports of employers.

Additional Information

Collective balances at December 31, 20X7 and 20X8, are as follows:

	12/31/20X7	12/31/20X8
Collective deferred outflows of resources	\$ 1,373,691	\$ 2,185,960
Collective deferred inflows of resources	\$ 1,538,565	\$ 1,233,001
Collective net pension liability	\$ 6,178,023	\$ 7,455,024
District's proportion	0.19%	0.20%

Collective pension expense for the measurement period ended December 31, 20X8, is \$1,163,898.

The average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined at January 1, 20X8 (the beginning of the measurement period ended December 31, 20X8) is 9.3 years.

In addition, the following are associated with the District's fiscal year ended June 30, 20X9:

- District contributions:
 - January 1, 20X8, to June 30, 20X8: \$1,030 (reported as a deferred outflow of resources at June 30, 20X8, as required by paragraph 57 of Statement 68)
 - July 1, 20X8, to December 31, 20X8: \$1,030
 - January 1, 20X9, to June 30, 20X9: \$1,065 (contributions subsequent to the measurement date of the collective net pension liability and before the end of the District's reporting period)
- Beginning deferred outflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 54 and 55 of Statement 68): \$170
 - Amount to be recognized as an increase in the District's pension expense for the measurement period ended December 31, 20X9: \$30
- Beginning deferred inflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 54 and 55 of Statement 68): \$192
 - Amount to be recognized as a reduction of the District's pension expense for the measurement period ended December 31, 20X9: \$36

Calculation of Amounts Required by Statement 68

(1) Proportionate shares of collective balances (paragraphs 48 and 53 of Statement 68)

	Proportionate Share at 12/31/X7 (0.19%) (a)	Proportionate Share at 12/31/X8 (0.20%) (b)	Change in Proportionate Share of	
			Debit Balances (b) – (a)	Credit Balances (b) – (a)
Deferred outflows of resources	\$ 2,610	\$ 4,372	\$ 1,762	
Deferred inflows of resources	2,923	2,466		\$ (457)
Net pension liability	11,738	14,910		3,172

In addition, the District's proportionate share of collective pension expense for the measurement period ended December 31, 20X8, is \$2,327 ($\$1,163,898 \times 0.20$ percent, rounded).

(2) Amounts from paragraphs 54 and 55 of Statement 68

(a) Change in the District's proportion (paragraph 54 of Statement 68)

In conformity with paragraph 54 of Statement 68, the net effect of the change in proportion is determined at the beginning of the measurement period. For the measurement period ended December 31, 20X8, the amounts to be recognized for the change in the District's proportion are determined as follows:

	Collective Amount at 12/31/X7	Proportionate Share at 0.19% (a)	Proportionate Share at 0.20% (b)	Change in Proportionate Share of	
				Debit Balances (b) – (a)	Credit Balances (b) – (a)
Deferred outflows of resources	\$ 1,373,691	\$ 2,610	\$ 2,747	\$ 137	
Deferred inflows of resources	1,538,565	2,923	3,077		\$ 154
Net pension liability	6,178,023	11,738	12,356		618
Total of changes in the District's beginning reported balances				137	772
Amount to be recognized for the net effect of the change in the District's proportion on beginning reported balances*				635	-
Total of amounts recognized for the change in the District's proportion				<u>\$ 772</u>	<u>\$ 772</u>

* In conformity with paragraph 54 of Statement 68, the net effect of the change in proportion is recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period. Paragraph 54 of Statement 68 also requires that the amount of the net effect of a change in proportion that is not recognized in the employer's pension expense be reported as a deferred outflow of resources or deferred inflow of resources related to pensions. If there is a beginning collective net pension liability, an increase in proportion results in an increase in pension expense and a deferred outflow of resources. Conversely, a decrease in proportion results in a decrease in pension expense and a deferred inflow of resources. In this illustration, there is a collective net pension liability, and the District's proportion of that liability increased. Therefore, the District reports an increase in pension expense equal to \$68 ($\$635 \div 9.3$ years) and a deferred outflow of resources of \$567 ($\$635 - \68) as a result of the change in its proportion.

(b) District contributions during the measurement period (paragraph 55 of Statement 68)

	<u>Collective Amount</u>	<u>Proportionate Share at 0.20% (a)</u>	<u>District Contributions (b)</u>	<u>Difference (b) – (a)</u>
Employer contributions	\$ 1,004,730	\$ 2,009	\$ 2,060	\$ 51 [†]

[†] In conformity with paragraph 55 of Statement 68, the difference between certain actual contributions and the employer's proportionate share of the total of such contributions from all employers and nonemployer contributing entities during the measurement period is recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan determined as of the beginning of the measurement period. Paragraph 55 of Statement 68 requires that the amount of the difference between certain actual contributions and the employer's proportionate share of the total of such contributions from all employers and nonemployer contributing entities that is not recognized in the employer's pension expense be reported as a deferred outflow of resources or deferred inflow of resources related to pensions. If, for purposes of paragraph 55, the employer's actual contributions exceed its proportionate share of total contributions, the difference increases pension expense and results in a deferred outflow of resources. In this illustration, the District's actual contributions exceed its proportionate share of total contributions. Therefore, for the measurement period ended December 31, 20X8, the District reports an increase in pension expense equal to \$5 (\$51 ÷ 9.3 years) and a deferred outflow of resources of \$46 (\$51 – \$5).

(c) Net effect of (a) and (b) (paragraph 52 of Statement 68)

Paragraph 52 of Statement 68 permits the effects of paragraphs 54 and 55 in a single measurement period to be recognized on a net basis. For the measurement period ended December 31, 20X8, the District recognizes the following net amounts:

	<u>Deferred Outflows of Resources</u>	<u>Pension Expense</u>
Change in proportion [from (2a), above]	\$ 567	\$ 68
Contributions during the measurement period [from (2b), above]	46	5
Net amount recognized	<u>\$ 613</u>	<u>\$ 73</u>

Journal Entries for District's Fiscal Year Ended June 30, 20X9 (December 31, 20X8 Measurement Date)

Deferred outflows of resources—proportionate share of collective deferred outflows of resources	\$	1,762	(a)		
Pension expense		2,400	(a) (b)		
Deferred inflows of resources—proportionate share of collective deferred inflows of resources		457	(a)		
Deferred outflows of resources—paragraphs 54 and 55		613	(b)		
Proportionate share of collective net pension liability				\$	3,172 (a)
Deferred outflows of resources—District contributions 1/1/X8 to 6/30/X8					1,030 (b)
Cash—District contributions 7/1/X8 to 12/31/X8					1,030 (b)
(a) (To record changes in the District's proportionate shares of the collective net pension liability, collective deferred outflows of resources and deferred inflows of resources related to pensions, and collective pension expense [from (1), above])					
(b) (To record the paragraphs 54 and 55 pension expense and deferral balance arising in the current measurement period [from (2c), above] and District contributions during the measurement period [from Additional Information, above])					
Deferred inflow of resources—paragraphs 54 and 55		36			
Deferred outflow of resources—paragraphs 54 and 55					30
Pension expense					6
(To record pension expense for paragraphs 54 and 55 deferral balances arising in prior measurement periods [from Additional Information, above])					
Deferred outflow of resources—District contributions 1/1/X9 to 6/30/X9		1,065			
Cash—District contributions 1/1/X9 to 6/30/X9					1,065
(To record District contributions subsequent to the measurement date in conformity with paragraph 57 of Statement 68 [from Additional Information, above])					

Illustration 4a—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation (No Other Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures and required supplementary information required by Statement 68. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 18, 20, and 25 of Statement 68, as applicable. The circumstances of this employer do not include all circumstances for which note disclosures and required supplementary information should be presented.]

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

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers Pension Plan (TPP) and additions to/deductions from TPP's fiduciary net position have been determined on the same basis as they are reported by TPP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

[If the District's employees were provided with benefits through more than one defined benefit pension plan, the District should disclose information required by paragraph 74 of Statement 68 and should apply the requirements of paragraph 75 of Statement 68.]

General Information about the Pension Plan

Plan description. Teaching-certified employees of the District are provided with pensions through the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS). Article 33 of the State Statutes grants the authority to establish and amend the benefit terms to the TRS Board of Trustees (TRS Board). TRS issues a publicly available financial report that can be obtained at [Internet address].

Benefits provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retire at age 60. Employees 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 employee's final full-year salary. [If the benefit terms included post-employment benefit changes, the District should disclose information about those terms, as required by paragraph 76b of Statement 68.]

[If the pension plan was closed to new entrants, the District should disclose that fact, as required by paragraph 76b of Statement 68.]

Contributions. Per Article 33 of the State Statutes, contribution requirements of the active employees and the participating school districts are established and may be amended by the TRS Board. Article 33 also requires the

State to contribute 90 percent of school districts' contractually required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year ended June 30, 20X9, was 17.32 percent of annual school district payroll of which 1.73 percent of payroll was required from school districts and 15.59 percent of payroll was required from the State. District contributions to the pension plan were \$210 for the year ended June 30, 20X9.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the net pension liability	\$ 1,491
State's proportionate share of the net pension liability associated with the District	13,419
Total	<u>\$ 14,910</u>

The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At December 31, 20X8, the District's proportion was 0.02 percent, which was an increase of 0.001 from its proportion measured as of December 31, 20X7.

[If there had been a change of benefit terms that affected the measurement of the total pension liability since the prior measurement date, the District should disclose information required by paragraph 80e of Statement 68.]

[If changes expected to have a significant effect on the measurement of the District's proportionate share of the net pension liability had occurred between the measurement date and the reporting date, the District should disclose information required by paragraph 80f of Statement 68.]

For the year ended June 30, 20X9, the District recognized pension expense of \$2,335 and revenue of \$2,095 for support provided by the State. At June 30, 20X9, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 266	\$ 14
Changes of assumptions	171	13
Net difference between projected and actual earnings on pension plan investments	-	219
Changes in proportion and differences between District contributions and proportionate share of contributions	74	15
District contributions subsequent to the measurement date	107	-
Total	\$ 618	\$ 261

\$107 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
20Y0	\$ (28)
20Y1	15
20Y2	21
20Y3	54
20Y4	55
Thereafter	133

Actuarial assumptions. The total pension liability in the December 31, 20X8 actuarial valuation was determined 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 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. As a result of the 20X8 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 20X8 actuarial valuation to more closely reflect actual experience.

[If the benefit terms included ad hoc postemployment benefit changes, the District should disclose information about assumptions related to those changes, as required by paragraph 77 of Statement 68.]

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	

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 employee contributions will be made at the current contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. 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 active and inactive employees. 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 prior measurement date, the District should disclose information about that change, as required by paragraph 78a of Statement 68.]

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the 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%)
District's proportionate share of the net pension liability	\$ 2,334	\$ 1,491	\$ 514

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report. [If significant changes had occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, the District should disclose additional information, as required by paragraph 79 of Statement 68.]

Payables to the pension plan

[If the District reported payables to the defined benefit pension plan, it should disclose information required by paragraph 122 of Statement 68.]

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Teachers Pension Plan

Last 10 Fiscal Years*

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
District's proportion of the net pension liability (asset)	0.020%	0.019%	0.019%	0.019%	0.020%	0.020%	0.020%	0.021%	0.021%	0.021%
District's proportionate share of the net pension liability (asset)	\$ 1,491	\$ 1,174	\$ 1,297	\$ 1,349	\$ 1,489	\$ 1,161	\$ 437	\$ (235)	\$ (126)	\$ (93)
State's proportionate share of the net pension liability (asset) associated with the District	13,419	10,564	11,675	12,145	13,402	10,445	3,935	(2,119)	(1,137)	(834)
Total	<u>\$ 14,910</u>	<u>\$ 11,738</u>	<u>\$ 12,972</u>	<u>\$ 13,494</u>	<u>\$ 14,891</u>	<u>\$ 11,606</u>	<u>\$ 4,372</u>	<u>\$ (2,354)</u>	<u>\$ (1,263)</u>	<u>\$ (927)</u>
District's covered-employee payroll	\$ 11,512	\$ 10,412	\$ 9,715	\$ 9,553	\$ 9,522	\$ 9,299	\$ 8,709	\$ 8,175	\$ 7,909	\$ 7,659
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.95%	11.28%	13.35%	14.12%	15.64%	12.49%	5.02%	(2.87%)	(1.59%)	(1.21%)
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

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

SCHEDULE OF DISTRICT CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Contractually required contribution	\$ 210	\$ 206	\$ 197	\$ 165	\$ 118	\$ 90	\$ 82	\$ 77	\$ 88	\$ 108
Contributions in relation to the contractually required contribution	(210)	(206)	(197)	(165)	(118)	(90)	(82)	(77)	(88)	(108)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 12,097	\$ 10,962	\$ 10,063	\$ 9,634	\$ 9,538	\$ 9,410	\$ 9,004	\$ 8,442	\$ 8,042	\$ 7,784
Contributions as a percentage of covered-employee payroll	1.73%	1.88%	1.96%	1.71%	1.23%	0.95%	0.91%	0.91%	1.09%	1.39%

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

**Notes to Required Supplementary Information
for the Year Ended June 30, 20X9**

Changes of benefit terms. Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits. Amounts reported in 20X4 reflect a modification to the benefit terms to incorporate a new definition of base compensation.

Changes of assumptions. Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 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 to determine amounts reported prior to 20X6. Amounts reported in 20X3 reflect an adjustment of expected retirement ages to more closely reflect actual experience. Amounts reported in 20X0 reflect an adjustment of assumed life expectancies to more closely reflect actual experience.

Illustration 4b—Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources related to Pensions, and Pension Expense for Sample School District in Illustration 4a

The material that follows illustrates application of the requirements of paragraphs 92–95 of Statement 68* to the cost-sharing employer (Sample School District) for which note disclosures and required supplementary information are presented in Illustration 4a. This illustration assumes the same facts and circumstances as Illustration 4a. The detailed calculations presented in this illustration are not required by Statement 68 to be included in the financial reports of employers.

Additional Information

Collective balances at December 31, 20X7 and 20X8, are as follows:

	12/31/20X7	12/31/20X8
Collective deferred outflows of resources	\$ 1,373,691	\$ 2,185,960
Collective deferred inflows of resources	\$ 1,538,565	\$ 1,233,001
Collective net pension liability	\$ 6,178,023	\$ 7,455,024
District's proportion	0.019%	0.020%
State's proportion	90.000%	90.000%

Collective pension expense for the measurement period ended December 31, 20X8, is \$1,163,898.

The average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined at January 1, 20X8 (the beginning of the measurement period ended December 31, 20X8) is 9.3 years.

In addition, the following are associated with the District's fiscal year ended June 30, 20X9:

- District contributions:
 - January 1, 20X8, to June 30, 20X8: \$103 (reported as a deferred outflow of resources at June 30, 20X8, as required by paragraph 57 of Statement 68)
 - July 1, 20X8, to December 31, 20X8: \$103
 - January 1, 20X9, to June 30, 20X9: \$107 (contributions subsequent to the measurement date of the collective net pension liability and before the end of the District's reporting period)
- Beginning deferred outflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 54 and 55 of Statement 68): \$16
 - Amount to be recognized as an increase in the District's pension expense for the measurement period ended December 31, 20X9: \$3

*Application of paragraph 93 of Statement 68 results in cost-sharing employers that have a special funding situation following the requirements of paragraphs 48–57 of Statement 68 for recognition of proportionate shares of the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. Therefore, references to the requirements in paragraphs 48–57 of Statement 68, as applicable, are included in this illustration.

- Beginning deferred inflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 54 and 55 of Statement 68): \$18
 - Amount to be recognized as a reduction of the District's pension expense for the measurement period ended December 31, 20X9: \$4

Calculation of Amounts Required by Statement 68

(1) Proportionate shares of collective balances (paragraphs 48 and 53 of Statement 68)

	Proportionate Share at 12/31/X7 (0.019%) (a)	Proportionate Share at 12/31/X8 (0.020%) (b)	Change in Proportionate Share of	
			Debit Balances (b) – (a)	Credit Balances (b) – (a)
Deferred outflows of resources	\$ 261	\$ 437	\$ 176	
Deferred inflows of resources	292	247		\$ (45)
Net pension liability	1,174	1,491		317

In addition, the District's proportionate share of collective pension expense for the measurement period ended December 31, 20X8, is \$233 ($\$1,163,898 \times 0.020$ percent).

(2) Amounts from paragraphs 54 and 55 of Statement 68

(a) Change in the District's proportion (paragraph 54 of Statement 68)

In conformity with paragraph 54 of Statement 68, the net effect of the change in proportion is determined at the beginning of the measurement period. For the measurement period ended December 31, 20X8, the amounts to be recognized for the change in the District's proportion are determined as follows:

	Collective Amount at 12/31/X7	Proportionate Share at 0.019% (a)	Proportionate Share at 0.020% (b)	Change in Proportionate Share of	
				Debit Balances (b) – (a)	Credit Balances (b) – (a)
Deferred outflows of resources	\$ 1,373,691	\$ 261	\$ 275	\$ 14	
Deferred inflows of resources	1,538,565	292	308		\$ 16
Net pension liability	6,178,023	1,174	1,236		62
Total of changes in the District's beginning reported balances				14	78
Amount to be recognized for the net effect of the change in the District's proportion on beginning reported balances*				64	-
Total of amounts recognized for the change in the District's proportion				\$ 78	\$ 78

* In conformity with paragraph 54 of Statement 68, the net effect of the change in proportion is recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan, determined as of the beginning of the measurement period. Paragraph 54 of Statement 68 also requires that the amount of the net effect of a change in proportion that is not recognized in the employer's pension expense be reported as a deferred outflow of resources or deferred inflow of resources related to pensions. If there is a beginning collective net pension liability, an increase in proportion results in an increase in pension expense and a deferred outflow of resources. Conversely, a decrease in proportion results in a decrease in pension expense and a deferred inflow of resources. In this illustration, there is a collective net pension liability, and the District's proportion of that liability increased. Therefore, the District reports an increase in pension expense equal to \$7 ($\$64 \div 9.3$ years) and a deferred outflow of resources of \$57 ($\$64 - \7) as result of the change in its proportion.

(b) District contributions during the measurement period (paragraph 55 of Statement 68)

	<u>Collective Amount</u>	<u>Proportionate Share at 0.020% (a)</u>	<u>District Contributions (b)</u>	<u>Difference (b) – (a)</u>
Employer and nonemployer contributing entity contributions	\$ 1,004,730	\$ 201	\$ 206	\$ 5 [†]

[†] In conformity with paragraph 55 of Statement 68, the difference between certain actual contributions and the employer's proportionate share of the total of such contributions from all employers and nonemployer contributing entities during the measurement period is recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan determined as of the beginning of the measurement period. Paragraph 55 of Statement 68 requires that the amount of the difference between certain actual contributions and the employer's proportionate share of the total of such contributions from all employers and nonemployer contributing entities that is not recognized in the employer's pension expense be reported as a deferred outflow of resources or deferred inflow of resources related to pensions. If, for purposes of paragraph 55, the employer's actual contributions exceed its proportionate share of total contributions, the difference increases pension expense and results in a deferred outflow of resources. In this illustration, the District's actual contributions exceed its proportionate share of total contributions. Therefore, for the measurement period ended December 31, 20X8, the District reports an increase in pension expense equal to \$1 (\$5 ÷ 9.3 years) and a deferred outflow of resources of \$4 (\$5 – \$1).

(c) Net effect of (a) and (b) (paragraph 52 of Statement 68)

Paragraph 52 of Statement 68 permits the effects of paragraphs 54 and 55 in a single measurement period to be recognized on a net basis. For the measurement period ended December 31, 20X8, the District recognizes the following net amounts:

	<u>Deferred Outflows of Resources</u>	<u>Pension Expense</u>
Change in proportion [from (2a), above]	\$ 57	\$ 7
Contributions during the measurement period [from (2b), above]	4	1
Net amount recognized	<u>\$ 61</u>	<u>\$ 8</u>

(3) Amounts from paragraphs 94 and 95 of Statement 68

Paragraphs 94 and 95 of Statement 68 require an employer that has a special funding situation to recognize pension expense and revenue for the portion of the nonemployer contributing entity's total proportionate share of collective pension expense that is associated with the employer. For the measurement period ended December 31, 20X8, the nonemployer contributing entity (the State) recognizes \$1,047,509 for its proportionate share of collective pension expense (determined as collective pension expense × the State's proportion, or \$1,163,898 × 90.00 percent, rounded).

The State provides support for all employers that provide benefits through the pension plan and does so at the same rate for each employer (90.000 percent). Therefore, the total of the employers' proportions is 10.000 percent, and the District determines its proportion of the State's expense as follows:

District's proportion of collective net pension liability	0.020%
Divided by the total of the proportions of all employers for which support is provided by the State	10.000%
Proportion of the State's total proportionate share of collective pension expense associated with the District	<u>0.200%</u>

In conformity with paragraphs 94 and 95 of Statement 68, the District recognizes revenue and pension expense for the portion of the State's total proportionate share of collective pension expense that is associated with the District, or \$2,095 ($\$1,047,509 \times 0.200$ percent, rounded).

Journal Entries for District's Fiscal Year Ended June 30, 20X9 (December 31, 20X8 Measurement Date)

Deferred outflows of resources—proportionate share of collective deferred outflows of resources	\$	176	(a)		
Pension expense		241	(a) (b)		
Deferred inflows of resources—proportionate share of collective deferred inflows of resources		45	(a)		
Deferred outflows of resources—paragraphs 54 and 55		61	(b)		
Proportionate share of collective net pension liability				\$	317 (a)
Deferred outflows of resources—District contributions 1/1/X8 to 6/30/X8					103 (b)
Cash—District contributions 7/1/X8 to 12/31/X8					103 (b)
(a) (To record changes in the District's proportionate shares of the collective net pension liability, collective deferred outflows of resources and deferred inflows of resources related to pensions, and collective pension expense [from (1), above])					
(b) (To record the paragraphs 54 and 55 pension expense and deferral balance arising in the current measurement period [from (2c), above] and District contributions during the measurement period [from Additional Information, above])					
Deferred inflow of resources—paragraphs 54 and 55		4			
Deferred outflow of resources—paragraphs 54 and 55					3
Pension expense					1
(To record pension expense for paragraphs 54 and 55 deferral balances arising in prior measurement periods [from Additional Information, above])					
Deferred outflow of resources—District contributions 1/1/X9 to 6/30/X9		107			
Cash—District contributions 1/1/X9 to 6/30/X9					107
(To record District contributions subsequent to the measurement date in conformity with paragraph 57 of Statement 68 [from Additional Information, above])					
Pension expense		2,095			
Revenue—State aid					2,095
(To record pension expense and revenue for State support in conformity with paragraphs 94 and 95 of Statement 68 [from (3), above])					

Illustration 5a—Note Disclosures and Required Supplementary Information for a Governmental Nonemployer Contributing Entity in a Special Funding Situation (Substantial Proportion of Collective Net Pension Liability)

[Note: This illustration includes only note disclosures and required supplementary information required by Statement 68. If the governmental nonemployer contributing entity includes the pension plan in its financial reporting entity, it should apply the requirements of footnotes 24 and 25 of Statement 68, as applicable. The circumstances of this governmental nonemployer contributing entity do not include all circumstances for which note disclosures and required supplementary information should be presented.]

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

(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the liability, deferred outflows of resources and deferred inflows of resources, and expense associated with the State's requirement to contribute to the Teachers Pension Plan (TPP), information about TPP's fiduciary net position and additions to/deductions from TPP's fiduciary net position have been determined on the same basis as they are reported by TPP. For this purpose, benefit payments (including refunds of contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note X

[If the State were in more than one special funding situation for which it recognized a substantial proportion of the net pension liability, the State should apply the requirements of paragraph 108.]

The State reports a liability, deferred outflows of resources and deferred inflows of resources, and expense as a result of its statutory requirement to contribute to the Teachers Pension Plan (TPP). The following is information about TPP:

General Information about the Pension Plan

Plan description. TPP is a cost-sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) that provides benefits for teaching-certified employees of 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). TRS issues a publicly available financial report that can be obtained at [Internet address].

Benefits provided. TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the employee's final 3-year average compensation times the employee's years of service. Employees with 10 years of continuous service are eligible to retire at age 60. Employees 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 employee's final full-year salary. [If the benefit terms included post-employment benefit changes, the State should disclose information about those terms, as required by paragraph 109b of Statement 68.]

[If the pension plan was closed to new entrants, the State should disclose that fact, as required by paragraph 109b of Statement 68.]

Contributions. Per Article 33 of the State Statutes, contribution requirements of the active employees and the participating school districts are established and may be amended by the TRS Board. Article 33 also requires the State to contribute 90 percent of school districts' contractually required contributions, which are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Employees are required to contribute 6.20 percent of their annual pay. The school districts' contractually required contribution rate for the year ended June 30, 20X9, was 17.32 percent of annual school district payroll of which 1.73 percent of payroll was required from school districts and 15.59 percent of payroll was required from the State. State contributions to the pension plan were \$915,028 for the year ended June 30, 20X9.

Pension Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 20X9, the State reported a liability of \$6,709,522 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 20X8, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to the total projected contributions of the State and all participating school districts, actuarially determined. At December 31, 20X8, the State's proportion was 90 percent. [If there had been a change in proportion since the prior measurement date, the State would disclose information about that change, as required by paragraph 113a of Statement 68.]

[If there had been a change of benefit terms that affected the measurement of the total pension liability since the prior measurement date, the State should disclose information required by paragraph 113d of Statement 68.]

[If changes expected to have a significant effect on the measurement of the State's proportionate share of the net pension liability had occurred between the measurement date and the reporting date, the State should disclose information required by paragraph 113e of Statement 68.]

As a result of its requirement to contribute to TPP, the State recognized expense of \$1,047,509 for the year ended June 30, 20X9. At June 30, 20X9, the State reported deferred outflows of resources and deferred inflows of resources from the following sources as a result of its requirement to contribute to TPP:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,195,854	\$ 63,919
Changes of assumptions	771,510	58,370
Net difference between projected and actual earnings on pension plan investments	-	987,413
State contributions subsequent to the measurement date	462,899	-
Total	<u>\$ 2,430,263</u>	<u>\$ 1,109,702</u>

\$462,899 reported as deferred outflows of resources resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 20Y0. Other amounts reported as deferred outflows of resources and deferred inflows of resources as a result of the State’s requirement to contribute to TPP will be recognized in expense as follows:

Year ended June 30:	
20Y0	\$ (151,532)
20Y1	41,323
20Y2	67,057
20Y3	216,952
20Y4	218,716
Thereafter	465,146

Actuarial assumptions. The total pension liability in the December 31, 20X8 actuarial valuation was determined 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 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. As a result of the 20X8 actuarial experience study, the expectation of life after disability was adjusted in the December 31, 20X8 actuarial valuation to more closely reflect actual experience.

[If the benefit terms included ad hoc postemployment benefit changes, the State should disclose information about assumptions related to those changes, as required by paragraph 110 of Statement 68.]

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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	

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 employee contributions will be made at the current contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the State will be made at current statutorily required rates. 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 active and inactive employees. 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 prior measurement date, the State should disclose information about that change, as required by paragraph 111a of Statement 68.]

Sensitivity of the State's proportionate share of the net pension liability to changes in the discount rate. The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the State's proportionate share of the 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
State's proportionate share of the net pension liability	\$ 10,492,888	\$ 6,709,522	\$ 2,313,608

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued TRS financial report. [If significant changes had occurred that indicate that the disclosures included in the pension plan's financial report generally did not reflect the facts and circumstances at the measurement date, the State should disclose additional information, as required by paragraph 112 of Statement 68.]

Payables to the pension plan

[If the State reported payables to the defined benefit pension plan, it should disclose information required by paragraph 122 of Statement 68.]

SCHEDULE OF THE STATE'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Teachers Pension Plan

Last 10 Fiscal Years*

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
State's proportion of the net pension liability (asset)	90%	90%	90%	90%	90%	90%	90%	90%	90%	90%
State's proportionate share of the net pension liability (asset)	\$ 6,709,522	\$ 5,560,221	\$ 6,144,799	\$ 6,392,235	\$ 6,701,158	\$ 5,222,402	\$ 1,967,431	\$ (1,009,210)	\$ (541,588)	\$ (396,933)
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

* The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year.

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

SCHEDULE OF STATE CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years

(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Statutorily required contribution	\$ 915,028	\$ 914,246	\$ 896,893	\$ 764,380	\$ 548,328	\$ 415,794	\$ 374,616	\$ 348,597	\$ 391,275	\$ 463,041
Contributions in relation to the statutorily required contribution	915,028	914,246	896,893	764,380	548,328	415,794	374,616	348,597	391,275	463,041
Annual contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

**Notes to Required Supplementary Information
for the Year Ended June 30, 20X9**

Changes of benefit terms. Amounts reported in 20X8 reflect an increase in disability benefits to be equivalent to retirement benefits. Amounts reported in 20X4 reflect a modification to the benefit terms to incorporate a new definition of base compensation.

Changes of assumptions. Amounts reported in 20X9 reflect an adjustment of the expectation of life after disability to more closely reflect actual experience. For amounts reported in 20X6 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 to determine amounts reported prior to 20X6. Amounts reported in 20X3 reflect an adjustment of expected retirement ages to more closely reflect actual experience. Amounts reported in 20X0 reflect an adjustment of assumed life expectancies to more closely reflect actual experience.

Illustration 5b—Net Pension Liability, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, and Expense for Sample State in Illustration 5a

The material that follows illustrates application of the requirements of paragraphs 97–106 of Statement 68 to the governmental nonemployer contributing entity for which note disclosures and required supplementary information are presented in Illustration 5a. This illustration assumes the same facts and circumstances as Illustration 5a. The detailed calculations presented in this illustration are not required by Statement 68 to be included in the financial reports of employers.

Additional Information

Collective balances at December 31, 20X7 and 20X8, are as follows:

	12/31/20X7	12/31/20X8
Collective deferred outflows of resources	\$ 1,373,691	\$ 2,185,960
Collective deferred inflows of resources	\$ 1,538,565	\$ 1,233,001
Collective net pension liability	\$ 6,178,023	\$ 7,455,024
State's proportion	90.000%	90.000%

Collective pension expense for the measurement period ended December 31, 20X8, is \$1,163,898.

The average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined at January 1, 20X8 (the beginning of the measurement period ended December 31, 20X8) is 9.3 years.

In addition, the following are associated with the State's fiscal year ended June 30, 20X9:

- State contributions:
 - January 1, 20X8, to June 30, 20X8: \$452,129 (reported as a deferred outflow of resources at June 30, 20X8, as required by paragraph 106 of Statement 68)
 - July 1, 20X8, to December 31, 20X8: \$452,129
 - January 1, 20X9, to June 30, 20X9: \$462,899 (contributions subsequent to the measurement date of the collective net pension liability and before the end of the State's reporting period)
- Beginning deferred outflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 103 and 104 of Statement 68): None
- Beginning deferred inflows of resources for changes in proportion and contributions in prior measurement periods (paragraphs 103 and 104 of Statement 68): None

Calculation of Amounts Required by Statement 68

(1) Proportionate shares of collective balances (paragraphs 97 and 102 of Statement 68)

	Proportionate Share at 12/31/X7 (0.019%) (a)	Proportionate Share at 12/31/X8 (0.020%) (b)	Change in Proportionate Share of	
			Debit Balances (b) – (a)	Credit Balances (b) – (a)
Deferred outflows of resources	\$ 1,236,322	\$ 1,967,364	\$ 731,042	
Deferred inflows of resources	1,384,709	1,109,701		\$ (275,008)
Net pension liability	5,560,221	6,709,522		1,149,301

In addition, the State's proportionate share of collective pension expense for the measurement period ended December 31, 20X8, is \$1,047,509 ($\$1,163,898 \times 90.000$ percent, rounded).

(2) Amounts from paragraphs 103 and 104 of Statement 68

(a) Change in the State's proportion (paragraph 103 of Statement 68)

For the measurement period ended December 31, 20X8, the State's proportion was unchanged from the prior measurement period.

(b) State contributions during the measurement period (paragraph 104 of Statement 68)

For the measurement period ended December 31, 20X8, there were no differences between the State's actual contribution and the State's proportionate share of total contributions from the employers and nonemployer contributing entities.

Journal Entries for State's Fiscal Year Ended June 30, 20X9 (December 31, 20X8 Measurement Date)

Deferred outflows of resources—proportionate share of collective deferred outflows of resources	\$ 731,042	(a)	
Expense	1,047,509	(a)	
Deferred inflows of resources—proportionate share of collective deferred inflows of resources	275,008	(a)	
Proportionate share of collective net pension liability			\$ 1,149,301 (a)
Deferred outflows of resources—State contributions 1/1/X8 to 6/30/X8			452,129 (b)
Cash—State contributions 7/1/X8 to 12/31/X8			452,129 (b)
(a) (To record changes in the State's proportionate shares of the collective net pension liability, collective deferred outflows of resources and deferred inflows of resources related to pensions, and collective pension expense [from (1), above])			
(b) (To record State contributions during the measurement period [from Additional Information, above])			
Deferred outflow of resources—State contributions 1/1/X9 to 6/30/X9	462,899		
Cash—State contributions 1/1/X9 to 6/30/X9			462,899
(To record State contributions subsequent to the measurement date in conformity with paragraph 106 of Statement 68 [from Additional Information, above])			

Illustration 6—Note Disclosures for an Employer with Defined Contribution Pensions (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures required by Statement 68. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnote 26 of Statement 68. The circumstances of this employer do not include all circumstances for which note disclosures should be presented.]

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

(Dollar amounts in thousands)

Note X

The City contributes to the City Retirement Plan (CRP), a defined contribution pension plan, for its full-time general administrative employees. CRP is administered by the City Retirement System.

Benefit terms, including contribution requirements, for CRP are established and may be amended by the City Council. For each employee in the pension plan, the City is required to contribute 7 percent of annual salary, exclusive of overtime pay, to an individual employee account. Employees are permitted to make contributions to the pension plan, up to applicable Internal Revenue Code limits. For the year ended June 30, 20X9, employee contributions totaled \$657, and the City recognized pension expense of \$1,520.

Employees are immediately vested in their own contributions and earnings on those contributions and become vested in City contributions and earnings on City contributions after completion of 23 months of creditable service with the City. Nonvested City contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. For the year ended June 30, 20X9, forfeitures reduced the City's pension expense by \$48.

[If the City reported a liability for its defined contribution pensions, it should disclose information required by paragraph 126f of Statement 68.]

Illustration 7—Determination of Certain Amounts to Be Presented in a Single or Agent Employer’s Required Supplementary Information Schedule of Contribution-Related Information

The following examples illustrate the determination of certain amounts to be presented in the contribution-related schedules that are required by paragraph 46(c) of Statement 68 to be presented in required supplementary information by single and agent employers if certain conditions are met. Specifically, they illustrate circumstances in which the measure of payroll on which actual contributions are determined differs from the measure of payroll on which actuarially determined contribution rates are calculated.

Example A

As a result of an actuarial valuation, both the plan (single-employer or agent multiple-employer plan with the same fiscal year-end as the employer) and the employer are notified that the actuarially determined contribution for the coming year is 15 percent of covered-employee payroll. The calculation of the actuarially determined contribution rate was based on a projected covered-employee payroll of \$2.0 million for the year to which the actuarially determined contribution will apply. The employer is legally required to contribute to the plan an amount equal to the actuarially determined contribution rate applied to the actual covered-employee payroll, rather than the projected covered-employee payroll. The actual covered-employee payroll for the year is \$2.1 million. By year-end, the plan has recognized (on the accrual basis) \$315,000 of employer contributions (that is, $\$2,100,000 \times 0.15$).

To ensure an appropriate comparison of actuarially determined contributions to contributions received (on the accrual basis), the information in the employer’s schedule of contribution-related information should be on the same measure of payroll. In this example, the employer should report \$315,000 (the actual covered-employee payroll for the year times the actuarially determined contribution rate) as the actuarially determined contribution for the year. Actual amounts should be equal to those recognized by the pension plan in relation to the actuarially determined contribution (in this case, \$315,000). Thus, the amounts presented in the most recent year of the employer’s schedule of contribution-related information should be the following:

Actuarially determined contribution	\$ 315,000
Contributions in relation to the actuarially determined contribution	315,000
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	<u>\$ 2,100,000</u>
Contributions as a percentage of covered-employee payroll	15.0%

Example B

As in Example A, the actuarially determined contribution rate is 15 percent of covered-employee payroll, based on a projected covered-employee payroll of \$2.0 million. The actual covered-employee payroll for the current year is \$2.1 million. In contrast to Example A, however, the employer is legally required to contribute to the plan at a statutory rate of 10 percent of actual covered-employee payroll. Therefore, the employer’s statutorily required contributions for the year are \$210,000 ($\$2,100,000 \times 0.10$). This is the amount that the plan recognizes as an addition to fiduciary net position from employer contributions in its statement of changes in fiduciary net position for the year. The amounts presented in the most recent year of the employer’s schedule of contribution-related information should be the following:

Actuarially determined contribution	\$ 315,000
Contributions in relation to the actuarially determined contribution	<u>210,000</u>
Contribution deficiency (excess)	<u><u>\$ 105,000</u></u>
Covered-employee payroll	\$ 2,100,000
Contributions as a percentage of covered-employee payroll	10.0%

Example C

If in Example B, the employer was required to contribute at a statutory rate of 10 percent of projected covered-employee payroll instead of actual covered-employee payroll, the amount recognized by the plan as an addition to fiduciary net position from employer contributions in its statement of changes in fiduciary net position for the year would be \$200,000 ($\$2,000,000 \times 0.10$), and the amounts presented in the most recent year of the employer's schedule of contribution-related information should be the following:

Actuarially determined contribution	\$ 300,000
Contributions in relation to the actuarially determined contribution	<u>200,000</u>
Contribution deficiency (excess)	<u><u>\$ 100,000</u></u>
Covered-employee payroll	\$ 2,100,000
Contributions as a percentage of covered-employee payroll	9.5%

TOPICAL INDEX*

Actuarially determined contributions

- Actuarial value of assets: 115, 214, 260
- Agent employers: 110–120
- Biennial valuations: 113
- Cost-sharing employers: 121, 131
- Discount rate determination: 62, 168
- Employee: 119
- Exclusions: 117–119
- Governmental nonemployer contributing entities: 228, 233
- Installment contracts: 117, 264
- Methods and assumptions: 114–116, 120
- Schedule of contributions: 110–120
- Single employers: 110–120
- Statutory rate: 110
- Timing of measurement: 111–113

Actuarially determined proportion: 131, 233

Actuarial Standards of Practice: 114, 116

Actuarial valuations

- Biennial: 45, 51, 113, 152, 158, 269
- Separate within a single plan: 16, 17, 61, 167
- Timing: 45–48, 51, 152–155, 158, 269
- Updates: 46, 48, 51, 104, 153, 155, 158, 205, 254

Actuarial value of assets: 115, 214, 260

Ad hoc cost-of-living adjustment/postemployment benefit change: 24, 55, 56, 162, 163

- Classification of impact on net pension liability: 75–77, 181–183
- Substantively automatic: 55, 56, 76, 77, 162, 163, 182, 183

Agent employers. *See also* Agent multiple-employer plans

- Actuarial valuations: 45–51
- Applicability of Statement 68: 1, 2, 9–11
- Attribution: 66–68
- Changes in the net pension liability: 69–91
- Contributions subsequent to the measurement date: 92

- Deferred inflows/outflows of resources: 69–72, 90, 92, 218, 219, 221, 223
- Discount rate: 59–65
- Measurement date: 37, 38
- Net pension liability: 36–68, 93, 94
- Note disclosures: 95–105, 264
- Payables to a defined benefit plan: 264
- Pension expense: 69–91
- Pension plan fiduciary net position: 39–41
- Projection of benefit payments: 52–58
- Required supplementary information: 106–120
- Revenue: 91
- Schedule of contributions: 106–120
- Special funding situations: 218–223. *See also* Special funding situations: Defined
- Total pension liability: 45–68
- Transition: 267–272

Agent multiple-employer plans. *See also* Agent employers

- Classification: 16–21

Allocated insurance contracts: 80, 186

Applicability of Statement 68: 1–11

- Closed plan: 7

Attribution

- Deferred retirement option program (DROP): 67, 173
- Effect of break in service: 67, 173
- Effect of service cap: 68, 174
- Exit ages: 66–68, 172–174

Automatic cost-of-living adjustment/postemployment benefit change: 54, 161

Benefit change

- Classification of effect on net pension liability: 75–78, 181–184
- Note disclosures: 105, 207, 256
- Postemployment: 54–58, 75–77, 161–165, 181–183
- Projection of benefit payments: 54–58, 161–165

*Unless otherwise noted, the topics in this index are referenced to questions and answers.

Benefit payments	Contractually required: 117–119, 121, 215–217, 228, 261, 262, 264
Allocated insurance contracts: 80, 186	Determining proportion: 125–134, 231–236
Projection: 63, 52–58, 80, 159–165, 169, 186	Discount rate: 62, 168
Refunds of plan member contributions: 52, 74, 85, 159, 180, 191	During the measurement period: 89–91, 138, 146, 149, 218, 220, 240, 243
Biennial actuarial valuations: 113	Employee: 119, 217
Cap on service credit: 68, 174	Employer: 29, 62, 89, 90, 92, 100, 101, 108–121, 125–134, 138, 146, 147, 168, 195, 201, 202, 212–217, 220, 221, 228, 236, 258, 259, 262, 264
Change in proportion: 138, 144, 145, 240, 242	Financing requirements: 115, 214, 260
Change of assumption: 78, 79, 83–88, 184, 185, 189–194	Installment contracts: 117, 139, 141, 215, 261, 264
Deferred inflows/outflows of resources: 71, 72, 177, 178, 270, 271	Irrevocability of: 10, 11
Changes in the (collective) net pension liability: 69–91, 175–195	Legal responsibility: 25–28, 32, 263
Classes of employees: 16, 22, 23	Nonemployer contributing entities: 25–32, 91, 118, 148, 149, 216, 223, 227, 244, 250, 262, 263
Determining proportionate share: 143, 241	Note disclosures: 100, 101, 201, 202, 250, 251
Discount rate: 61, 167	Pay-as-you-go: 6, 7
Closed plan	Pension obligation bonds, proceeds: 90
Applicability of Statement 68: 7	Projected, discount rate: 62, 168
Expected remaining service life: 87, 193	Refunds: 52, 74, 85, 159, 180, 191
Collective net pension liability: 123, 124, 150–174, 237–239, 245, 246. <i>See also</i> Agent employers: Net pension liability; Cost-sharing employers: Collective net pension liability; Single employers: Net pension liability	Reimbursed: 29, 134, 236
Compensated absences: 266	Required supplementary information: 108–120, 209, 212–217, 258–262
Component units	Schedule of: 108–120, 209–217, 258–262
In single-employer plan with primary government: 33–35, 96	Special funding situations, defined: 25–32
Number of employers: 18–20	Statutorily required: 110, 117–119, 215–217, 228, 261, 262
Stand-alone financial reports: 33–35, 96	Subsequent to the measurement date: 69, 90, 92, 140, 147, 175, 195, 221, 223, 227, 244
Contributions	Cost-of-living adjustment. <i>See</i> Postemployment benefit change
Actual: 100, 101, 108, 109, 201, 202, 212, 213, 250, 251, 258, 259	Cost-sharing employers. <i>See also</i> Cost-sharing multiple-employer plans
Actuarially determined: 62, 111–120, 168	Actuarially determined contributions: 121, 131
	Actuarially determined proportion: 131
	Actuarial valuations: 152–158
	Applicability of Statement 68: 3, 4, 9–11
	Attribution: 172–174
	Change in proportion: 138, 144, 145
	Changes in the collective net pension liability: 175–195
	Collective deferred inflows/outflows of resources: 195

Collective net pension liability: 123, 124, 150–174	Difference between expected and actual experience: 71, 72, 177, 178, 270, 271
Collective pension expense: 175–194	Governmental nonemployer contributing entities: 240–242, 244, 255
Contributions during the measurement period: 138, 146	Interest on: 70, 176
Contributions subsequent to the measurement date: 147, 195	Single employers: 69–72, 79, 90, 92, 218, 219, 221, 223
Deferred inflows/outflows of resources: 138–143, 147, 175–178, 185, 195, 206, 227	Transition: 267, 268, 270, 271
Discount rate: 166–171	
Measurement date: 123, 124	Deferred retirement option programs (DROPs)
Note disclosures: 198–208, 264	Attribution period: 67, 173
Payables to a defined benefit plan: 264	
Pension expense: 139–146	Defined benefit pensions: 1–264, 266–272. <i>See also</i>
Pension plan fiduciary net position: 150, 151	Agent employers; Cost-sharing employers;
Projection of benefit payments: 159–165	Governmental nonemployer contributing entities, no special funding situation; Governmental nonemployer contributing entities, special funding situations;
Proportionate share of collective deferred inflows/outflows of resources: 138–143	Single employers
Proportionate share of collective net pension liability: 121–137, 196, 197	Applicability of Statement 68: 1–4, 6–11
Proportionate share of collective pension expense: 142, 143	Classification of benefits: 12–15
Proportion, determining: 125–134	
Required supplementary information: 209–217	Defined benefit plans. <i>See also</i> Defined benefit pensions
Revenue: 148, 149	Classification: 16–21
Schedule of contributions: 210–217	Component units: 18–20
Special funding situations: 224–227. <i>See also</i>	Number: 22–24
Special funding situations: Defined	Trust criteria: 10, 11
Total pension liability: 152–174	
Transition: 267–272	Defined contribution pensions: 265
	Applicability of Statement 68: 9
Cost-sharing multiple-employer plans. <i>See also</i>	Classification of benefits: 12–15
Cost-sharing employers	
Classification: 16, 17, 19–21	Difference between expected and actual experience: 76, 77, 83–88, 182, 183, 189–194
	Allocated insurance contracts: 80, 186
Covered-employee payroll: 106, 107, 209–211	Deferred inflows/outflows of resources: 71, 72, 177, 178, 270, 271
Deferred compensation plans: 5	
Deferred inflows/outflows of resources	Difference between projected and actual earnings on pension plan investments: 82, 83, 115, 188, 189, 214, 260
Agent employers: 69–72, 79, 90, 92, 218, 219, 221, 223	
Change of assumption: 71, 72, 177, 178, 270, 271	Discount rate
Contributions subsequent to the measurement date: 91, 93, 147, 195, 218, 221, 223, 227, 240, 244, 267, 268, 270, 271	Agent employers: 49, 52, 59–65, 79
Cost-sharing employers: 138, 142, 143, 147, 175–178, 185, 195, 206, 227	Change in: 49, 60, 79, 156, 166, 185
	Cost-sharing employers: 156, 159, 166–171, 185
	Employer contributions: 62, 168

- Projection of benefit payments: 63, 169
- Refunds of employee contributions: 52, 159
- Single employers: 49, 52, 60–65, 79
- Sufficiency of pension plan fiduciary net position: 63, 64, 169, 170
- Timing of measurement: 65, 171
- Employee contributions
 - Actuarially determined: 119
 - Determining proportion: 127
 - Refunds: 52, 74, 85, 159, 180, 191
 - Schedule of contributions: 119, 217
- Employer contributions. *See* Contributions
- Exit ages, attribution: 66–68, 172–174
- Expected remaining service life: 76–80, 83, 85–88, 145, 146, 182–186, 189, 191–194, 220, 243
 - Closed plan: 87, 193
- GASB Statement No. 3: 102, 203, 252
- GASB Statement No. 14: 34
- GASB Statement No. 16
 - Paragraph 11: 266
- GASB Statement No. 24
 - Paragraph 13: 27
- GASB Statement No. 27: 9, 268, 272
- GASB Statement No. 31: 102, 203, 252
- GASB Statement No. 32
 - Paragraph 20: 5
- GASB Statement No. 40: 102, 203, 252
- GASB Statement No. 50: 9
- GASB Statement No. 67: 37, 97, 102, 123, 199, 203, 229, 248, 252
- GASB Statement No. 71
 - Paragraph 3: 270, 271

- Governmental nonemployer contributing entities, no special funding situation: 263
 - Payables to a defined benefit plan: 264
- Governmental nonemployer contributing entities, special funding situations: 228–262. *See also* Special funding situations: Defined
 - Actuarially determined contributions: 228, 233
 - Actuarially determined proportion: 233
 - Applicability of Statement 68: 1–11
 - Change in proportion: 240, 242
 - Collective deferred inflows/outflows of resources: 241. *See also* Agent employers: Deferred inflows/outflows of resources; Cost-sharing employers: Collective deferred inflows/outflows of resources; Single employers: Deferred inflows/outflows of resources
 - Collective net pension liability: 237–239, 245, 246. *See also* Agent employers: Net pension liability; Cost-sharing employers: Collective net pension liability; Single employers: Net pension liability
 - Collective pension expense: 241. *See also* Agent employers: Pension expense; Cost-sharing employers: Collective pension expense; Single employers: Pension expense
 - Contributions during the measurement period: 240, 243
 - Contributions subsequent to the measurement date: 244
 - Deferred inflows/outflows of resources: 240–242
 - Measurement date: 229, 230
 - Note disclosures: 247–257, 264
 - Payables to a defined benefit plan: 264
 - Proportionate share of collective deferred inflows/outflows of resources: 241
 - Proportionate share of collective net pension liability: 228–239
 - Proportionate share of collective pension expense: 241
 - Proportion, determining: 231–236
 - Required supplementary information, substantial proportion: 258–262
 - Schedule of contributions: 258–262
 - Transition: 267–272
- Installment contracts: 139, 141, 264
 - Schedule of contributions: 215

Interest	Governmental nonemployer contributing entities: 247–257, 264
Deferred inflows/outflows of resources: 70, 176	Installment contracts: 264
Individual accounts: 12, 13	Single employers: 95–105, 264
Service cost: 73, 179	
Total pension liability: 74, 180	
Irrevocability of contributions: 10, 11	Number of defined benefit plans: 22–24
Legal responsibility for contributions: 25–28, 32, 263	Number of employers, component units: 18–20
Long-term expected rate of return. <i>See also</i> Discount rate	Past service cost: 139, 215
Change in: 79, 185	Payables to a defined benefit plan: 264
Timing of measurement: 65, 171	Pay as you go: 6, 7
Measurement date: 37, 38, 123, 124, 229, 230	Pension expense: 69–91, 139–146, 175–195, 241
Member contributions. <i>See</i> Employee contributions	Pension obligation bonds: 90
National Council on Governmental Accounting (NCGA) Statement 1	Pension plan fiduciary net position
Paragraph 42: 36, 122	Discount rate: 60, 62–65, 156, 166, 168–171
Negotiated benefits: 8	Greater than the total pension liability: 49, 134, 237
Net pension asset: 42, 135, 237	Measurement: 39–41, 150, 151
Net pension liability. <i>See also</i> Agent employers: Net pension liability; Governmental nonemployer contributing entities, special funding situations: Proportionate share of the collective net pension liability; Cost-sharing employers: Proportionate share of the collective net pension liability; Single employers: Net pension liability	Note disclosures: 97, 102, 199, 203, 248, 252
At transition: 267–272	Updates: 39, 150
Nonemployer contributing entities. <i>See also</i> Governmental nonemployer contributing entities, special funding situations; Governmental nonemployer contributing entities, no special funding situation	Plan classification: 16, 17, 21
Contributions: 25–32, 91, 118, 148, 149, 216, 223, 227, 244, 250, 262, 263	Component units: 18–20
Note disclosures	Postemployment benefit change
Agent employers: 95–105, 264	Ad hoc: 24, 55, 56, 75–77, 162, 163, 181–183
Cost-sharing employers: 198–208, 264	Automatic: 54, 161
	Classification of impact on net pension liability: 75–77, 181–183
	Projection of benefit payments: 54–58, 161–165
	Reserves for: 24
	Substantively automatic: 55, 56, 76, 77, 162, 163, 182, 183
	Projection of benefit payments: 52–58, 80, 159–165, 186
	Cost-of-living adjustment/postemployment benefit change: 54–58, 161–165
	Discount rate: 63, 169

Proportionate share of the collective net pension liability. *See* Cost-sharing employers: Proportionate share of the collective net pension liability; Governmental nonemployer contributing entities, special funding situations: Proportionate share of the collective net pension liability

Proportion, determining. *See* Cost-sharing employers: Proportion, determining; Governmental nonemployer contributing entities, special funding situations: Proportion, determining

Required supplementary information

Agent employers: 106–120

Cost-sharing employers: 209–217

Governmental nonemployer contributing entities, special funding situations: 258–262

Single employers: 106–120

Reserves: 24

Rollbacks, at transition: 269

Schedule of contributions

Agent employers: 106–120

Cost-sharing employers: 210–217

Employee contributions: 119, 217

Governmental nonemployer contributing entities: 258–262

Single employers: 106–120

Section 457 plans: 5

Service cap, effect on attribution: 68, 174

Service cost: 103

Attribution: 66–68, 172–174

Interest on: 73, 179

Past: 139

Single-employer plans. *See also* Single employers
Classification: 18, 20, 33

Single employers. *See also* Single-employer plans

Actuarial valuations: 45–51

Applicability of Statement 68: 1, 2, 6–11

Attribution: 66–68

Changes in the net pension liability: 69–91

Contributions subsequent to the measurement date: 92

Deferred inflows/outflows of resources: 69–72, 92

Discount rate: 60–65

Measurement date: 37, 38

Net pension liability: 36–68, 93, 94

Note disclosures: 95–105, 264

Payables to a defined benefit plan: 264

Pension expense: 69–91

Pension plan fiduciary net position: 39–41

Projection of benefit payments: 52–58

Required supplementary information: 106–120

Revenue: 91

Schedule of contributions: 106–120

Special funding situations: 218–223. *See also*

Special funding situations: Defined

Total pension liability: 45–68

Special funding situations

Agent employers. *See* Agent employers: Special funding situations

Cost-sharing employers. *See* Cost-sharing employers: Special funding situations

Defined: 25–32

Governmental nonemployer contributing entities. *See* Governmental nonemployer contributing entities, special funding situations

Single employers. *See* Single employers: Special funding situations

Statutorily required contributions: 110, 117–119, 215–217, 228, 261, 262

Substantively automatic cost-of-living

adjustment/postemployment benefit change: 55, 56, 162, 163

Classification of effect on net pension liability: 76, 77, 182, 183

Sufficiency of pension plan fiduciary net position, discount rate: 63, 64, 169, 170

Total pension liability

Actuarial valuations: 45–51, 152–158. *See also* Actuarial valuations

Attribution: 66–68, 172–174. *See also* Attribution

Discount rate: 59–65, 166–171. *See also* Discount rate
Interest on: 74, 180
Projection of benefit payments: 52–58, 159–165.
See also Projection of benefit payments

Transition: 267–272

Trust criteria: 10, 11

Unfunded plans: 6

Updates

Changes subsequent to the measurement date: 40, 50, 151, 157

Discount rate: 60, 65, 166, 171

Note disclosures: 95, 104, 198, 205, 247, 254

Pension plan fiduciary net position: 39, 150

Total pension liability: 46–48, 51, 60, 65, 153–155, 158, 166, 171

Volunteers: 209

