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Statement No. 68 of the
Governmental Accounting
Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

GASB

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Summary

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 67, *Financial Reporting for Pension Plans,* revises existing standards of financial reporting for most pension plans. This Statement and Statement 67 establish a definition of a pension plan that reflects the primary activities associated with the pension arrangement—determining pensions, accumulating and managing assets dedicated for pensions, and paying benefits to plan members as they come due.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

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

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies

the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

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

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a nonemployer entity has a legal requirement to make contributions directly to a pension plan.

Defined Benefit Pensions

This Statement requires the liability of employers and nonemployer contributing entities to employees for defined benefit pensions (net pension liability) to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan to current active and inactive employees that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's fiduciary net position.

Actuarial valuations of the total pension liability are required to be performed at least every two years, with more frequent valuations encouraged. If a valuation is not performed as of the measurement date, the total pension liability is required to be based on update procedures to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 30 months and 1 day prior to the employer's most recent year-end). Unless otherwise specified by this Statement, all assumptions underlying the determination of the total pension liability and related measures set forth by this Statement are required to be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board.

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

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

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

Single and Agent Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a single or agent employer that does not have a special funding situation is required to recognize a liability equal to the net pension liability. The net pension liability is required to be measured as of a date no earlier than the end of the employer's prior fiscal year (the measurement date), consistently applied from period to period.

The pension expense and deferred outflows of resources and deferred inflows of resources related to pensions that are required to be recognized by an employer primarily result from changes in the components of the net pension liability—that is, changes in the total pension liability and in the pension plan's fiduciary net position.

This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change. For example, changes in the total pension liability resulting from current-period service cost, interest on the total pension liability, and changes of benefit terms are required to be included in pension expense immediately. Projected earnings on the pension plan's investments also are required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net pension liability are required to be included in pension expense over the current and future periods. The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. The effect on the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

Employer contributions subsequent to the measurement date of the net pension liability are required to be reported as deferred outflows of resources.

Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting

In governmental fund financial statements, a 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 (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

Notes to Financial Statements

The Statement requires that notes to financial statements of single and agent employers include descriptive information, such as the types of benefits provided and the number and classes of employees covered by the benefit terms. Single and agent employers also should disclose the following information:

- For the current year, sources of changes in the net pension liability
- Significant assumptions and other inputs used to calculate the total pension liability, including those about inflation, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and inputs to the discount rate, as well as certain information about mortality assumptions and the dates of experience studies
- The date of the actuarial valuation used to determine the total pension liability, information about changes of assumptions or other inputs and benefit terms, the basis for determining employer contributions to the pension plan, and information about the purchase of allocated insurance contracts, if any.

Required Supplementary Information

This Statement requires single and agent employers to present in required supplementary information the following information, determined as of the measurement date, for each of the 10 most recent fiscal years:

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

If the contributions of a single or agent employer are actuarially determined, the employer should present in required supplementary information a schedule covering each of the 10 most recent fiscal years that includes information about the actuarially determined contribution, contributions to the pension plan, and related ratios. If the contributions of a single or agent employer are not actuarially determined but are established in statute or by contract, the employer should present a schedule covering each of the 10 most recent fiscal years that includes information about the statutorily or contractually required contribution rates, contributions to the pension plan, and related ratios.

Significant methods and assumptions used in calculating the actuarially determined contributions, if applicable, should be presented as notes to required supplementary information. In addition, the employer should explain factors that significantly affect trends in the amounts reported in the schedules, such as changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions.

Cost-Sharing Employers

In financial statements prepared using the economic resources measurement focus and accrual basis of accounting, a cost-sharing employer that does not have a special funding situation is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan)—the collective net pension liability. An employer's proportion is required to be determined on a basis that is consistent with the manner in which contributions to the pension plan are determined, and consideration should be given to separate rates, if any, related to separate portions of the collective net pension liability. The use of the employer's projected long-term contribution effort as compared to the total projected long-term contribution effort of all employers as the basis for determining an employer's proportion is encouraged.

A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions.

In addition, the effects of (1) a change in the employer's proportion of the collective net pension liability and (2) differences during the measurement period between the employer's contributions and its proportionate share of the total of contributions from employers included in the collective net pension liability are required to be determined. These effects are required to be recognized in the employer's pension expense in a systematic and rational manner 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). The portions of the effects not recognized in the employer's pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Employer contributions to the pension plan subsequent to the measurement date of the collective net pension liability also are required to be reported as deferred outflows of resources related to pensions.

In governmental fund financial statements, the cost-sharing employer's proportionate share of the collective net pension liability is required to 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 (1) amounts paid by the employer to the pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources.

This Statement requires that notes to financial statements of cost-sharing employers include descriptive information about the pension plans through which the pensions are provided. Cost-sharing employers should identify the discount rate and assumptions made in the measurement of their proportionate shares of net pension liabilities, similar to the disclosures about those items that should be made by single and agent employers. Cost-sharing employers, like single and agent employers, also should disclose information about how their contributions to the pension plan are determined.

This Statement requires cost-sharing employers to present in required supplementary information 10-year schedules containing (1) the net pension liability and certain related ratios and (2) if applicable, information about statutorily or contractually required contributions, contributions to the pension plan, and related ratios.

Defined Contribution Pensions

An employer whose employees are provided with defined contribution pensions is required to recognize pension expense for the amount of contributions 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. A change in the pension liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to a defined contribution pension plan. In governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the employer to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. A pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources. Notes to financial statements of an employer with a defined contribution plan should include descriptive information about the pension plan and benefit terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

Special Funding Situations

In this Statement, special funding situations are defined as 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 (1) the amount of contributions for which the nonemployer entity legally is responsible is not dependent upon one or more events unrelated to pensions or (2) the nonemployer is the only entity with a legal obligation to make contributions directly to a pension plan.

This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of nonemployer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the nonemployer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by nonemployer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental nonemployer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.

The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental nonemployer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental nonemployer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability. The governmental nonemployer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental nonemployer contributing entities that recognize a less-than-substantial portion of the collective net pension liability.

This Statement also establishes requirements related to special funding situations for defined contribution pensions.

Effective Date and Transition

This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

How the Changes in This Statement Will Improve Financial Reporting

The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. Decision-usefulness and accountability also will be enhanced through new note disclosures and required supplementary information, as follows:

- More robust disclosures of assumptions will allow for better informed assessments of the reasonableness of pension measurements.
- Explanations of how and why the net pension liability changed from year to year will improve transparency.
- The summary net pension liability information, including ratios, will offer an indication of the extent to which the total pension liability is covered by resources held by the pension plan.
- The contribution schedules will provide measures to evaluate decisions related to the assessment of contribution rates—in comparison to actuarially, statutorily, or contractually determined rates, when such rates are determined. It also will provide information about whether employers and nonemployer contributing entities, if applicable, are keeping pace with those contribution rates.

The consistency and transparency of the information reported by employers and governmental nonemployer contributing entities about pension transactions will be improved by requiring:

- The use of a discount rate that considers the availability of the pension plan's fiduciary net position associated with the pensions of current active and inactive employees and the investment horizon of those resources, rather than utilizing only the long-term expected rate of return regardless of whether the pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments and is expected to be invested using a strategy to achieve that return
- A single method of attributing the actuarial present value of projected benefit payments to periods of employee service, rather than allowing a choice among six methods with additional variations
- Immediate recognition in pension expense, rather than a choice of recognition periods, of the effects of changes of benefit terms and the effects of projected pension plan investment earnings
- Recognition of pension expense that incorporates deferred outflows of resources and deferred inflows of resources related to pensions over a defined, closed period, rather than a choice between an open or closed period.

The comparability of reported pension information also will be improved by the changes related to the attribution method used to determine service cost and the total pension liability, requirements for immediate recognition in pension expense of certain items, and the establishment of standardized expense recognition periods for amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 5 and 6 discuss the applicability of this Statement.

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Standards Board

Accounting and Financial Reporting for Pensions

an amendment of GASB Statement No. 27

June 2012

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of the Financial Accounting Foundation
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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.

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

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

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

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

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[2]In 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.

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

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

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 **termina-**

tion 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.

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.

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[5]Termination 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.

[6]Employer 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.

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 liability [7]

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

[7]Statement 67 includes similar measurement requirements.

[8]In 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 liabilty.

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 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 substan-

tively 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.

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

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

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 liability[10] 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

[10]The 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.

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.

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 liability[11] 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

[11] For 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.)

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 employers[12]

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.

[12]If 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.

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. 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 plan[13]) 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 employers[14]

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

[13]In 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.)

[14]See footnote 12.

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
      (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

[15]In 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.)

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.

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 Liability[16]

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

[16]Statement 67 includes similar measurement requirements.

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 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.

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

<u>Comparing projections of the pension plan's fiduciary net position to projected benefit payments</u>

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.

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.

<u>**Calculating the discount rate**</u>

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 employers[18]

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

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[18] If 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.

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.

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 employer[19] 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
    (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)

[19]The 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.

(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 employers[20]

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

[20]See footnote 18.

(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 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

[21]The 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 *nongovernmental* nonemployer contributing entity in a special funding situation.

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 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.

[22]The 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 *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.

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:

[23]The 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 *nongovernmental* nonemployer contributing entity in a special funding situation.

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 information[24]

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

[24]If 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.

contribution requirements of employers, nonemployer contributing entities, 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 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 Statements[25]

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

[25]If 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.

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.

Notes to Financial Statements[26]

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.

[26]If 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.

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.

[27]The 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 statements[28]

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
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:

[28]If 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.

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. It may not be practical for some governments to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions, as applicable, at the beginning of the period when the provisions of this Statement are adopted. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. 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.

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

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

GLOSSARY

139. This paragraph contains definitions of certain terms *as they are used in this Statement;* 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 this Statement.)

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (a) provide an individual account for each employee; (b) 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 (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.

Discount rate

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

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

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

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

Entry age actuarial cost method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost.*[29] 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.*[30] [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.

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

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

Nonemployer contributing entities

Entities that make contributions to a pension plan that is used to provide pensions to the employees of other entities. For purposes of this Statement, 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.[31]

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.[32]

Plan members

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

Postemployment

The period after employment.

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[31]The 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.

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

Postemployment benefit changes
Adjustments to the pension of an inactive 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 post-employment 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:

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.
b. 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 this Statement.

Appendix A

BACKGROUND

140. This Statement was preceded by Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* which was issued in November 1994 and was effective for financial reporting periods beginning after June 15, 1997. Since its issuance, various provisions of Statement 27 have been updated or amended, and the GASB considered accounting and financial reporting issues similar to those for pensions during the development of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* which was issued in June 2004. The approach taken in Statement 45 was to model accounting and financial reporting by employers for postemployment benefits other than pensions on Statement 27, with adaptations only as necessary to accommodate differences between other postemployment benefits and pensions. The use of this approach allowed for the adoption of a common overall approach applicable to all postemployment benefits. Accordingly, the employer pension accounting and financial reporting approach originally established in Statement 27 has continued in effect with no fundamental changes since its issuance.

141. Significant work has been completed on the GASB's conceptual framework since the issuance of Statement 27. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* issued in April 2005, and Concepts Statement No. 4, *Elements of Financial Statements,* issued in June 2007, were of particular significance for considering pension accounting and financial reporting issues. Concepts Statement 3 established criteria for selecting the appropriate method of communication for items of reportable financial information—recognition in basic financial statements, disclosure in notes to basic financial statements, or presentation as required supplementary information or supplementary information. Concepts Statement 4 established definitions and characteristics of elements of financial statements, such as assets and liabilities.

142. Consistent with the GASB's commitment to periodically reexamine its standards, in January 2006, the Board approved a research project to gather information regarding how effective Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution*

Plans, and Statement 27 had been in meeting financial reporting objectives and to determine whether improvements were needed. The GASB staff prepared a research report describing the research efforts and related findings and presented it to the Board in April 2008.

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

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

145. The project's initial document for public comment—an Invitation to Comment, *Pension Accounting and Financial Reporting*—was issued in March 2009. The Invitation to Comment solicited constituent views on issues and questions related to (a) the focus of accounting and financial reporting for pensions; (b) single-employer and agent-employer pension expense and liability recognition and measurement, including the use of actuarial methods; and (c) accounting by employers in cost-sharing pension plans. In addition, the Invitation to Comment presented issues and questions specific to financial reporting by pension plans. The Board received 117 written responses to the Invitation to Comment from organizations and individuals. In addition, the Board received oral testimony from, and had the opportunity to further explore the views of, 17 individuals or groups at 2 public hearings.

146. From October 2009 through June 2010, the Board discussed and reached tentative conclusions on the basic employer accounting and financial reporting issues presented for public comment in the Invitation to Comment. In June 2010, the Board issued a Preliminary Views, *Pension Accounting and Financial Reporting by Employers,* which presented the Board's tentative decisions on issues related to employer accounting and financial reporting, including issues previously presented in the Invitation to Comment. The Board received 193 written responses to the Preliminary Views from organizations and individuals. In addition, the Board received oral testimony from, and had the opportunity to further explore the views of, 29 individuals or groups at 3 public hearings.

147. During the comment period on the Preliminary Views and through June 2011, the Board discussed and reached initial tentative conclusions on issues related to employer note disclosures and presentation of information in required supplementary information, as well as issues related to accounting and financial reporting by pension plans. Deliberation of issues related to employers and pension plans also included consideration of the views and suggestions expressed by respondents to the Preliminary Views. In June 2011, the Board approved for issuance an Exposure Draft of a proposed Statement, *Accounting and Financial Reporting for Pensions,* which presented the Board's tentative conclusions on employer accounting and financial reporting issues as a result of those deliberations.

148. The Board received 651 responses to the Exposure Draft from organizations and individuals. In addition, the Board received oral testimony from, and had the opportunity to further explore the views of, 52 individuals or groups at 3 public hearings and 3 user forums held to obtain feedback on that Exposure Draft and on the related Exposure Draft, *Financial Reporting for Pension Plans.* In addition, during the comment period for the Exposure Drafts, 18 governments completed a field test of the proposed requirements. The objective of the field test was to obtain feedback about the cost and effort associated with implementation of the proposals in those documents. Respondents to the field test provided information about anticipated one-time and ongoing preparation time and costs associated with the proposals in the Exposure Drafts, identified areas in which clarification of the proposals might be considered, described the methodologies employed to produce certain information that would have been required by the Exposure Drafts, and prepared pro forma note disclosures and required supplementary information to assist the Board in making decisions about the requirements in Statement No. 67, *Financial Reporting for Pension Plans,* and those in this Statement. Issues raised by participants in the field test are reflected in the discussion of respondent comments about individual issues in Appendix B.

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

Appendix B

BASIS FOR CONCLUSIONS

CONTENTS

	Paragraph Numbers
	366–372

Appendix B

BASIS FOR CONCLUSIONS

Introduction

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

151. As described in Appendix A, the reexamination project that led to the issuance of this Statement included consideration of issues related to accounting and financial reporting by employers and by governmental nonemployer entities that have a legal responsibility for contributions to pension plans, as well as those related to financial reporting by pension plans. Because of the relationships among pension plans, employers, and nonemployer contributing entities, the Board has given joint consideration to this Statement and Statement 67. The Board believes that consistency in the measurement and disclosure of pension information reported by all entities associated with pension transactions will enhance the understandability and usefulness of pension information to users of governmental financial reports. Therefore, many of the measurement and disclosure requirements of the two Statements are the same or closely related.

Overview

152. The requirements of this Statement reflect a decision of the Board, informed by an expanded conceptual framework, to adopt an approach to accounting and financial reporting for pensions that is broader than the funding-based model of Statement 27. Taking the conceptual framework into consideration, the Board developed an approach that focuses on the effects of all transactions and events that create and modify an employer's obligations for pensions.

153. The accounting and financial reporting approach required by this Statement reflects the underlying notion that pensions are a form of compensation provided to employees in exchange for the services they provide to a government. In the Board's view, the nature of this employment relationship is long term—spanning the employee's career. The requirements of this Statement, therefore, incorporate provisions intended to reflect the effects of transactions and events related to pensions in the measurement of employers' liabilities for pensions and recognition of pension expense and deferred outflows of resources and deferred inflows of resources related to pensions in a manner consistent with this long-term view of the relationship of the employer and the employee. The provisions also reflect the Board's view of (a) the relationships of employers to the pension plans (and their associated trusts) through which assets dedicated to pensions are accumulated and managed; (b) the role of investment earnings in providing assets to satisfy employer obligations; and (c) the effects of the involvement of entities other than the employer, employees, and the pension plan on the accounting and financial reporting for obligations of employers for the pensions that are provided to their employees.

154. A summary of the broad concepts and principles considered by the Board as it made its decisions reflected in the requirements of this Statement is presented in paragraphs 155–166. Those concepts and principles also are discussed more specifically in relation to individual issues, as applicable, throughout this appendix.

Conceptual Framework

155. The standards in this Statement reflect an accounting and financial reporting approach for pensions that has been informed, first, by considerations identified in the GASB's Concepts Statements, including those related to the following:

- Objectives of financial reporting—accountability, decision-usefulness, and interperiod equity (Concepts Statement No. 1, *Objectives of Financial Reporting,* and Concepts Statement 4)
- The various users and uses of information in general purpose external financial reporting (Concepts Statement 1)
- The definitions of the elements of financial statements (Concepts Statement 4)
- The selection of appropriate methods of communicating information in general purpose external financial reports that contain basic financial statements (Concepts Statement 3).

156. Accordingly, the Board's deliberations of the accounting and financial reporting issues addressed in this Statement primarily focused on:

- Analysis of (a) the transactions and other events through which an employer incurs an obligation to employees for pensions and (b) how the obligation subsequently is modified
- Consideration of the effects of pension-related transactions and other events on the elements of an employer's financial statements
- Issues related to providing information used in assessing interperiod equity (the state in which current-period inflows of resources equal the current-period cost of services) and how the effects of pension-related transactions should be measured for accounting and financial reporting purposes in the governmental environment
- Evaluation of the need for additional information to understand amounts recognized in the employer's financial statements or to place those amounts into an appropriate context.

Long-Term Nature of Governments

157. One of the distinguishing characteristics of state and local governments is their potential for longevity. As discussed in the GASB's White Paper, *Why Governmental Accounting and Financial Reporting Is—and Should Be—Different* (2006), one of the effects of the longevity of governments on accounting and financial reporting is that accounting information generally is not used to answer questions about whether governments will continue to exist. Rather, it is used for insight into "the sustainability of the level of services provided and the ability to meet future levels of demand for services. As a result, the emphasis generally has been on the allocation of resources to government programs, the determination of the cost of services . . . , and providing a longer term view of operations. The longer term view of operations of government is consistent with focusing on trends in operations, rather than on short-term fluctuations . . ." (page 8). Cost-of-services information also is essential to the objectives of financial reporting discussed in Concepts Statement 1, including helping financial report users assess the degree to which interperiod equity has been achieved. The Board's deliberation of issues related to employer accounting and financial reporting for pensions—particularly questions related to measurement of liabilities and recognition of pension expense—reflects consideration of the long-term, ongoing nature of governments and the importance of information about the cost of services to users of governmental employer financial statements.

The Employer–Employee Exchange

158. The accounting and financial reporting requirements established by this Statement also build on consideration of the implications of a previously established conclusion, most fully expressed in Statement 45, that postemployment benefits (including pensions) arise from an exchange between an employer and employees of salaries and benefits for employee service each period. The most prominent implication of that conclusion is that an employer incurs an obligation to its employees for pensions as a result of the employment-exchange transactions. The Board's perspective that these transactions should be viewed in the context of an ongoing, career-long employment relationship has implications related to the measurement of the employer's pension liability and recognition of pension expense. These implications are discussed more fully in paragraphs 206–263 and paragraphs 266–287.

Financial Reporting Focus

159. As noted above, the objective of this Statement is to establish standards of accounting and financial reporting for pensions. The Board concluded that it is not within the scope of its activities to set standards that establish a specific method of financing pensions (that being a policy decision for government officials or other responsible authorities to make) or to regulate a government's compliance with the financing policy or method it adopts. Accordingly, the Board established standards in this Statement within the context of accounting and financial reporting, not within the context of the funding of pensions.

160. At each stage of the project leading to this Statement, the Board considered respondents' views about establishing accounting and financial reporting requirements for the measurement and recognition of defined benefit pension-related liabilities and expense/expenditures that are not specifically linked to approaches used by an employer to determine its funding requirements. In the view of some of those respondents, the financial reporting objectives of accountability, decision-usefulness, and the ability to assess interperiod equity are necessarily addressed by reporting funding-based information. Some respondents' concerns about the approach in this Statement focused on the potential loss of information about funding benchmarks and financing choices made by employers. In the view of these respondents, information that can be used to determine whether a government has an adequate strategy pursuant to funding its defined benefit pension obligations is an important component of financial reporting. In their opinion, that information provides the best basis on which to

hold employers accountable for decisions about pensions—in particular, those related to contributions. Many of these respondents explicitly stated that the Statement 27 measure of the annual required contribution has become a de facto funding standard—one that is used to evaluate funding decisions of the employer and, in the view of some respondents, has to some extent standardized the funding approaches of state and local governmental employers.

161. Other respondents expressed concerns that the accounting measures that were proposed in the Preliminary Views and in the Exposure Draft potentially would be volatile and would lack a long-term perspective, as compared to the information developed using approaches typically applied for funding purposes. In the view of some of these respondents, the reporting provisions would diminish the decision-usefulness of information about pensions. These respondents generally supported the measurement and recognition approaches in Statement 27 because governments are long-term ongoing entities and because pensions are incurred, and often are discharged, over relatively long periods. To some of these respondents, application of a long-term view necessitates the use of measurement techniques and approaches to expense recognition that mitigate volatility in amounts recognized in the financial statements—techniques and approaches similar to those used to determine funding requirements. Some of these respondents also believe that funding-focused measures—in particular, the annual required contribution in Statement 27—provide the best information on which to assess the degree to which interperiod equity is being achieved.

162. Still other respondents were concerned that the use of different measures for financial reporting and funding would be confusing to users of employers' financial statements. Some referred to requirements in Statement No. 5, *Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers,* which previously required pension plans to report a measure of pension liabilities determined on a different basis than that used for funding decisions for many governments. These respondents expressed concerns that users of pension information might interpret the accounting measures in this Statement as funding benchmarks or requirements, similar to observations about how the information reported under Statement 5 was used. Some respondents cited the views expressed in Statement 27 related to the perceived benefits of consistency between accounting and funding measures. Some further cited a belief that the public pension environment has not sufficiently changed since the issuance of Statement 27 to eliminate the possibility of confusion over the presentation of accounting measures that are not based on funding measures. As a means of addressing this

potential issue, some respondents recommended that this Statement require presentation of information about funding-based measures of contributions and funded status, in addition to the accounting measures proposed in the Exposure Draft. Generally, the suggested presentations would have placed funding and accounting measures side-by-side to attempt to draw attention to the distinctions between them. The Board considered various presentations recommended by respondents. Most prominent among the respondent recommendations was to require presentation of the schedule of employer contributions in required supplementary information for all employers, rather than only for those that have actuarially determined contribution rates. (Considerations related to this schedule are discussed in paragraphs 338–340.) In general, however, the Board noted that concerns about confusion over the presentation of accounting measures that are not based on funding measures generally were not expressed by users of financial statements in their feedback about the information that was proposed to be required in employer financial statements.

163. Several respondents also expressed concerns that the use of different measures for financial reporting and funding would be administratively burdensome to preparers of financial statements. Issues associated with the potential cost of the implementation and ongoing application of this Statement are addressed in individual topics throughout this appendix and are summarized in paragraphs 366–372.

164. The Board acknowledges the concerns of respondents that expressed a desire for financial reports of employers to include information about employer contributions to a pension plan and progress relative to internally established funding benchmarks for those pension plans. It, therefore, required disclosure of actuarially based contribution policies and presentation of information about the funding policy over time relative to actuarially determined contribution requirements and statutory or contractual requirements in certain circumstances. (Considerations related to these requirements are discussed further in paragraphs 323 and 324.) This Statement also includes requirements for the recognition of liabilities for contributions that were legally required but not yet made as of the end of the reporting period (see paragraphs 348 and 349 for a discussion of these requirements). In addition, it includes requirements for the disclosure of details about changes in the net pension liability for defined benefit pensions provided to the employees of single and agent employers, including the amount of contributions and benefits recognized in changes in the pension plan's fiduciary net position during the measurement period. (See paragraphs 328–330).

165. However, the Board believes that accounting and financial reporting for pensions necessitates a focus broader than funding. An employer's contribution to a defined benefit pension plan is one of many transactions and other events that create, increase, or decrease the liability for defined benefit pensions. It appropriately is the focus of employer accounting and financial reporting to account for and report information about the totality of those transactions and other events. Therefore, the Board concluded that the funding-based accounting model that some respondents have suggested should be continued would result in incomplete or partial accountability—and, as a result, limited decision-usefulness—when evaluated within the context of the objectives of general purpose external financial reporting in Concepts Statement 1 and the financial statement elements set forth in Concepts Statement 4. Although the funding focus would provide information meeting some of those objectives (such as the uses of financial resources and how a governmental entity financed its activities), it would provide incomplete information with which to assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) the cost of services of the governmental entity, or (c) the financial position and economic condition of the governmental entity. In addition, the Board concluded that the approach employed by this Statement better addresses the objective of assisting financial statement users to assess whether an employer's revenues have been adequate to pay for its cost of services in a given period as compared to a funding-based approach. This approach considers how the consumptions and acquisitions of an employer's net position (as defined in Concepts Statement 4) associated with pension-related events each year affect the cost of government services in the current and future periods.

166. The Board also recognizes that there will be a transition period during which users of employers' financial statements will need to adjust the way in which they interpret the amounts reported about defined benefit pensions because, under the requirements of this Statement, employers will report pension-related information measured differently than it has been measured for accounting purposes in the past. During that period, some users of employer financial reports that are accustomed to having only funding-based information may question how information in employer financial reports is different from the funding measures traditionally reported. However, the Board concluded that measures other than those traditionally presented related to funding benchmarks are necessary to improve accountability for the employer obligations that are created through the employment exchange and through other subsequent

transactions and other events and that the presentation of those measures ultimately will result in additional clarity and a better framework of information to support report users' understanding of an employer's decisions related to pensions.

Scope and Applicability

167. This Statement addresses issues related to accounting and financial reporting for pensions that are provided through defined benefit pension plans or defined contribution pension plans administered through trusts that meet the criteria identified in paragraph 4. This Statement does not address pensions provided directly by an employer to its employees, those provided through a pension plan administered through a trust that does not meet the criteria identified in paragraph 4, or those administered through another form. Some respondents to the Exposure Draft requested that the scope of this Statement be expanded to include all pensions, regardless of the manner in which they are administered. The Board believes that there potentially are additional considerations with regard to measurement of liabilities for pensions that are not provided through a pension plan administered through a trust that meets the criteria. In addition, the Board understands that pensions provided in that manner tend to be supplemental benefits or benefits provided to relatively small groups of employees and generally would be a minor portion of the total obligations for pensions. Therefore, in this Statement, the Board has focused the requirements on benefits that are provided through pension plans administered through trusts that meet the criteria. Pending issuance of additional guidance related to pensions not included in the scope of this Statement, employers that provide those pensions will continue to apply the requirements of all Statements effective prior to issuance of this Statement, including Statement 27 and Statement No. 50, *Pension Disclosures.*

168. This Statement also does not include requirements related to other postemployment benefits. Some respondents to the Exposure Draft asked that the scope of this Statement be expanded to include other postemployment benefits. The Board recognizes that pensions and other postemployment benefits share many similar characteristics. However, because of the importance of pension-related information to users of financial statements, the Board concluded that awaiting the completion of consideration of additional issues related to other postemployment benefits would have unacceptably delayed this Statement and Statement 67.

169. In addition to issues related to employer accounting and financial reporting for pensions provided through trusts that meet the criteria identified in paragraph 4, this Statement includes requirements that update guidance in Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* related to accounting for certain forms of pension-related financial assistance provided to employers by nonemployer contributing entities. The approach taken by the Board in this project generally was to consider whether and, if so, how to modify the requirements of Statement 24 related to on-behalf payments to accommodate the changes in the pension accounting model as a result of this Statement. (The Board's consideration of these issues is discussed more fully in paragraphs 352–360.)

Employers That Provide Defined Benefit Pensions

Origin of the Obligation for Pensions

170. In developing a foundation for the provisions in this Statement, the Board affirmed a conclusion previously expressed in Statements 27 and 45 about the origin and substance of pensions. That is, pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employees' services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee service each financial reporting period. Even though the employer and employees have agreed that a portion of the total compensation for those services, in the form of pensions, will be paid later (in retirement), the employer receives full value from the employment exchange each period in the form of employee service. Therefore, the Board concluded that as a result of the employment exchange each year, an employer incurs an obligation to its employees for pensions, as defined in paragraph 18 of Concepts Statement 4—"a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action." To the extent that this obligation has not been satisfied through the payment of benefits or the accumulation in a trust of assets restricted to the payment of the obligation, this obligation is a *present* obligation. That is, the event that gives rise to the obligation (in this case, the provision of service by the employee) has occurred.

171. Respondents to the Preliminary Views, the Exposure Draft, or both, generally did not raise concerns with the Board's view of the origin of employers' obligations for pensions as applied to single and agent employers. How-

ever, some respondents expressed disagreement with this view when the pensions are provided through a cost-sharing pension plan, instead asserting that in that circumstance, the pension is not compensation for employee service. Rather, these respondents believe that pensions are provided by the cost-sharing pension plan sponsor as a form of social support—a nonexchange transaction. As discussed more fully in paragraphs 297–306, the Board did not find compelling the notion that pensions are not a form of compensation for employee service. The Board was not convinced that the origin or substance of pensions differs depending upon the number of entities that provide assets to finance the benefits or the way that the financing of such costs is shared, and it observed that employees perceive the benefits to be compensation for services, regardless of what type of pension plan is used to provide the benefits.

Relationships of Various Entities to the Obligation for Pensions

172. In addition to the employer–employee relationships from which an employer's obligation to its employees for pensions arises, a pension plan is created to accumulate and manage assets dedicated for pensions and to pay the benefits to retired employees or their beneficiaries when due. An employer's relationship with a defined benefit pension plan relative to the accumulation of assets for pensions is characterized by the adoption of a program (actual or presumed) of systematic annual employer contributions to the pension plan in amounts projected to be sufficient, when added to employee contributions (if any) and expected earnings on the investment of pension plan assets, to provide for payment of the defined benefit pensions. In some circumstances, a nonemployer entity might assume legal responsibility for all or a portion of the contributions to the pension plan—a financing arrangement referred to in this Statement as a *special funding situation.* (The implications of the involvement of a nonemployer contributing entity are discussed in paragraphs 352–360.) An additional relationship typically also exists between the pension plan and employees, characterized by employee contributions to the pension plan prior to retirement and, afterward, the payment by the pension plan of benefits earned by the employees as a result of their services to the employer.

173. This Statement reflects the Board's view that for accounting and financial reporting purposes, an employer has an obligation to its employees for pensions by virtue of the employment exchange, and this obligation is not satisfied until the defined benefit pensions have been paid to the employees or their beneficiaries when due. Per this view, the employer is seen as remaining

primarily responsible for the portion of its benefit obligation to employees in excess of the fiduciary net position in the pension plan held for the payment of pensions. To the extent that the pension plan's fiduciary net position has been accumulated for that purpose and that amount is held in a trust that meets the criteria identified in paragraph 4 of this Statement, the employer becomes secondarily responsible, and the pension plan is primarily responsible, for the obligation.

174. The view expressed by the Board in this Statement is consistent with its discussion of this issue in the Preliminary Views and the Exposure Draft. Some respondents to one or both of those documents disagreed with the Board's view because they believe that the pension plan is responsible for the entire pension obligation, whether or not there are assets in a trust to pay benefits. These respondents believe that one of the fundamental responsibilities of the pension plan is to raise the assets necessary to pay benefits to employees when they come due. Therefore, the creation of a pension plan discharges the employer from the obligation to its employees created by the employment exchange. Under this view, the employer's obligation, if any, is considered to be limited to making contributions to the pension plan pursuant to the funding policy adopted. The Board disagrees that the existence of a pension plan, combined with the adoption of a funding plan and the achievement of some degree of funding progress, is sufficient to transfer to the pension plan the employer's entire obligation to employees as a result of the original employment-exchange transactions. Further, the Board does not believe that the pension plan appropriately can be viewed as assuming the portion of the pension obligation that exceeds the amount of the pension plan's fiduciary net position that is available for pensions because the pension plan does not have an independent ability to obtain assets needed to satisfy that obligation.

175. Neither the Preliminary Views nor the Exposure Draft addressed the possibility that the employees might be responsible for providing assets to satisfy an unfunded pension obligation. Some respondents to one or both of those documents expressed the view that, in an arrangement in which both the employer and the employees are required to make contributions, the employer should be viewed as sharing responsibility for the unfunded pension obligation with the employees. The Board recognizes that in many state and local government pension plans, (a) employees are required to contribute a part of the cost of their pensions, (b) the pension that is received by the employee typically is greater than what an employee's own contributions could provide, and (c) the employers that are required to make contributions are responsible for the residual amount required to provide for the payment of the benefits. In circum-

stances in which employee contributions cover only a portion of their total service cost each period, the Board, in principle, does not believe that it would be reasonable to interpret that employers, as part of employment exchanges, effectively require their employees to pay for the underfunding of the defined benefit pensions promised to them and other employees. Some respondents to the Exposure Draft and some field test participants also raised issues related to the view of the relationship of employees to the benefit obligation, if employee contributions are expected to exceed their total service cost. The Board believes that this potential circumstance is an issue related to the measurement of the liability, rather than an issue with regard to whether the employer is responsible for providing assets to satisfy an unfunded pension obligation. (The Board's consideration of this issue is discussed more fully in paragraph 224.)

176. Other respondents expressed the view that, as a condition for assignment of responsibility for the unfunded pension obligation to an employer, the employer should have the ability to influence or control the benefits that are provided through the pension plan or the policy decisions with regard to contributions to the pension plan. These respondents believe that when decisions about benefits or contributions are controlled by another entity, all or a portion of the unfunded pension obligation should be accounted for and reported by the entity that has such authority or control. In the respondents' views, this is often the pension plan sponsor (the entity that created the pension plan) or the pension plan itself. The Board does not believe that another entity's role in establishing benefit terms or assessing annual contributions is sufficient evidence that the total benefit obligation that arises from the employment exchange is transferred from an employer to the pension plan or sponsor. The lack of ability to control the amount of the benefits to be offered by the employer can be analogized to many other regulations that restrict the operations and activities of governments. Likewise, the lack of ability to control the manner in which the benefits are funded does not change whether the employer received the benefit of its employees' services in exchange for compensation that included pensions. Therefore, the Board concluded that for accounting and financial reporting purposes, regardless of which entity has authority to establish benefit terms or to set required contribution amounts, the present obligation to employees for defined benefit pensions appropriately is one of the employers, unless another entity has assumed that obligation from the employers through what is referred to in this Statement as a special funding situation. (The Board's consideration of issues related to special funding situations is discussed in paragraphs 352–360.)

Consideration of the Pension Plan's Fiduciary Net Position

177. This Statement requires that an employer recognize its obligation for pensions net of the amount of the pension plan's fiduciary net position that is available to satisfy that obligation. The Board also considered the view that the employer is responsible for the entire obligation to provide pensions to employees, without reduction for the fiduciary net position of the pension plan. However, the Board concluded that view does not appropriately consider the role of the pension plan's fiduciary net position that is dedicated to the payment of benefits. That is, to the extent a pension plan that is administered through a trust that has the characteristics identified in paragraph 4 of this Statement has a positive fiduciary net position, that net position is the primary financial resource relied upon for payment of the benefits. Further, the Board notes that to the extent the pension plan's fiduciary net position is held in such a trust, there is a reduction in the need for the employer to sacrifice additional resources to satisfy the total pension obligation.

178. Some respondents to the Exposure Draft recommended that employers be required to separately display in their financial statements the total pension liability and the associated amount of the pension plan's fiduciary net position. These respondents believe that presentation of the two components combined obscures the magnitude of the individual components. In the view of these respondents, the character of each of the two components is different—the total pension liability is long-term in nature, and the pension plan's fiduciary net position consists principally of pension plan investments measured at a point in time. Additionally, in response to the Exposure Draft, some expressed concern about the volatility of the amounts that will be reported as the net pension liability due to period-to-period changes in the fair values of pension plan investments, which are components of the pension plan's fiduciary net position. (See paragraphs 183–185, and 264 and 265.) Other respondents supported separate presentation of the components of the net pension liability because they believe that when the total pension liability is measured using a discount rate that reflects to some degree the long-term expected rate of return on pension plan investments (see paragraphs 226–247), recognition of the net pension liability fails to appropriately address the employers' secondary responsibility with respect to benefit payments (should investment earnings on pension plan investments be insufficient). In their view, separate presentation of the total pension liability and the pension plan's fiduciary net position would communicate to users of financial statements information about that secondary responsibility. As previously noted, the Board concluded that the establishment of a

trust that meets the criteria in paragraph 4 for the purpose of holding assets dedicated to the payment of benefits fundamentally changes the nature of the employer's obligation for pensions. To the extent that the pension plan's fiduciary net position is held in such a trust and is available for the payment of benefits, the employer no longer has an obligation to sacrifice resources for the payment of those benefits—it no longer has primary financial responsibility for them. Therefore, this Statement requires that employers recognize a liability net of the pension plan's fiduciary net position. In the Board's view, this approach appropriately reflects the primary responsibility of the employer. Employers remain secondarily responsible to provide resources for payment of those benefits should earnings on pension plan investments prove to be insufficient. The Board believes that this secondary responsibility should be evaluated as a financial guarantee.

The Unfunded Pension Obligation and the Definition of a Liability

179. Concepts Statement 4, paragraph 17, defines the financial statement element *liabilities* as "present obligations to sacrifice resources that the government has little or no discretion to avoid." As already discussed in paragraphs 170 and 171, the Board concluded that the obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred, and few respondents to the Preliminary Views, the Exposure Draft, or both, disputed the origin of the obligation for pensions or the characterization of it as a present obligation—particularly for single and agent employers. (Additional discussion of this issue as it specifically relates to cost-sharing employers is presented in paragraphs 297–306.) However, some believe that the obligation does not meet the definition of a liability of the employer because the employer might be able to reduce benefit payments or increase employee contribution rates—and, hence, in the view of the respondents, the employer has more than little discretion to avoid the sacrifice of resources associated with the obligation. Others believe that for accounting and financial reporting purposes, the employer's obligation for pensions should be limited to the legally enforceable obligation, the amount an employer would pay to have a third party assume the liability, or the amount that an employer would be required to contribute upon termination of the pension plan.

180. The Board acknowledges that a legal obligation for pensions generally is created when benefits vest. However, the Board believes that an employer has a constructive obligation for nonvested pensions due to the long-term nature of a career-long employment exchange. It also notes that the phrase "little or no discretion to avoid" in Concepts Statement 4 was not intended to imply that the obligation does not meet the definition of a liability if there is some possibility of changing the amount of resources needed to satisfy an obligation. Rather, reductions of benefits received in exchange transactions should be viewed as transactions of future periods to be accounted for in those future periods should they materialize.

181. With regard to the potential for increasing employee contribution rates, the Board notes that the pension obligation is measured as the portion of projected benefit payments that have been attributed to *past* periods of service. Similarly, contributions from employees made in those past periods already would have reduced the net pension liability (as a result of having been recognized as additions to pension plan assets in those periods). Contributions from employees that are expected to be made in the future, even those that might be at different contribution rates than currently are in use, are potential transactions of future periods and generally should be accounted for in those periods. To support the contention that the net pension liability is shared by the employees, employee contributions in a period would have to exceed the total service cost of those employees in the same period. If that condition exists, the Board concluded that the employer should not report a net pension liability for amounts that are expected to be covered by employee contributions in excess of service cost in future periods. (See paragraph 224.)

182. As already discussed, the Board considered issues addressed in this Statement from a long-term, ongoing perspective. Therefore, with regard to the contention that an employer's obligation for financial reporting purposes should be limited to the legally enforceable obligation or to the additional resources, if any, that the employer would have to provide to a third party to assume the liability, or provide upon pension plan termination, the Board concluded that it would be inappropriate to account for and report the obligation of the employer as limited to the legal or termination obligation at a point in time.

Criterion for Recognition of the Net Pension Liability

183. To qualify for recognition in basic financial statements, Concepts Statement 3 states that an item of information that is an element of basic financial statements should be measurable with sufficient reliability for that purpose. In response to the proposals that the Board put forth in the Preliminary Views and in the Exposure Draft, some respondents disagreed that the net pension liability, measured as required by this Statement, is sufficiently reliable to be recognized in basic financial statements. Some respondents believe that the only measures that would be sufficiently reliable for recognition are those based on an employer's (actual or assumed) funding program. Some respondents suggested that because measurement of the net pension liability requires assumptions about future events, the measure will differ from actual experience in many, if not all cases. Others specifically expressed concerns that a measure of the net pension liability that uses the fair value of pension plan investments would be volatile—making it unreliable, in their view, particularly in the short term. Still others believe that because of the magnitude of the net pension liability relative to other balances recognized in an employer's financial statements, recognition of the net pension liability would distort the financial statements within which it is displayed—which, in their opinion, would result in unreliable financial statements.

184. With regard to these concerns, first, the Board is not persuaded that measures of the net pension liability are less reliable than those related to the actuarial funding policies that some respondents asserted are sufficiently reliable for recognition. Both measures are based upon a number of—and, in some cases, the same—estimates and assumptions about future economic and demographic events, and both employ actuarial methods to determine reported measures. Second, the Board notes that although the assumptions made in measuring the net pension liability might vary from actual events, that fact alone is not sufficient to consider the estimates based on those assumptions to be unreliable. In the Concepts Statement 1 discussion of reliability, it is noted that reliability does not indicate certainty or precision of an estimate. Rather, the characteristic of reliability indicates that information is free from bias, is a faithful representation of what it purports to represent, is comprehensive, and is not misleading. Therefore, provided that the estimates and assumptions used in determining the net pension liability are not selected with a desired outcome in mind (that is, they are free from bias), there is no reason to conclude that because the actual result may be different from the estimate, the estimate is not a faithful representation, is not comprehensive, or is misleading. Third, the

Board concluded that disclosures that are required by this Statement about the estimates and assumptions used in determining reported amounts provide essential information for users of the financial statements to understand the level of uncertainty associated with those amounts.

185. The Board also recognizes that the use of fair value measures for pension plan investments has the potential to result in changes in the net pension liability that might be significant from period to period. However, it believes that short-term volatility in the fair value of pension plan investments reflects the events that occur in each financial reporting period. Within the context of (a) a longer term view of the transactions and other events that affect the measurement of the net pension liability and (b) the objective of providing information to assess interperiod equity, the short-term effects of changes in fair value are appropriately addressed through consideration of issues related to pension expense. (These issues are discussed in paragraphs 288–295.) With regard to concerns about the magnitude of the net pension liabilities measured as required by this Statement, the Board believes that the potential size of the liabilities, in light of development of the conceptual framework through the issuance of Concepts Statements 3 and 4, further supports the need for recognition of the liability to avoid the presentation of financial statements that are misleading.

Circumstances in Which the Pension Plan's Fiduciary Net Position Is Greater Than the Total Pension Liability

186. This Statement requires that in circumstances in which the amount of the pension plan's fiduciary net position exceeds the total pension liability as of the measurement date, the employer recognize a net pension asset. The classification of such balances as an asset in the employer's financial statements is consistent with the conclusions reached by the Board in Statement No. 65, *Items Previously Reported as Assets and Liabilities.* Paragraph 51 of the Basis for Conclusions of that Statement discusses the Board's views as follows:

> In reaching its decision on circumstances in which a pension plan's net position exceeds the total pension liability, the Board considered the definition of an asset [in Concepts Statement 4]. With regard to one of the principal features of an asset—present service capacity—the Board noted that the relationship between the employer and its employees is an ongoing one in which em-

ployees are expected to accrue additional pension benefits as they provide services in future periods. Therefore, an excess of pension plan net position represents present service capacity on the part of the employer that can be used to "pay" future pension benefits to employees for services that they will provide in the future. With regard to the other principal feature of an asset—control—the Board acknowledges that the excess pension plan net position is not under the direct control of the employer government. However, because the employer can use the excess net position to effectively reduce future pension benefit accruals, the Board believes that circumstance is similar to a prepayment. Therefore, the Board concluded that the employer government indirectly has control of future service capacity.

Measurement of the Net Pension Liability

187. Measurement of the total pension liability, on which the net pension liability is based, requires the use of assumptions about numerous future events that affect the benefit payments that will be made to employees in retirement. For example, benefit payments commonly are based on pension formulas that are derived from salaries at or near retirement and the number of years of service provided—factors that are not known with certainty until retirement. Also not known with certainty are the number of employees who will retire, their retirement dates, the number of years they or their survivors will receive benefits, and similar factors that also affect the total amount of benefit payments that will be made. Although the total stream of benefit payments cannot be known with absolute certainty (either for an individual or for the group of employees covered under the benefit terms) until the last payment is made, those benefit payments, as well as the portion of those payments attributable to each period of the employee's service (service cost), can be estimated. Estimating future benefit payments requires the application of actuarial assumptions. To enhance consistency in measurement and comparability of the resultant recognized measures among employers, this Statement requires that Actuarial Standards of Practice be applied in developing assumptions and establishes additional requirements for the measurement of the total pension liability. These additional requirements include considerations related to timing and frequency of the measurements, the selection of a discount rate in certain circumstances, and the application of a specified actuarial cost method to assign service costs to periods.

Timing and Frequency of Measurements

188. This Statement requires an employer to report a net pension liability that is measured as of a date no earlier than the end of its prior fiscal year (the measurement date). The total pension liability as of the measurement date is permitted to be determined by an actuarial valuation as of that date or through the use of procedures to update to the measurement date the results of an actuarial valuation as of a date no more than 30 months and 1 day prior to the employer's fiscal year-end. This requirement differs from the proposal that was included in the Exposure Draft, which would have required that an employer recognize a net pension liability measured as of the end of its reporting period. The proposed requirement would have necessitated the measurement of both components of the net pension liability as of that date and would have limited the time period between the actuarial valuation date and the employer's fiscal year-end to 24 months. Proposals similar to those in the Exposure Draft were presented previously in the Preliminary Views.

189. Many respondents to the Preliminary Views, the Exposure Draft, or both, expressed concerns about the need to prepare pension measurements as of the employer's fiscal year-end—whether by actuarial valuation or through the use of update procedures—particularly in circumstances in which the employers that provide benefits through a multiple-employer pension plan and the pension plan itself do not have a common fiscal year-end. Participants in the field test of the Exposure Draft proposals identified this proposed requirement as one of the primary sources of expected cost associated with the ongoing application of the proposals for employers. As discussed in paragraphs 190 and 191, the concerns of respondents extended to measurement of both components of the net pension liability.

190. The primary issues raised with regard to measurement of the total pension liability included concerns about the cost of actuarial valuations or updates as of each employer's fiscal year-end and the need to obtain for employer reporting purposes audit assurance on information that generally was expected by respondents to be prepared by the pension plan. With regard to both of these issues, concerns also were expressed about the amount of pension plan resources that would be needed to coordinate these processes and about the potential for delays in employer financial reporting because of the amount of time that would be needed to prepare the information. Those respondents also expressed concern that in circumstances in which an employer's fiscal year-end coincides with the actuarial valuation date, the results of the actuarial

valuation might not be available soon enough to include those measures in the employer's financial reports. If this were to occur, additional cost would be incurred to also update measures from a prior actuarial valuation for use in employer reports.

191. The primary issues raised by respondents with regard to the potential for measurement of the pension plan's fiduciary net position at dates other than the pension plan's fiscal year-end included concerns about (a) obtaining verifiable values for certain investments (for example, investments in hedge funds, private equity, and real estate), (b) the time and effort needed to perform the pension plan's year-end closing procedures (including adjustments to individual-employer account balances in agent multiple-employer pension plans) at multiple dates within a single fiscal year, and (c) the cost of having audit procedures performed related to the pension plan's fiduciary net position as of multiple dates within a single fiscal year to provide assurance for employer reporting purposes. Those respondents also noted that although the Exposure Draft would have permitted an employer to refer to the pension plan's publicly available financial report for note disclosures of information about the pension plan's fiduciary net position, those proposals also would have required that an evaluation be made as to whether the disclosures in the pension plan's report generally continued to reflect the facts and circumstances at the employer's fiscal year-end. Some respondents asserted that performing this evaluation effectively would require the preparation and evaluation of full sets of note disclosures for the pension plan about investment-related activity (for example, disclosures related to risk) at each employer's fiscal year-end. The respondents believed that such an activity would be impractical because of the time and effort that would be required by the pension plan's staff to accomplish it. Concerns also were raised about the potential for delay in providing information to employers because of the need to obtain audit assurance for employer reporting purposes.

192. The Board believes that measurement as of the employer's year-end is, conceptually, the correct approach for financial reporting purposes—amounts recognized and reported as of the year-end also should be measured as of that date. However, because of the practical challenges that would be associated with meeting such a requirement, the Board concluded that flexibility should be provided with regard to the timing of the measurement of the net pension liability reported in an employer's financial statements. It considered respondent suggestions, including that the net pension liability be required to be measured as of the pension plan's fiscal year-end that occurs within the employer's fiscal year. The Board believes that, in many circumstances, such

timing would be the most efficient because it would address many of the concerns related to measures of the pension plan's fiduciary net position. For those employers whose employees are provided with benefits through single-employer or cost-sharing pension plans, the pension plan would be required by Statement 67 to prepare similar information as of that date. However, as discussed above, the preferable financial reporting approach is for an employer to report measures determined as of its reporting date. Therefore, the Board did not believe that a requirement that would prevent the use of conceptually superior measures should be established.

193. The Board concluded that the approach permitted by this Statement, under which employers in the same multiple-employer pension plan can use a single measurement date regardless of the ends of their individual reporting periods, will mitigate concerns expressed by respondents to the Preliminary Views, the Exposure Draft, or both, about (a) the time needed to develop measures for inclusion in an employer's financial report, (b) the potential cost of rolling forward measures of the total pension liability and obtaining current measures of the pension plan's fiduciary net position, and (c) the costs associated with performing audit procedures related to these amounts, at potentially several different points throughout the year. It also extended the offset period to include the final day of the employer's prior fiscal year, which the Board believes will mitigate concerns about timely availability of information for employer reporting in circumstances in which the pension plan and the employer have the same fiscal year-end. To support this reporting approach, in circumstances in which the measurement date differs from the employer's reporting date and significant changes occur between the measurement date and the reporting date, this Statement requires that the employer disclose information about the nature of the change and, if known, an estimate of the financial impact of the change on the net pension liability.

194. With regard to the use of update procedures, the Board believes that an actuarial valuation as of the measurement date would result in the best estimate, or most faithful representation, of the total pension liability. In addition, it acknowledges that there is potential for measures developed through the use of update procedures to roll forward amounts that result from an actuarial valuation as of a date other than the employer's measurement date to be different from the measures that would be obtained in an actuarial valuation as of that date. However, the Board is sensitive to the additional cost associated with annual actuarial valuations (see the discussion in paragraph 195) and the possibility that, for practical purposes, actuarial valuations might not be performed as of the measurement date. Therefore, the Board believes an em-

ployer should be permitted to report using measures based on actuarial valuations as of a date other than its measurement date. However, the Board also believes that if an actuarial valuation is not obtained as of the employer's measurement date, additional procedures to roll forward the results of an earlier actuarial valuation to the measurement date are necessary to result in meaningful financial statement presentation. After considering due process feedback that raised cost-related issues, modifications to the Exposure Draft proposal were made to permit a difference of up to 30 months and 1 day between the actuarial valuation date and the employer's fiscal year-end in which measures based on that valuation are reported. The change from the proposal in the Exposure Draft, which would have permitted only a 24-month offset, was made to accommodate use of biennial actuarial valuations in a greater number of employer-reporting situations than would have resulted from the Exposure Draft's 24-month requirement if applied in circumstances in which the measurement date is not the employer's fiscal year-end.

195. With regard to the use of biennial actuarial valuations, some respondents to the Preliminary Views, the Exposure Draft, or both, believe that annual actuarial valuations should be required for some or all employers. Some suggested establishing different required minimum frequencies of measurement based on the size of the employer, the liabilities, or some other measure. The Board is aware that many larger pension plans obtain actuarial valuations annually and that for employers in those pension plans, a requirement for annual actuarial valuations for financial reporting purposes would be relatively less costly than an annual requirement for employers in other pension plans. However, the Board concluded that it is not appropriate to establish different requirements in this circumstance for employers based upon size. The significance of the impact of pension measurements on an employer's financial report does not vary based upon the size of the employer. Additionally, this Statement includes a requirement that the effects of significant changes that occur between the actuarial valuation date and the employer's measurement date be considered to determine the extent of update procedures needed to roll forward the measurement to the employer's measurement date. Furthermore, consideration should be given to whether a new actuarial valuation is needed. Consequently, the Board concluded that it is appropriate to continue with a biennial actuarial valuation requirement; however, the Board encourages annual valuations.

196. Some field test participants and other respondents to the Exposure Draft requested clarification of whether the Exposure Draft proposal for consideration of significant changes was intended to be applied to changes in the net pension

liability due to changes in the discount rate resulting from (a) increases or decreases in the pension plan's fiduciary net position or (b) changes in the municipal bond rate, if applicable, that occur between the actuarial valuation date and the measurement date. Field test participants generally expressed concerns about the additional level of complexity that they believed would result from requiring assessment of the effect of changes in the discount rate on the net pension liability under the Exposure Draft proposal for measurements as of the employers' fiscal year-ends. The Board concluded that although determination of the discount rate includes the use of assumptions (which would not be required to be updated between actuarial valuation dates), the discount rate itself is not an assumption. The Board also noted that, in combination with the decision to permit the measurement date to differ from the employer's fiscal year-end, the number of evaluations that would be required potentially would be significantly lessened as compared to those that would have been required under the Exposure Draft proposal. Further, it believes that it would be inconsistent to reflect the direct effects of changes in the amount of the pension plan's fiduciary net position on the net pension liability but to exclude from consideration the significance of the effects of those same events on the measurement of the total pension liability. Therefore, this Statement requires that the effects of changes in the amount of the pension plan's fiduciary net position and changes in the municipal bond rate, if applicable, be among the factors evaluated in determining the extent of procedures needed to roll forward a measurement from the actuarial valuation date to the measurement date.

Selection of Assumptions

197. As previously noted, this Statement requires that the assumptions used in the measurement of the net pension liability be selected in accordance with Actuarial Standards of Practice, unless otherwise specified. The Board considered the range of assumptions typically relevant to the measurements that are required by this Statement and concluded that the broad guidance in the Actuarial Standards of Practice generally is focused appropriately on consideration of the specifics of individual employer circumstances. The result, therefore, will be measurements that are relevant and reliable for financial reporting purposes when Actuarial Standards of Practice are applied within the additional accounting-specific guidance established by this Statement.

198. This Statement and Statement 67 each include a provision, similar to that in Statements 25 and 27, that the employer and the pension plan use the same assumptions when presenting measures of the same or similar information.

Some respondents to the Exposure Draft raised concerns related to coordination of the selection of assumptions between the employer and the pension plan. Some of those respondents requested that this Statement identify the pension plan as having authority to select assumptions. Others requested that the Board specifically permit employers to use assumptions selected by the pension plan. As a practical matter, the Board recognizes that many employers will be highly dependent upon pension plans for portions of the information needed to prepare their financial statements and that there are practical issues related to the selection of assumptions for purposes of measuring information that is included in more than one entity's financial report. However, the Board concluded that it would not be appropriate for the GASB to identify one entity as having authority over the measurement process at the exclusion of the other.

199. The Board also considered a request from some respondents to provide guidance about how to select among multiple combinations of assumptions. This Statement does not specifically address this circumstance. The Board concluded that Actuarial Standards of Practice that guide the selection of assumptions—including provisions that require that (a) the reasonableness of each actuarial assumption be considered individually on its own merits, as well as in relation to other assumptions, and (b) the combined impact of assumptions be evaluated for reasonableness—provide a suitable foundation to guide preparers.

200. The Board also considered establishing GASB-specific requirements in three areas—the selection of assumptions related to mortality and mortality improvements, the frequency of experience studies, and the development of a long-term expected rate of return on pension plan investments.

201. With regard to mortality-related assumptions, the primary concern raised to the Board in its research and by some respondents to the Exposure Draft was the use of mortality tables developed based on the experience of periods that significantly predate the measurement date, coupled with variations in practice related to the application of adjustments for mortality improvements. The Board believes recent revisions to relevant Actuarial Standards of Practice addressing mortality improvement assumptions will result in more standardized practice. With regard to the age of the statistical data (for example, mortality tables) on which mortality assumptions are based, the Board notes that the selection of any assumptions, including those related to mortality, necessarily requires the application of judgment by those with expertise in the field and that a requirement to use only tables developed on data after a defined date may not be consistent with facts and circumstances that occur in practice.

202. With regard to the frequency of experience studies, some respondents to the Preliminary Views, the Exposure Draft, or both, expressed concerns about delays in evaluations of actual experience and the impact of delayed incorporation of actual experience into measures for financial reporting purposes. As previously noted, actuaries are required to consider the reasonableness of assumptions at each measurement date; however, experience studies are not required by actuarial standards to be performed at any particular interval. The Board's research indicates that the frequency with which experience studies are performed varies widely and that costs associated with experience studies can be significant. The Board considered the possibility of developing specific minimum frequency requirements for experience studies for purposes of developing assumptions for accounting and financial reporting purposes. However, it ultimately concluded that without additional specific requirements about the manner in which the results of those studies should be incorporated into assumptions used in measurements to comply with this Statement, a minimum requirement would not alleviate the concerns expressed by respondents and potentially would increase costs—particularly for smaller employers.

203. The Board concluded that the general requirement of this Statement that pension measurement be performed in conformity with Actuarial Standards of Practice that require an actuary to evaluate the reasonableness of all significant assumptions at each measurement date, combined with a specific requirement in this Statement to disclose information about significant assumptions—including the source of the mortality assumption and the dates of the experience studies on which significant assumptions are based—provides an appropriate level of detail for the user of financial statement information to assess the reasonableness of assumptions made.

204. Because the long-term expected rate of return on pension plan investments is a fundamental component of several of the measurements required by this Statement—notably, it is used in the development of the discount rate and also to determine the amount of earnings on pension plan investments that will be included in pension expense—the Board considered whether detailed requirements related to the development of the long-term expected rate of return should be included in this Statement. Some respondents to the Preliminary Views, the Exposure Draft, or both, suggested that the Board consider establishing specific requirements related to the development of the long-term expected rate of return because of concerns about the subjectivity of that expectation and because of perceived inconsistencies between historically achieved rates of return and expected rates of return. The Board explored several possibilities for reducing the subjectivity, or enhancing the comparability, of

estimates used in developing a long-term expected rate of return on pension plan investments, including requiring the use of estimates based solely on historical data (past experience), consensus forecasts, or a specific method (geometric or arithmetic) of developing the mean used to calculate the rate.

205. With regard to the specific approaches considered, the Board concluded that the use of historical data would be inconsistent with the forward-looking nature of the expectation and would not be a complete source for the development of expectations about future economic phenomena. It noted that consensus forecasts generally relate to shorter periods than would the long-term expected rate of return for accounting purposes and, therefore, would require adjustments that introduce subjectivity of their own. Further, it was unable to conclude that the use of one method (geometric versus arithmetic) of calculating a mean return (for example, for a class of investments) was clearly preferable for financial reporting purposes. For these reasons, the Board concluded that the goal of achieving reduced subjectivity through the development of detailed requirements for determining the long-term expected rate of return was not attainable within this Statement. Therefore, to provide users of employer financial statements with information that the Board concluded is essential to understand and evaluate the reasonableness of the assumptions made in the determination of the long-term expected rate of return on pension plan investments, this Statement requires disclosures that include information describing how the expectation was developed and the significant methods and assumptions used in that process. The Board also concluded that, regardless of the approach used to determine the long-term expected rate of return on pension plan investments, information specific to the pension plan's expected investment portfolio (including the expected portfolio allocation and assumptions about the long-term expected real rate of return for each major asset class) is essential to understanding the assumed long-term expected rate of return, which is expressed as a single rate. In addition, this Statement includes specific criteria for the use of the long-term expected rate of return on pension plan investments as a component of the single discount rate. (The Board's conclusions regarding the discount rate are discussed further in paragraphs 226–247.)

Projection of Benefit Payments

206. This Statement requires that the total pension liability reflect the effects of (a) automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs), (b) projected ad hoc postemployment benefit

changes, including ad hoc COLAs, if those changes are substantively automatic, (c) projected salary changes (in circumstances in which the pension formula incorporates future compensation levels), and (d) projected service credits (for purposes of determining an employee's probable eligibility for benefits and for projecting benefit payments in circumstances in which the pension formula incorporates years of service). Respondents to the Preliminary Views, the Exposure Draft, or both, that disagreed with the projection of these items generally disagreed with the Board's view of the degree to which the expected longevity of the employer–employee relationship should impact the measurement of projected benefit payments for financial reporting purposes. Some of those respondents believe that each period of employment is associated with a discrete exchange of benefits for employee service and that the effect of each period's exchange should be measured separately, without consideration of the probability of the effects of events that are expected to occur in future periods.

207. As discussed in paragraph 158, the Board concluded that pension accounting should reflect the expectation of an ongoing employment relationship between the employer and the employee. Under this view, the effects of future events that are expected to impact the ultimate payment of benefits to the employee are considered to be associated with the overall career-long relationship and are taken into consideration in measuring the service costs of the individual periods of employment that constitute an employee's expected career. In this way, each individual employment period reflects a portion of the effects of future events, and the service costs of past employment periods—including portions of the effects of future events attributed to those periods—are viewed to be a measure of the present obligation of the employer.

Automatic postemployment benefit changes

208. Automatic postemployment benefit changes, including automatic COLAs and automatic supplemental payments (for example, "thirteenth checks" and automatic gain-sharing features), are explicitly part of the terms of the pension plan and, therefore, constitute part of the employment exchange each period. Because automatic postemployment benefit changes are part of the employment exchange, the Board concluded that they are an integral part of an employer's present obligation to its employees to provide pensions. Therefore, the effects of such automatic benefit changes should be included in the projection of benefit payments for accounting and financial reporting purposes. Respondents to the Exposure Draft generally supported this approach.

Ad hoc postemployment benefit changes

209. In contrast to automatic postemployment benefit changes, ad hoc postemployment benefit changes, including ad hoc COLAs, are discretionary in the sense that each occurrence requires a decision to grant the change by the authority responsible for making such decisions. Accordingly, the Board generally concluded that future ad hoc postemployment benefit changes are not part of the pension plan terms under which employees exchange their benefits for services in any given financial reporting period. Therefore, the projected effects of future ad hoc benefit changes generally should not be included in the projection of benefit payments for accounting and financial reporting purposes.

210. However, the Board recognizes that there may be circumstances in which it would be reasonable to conclude that future ad hoc postemployment benefit changes are not substantively different from automatic postemployment benefit changes. The Board concluded that because the employment exchange transaction is being viewed within the context of an ongoing, career-long employment relationship, all factors that are reasonably predicted to impact benefit payments should be included in the projection of benefit payments. For example, if a future ad hoc postemployment benefit change is not substantively different from an automatic postemployment benefit change, its effects should be included in the projection of benefit payments. As discussed above, the characteristic of automatic postemployment benefit changes that argues for their inclusion in the projection of pension payments is that they are part of the pension plan terms under which employees exchange services for compensation. For an ad hoc postemployment benefit change to be *not substantively different* from an automatic one, the ad hoc change would have to be considered part of the pension plan terms associated with the employment exchange. Further, in this circumstance, the actions of the employer or other entity that has the authority to make such changes create a level of expectation or understanding among the employees such that future ad hoc postemployment benefit changes are an assumed part of the benefit terms to the degree that the employer has little or no discretion to avoid the sacrifice of resources associated with the changes that are attributed to past periods of service.

211. Some respondents to the Preliminary Views, the Exposure Draft, or both, disagreed with the Board's proposals to require projection of ad hoc postemployment benefit changes in this limited circumstance. Those respondents believe that regardless of whether an expectation of future ad hoc changes

being granted is part of the pension plan terms as they are understood by the employees when they provide services, because some future action is required to enact the change, the effect of the future change fails to be a present obligation to sacrifice resources and also fails to meet the criterion that the employer has little or no discretion to avoid the sacrifice of resources. Other respondents believe that the obligation, even if it is determined to meet the definition of a liability, is subject to too much uncertainty to be recognized in financial statements—that is, the liability is not measurable with sufficient reliability. Still other respondents were concerned that by including the effects of certain ad hoc postemployment benefit changes in the projection of benefit payments for financial reporting purposes, an expectation of future changes would be created.

212. The Board concluded that if ad hoc postemployment benefit changes have become part of the benefit terms under which the employee provides services to the employer in exchange for salaries and benefits, the effects of projected ad hoc changes become part of the employer's present obligation for pensions when the employee provides services—as do the effects of automatic postemployment benefit changes. The Board acknowledges that, legally, a future ad hoc postemployment benefit change might not be an enforceable obligation. It notes, however, that the definition of a liability in Concepts Statement 4 includes a notion of constructive liability under which the definition of a liability would be met not because payment of the liability is legally enforceable but because of circumstances that leave the government little or no discretion to avoid paying the liability. In this case, actions of the employer or entity that enacts the postemployment benefit changes have established a compensation level that includes the expectation of the ad hoc changes. Therefore, the employer has little discretion to avoid the obligation without taking future action either to provide an equivalent level of compensation in another way (for example, through salary) or to change that expectation. If or when that future action is taken, the effects of the ad hoc postemployment benefit change would cease to be part of the substance of the employers' past exchanges. Until and unless that future action is taken, the effect of the ad hoc change would be a present obligation of the employer.

213. With regard to the reliability of measurement, the Board reiterates that the issue at hand relates only to measurement of ad hoc postemployment benefit changes that have become substantively automatic. To be substantively automatic suggests that the occurrence of the ad hoc postemployment benefit change also would be predictable within the context of estimation techniques over the long term, which suggests in turn that the measurement would be

sufficiently reliable for purposes of recognition, as long as the assumptions incorporated into the measurement are disclosed. The Board notes that this Statement requires disclosure of the key elements of the pension formulas and assumptions used in the measurement of the net pension liability. Together, these disclosures support the reliability of the resultant measure of the employer's total pension liability with consideration of the projected effects of future ad hoc postemployment benefit changes that are substantively automatic.

214. With regard to concerns that measuring and reporting the projected effects of ad hoc postemployment benefit changes that are substantively automatic would imply legal certainty that might not be present, the Board notes that to be substantively automatic would require that an expectation of granting the change already has been created. Therefore, measuring and reporting information about those effects would not create new expectations. Instead, it would reflect expectations that already exist.

Criteria for inclusion of ad hoc postemployment benefit changes

215. In the Preliminary Views, the Board asked for respondent suggestions regarding potential criteria for determining whether an ad hoc postemployment benefit change is substantively automatic. Those that suggested potential criteria generally recommended either (a) a specific, numerical criterion based on the frequency with which decisions are made to grant ad hoc postemployment benefit changes or (b) general descriptive criteria that would provide guidance as to factors to be considered but that would require the application of professional judgment in assessing the character of the ad hoc postemployment benefit changes. Similar recommendations were made by respondents to the Exposure Draft. The Board observed that the individual patterns of granting ad hoc postemployment benefit changes vary significantly from employer to employer. The varying characteristics of benefit terms make it difficult to establish a specific frequency criterion that would be appropriate across all circumstances. Instead, the Board concluded that the determination of whether ad hoc postemployment benefit changes are not substantively different from automatic postemployment benefit changes necessarily will require the application of professional judgment. Therefore, in this Statement, the Board has provided some examples of considerations that it believes might be relevant to the determination of whether an ad hoc postemployment benefit change is substantively automatic for accounting and financial reporting purposes. These considerations are based on respondent suggestions, which generally focused on evaluating the employer's historical pattern of granting the changes. Other

considerations raised were historical consistency in the amounts of the changes and evaluation of the current and expected future environments. Historical consistency relates to whether reasonable expectations of the level of the changes can be developed for purposes of liability recognition. Evaluation of current and expected future environments speaks to whether there is evidence to conclude that postemployment benefit changes might not continue to be granted in the future, despite what might otherwise be a pattern that would suggest such changes are substantively automatic.

216. Concerns were raised by some respondents to the Exposure Draft that reliance on professional judgment to determine whether ad hoc postemployment benefit changes are substantively automatic could result in different governments interpreting the same or similar circumstances differently. The Board acknowledges that there is a potential for different interpretations to occur in similar circumstances. However, the alternatives available were to exclude all ad hoc postemployment benefit changes or to establish more specific criteria on which circumstances could be evaluated. As discussed above, the Board concluded that it would be impractical to establish more specific criteria for this purpose. An approach that excludes all ad hoc postemployment benefit changes would result in different governments including the same projected events in their measures of projected benefit payments. However, such an approach potentially would diminish comparability in that it would not permit different governments to reflect different facts and circumstances related to the patterns and practices associated with the granting of benefits to employees. The Board was not convinced that this result would be preferable to the result from the approach required in this Statement.

217. Because this Statement establishes a principle that will require the application of professional judgment, it also requires note disclosures about an employer's policy related to postemployment benefit changes and the assumptions that are made with regard to ad hoc postemployment benefit changes in the measurement of the total pension liability.

Future salary changes

218. In many defined benefit pension plans, the amount of an employee's pension is based in part on the employee's final salary level or average salary level over a stated period (for example, average salary during the final three years of employment). The Board concluded that, in that circumstance, the projection of benefit payments for accounting and financial reporting purposes

should include expected future salary changes because final-pay or final-average-pay-based benefits effectively incorporate future salary levels into the terms of employment exchanges throughout an employee's career. Some respondents to the Preliminary Views, the Exposure Draft, or both, disagreed with this approach because, generally, they believe that the employer's accounting liability for pensions should closely reflect a measure of what the employer would be expected to have to pay in benefits to the employee at the date of the measurement if the employee were to leave service at that date. Such measures, in their view, should exclude the expected effects of future events, such as salary changes, on amounts attributed to past periods of service because those amounts would become a present obligation of the employer only after the increases are formally granted. The Board considered this view; however, as discussed previously, the Board believes that annual employment exchanges between the employer and the employee should be viewed as occurring as part of an employee's career-long employment relationship with the employer. Consistent with this view, the effects of all future events that are reasonably expected to impact the ultimate pension provided to the employee—including salary changes for pay-related pensions—should be considered when measuring the employer's periodic service cost and the amount of the pension associated with past periods of an employee's service.

219. Some respondents that believe the measure of the employer's liability for pensions should not include projection of changes in future salaries asserted that the projected effects of future salary changes would not meet the definition of a liability in Concepts Statement 4 because the employer has discretion over decisions about whether and in what amounts to grant salary increases. The Board acknowledges that in the short term, that likely is the case. However, in the longer term (for example, over the career of an employee) the Board concluded that an employer's discretion to avoid salary changes generally may be relatively limited. In some governments, there are well-defined classification structures and associated stepped salary scales for a large number of employees. Even in environments that lack such features, over the long term, an employer generally would make adjustments to its compensation structure to maintain its competitiveness within prevailing economic conditions in order to continue to attract and retain employees.

220. Other respondents commented that changes in the level of future salaries may not be sufficiently reliable to be recognized in a liability due to uncertainties about the future, including general economic conditions, budgetary demands, and individual employees' job performances. The Board concluded that, al-

though specific progression of an individual's salary might not be predictable on a year-by-year basis, when considered over a career and generalized to the population of employees, reasonable assumptions can be developed about overall salary progressions.

Future service credits

221. The terms of many defined benefit pensions include service credits that the employee earns for each year of eligible service to the employer as a factor affecting the ultimate amount of an employee's pension. For example, benefit terms might provide for service credits for each year of service up to a maximum of 30 years and provide the employee or his or her beneficiaries with annual payments in retirement equal to 2 percent of final salary for each accumulated service credit. Benefit terms also might include vesting provisions that require an employee to complete a certain number of years of service in order to be eligible to receive a pension.

222. As with future salary changes, the Board evaluated the relevance of future service credits in the projection of benefit payments within the context of the annual employment exchanges occurring as part of an employee's career-long employment relationship with the employer. Within this context, the Board concluded that future service credits should be considered in two ways in the projection of benefit payments. First, if benefit terms contain provisions that an employee is required to meet to qualify for pensions (for example, vesting provisions), expected future service credits should be considered for purposes of forming an assumption about whether employees will qualify. Second, for defined benefit pensions in which the amount of benefit payments is affected by service credits earned by the employee, assumptions about future service credits should be included in the projection of benefit payments.

223. Similar to issues raised with regard to the projection of future salary changes, respondents that disagreed with the Preliminary Views' or Exposure Draft's proposals for this approach generally did so because they believe that the effects of future service credits would become a present obligation of the employer only after future services have been performed. Some respondents that expressed this view would limit consideration of future service credits for all purposes in the accounting measures. Others would include future service credits for purposes of determining eligibility but not projecting benefit payments. With regard to the projection of benefit payments for purposes of determining eligibility, the Board noted that employee service during the vesting

period is necessary for an employee to reach the end of the vesting period. Therefore, it concluded that there is a pension-related value associated with employee service during periods leading to full eligibility. As with the inclusion of future salary changes, the Board also believes these changes should be viewed within the context of a career-long employment relationship. When pensions are defined, in whole or in part, in terms of service credits, the Board concluded that the probability of future service credits is implicit in the employment exchanges that occur in each period of employee service and should be recognized in each period of service.

Employee contributions in excess of service cost

224. Some respondents to the Exposure Draft and some field test participants provided examples of circumstances in which they believe that employee contributions could be interpreted as exceeding service cost, depending upon the assumptions made about the order in which employee and employer contributions are used to satisfy the components of the liability. The Board concluded that to the extent that employee contributions are expected to exceed service costs in future periods, the total pension liability should be reduced to reflect the fact that, in future periods, employees (current or future), rather than the employer, will be sacrificing resources to satisfy the pension obligation. This Statement includes guidance regarding assumptions that should be made when considering the relationship of employee and employer contributions to service costs. The Board concluded that, generally, all contributions should be viewed, first, as related to service cost of the period in which the contribution is made and, second, to service cost of past periods. (The exception to this approach would occur in certain special funding situations in which the nonemployer contributing entity's contribution is defined by pension plan terms as being associated with either accounting-related or funding-related past service costs.) Further, this Statement requires that in evaluating whether total contributions from various sources are expected to exceed the service cost of a period, employee contributions should be considered first. The Board concluded that standardization of these approaches will enhance the comparability of measurements.

Allocated insurance contracts

225. This Statement requires that pensions to be provided by means of allocated insurance contracts (a) for which benefit payments to an insurance company have been made and (b) through which the employer has irrevocably

transferred to the insurer the responsibility for benefits, be excluded from the projection of benefit payments for purposes of determining the total pension liability. Because the purchase of an allocated insurance contract transfers to the insurer the primary obligation for providing the pensions covered by the contract, the Board concluded that in the absence of evidence that the employer will be required to sacrifice additional resources for the payment of the pensions that are covered by the contract, the employer no longer has an obligation for pensions that meets the definition of a liability in Concepts Statement 4. Any risk that is retained by the employer for nonperformance by the insurer would be similar to the nature of a contingency, the recognition of which is required under existing guidance only if it is probable that the event that will give rise to the liability will occur and the amount of the loss (liability) can be reasonably estimated. The Board, however, has required note disclosures about the use of allocated insurance contracts because it determined that information about the contracts is essential to understand the effects of the use of such contracts on recognized amounts.

Discount Rate

226. This Statement requires that for purposes of determining the service cost component of pension expense and the total pension liability, projected benefit payments be discounted to their actuarial present value. The discount rate is the rate that reflects (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 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 (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 those conditions are not met.

227. The Board concluded that this approach, which first considers the long-term expected rate of return on pension plan investments, appropriately reflects the environment in which governmental employers incur an obligation for pensions, accumulate assets in a dedicated trust to satisfy that obligation, and ultimately discharge that obligation through the payment of benefits to retirees from accumulated, dedicated assets. Pension obligations are incurred over the career of an employee, and the employer's relationship to the employee and the benefit obligation extends through many periods, including periods subsequent to the retirement date. In addition, governmental employers and the

pension plans through which they accumulate and manage assets and provide pensions are long-lived entities. The Board believes that discounting using the long-term expected rate of return on pension plan investments, when pension plan assets are expected to be invested using a strategy to achieve that return, reflects the long-term nature of the employer's pension liability.

228. The Board believes that the approach required by this Statement—which incorporates projections of future cash inflows from pension plan investment earnings into the measurement of service cost and the total pension liability—is consistent with its views related to the projection of benefit payments, in which all reasonably anticipated future events are incorporated into the estimate of the total obligation that will be incurred by the employer over the course of an employee's career. The amounts that are projected to be provided by pension plan investment earnings represent a reduction in the employer's expected sacrifice of resources to satisfy the obligation for pensions. Therefore, if the potentially significant effect of pension plan investment earnings is not considered in the measurement of the pension liability, the Board believes that amounts recognized by the employer, including the employer's cost of services associated with pensions as they are earned, potentially would be misstated and would fail to provide information appropriate for use in assessing the degree to which interperiod equity is achieved.

229. As previously noted, the Board believes that the long-term expected rate of return on pension plan investments should be used only to the extent that there are expectations of both (a) fiduciary net position being available in the pension plan and (b) the assets being invested using a strategy to result in that return. If those conditions are not met, the link between the pension plan's investments (and earnings on those investments) and pensions no longer exists. Satisfaction of benefit payments that are projected to occur when those conditions are not met is dependent upon the employer's other resources. Therefore, to the extent that this condition is projected to exist, the Board concluded that the discount rate should incorporate a liability-based rate.

230. When the pension plan's fiduciary net position related to current employees and retirees is not projected to be sufficient to cover benefit payments, the Board believes that the characteristics of the net pension liability have changed. The employer's projected sacrifice of resources takes on characteristics that are reflective of a conventional governmental liability. To provide a discount rate that both reflects that change and enhances comparability, the Board concluded that a high-quality municipal bond rate is the best surrogate for the rate implicit in the exchange.

231. Combining the two individual discount rates that the Board concluded are relevant to measurement of the pension liability requires an evaluation of the extent to which projected pension plan fiduciary net position will be available in the pension plan when projected benefit payments come due. The benefit payments to employees currently in the pension plan are, first, viewed as (potentially) two separate projected benefit payment streams. The first stream is projected benefit payments that are expected to be paid from the pension plan's projected fiduciary net position available for pensions (the current fiduciary net position, adjusted for relevant projected increases and decreases) that is expected to be invested using a strategy consistent with the long-term expected rate of return. This stream is discounted to its actuarial present value using the long-term expected rate of return on pension plan investments. The second stream, if applicable, is projected benefit payments that are expected to occur beyond the point at which the amount of the pension plan's projected fiduciary net position is expected to both be sufficient to pay benefits and be invested using a strategy consistent with the long-term expected rate of return. This stream is discounted to its actuarial present value using the municipal bond rate. The actuarial present values of the two separate benefit payment streams are calculated and totaled. The discount rate is then determined by solving for the single, equivalent discount rate—the rate that, when applied to the projected benefit payments of both streams, results in an actuarial present value of projected benefit payments equal to the total of the actuarial present values of the two separate projected benefit payment streams calculated using their respective rates.

Overall approach to determining the discount rate

232. The requirements of this Statement are similar to, but more specific than, the proposals that were described in the Preliminary Views and the Exposure Draft. Some respondents to the Preliminary Views, the Exposure Draft, or both, supported the Board's overall approach to determining the discount rate. The principal reasons cited were relevance, consistency, and recognition of the funding strategy of the employer to the extent that benefits are projected to be paid from assets held in the pension plan. Other respondents disagreed with the proposal and suggested, instead, either exclusive use of the long-term expected rate of return on pension plan investments or strictly a liability-based rate in some form.

233. Respondents that believe that the long-term expected rate of return on pension plan investments should be used without consideration of the adequacy of the pension plan's fiduciary net position to satisfy projected benefit payments frequently commented that, in their view, the use of the long-term expected rate of return on pension plan investments takes into consideration, and is consistent with, the policies of the employer and the pension plan with regard to the accumulation and management of assets from which benefit payments are projected to be made. Some of these respondents specifically suggested that a rate applicable to the portion of projected benefits payments for which pension plan fiduciary net position is not projected to be sufficient is not needed because funding policies would be adjusted over time such that there would always be pension plan assets to pay projected benefits. Other respondents believe that the use of a single discount rate that incorporates a high-quality municipal bond rate would introduce too much volatility into the measurement of the net pension liability and pension expense and that reporting volatility with regard to the total pension liability would be misleading because the nature of the arrangement is long term. Some respondents also questioned the appropriateness of using a high-quality municipal bond rate for employers that are legally restricted from borrowing for pension funding purposes or expressed concern that use of a high-quality municipal bond rate could influence pension plan investment decisions by encouraging investments in instruments that are expected to hedge the risk related to the pension liability, for which the expected rate of return would, under current conditions, be lower than for a typical pension plan portfolio that includes substantial allocation to equities.

234. Respondents to the Preliminary Views, the Exposure Draft, or both, that believe that a liability-based rate (whether that is a municipal bond yield or index rate, a risk-free rate, or another rate) is the sole appropriate discount rate for all projected benefit payments offered several reasons for their position, as well as several potential rates for consideration. Some respondents believe that the rate at which projected benefit payments should be discounted is a function of the degree of risk inherent in the liability to employees for deferred payment of benefits. In their view, the strategy of the employer and the pension plan with regard to contributions and the investment of pension plan assets to provide for the accumulation of the assets to pay the benefits is not relevant to the measurement of the pension liability. That is, the liability to make benefit payments is the same regardless of the funding and investment strategies of the employer and the pension plan.

235. Other respondents that generally supported use of a liability-based rate objected to the use of the long-term expected rate of return because they believe that long-term expected rates of return on pension plan investments may not be realized and employers (and ultimately taxpayers and ratepayers) bear the risk that these returns may not be realized. These respondents believe that discounting using the long-term expected rate of return on pension plan investments would fail to account in the appropriate period for the risk that the employer is bearing with respect to this possibility. Further, some of these respondents believe that discounting using a long-term expected rate of return on pension plan investments creates incentives to invest in riskier investments or to issue pension obligation bonds (in order to report a smaller pension liability and pension expense). Some respondents asserted that depending on how the long-term expected rate of return is developed, even if that rate of return is earned, it might not be a reliable predictor of the expected growth of pension plan assets that will be realized. Some respondents also asserted that inclusion of the long-term expected rate of return on pension plan investments in the determination of the discount rate introduces what they believe is an unacceptable level of subjectivity to pension-related measurements.

236. Some of those that advocated for use of a liability-based rate suggested that the risk-free rate of return is the most appropriate discount rate because it reflects the negligible possibility of default on the liability for pension payments. In the view of others, using a high-quality municipal bond rate reflects most closely the value of the promise to employees.

237. The Board evaluated each of the issues raised by respondents within the context of the governmental accounting and financial reporting environment. Based on fundamental objectives and definitions in its conceptual framework—including considerations relevant to the determination of the cost of services and the resultant impact of cost-of-services information on the ability to assess the degree to which interperiod equity has been achieved—the Board concluded that the discount rate used in pension-related measures generally should reflect the long-term expected rate of return on pension plan investments because of the integrated nature of the promise to pay benefits and the accumulation of assets dedicated to the payment of those benefits in a pension plan. This integration is reflected in other decisions of the Board. For example, the total pension liability is recognized net of the amount of the pension plan's fiduciary net position, and investment earnings, when they are recognized, are included in pension expense. In addition, the Board believes that a discounting approach that first considers the use of the long-term expected rate of return is consistent with the long-term perspective of the employer–employee relation-

ship implicit in the requirement to use the entry age actuarial cost method applied as a level percentage of pay to attribute service costs to periods. (See paragraphs 253–262.) The Board also has addressed concerns about the subjectivity inherent in the development of a long-term expected rate of return by requiring that the rate be determined in conformity with Actuarial Standards of Practice and by requiring enhanced disclosures that provide information to assist users in assessing the discount rate assumption. (This issue is discussed in more detail in paragraphs 203–205.) In addition, in conjunction with its decision with respect to incorporation of the long-term expected rate of return on pension plan investments in the discount rate, the Board established criteria to permit the use of the long-term expected rate of return in the determination of the discount rate only to the extent that the pension plan's fiduciary net position is projected to be available to pay pensions and pension plan assets are expected to be invested using a strategy to achieve that return.

High-quality municipal bond rate

238. Consistent with the proposals in the Preliminary Views and the Exposure Draft, this Statement requires the use of a high-quality municipal bond rate as the liability-based rate because the Board believes that this rate is the best surrogate for the rate implicit in the exchange transaction between an employer and its employees. With regard to other potential liability-based rates, the Board concluded that the use of a risk-free rate is not appropriate because the liability for pensions cannot be considered to be free of risk. Although the risk of nonpayment of pensions by state and local governments, like payments associated with general obligation debt, generally is low, the risk does exist and the amount of benefit payments is subject to change (for example, as a result of renegotiation, adjustment through Chapter 9 bankruptcy proceedings, or default). The Board also concluded that the use of a borrowing rate that reflects the employer's individual credit rating is inappropriate in this situation. If an individual employer's borrowing rate was used and the credit rating of the employer changed, the potential effect in the financial statements would not promote accountability. If an employer's credit rating were downgraded, the discount rate applied would increase (to the extent it reflects a liability-based rate), resulting in a smaller amount reported for the net pension liability and a decrease to pension expense (and deferred outflows of resources related to pensions). If an employer's credit rating were increased, the discount rate applied would decrease (to the extent it reflects a liability-based rate), resulting in a larger amount reported for the net pension liability and an increase to pension expense (and deferred outflows of resources related to pensions).

239. Some respondents to the Preliminary Views agreed with the use of a high-quality municipal bond rate because it would not penalize or create incentives for employers with the highest credit ratings. Some respondents to the Preliminary Views disagreed with the use of a high-quality municipal rate because it might obscure differences between employers and changes in credit ratings of employers. Some respondents to the Exposure Draft recommended that the liability-based rate be based on the short-term investment rate of return because they believe that this rate better reflects how the obligation will be funded. The Board, however, was not persuaded that that rate was consistent with the long-term nature of the pension relationship between employer and employee. Some also recommended that the liability-based rate be based on the 20-year Treasury bond rate because they believe that that rate is a practical surrogate for a taxable municipal borrowing rate. As discussed in paragraphs 240 and 241, the Board believes that a tax-exempt rate is conceptually appropriate, and thus a surrogate for a taxable municipal rate is not appropriate or necessary. After considering these views, the Board concluded that a high-quality municipal bond rate is the best surrogate for the rate implicit in the exchange.

Tax-exempt rate

240. This Statement requires that the municipal bond rate be a tax-exempt borrowing rate. The Board concluded that the applicable rate is one that reflects the characteristics of the rate used to discount other general unsecured liabilities of the government. The respondents to the Preliminary Views, the Exposure Draft, or both, that provided comments regarding the tax status of the high-quality municipal bond rate generally advocated the use of a taxable rate because borrowings by state and local governments for pension obligation bonds are taxable borrowings and because they equated the employer's liability for pensions to pension obligation bonds. In addition, the Board considered arguments that a taxable rate would be appropriate for this purpose because the benefit payments are not accorded tax-exempt status. That is, from the perspective of an employee receiving benefits, the discount rate applicable to those benefits receivable would be a taxable rate.

241. After considering the issues raised by these respondents, the Board concluded that the nature of an employer's liability for pensions is not similar in nature to a government's borrowing under a pension obligation bond. The former arises from an exchange of services of employees for deferred compensation; the latter is solely a financing transaction. In addition, the Board

does not believe that the tax status of the pension payments to employees is directly relevant to assessing whether the high-quality municipal bond rate should reflect a taxable or tax-exempt borrowing rate. Therefore, the Board concluded that the applicable rate for the high-quality municipal bond rate is a tax-exempt rate.

Criteria for the high-quality municipal bond rate

242. In the Preliminary Views, the Board did not propose specific criteria for the high-quality municipal bond rate. Some respondents to the Preliminary Views expressed concerns about the potential for different interpretations as to what credit-rating level would be considered high-quality and asked the Board to consider establishing more explicit guidance related to the selection of a rate, including identification of both the specific rating level that would be considered high quality and the appropriate maturity to be considered. Several organizations publish yield curves for municipal bonds for different credit ratings and maturities based upon recent trading activity that may be appropriate sources for determining an applicable high-quality municipal bond rate. The Board, however, believes that it would be inappropriate to endorse the yield curves or indices of any specific organizations for this purpose. Therefore, in order to reduce the possibility of inconsistent application of this requirement, the Board proposed in the Exposure Draft that *high quality* is equivalent to an AA/Aa (or higher) rating, based upon what the Board believes is generally considered in the finance industry to be high quality. In addition, the Exposure Draft proposed that the appropriate maturity to consider would be a 30-year rate because the duration of pension liabilities generally extends 30 years or more, and 30 years was the longest readily available rate at that time.

243. This Statement requires that the high-quality municipal bond rate be 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). Some respondents to the Exposure Draft expressed concern regarding the availability of rates meeting the criteria in the Exposure Draft that were available without a subscription charge. In consideration of potential cost concerns, the Board determined that the maturity for the municipal bond rate would be established as 20 years because rates for the longer maturity that was proposed in the Exposure Draft may not be available in some cases (especially

for small governments) without a significant cost. The Board also concluded that for purposes of consistency among governments, the maturity should be a specific duration, rather than a range, and should be a rate for general obligation municipal debt.

Methodology for determining the single discount rate

244. Consistent with the proposal in the Exposure Draft, this Statement requires that the discount rate reflect (a) the long-term expected rate of return on pension plan investments to the extent that the pension plan's fiduciary net position is projected to be sufficient to make benefit payments and pension plan assets are expected to be invested using a strategy to achieve that rate of return and (b) the high-quality municipal bond rate to the extent those criteria are not met. The methodology required by this Statement to determine the single discount rate conceptually is consistent with the Board's overall approach to accounting for pensions as discussed in paragraphs 226–231. Some respondents suggested that alternative approaches for determining the single rate be considered to address concerns about subjectivity inherent in the projection of future contributions, which is a significant component of the methodology in this Statement. Some respondents believe that a simplified approach to calculate a single discount rate that would weight the long-term expected rate of return on pension plan investments and the municipal bond rate based upon a current funded ratio should be applied. Those respondents believe that this approach would eliminate concerns regarding the subjectivity of the projection of future contributions by eliminating their use in the determination of the discount rate and would have the additional advantage of reducing cost and complexity of application of the provisions of this Statement. However, the Board determined that such an approach would not be appropriate due to (a) the circularity in determining an initial current funded ratio (a discount rate is needed to establish the funded ratio) and (b) the concern that any pension plan that is less-than-fully funded would be required to use a discount rate for measuring the related pension liabilities that reflects the high-quality municipal bond rate to some degree, even if contributions greater than service costs have been made and are projected to be made in the future. Some suggested an alternative approach to combining the two rates that would exclude the use of projected contributions. This approach would project the point at which the pension plan's fiduciary net position becomes insufficient for payment of benefits based on cash flows that include only earnings on pension plan investments and payment

of currently vested benefits. The Board concluded that approach is not consistent with the Board's fundamental view of the pension transaction (within the context of the long-term employment exchange).

245. In response to the concerns raised by some respondents to the Exposure Draft regarding the subjectivity inherent in projecting contributions into the pension plan, this Statement establishes criteria for making projections of contributions based upon (a) the existence of statutes, contracts, or formal written policies that prescribe contribution rates and (b) the employer's most recent five-year contribution history. The Board believes that the application of these criteria sufficiently reduces the subjectivity of the projection of future contributions to an acceptable level.

246. Some respondents to the Exposure Draft noted that for some pension plans, the contribution policy of the employer is expected to result in a circumstance in which the pension plan's projected fiduciary net position always would be determined to be sufficient to meet projected benefit payments under the methodology described in this Statement. To avoid additional cost associated with the projection of cash flows for this purpose, these respondents suggested that this Statement include criteria that, when met, would provide a "safe harbor" for the use of the long-term expected rate of return on pension plan investments as the discount rate. The Board is sympathetic to the concerns about potentially incurring costs that do not appear to have commensurate benefits. However, the Board concluded that it is not appropriate to establish such "safe harbor" criteria in this Statement because of the likelihood that such criteria would be viewed as benchmarks for a pension funding policy. The Board's role in setting standards for accounting and financial reporting does not extend to setting or recommending funding policies. This Statement, therefore, provides for the use of an alternative method of evaluating the sufficiency of the pension plan's projected fiduciary net position, if the method is sufficiently reliable, but does not specify a particular method.

Use of a long-term investment strategy

247. Some respondents to the Preliminary Views noted that in certain circumstances, contributions are expected to be made pursuant to pay-as-you-go or terminal funding policies. Such contribution policies would be incompatible with the concept that assets are accumulated and invested using a strategy designed to achieve the long-term expected rate of return on pension plan investments if the expected rate of return does not reflect the short-term

availability of assets for investments. Therefore, this Statement includes a requirement that for purposes of the determination of the discount rate, the long-term expected rate of return should be applied only to benefit payments for which assets available to make those payments are expected to have been invested using a strategy designed to achieve that rate.

Attribution Method

248. This Statement requires that for purposes of determining the service-cost component of pension expense and the total pension liability, the actuarial present value of projected benefit payments be attributed to expected periods of employee service as a level percentage of projected pay using the entry age actuarial cost method. It also establishes limiting criteria with regard to the application of that cost method for accounting and financial reporting purposes. The Board believes that specifying the use of a single method and eliminating potential variations in the application of the method will benefit report users by improving comparability and understandability and reducing the complexity of information reported about the impact of pensions on the elements of employers' financial statements.

249. Some respondents that expressed concerns about limiting the number of attribution methods for financial reporting purposes believe that comparability is not achievable in employer accounting and financial reporting for pensions because of variations in benefit terms, demographics of the covered groups of different employers, and policies and practices related to funding and the investment of pension plan assets, as well as the demographic and economic assumptions that reflect those differences. Other respondents focused more specifically on variations in funding approaches and asserted that because there are several actuarial methods that are considered appropriate for funding pensions, this Statement should provide flexibility with regard to the selection of methods for accounting and financial reporting purposes. Some respondents expressed concern that if a different actuarial cost method is used for accounting and financial reporting purposes than is used for funding, an employer would incur additional costs to obtain information needed for financial reporting purposes. In their view, the use of two different actuarial cost methods (one for funding and another for accounting and financial reporting) also potentially would be confusing for users of financial reports. Still other respondents sup-

ported the Board's objective of promoting comparability through limiting attribution approaches but suggested that the Board consider permitting two methodologies—entry age and projected unit credit—rather than including only one.

Use of a single method

250. Pensions typically differ from one another in many ways, including benefit terms and the demographic characteristics of covered employees. The Board recognizes that consideration of benefit-specific characteristics, as well as employer-specific facts, circumstances, objectives, and constraints other than the benefit terms or the demographics of the pension plan membership, may contribute to the adoption by individual employers of varying policies and practices related to funding. However, the Board does not believe that differences among employers with regard to funding or other policy choices support a need for multiple methods of attributing the present value of projected benefit payments to periods for accounting and financial reporting purposes.

251. In addition, the Board believes that to achieve comparability in financial reporting, employers do not have to be identical with regard to facts and circumstances. The use of different assumptions in the measurement of the present value of projected benefit payments to which an attribution method is applied should, in principle, reflect differences in the circumstances and benefits of each employer and group of covered employees. In that way, whatever differences exist with regard to such facts and circumstances will be taken into consideration, and the resultant financial reporting will measure the impact of pensions on the elements of each employer's financial statements. That being said, however, the Board concluded that neither variations in benefit terms nor differing funding policy preferences or fiscal circumstances of employers necessitate the use of different attribution methods for accounting and financial reporting purposes. Instead, specifying a single method by which the actuarial present value of projected benefit payments should be attributed to expected periods of employee service will eliminate what the Board believes to be an unnecessary accounting-related (rather than relevant facts-and-circumstances-related) source of variation in financial reporting. Feedback received from representatives of users of financial statement information generally indicated a preference for the required use of a single actuarial cost method across all employers as a means of enhancing comparability. Further, with regard to the suggestion that the Board consider permitting two methodologies—entry age and projected unit credit—rather than limiting the standard to only one, the

Board additionally noted that if multiple methods were to be adopted, the objectives and features of the methods suggested by respondents that supported a two-method alternative are sufficiently different to call into question why those methods would be permitted for the same financial reporting purpose.

252. The Board also considered the incremental cost of the use of a specified attribution method for accounting and financial reporting purposes for employers that choose to use a different method for funding purposes. Information received by the Board from members of the actuarial community indicated that the potential incremental cost of having an actuary apply two cost methods for different purposes would be relatively small because of the nature of the incremental work that would be required. The Board's understanding is that the most expensive stage of an actuarial valuation typically occurs prior to the application of an actuarial cost method, irrespective of the method to be used. That stage involves the projection of benefit payments, which typically is the most time-consuming process because of the need to refine census data, model benefit terms, and make or apply appropriate assumptions. After that stage, attribution of portions of the total actuarial present value of projected benefit payments is a mathematical process, commonly accomplished using existing computer technology.

Use of the entry age actuarial cost method

253. The entry age actuarial cost method is one of six actuarial cost methods permitted under Statement 27 for use in calculations for accounting and financial reporting purposes—aggregate, attained age, entry age, frozen attained age, frozen entry age, and projected (and unprojected in limited situations) unit credit. In reaching its decision to require use of the entry age actuarial cost method, the Board considered the suitability of each of those methods. Under Statement 27, the use of the unprojected unit credit actuarial cost method is acceptable only in circumstances in which benefits already accumulated for years of service are not affected by future salary levels. For pensions that are affected by future salary levels, that method effectively was eliminated from consideration for use in this Statement as a result of the requirement that the projection of benefit payments for service-cost and liability measurement purposes include projected salary changes and service credits. For pensions not affected by future salary levels, the unprojected unit credit and projected unit credit actuarial cost methods result in the same attribution pattern. Therefore, the unprojected unit credit actuarial cost method was not separately considered.

The other actuarial cost methods were evaluated using two principal criteria. First, because the total pension liability will be the total of all amounts attributed to past periods at the measurement date, to be appropriate for financial reporting purposes, the Board believes that an attribution method should assign portions of the actuarial present value of projected benefit payments to past periods to the extent that benefits relate to services received from employees in past periods. Second, the Board believes that to be appropriate for accounting and financial reporting of service cost and the total pension liability, the attribution method selected should employ the same approach to attributing portions of the actuarial present value of projected benefit payments to past periods as it does to the current and future periods.

254. The application of the criteria described in the preceding paragraph narrowed the potential choices to two actuarial cost methods—projected unit credit and entry age, which also were those supported by many of the respondents that did not advocate retaining all methods permitted by Statement 27. As discussed previously, some respondents supported permitting the use of either method. However, the two methods, as typically applied, attribute service cost and interest in different patterns over time, and the Board determined that those differences suggest that to permit both would be counter to objectives related to enhancing comparability among employers.

255. In the absence of explicit pension plan terms to the contrary, the projected unit credit actuarial cost method, as usually applied on a level-dollar basis, attributes each projected benefit payment to an employee's projected periods of service in equal units. Because each successive period of service is one period closer to the period of payment of the projected benefits, the amounts attributed to periods of service increase in an ascending curve that is steeper than an employee's salary curve if the discount rate is greater than the projected rate of salary changes. In contrast, the entry age actuarial cost method generally calculates the actuarial present value of projected benefit payments discounted to the employee's entry age and then calculates the level amount that, if attributed over the period from entry age to the assumed dates of exit through retirement and combined with interest that is expected to accrue over that period on amounts attributed to past service, will result in accumulated past service cost at retirement that is equal to the actuarial present value of projected benefit payments at retirement. The entry age actuarial cost method typically is applied in a way that attributes service cost to periods as a level percentage of projected pay, in which case it assigns service cost to periods in amounts that bear a consistent relationship to the employee's projected salary levels.

256. Respondents that supported the use of the unit credit or projected unit credit actuarial cost method generally believe that the application of one of those methods results in a pattern of service costs that is more consistent with the pattern in which an obligation for benefits is incurred by the employers than the service cost pattern that results from use of the entry age actuarial cost method. Some respondents also suggested that use of the entry age actuarial cost method for accounting purposes might result in measures that impede decision-making because the service cost that results in each period does not reflect the full effects of decisions with respect to salary changes in the periods in which those decisions are made. These respondents generally believe that the benefit terms themselves should be applied on a period-by-period basis to determine the amount of service cost to attribute to each period. Some respondents that supported the use of a projected unit credit approach believe that the total pension liability measure that results from application of that cost method would more closely meet the definition of a liability in Concepts Statement 4—that is, a present obligation to sacrifice resources—because that method could be defined to be applied in such a way as to more closely reflect the specific benefit accrual patterns identified in the benefit terms than would the entry age method. On these points, the Board notes that the distinction between the projected unit credit method and the entry age method is a matter of degree because, as traditionally applied, both approaches incorporate expectations of future events. However, when viewed within the context of a long-term career relationship, the Board believes that a portion of any incremental value explicitly associated with future exchanges under the benefit terms implicitly is associated with past periods of service. This is because exchanges earlier in an employee's career are necessary to have exchanges later in the employee's career. The Board believes that the implicit value of each exchange represents a present obligation of the employer within the context of the expected career-long relationship. Consistent with this view, the Board also believes that for accounting and financial reporting purposes, the different periods of an employee's career generally should be viewed as contributing equally to the ultimate benefits that will be provided to that employee.

257. The Board further believes that for the majority of pensions, which are pay related, the service costs that are attributed to each of the periods of the actuarial valuation should reflect a level percentage of each individual employee's projected pay. For the relatively small number of benefits that are not pay related, this Statement also generally requires attribution of service costs based on a level percentage of an employee's pay. Some respondents to the Exposure Draft questioned the use of level percentage of pay as the basis for the

allocation of service costs in those circumstances. Those who did so generally suggested that employers in those circumstances should be permitted to determine service costs as level dollar amounts because the level-dollar approach would be consistent with what they believe would be established actuarial practice. The Board concluded that even when benefit formulas are not based on an employee's pay, the benefits are provided as a form of compensation and should be attributed to periods of service over an employee's career in a level pattern relative to other compensation. Further, the Board believes that a consistent approach among all employers will enhance the comparability of pension information.

258. Other respondents suggested that the final Statement permit the use of projected unit credit by business-type activities, such as hospitals and colleges and universities, because those entities often are compared with their private-sector counterparts, which are required to use an attribution method that is similar to the projected unit credit actuarial cost method. The Board concluded that an exception related to the attribution method would not achieve the comparability sought by the respondents. To achieve such comparability with private-sector measures of pension obligations, additional exceptions would have to be provided for many of the measurement and recognition requirements of this Statement, which would be counter to the principles that underlie this standard (for example, the Board's view of the career-long relationships between the employer and employees). Further, the Board notes that pensions are one of several transactions for which public- and private-sector entities are required to apply different accounting and financial reporting requirements, and it is not convinced that an exception to a limited aspect of one measure would advance comparability among those entities in a meaningful way.

Variations in the entry age actuarial cost method

259. Some respondents to the Preliminary Views noted that in practice, there are varying applications of the entry age actuarial cost method. The Board considered several of these variations and has included clarification in this Statement related to certain potential sources of such variation. Specifically, the Board believes that for accounting and financial reporting purposes, the entry age actuarial cost method should be applied on an individual employee-by-employee basis and should attribute service cost for all benefits to periods from entry age to assumed exit ages as a level percentage of the employee's expected pay. In this way, the approach reflects the effects of the individual employment exchanges that create the liability for pensions.

260. The Board also considered several approaches that are not permitted under the limitations noted in this Statement. One of these approaches commonly is referred to as ultimate (or replacement) entry age. In this approach, if a change in benefit terms results in different benefit levels for future employees than those that are provided to current employees—for example, a new tier of benefits is created for future hires—the future service costs of all employees are determined based on the benefit terms in place for new hires. In this way, service costs for employees that were hired prior to the benefit change would not be determined based on the terms of the exchange under which they continue to provide services. Rather, the measures would be based on the terms of the exchanges between the employer and other employees—the new hires. The Board believes that all calculations related to an individual employee should consider the unique circumstances of each employee with regard to the benefit structure. Therefore, the Board concluded that the use of the ultimate entry age approach should not be permitted for accounting and financial reporting purposes.

261. The Board also considered an approach, sometimes referred to as replacement life entry age, which—subsequent to a benefit change that alters the benefit terms associated with all future periods of employee service—determines future service costs based on the forward-looking benefit structure. Although individually based, this approach calculates an employee's future service cost assuming a different benefit structure than that used to determine the actuarial present value of projected benefit payments. The Board believes that for accounting and financial reporting purposes, future service cost and the present value of projected benefit payments should reflect the same projected benefit payments. Therefore, the Board concluded that the use of the replacement life entry age approach should not be permitted for accounting and financial reporting purposes.

262. In addition, the Board considered an approach referred to as funding-to-decrement entry age in which the actuarial present value of projected benefit payments for different types of benefits is attributed over different periods of employee service depending on expectations about the individual decrement that initiates the benefit payment(s). The Board believes that the traditional approach to entry age, which ends the attribution for all benefits with the expected dates of exit, regardless of the reason for exit, is more consistent with the view, previously discussed, that each period of expected service of an employee has the same relationship (as a level percentage of the employee's

pay) to that employee's actuarial present value of projected benefits. Therefore, the Board concluded that the use of the funding-to-decrement entry age approach should not be permitted for accounting and financial reporting purposes.

Deferred retirement option programs

263. This Statement includes a requirement that, in circumstances in which an employee is provided with a defined benefit pension through a pension plan that includes a deferred retirement option program (DROP), the end of the attribution period for purposes of determining service cost should be the employee's expected date of entry into the DROP. After studying the circumstances associated with DROP provisions, the Board concluded that for purposes of applying this Statement, the affected employees have modified their employment status related to the primary pension relationship with the employer—and, notably for pension purposes, the employees do not accrue additional service credit. Because of these factors, the Board concluded that employees should be considered retired for accounting financial reporting purposes when they enter into a DROP.

The Pension Plan's Fiduciary Net Position

264. This Statement requires that, for purposes of calculating the net pension liability, the pension plan's fiduciary net position be measured in the same manner as it is measured in the pension plan's statement of fiduciary net position. This Statement refers to the *fiduciary* net position of the pension plan, consistent with the use of that term in Statement 67. The term also is consistent with the presentation of the net position of fiduciary funds, generally, in Statement 34. Some respondents to the Preliminary Views, the Exposure Draft, or both, expressed concern about the potential volatility of the fair value of pension plan investments and the impact that reflecting this volatility in the measurement of the employer's net pension liability would have on the employer's reported liability, as well as on pension expense. These respondents suggested that the measurement incorporate techniques designed to mitigate volatility—for example, by reflecting appreciation or depreciation in the fair value of pension plan investments over a defined number of periods (a smoothed market value).

265. The Board concluded that use of a smoothed market value instead of fair value to measure the pension plan's fiduciary net position for purposes of determining the net pension liability would not faithfully represent what the measure of the pension plan's fiduciary net position is intended to represent in that context. It is intended to represent the amount of the pension plan's fiduciary net position that reduces the incremental sacrifice of the employer's resources to satisfy the total pension liability as of the measurement date. In addition, the Board noted that the use of a smoothed market value of pension plan investments would result in inconsistent financial reporting of the same fiduciary net position in financial reports of employers and pension plans. Further, the Board observed that concerns related to potential volatility in pension plan investment earnings also are related to recognition of pension expense and concluded those concerns are more appropriately considered within that context. (Issues considered with regard to pension expense recognition for changes in the pension plan's fiduciary net position are discussed in paragraphs 288–296.)

Recognition of Changes in the Net Pension Liability

266. The transactions and events that affect the measurement of the components of the net pension liability—the total pension liability and the pension plan's fiduciary net position—are independent, and the Board evaluated them separately for purposes of establishing requirements for pension expense recognition.

Changes in the Total Pension Liability Arising from Service Cost and Interest on the Total Pension Liability

267. In the Preliminary Views and the Exposure Draft, the Board proposed that changes in the net pension liability arising from the portion of the actuarial present value of projected benefit payments attributed to a period of employee service (service cost) and interest on the total pension liability be recognized as pension expense in the periods in which they are incurred. Respondents to the Preliminary Views, the Exposure Draft, or both, generally did not raise concerns regarding the proposals that these two components of change in the total pension liability be recognized in the current period. Consistent with the Board's belief that the annual employment exchange should be viewed in the context of

an ongoing employer–employee relationship spanning an employee's career, this Statement requires that service cost and interest cost be included in pension expense in the period in which they are first reported in the net pension liability.

Other Changes in the Total Pension Liability

268. This Statement requires that changes in the total pension liability arising from changes of benefit terms be included in pension expense in the period the change is first reported in the net pension liability. It also requires that changes in the total pension liability resulting from (a) differences between expected and actual experience with regard to economic and demographic factors (differences between expected and actual experience) and (b) changes of assumptions regarding the expected future behavior of economic and demographic factors or of other inputs (changes of assumptions or other inputs) be recognized as deferred outflows of resources or deferred inflows of resources related to pensions and included in pension expense in a systematic and rational manner over a period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees).

269. With regard to changes arising from differences between expected and actual experience and changes of assumptions or other inputs, the requirements of this Statement reflect the Board's view that pensions arise from an exchange between an employer and employees of salaries and benefits for employee service each period and that these transactions and related pension measurements should be viewed in the context of ongoing, career-long employment relationships. The approach to recognition of the effects of changes from these sources on the total pension liability in this Statement was modified from the approach previously proposed. In the Exposure Draft, the Board proposed that such changes related to inactive employees be reported in pension expense in the period of the change in the total pension liability because there are no future periods of service related to these employees and the employer has completed its side of the exchange. The Exposure Draft proposed that such changes related to active employees be recognized as deferred outflows of resources or deferred inflows of resources related to pensions in the period of the change, with incorporation of deferred balances into pension expense over a weighted average of the expected remaining service lives of active employees, consistent with the view that pensions are part of a career-long exchange.

270. With regard to recognition of the effects of changes of benefit terms, the approach in this Statement is consistent with the approach proposed in the Exposure Draft and represents a modification of the proposal that the Board put forth in the Preliminary Views. In that document, the Board proposed that a single method for accounting and financial reporting be applied to all three types of changes (changes of benefit terms, differences between expected and actual experience, and changes of assumptions or other inputs) in order to avoid unnecessary complexity. Under that proposal, changes in the total pension liability arising from these three sources related to inactive employees would have been recognized in pension expense in the period of change in the total pension liability, and such changes related to active employees would have been recognized as deferred outflows of resources or deferred inflows of resources related to pensions and included in pension expense over periods representative of the expected remaining service lives of individual employees.

Respondents' views about the proposals in the Preliminary Views and Exposure Draft

271. Some respondents to the Preliminary Views, the Exposure Draft, or both, believe that the proposed methods of accounting for the effects on the total pension liability of differences between expected and actual experience, changes of assumptions or other inputs, and (as proposed in the Preliminary Views) changes of benefit terms would cause excessive volatility in pension expense. Instead, these respondents recommended recognition of such changes in pension expense over longer periods of time.

272. Some respondents that recommended the use of longer expense recognition periods suggested using an approach consistent with the amortization of unfunded actuarial accrued liabilities for determining contribution requirements. Some respondents recommended continuing the Statement 27 approach of permitting a recognition period of up to 30 years. These respondents believe that increased volatility in pension expense would be confusing to users of the financial statements, would be inconsistent with their view that accounting should create a level pattern of expense among periods, or could negatively influence the behavior of decision makers (such as delaying an update to assumptions to avoid potential resultant volatility in pension expense). Some respondents identified these proposals related to inactive employees as the most significant source of potential volatility in pension expense.

273. Some respondents to the Preliminary Views, the Exposure Draft, or both, believed that the changes in the total pension liability arising from differences between expected and actual experience, changes of assumptions or other inputs, and changes of benefit terms should be recognized in pension expense immediately. These respondents believe that this approach would be more consistent with recognizing pension expense over the periods in which benefits are earned (or are attributed). In their view, this approach would provide better information for the assessment of the degree to which interperiod equity is achieved. Some respondents identified a reduction in cost and complexity as the principal reason for their view.

274. Some respondents to the Preliminary Views did not believe that it was appropriate to apply the same pension expense recognition requirements to the effects of all three types of changes. Specifically, some respondents believe that changes of benefit terms are different from differences between expected and actual experience and from changes of assumptions. These respondents believe that the latter two are a result of the necessary use and refinement of estimates in measuring the total pension liability and are not within the control of management. As such, those respondents believe that recognition in pension expense as proposed is appropriate. In contrast, changes of benefit terms are within the control of management and, as such, those respondents believe that the effect of changes to the benefit terms of active employees on the total pension liability should be recognized in pension expense in the period of the change.

275. Some respondents to the Exposure Draft agreed with the Board's revised proposal to recognize the effects of changes of benefit terms in pension expense in the year of the change. These respondents believe that this approach presents information that is decision-useful to users of financial statements and is consistent with presenting information needed for the assessment of the degree to which interperiod equity is achieved. Some respondents to the Exposure Draft disagreed with the proposal. They believe that changes of benefit terms attributed to past periods are made with the understanding that the change in benefits has an effect on the future behavior of employees and, as such, should be recognized as deferred outflows of resources or deferred inflows of resources related to pensions.

Differences between changes arising from active and inactive employees

276. The requirements of this Statement related to accounting and financial reporting for changes in the employer's total pension liability arising from differences between expected and actual experience and changes of assumptions or other inputs reflect the basic understanding that pension liabilities should be viewed in the context of an ongoing, career-long employment relationship. Fundamental to this belief is the concept that the cost of providing pensions to an employee should be recognized as pension expense during the periods in which the employee renders service to the employer. Initially, the Board concluded that this basic understanding was consistent only with immediate recognition of changes arising from inactive employees and deferral of changes arising from active employees. However, the Board was persuaded that this basic understanding also can be consistent with accounting for changes arising from both active and inactive employees when the period over which these changes are recognized in pension expense reflects the average of the remaining service lives of active and inactive employees that are provided with benefits through the pension plan.

277. As previously noted, some respondents to the Preliminary Views, the Exposure Draft, or both, that argued against immediate pension expense recognition for one or more of these changes in the total pension liability related to inactive employees did so because of the potential for producing volatility in pension expense. Those respondents suggested that because the actual cost of pensions can only be estimated during an employee's career and because some differences between estimated and actual benefits will occur, the goal of recognizing all pension expense during an employee's career is unachievable. Consequently, those respondents believe that some deferral of changes related to inactive employees should be permitted to mitigate some of the volatility in pension expense. The Board evaluated these concerns but was not persuaded that they were sufficient to deviate in all cases from the overriding principle that the cost of an employee's pension should be recognized during the periods that the employee provides service to the employer.

278. Some respondents to the Exposure Draft argued against immediate pension expense recognition for changes in the total pension liability arising from differences between expected and actual experience and changes of assumptions or other inputs related to inactive employees. These respondents noted that the proposed recognition principles with respect to active and

inactive employees are inconsistent with a significant feature of pension plans—that experience gains and losses that occur on an individual basis are expected to offset on a pooled basis; however, these changes do not necessarily offset for active employees as a group and for inactive employees as a group. After considering this point, the Board was convinced that these differences should be addressed on a pooled basis. The Board concluded that the basic view that the cost of providing pensions to an employee should be recognized in pension expense during the periods in which the employee renders service to the employer can be reflected through the use of an appropriate period for recognition of the effects of these changes on the total pension liability. (Additional discussion of considerations related to the required expense recognition period is presented in paragraphs 284–287.) As a result of adopting this approach, the Board also reduced the complexity and cost of applying this Statement with what it concluded was an acceptable degree of difference in the reported results. For purposes of further reducing complexity, the Board concluded that changes in the total pension liability arising from changes in assumptions or other inputs should be reported in the same manner as differences between expected and actual experience. (See paragraphs 280–283 for discussion of additional considerations related to changes of assumptions or other inputs.)

Changes of benefit terms

279. As previously noted, the Board proposed in the Preliminary Views that changes in the total pension liability from changes of benefit terms, differences between expected and actual experience, and changes of assumptions or other inputs be accounted for in the same manner, primarily for the purposes of reducing complexity and cost. The Board was persuaded by respondent comments that the nature of the changes in the total pension liability resulting from changes of benefit terms—that they are under the control of management—is significantly different from the nature of the changes in the total pension liability resulting from differences between expected and actual experience and from changes of assumptions or other inputs. The latter two are refinements of estimates and not within the control of management. The amount of the change in the total pension liability related to changes of benefit terms is the amount of the effect of the changes that is attributed to prior years. Amounts that will be attributed to future years will be recognized as part of future service cost. Because the changes in the total pension liability related to changes of benefit terms results from an action taken by management in the current period, the Board proposed in the Exposure Draft that those amounts be recognized as

pension expense in the period of the change. Some respondents to the Exposure Draft indicated that they believe that changes in benefits that are attributed to past periods have an effect on the future behavior of employees and therefore should be recognized as deferred outflows of resources or deferred inflows of resources related to pensions. The Board was not persuaded that changes of benefit terms attributed to past periods are part of the future exchanges of benefits for employee service and, therefore, concluded that changes in the pension liability arising from changes of benefit terms be recognized in pension expense in the period the change is reported in the net pension liability.

Differences between expected and actual experience and changes of assumptions or other inputs

280. With regard to differences between expected and actual experience and changes of assumptions or other inputs, the Board considered both the concerns of respondents that believe the effects of these changes on the total pension liability should be recognized in pension expense over a longer period and the views of respondents that believe that these changes should be recognized in pension expense immediately. The Board also considered its proposal related to these two sources of changes in the total pension liability in relation to other guidance on revision of estimates and its conceptual framework.

281. Both types of changes are considered to arise from the use of estimates in measuring the total pension liability. With differences between expected and actual experience, the total pension liability changes because the probabilities of future events were estimated in prior measurements. Whereas probabilities of events range from zero to 100 percent, actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur in every measurement that incorporates expectation of future events. With changes of assumptions or other inputs, the total liability changes when the assumption about future events (such as mortality experience) or input (such as the municipal bond rate for use in determining the discount rate, if applicable) is different from the assumption or input used in the prior measurement of the total pension liability. Existing guidance on how the effect of a change in accounting estimate should be reported does not suggest that a single approach always is appropriate. The nature of the items being reported and the effect of accounting estimates vary and may not be comparable with the effect of estimates on the measurement of the total pension liability.

282. Concepts Statement 4 defines a deferred outflow of resources as "a consumption of net assets by the government that is applicable to a future reporting period" (paragraph 32) and likewise defines a deferred inflow of resources as "an acquisition of net assets by the government that is applicable to a future reporting period" (paragraph 34). Applicability to a future reporting period is determined using the concept of interperiod equity. A change in the amount of the total pension liability is either a consumption or acquisition of net assets by the government. The principal conceptual question is whether that change is applicable to a future reporting period. The Board recognizes that the change in the total pension liability related to either of these sources only includes the amount that has been attributed to prior periods through the process of attributing the total actuarial present value of benefit payments to periods. Due to the inherent inaccuracies of any estimate, the change in the total pension liability arising from differences between expected and actual experience or from changes of assumptions or other inputs may be associated with changes in future periods.

283. The Board believes that reporting the changes initially as a deferred outflow of resources or a deferred inflow of resources related to pensions and recognizing the changes in pension expense over a period representative of the average of the (active and inactive) employees' expected remaining service lives supports the assessment of the degree to which interperiod equity is achieved. The concept of interperiod equity focuses on presenting a cost of services that is appropriate and useful for comparison with current-period revenues and other inflows for assessing whether current-period taxpayers and ratepayers have provided sufficient resources to finance current services or whether, for example, an increase in the level of borrowing or use of accumulated net resources was employed. The Board believes that, because of the association of pensions with the career-long exchange of employee service for pensions, full recognition of the effects of differences between expected and actual experience and changes of assumptions or other inputs in pension expense in the year of the change is inconsistent with the presentation of information useful for such assessments.

Pension expense recognition periods

284. In the Preliminary Views and the Exposure Draft, the Board proposed that differences between expected and actual experience and change of assumptions or other inputs be recognized in pension expense over the weighted-average service life of active employees. Some respondents to the Preliminary

Views, the Exposure Draft, or both, suggested a number of alternatives, including the use of a fixed number of years, such as 15 or 25, or the use of other timeframes that would extend beyond the average of the expected remaining service lives of active employees. Reasons for these recommendations principally included a reduction in perceived complexity and greater consistency with measurements used for funding purposes. The Board believes that the requirements in this Statement for recognition of pension expense should be consistent with its overriding view of the pension transaction—that of the career-long exchange between the employer and employees for deferred compensation—without also imposing additional requirements that might be inconsistent with the circumstances of any particular employer. For example, requiring recognition of changes over a relatively long fixed number of years potentially would be inappropriate for employers that provide benefits to relatively mature covered groups.

285. The Board's proposals in the Preliminary Views and Exposure Draft did not specify a method of determining a weighted-average service life over which to recognize certain changes in the total pension liability. This approach would have allowed practitioners to apply methods that would be more cost effective than applying the requirement on an individual basis and also to apply professional judgment appropriate to their specific circumstances.

286. This Statement requires that changes arising from differences between expected and actual experience or from changes of assumptions be recognized in pension expense over the average remaining service life of all employees provided with benefits through the pension plan (active and inactive). Concluding that the differences between expected and actual experience and changes of assumptions should be considered on a pooled basis, rather than an individual basis, the Board determined that the appropriate pension expense recognition period for those differences and changes would reflect the expected remaining service life of the entire pool of employees with the understanding that inactive employees have no remaining service period. Because these changes are accounted for on a pooled basis, the use of weighting to replicate the result if the requirements were applied individually to employees was considered inappropriate. Consequently, the Board concluded that the period over which these changes should be recognized should be determined using a simple average.

287. This Statement also provides flexibility regarding the pattern of pension expense recognition (for example, use of a straight-line recognition approach or recognition as a level percentage of payroll) within the period of time used. That

is, no specific pattern is required. This Statement does, however, exclude the use of an open-period method for recognizing the changes in the total pension liability in pension expense. Open-period methods recognize a fixed percentage of the original change over time and never fully recognize in expense the change in the liability. The Board believes that this approach is inconsistent with the overriding view that the cost of pensions should be recognized over the career-long period during which an employee provides service.

Changes in the Pension Plan's Fiduciary Net Position

Changes arising from investment experience

288. The Exposure Draft proposed and this Statement requires that changes in the pension plan's fiduciary net position arising from investment experience be recognized as two separate components. The projected earnings on pension plan investments are required to be included in (reduce) pension expense in each period. Differences between projected earnings and actual earnings are required to be recognized as a deferred outflow of resources or a deferred inflow of resources related to pensions and included in pension expense over a closed, five-year period, beginning in the first period in which the difference is reported in the net pension liability.

289. This approach to recognizing pension plan investment experience reflects the long-term earnings horizon with which pension investments are made. Earnings on pension plan investments can fluctuate significantly from period to period. However, the Board believes that differences between projected and actual investment experience generally will offset over time. That is, in any one period, actual earnings may be different from projected earnings; however, over time, earnings in excess of projections in some periods will be offset by earnings shortfalls in other periods, and vice versa. The Board believes that recognizing in employer pension expense pension plan investment earnings experience that is expected to be offset by future pension plan investment experience (and, therefore, never realized) significantly reduces the usefulness of the measures of cost of services, of which pension expense is a component. Therefore, for differences between projected earnings and actual earnings, incorporation of those changes into pension expense over time provides an opportunity for short-term fluctuations to be offset and dampens the volatility of pension expense that would otherwise occur as a result of such fluctuations.

290. In the Preliminary Views, the Board proposed a different approach for differences between projected earnings and actual earnings on pension plan investments. That document proposed that those differences be reported as deferred outflows of resources or deferred inflows of resources and that the cumulative balance of those net deferred outflows of resources or deferred inflows of resources not exceed 15 percent (plus or minus) of the fair value of pension plan investments. Any amount of the cumulative balance outside of the 15-percent corridor at the employer's fiscal year-end would have been recognized in pension expense immediately. That proposed approach reflected the Board's preliminary view at that time that if cumulative differences between projected and actual pension plan investment experience become too large as a percentage of pension plan investments, reversal of such differences may not occur until periods relatively far in the future and that differences that are not likely to be offset within a reasonable timeframe should be included in pension expense.

291. The Board was persuaded by respondents to the Preliminary Views that the approach to recognition of pension plan investment experience that was proposed in that document could produce inconsistent results primarily because of the limitation in that approach on the cumulative net deferred outflows of resources or deferred inflows of resources associated with investment experience. The Board considered other approaches including:

a. Immediate recognition of all differences between projected and actual pension plan investment experience
b. Deferral of the difference between projected and actual pension plan investment experience in the current period, with recognition of those differences in pension expense over a specified period of time
c. Deferral of differences between projected and actual pension plan investment experience, with amounts of cumulative deferrals limited to a percentage of the fair value of pension plan investments and with amounts exceeding that percentage recognized in pension expense over a specified period of time
d. Deferral of differences between projected and actual pension plan investment experience, with the amount of cumulative deferrals limited to a percentage of the fair value of pension plan investment different from what was proposed in the Preliminary Views and with amounts exceeding the percentage recognized immediately in pension expense.

292. The Board recognizes that the offset of short-term volatility in investment experience in the long-term is a general, rather than specific, phenomenon. That is, short-term volatility generally tends to be offset in the long term, but it is not possible to associate a specific instance in which actual investment experience is different from projected investment experience with a specific offsetting period of time. Consequently, the accounting and financial reporting for these differences cannot result in a precise link between offsetting investment experiences.

293. The approaches considered fall within a spectrum of accounting alternatives that has, at one end, immediate recognition of all differences between projected and actual pension plan investment experience and, at the other end, infinite deferral of all differences between projected and actual pension plan investment experience (no pension expense recognition). With the immediate recognition approach, the inability to identify specific related offsetting differences in investment experience assumes no association between investment experience in different periods. With the infinite deferral approach, the inability to identify specific related offsetting differences is generalized to assume that over a sufficiently long period of time, all differences between projected and actual investment experience offset.

294. The proposal in the Exposure Draft and the requirements of this Statement do not reflect either end of the spectrum. Rather, the Board believes that the appropriate approach lies somewhere in between. The Board evaluated each of the potential approaches using varying pension expense recognition periods and varying cumulative deferral limits over a 30-year period and considering historical investment returns on a hypothetical portfolio. The greatest concern with the immediate recognition approach (and alternatives that produce similar results) is that the amount of investment earnings recognized in pension expense varies greatly from period to period and, in the Board's view, does not appropriately reflect the long-term investment horizon that is common for pension plan investments. The greatest concern with the infinite deferral approach (and alternatives that produce similar results) is that the deferral balance could represent significant accumulations of pension plan investment experience differences that await offset by future investment experience. The Board concluded that deferral of differences between projected and actual pension plan investment experience with recognition of those differences in pension expense over a five-year, closed period recognizes general market cycles and results in an appropriate balance between the two approaches.

295. Some respondents to the Exposure Draft that agreed with the recognition of differences between projected and actual earnings on pension plan investments in pension expense over a five-year period noted that this approach is consistent with reporting information that can be used to assess the degree to which interperiod equity is achieved and with reducing volatility that will not be realized. Some respondents disagreed with the Board's proposal for recognition of earnings on pension plan investments because they believe that earnings on investments should be reported in a consistent manner by the pension plan and by the employer and that the proposed approach would fail to recognize the economic events that have occurred—changes in the fair values of pension plan investments. The Board was not persuaded by these arguments because they are not consistent with the long-term view of the nature of the pension transaction and the investment horizon for pension plan investments.

Changes other than those arising from investment experience

296. In addition to changes resulting from pension plan investment experience, the pension plan's fiduciary net position is affected by other events that impact the pension plan—for example, the pension plan's fiduciary net position will increase as a result of employee contributions and will decrease as a result of administrative expenses. Because these and other changes in the pension plan's fiduciary net position not arising from investment experience have no association with future periods, the Board believes that they properly are reflected in the current-period cost of services. Therefore, this Statement requires that such changes be included in pension expense in the periods in which the change in the net pension liability is reported.

Cost-Sharing Employers

297. The fundamental approach required in this Statement for employer recognition of liabilities and related measures for defined benefit pensions generally is the same for cost-sharing employers as for single and agent employers. As previously discussed, the Board concluded that defined benefit pension plans, including cost-sharing pension plans, typically are long-term, relatively stable arrangements in which the employers whose employees are provided with benefits through them also are long-lived entities. In a single-employer or agent pension plan, each employer bears separately the financial risks associated with its obligation to its employees to provide defined benefit pensions as part of employment exchanges. In addition, in those pension plans, pension plan assets (or, in the case of agent pension plans, a separately accounted for

interest in assets pooled for investment purposes) are dedicated to the payment of benefits to the employees of a specific employer. In contrast, cost-sharing pension plans are characterized by the pooling or sharing of (a) the employers' obligations to their employees to provide pensions as part of employment exchanges and (b) pension plan assets. As a result, assets contributed by any employer may be used to pay benefits to the employee of any participating employer. The Board concluded that the method of measuring the amount of the pension liability and related measures recognized by a cost-sharing employer should incorporate features necessary to reflect those differences. Such features of the measurement and recognition requirements of this Statement include (1) the recognition of a pension liability that is developed in relation to the collective net pension liability and (2) individual-employer requirements that incorporate the use of a proportionate-share methodology.

298. The Board believes that the origin of defined benefit pension obligations is the same without regard to the plan structure used. That is, pensions provided through cost-sharing pension plans are part of the total compensation exchanged by employers for employees' services, as is the case with single and agent employers. What is distinctive in a cost-sharing pension plan, however, is that cost-sharing employers agree to share the financial risks associated with providing defined benefit pensions to their employees and to contribute to a pooling of assets dedicated to the payment of benefits. When an employer in a cost-sharing pension plan engages in an exchange of services with an employee for compensation that includes pensions, it creates an obligation that is shared collectively by the employers that provide pensions through the pension plan. The employers collectively are responsible for the obligation that arises from the individual exchanges of all employers in the pension plan. As with single and agent employers, the employees have provided their services; therefore, the Board concluded that the obligation for pensions through a cost-sharing pension plan is a present obligation.

299. The terms of the employers' participation in the pension plan establish how contribution rates are determined and the bases on which those rates are assessed and, therefore, establish the amount of assets each employer is required to contribute to provide resources to satisfy the obligation. Applying the definition of a liability from Concepts Statement 4, the Board concluded that an individual cost-sharing employer's liability for pensions should be based on the degree to which that employer is expected to be required to sacrifice resources (in the form of contributions to the pension plan) to satisfy the present obligation. The methodology of this Statement, therefore, is based on a measure of

the amount of contributions that the employer is expected to be required to make relative to other contributing entities. (This specific measurement approach is discussed in more detail in paragraphs 307–316.)

300. Some respondents to the Exposure Draft disagreed that the measures required by this Statement meet the definition of a liability for individual cost-sharing employers. These respondents generally asserted that the only present obligation of the individual employers is an obligation for unpaid, previously assessed contributions. That amount, in the view of the respondents, is the only amount related to the collective net pension liability that is legally enforceable on the individual employers. The Board believes that this view, however, is inconsistent with the ongoing, long-term view of the relationships among the employers, employees, and the pension plan that create an obligation for benefits over the employee's career and ultimately provide assets to the pension plan to satisfy that obligation. Further, because contributions generally are legally (contractually) required in a cost-sharing pension plan, an individual employer would not appropriately be viewed as having discretion to avoid payment of those contributions when they come due.

301. Some respondents to the Exposure Draft disagreed with the fundamental premise that pensions are part of the compensation exchanged for employee service when provided through a cost-sharing pension plan. Some believe that in exchange for service, the employer provides the employee with access to the pension plan—and that the payment of the employer's contractually required contributions fulfills the obligation created by the employment exchange. As previously noted, other respondents asserted that pensions provided through a cost-sharing pension plan are a form of social support program—a nonexchange transaction—similar to the federal Social Security program. In the view of these respondents, the employer and the employee are paying a contribution (in essence, a tax) for the employer's participation in the pension plan. Although cost-sharing pension plans have some common features with such programs, the Board concluded that the substance of defined benefit pensions provided through a cost-sharing pension plan is different from a benefit provided through the Social Security program because (a) the benefits provided through cost-sharing pension plans generally have stronger guarantees than do Social Security benefits; (b) in most cost-sharing pension plans, there is a more direct relationship between the contributions that are assessed and the financing needed to sustain the benefits than in the Social Security program; (c) it is not uncommon for a cost-sharing pension plan to provide different benefits to different classes of employees and to establish different rates of contribution

relative to those different classes (features that link the benefits to the employment exchange); and (d) the benefits generally are viewed from the employees' perspective as being earned as part of a benefit package over their periods of service to an employer.

302. Other respondents to the Preliminary Views, the Exposure Draft, or both, agreed with the Board's view that in a cost-sharing pension plan, the obligation for pensions arises in the employment exchanges between the participating employers and their employees. However, some of these respondents believe that certain characteristics of cost-sharing arrangements essentially transfer the obligation to the pension plan. Some respondents disagreed that cost-sharing employers collectively have an obligation for accrued pensions because they believe that in many (if not most) cost-sharing pension plans, the employers have little or no control over benefit terms or required contribution levels. Therefore, these respondents asserted, cost-sharing employers are responsible only for their legally required contributions to the pension plan. In the view of some respondents, another entity—in some cases, the pension plan itself, in other cases, the pension plan sponsor—by virtue of its existence or its decision-making authority is responsible for the unfunded benefit obligation. Other respondents believe that the asset- and risk-pooling features of a cost-sharing pension plan suggest a structure similar to that of an insurance arrangement in which risk is transferred to a third-party insurer, leaving participants responsible for only their premium payments (contractually required contributions). Still others believe that in some cost-sharing pension plans, the relationship of a nonemployer contributing entity to the employers should affect the assignment of the pension liability for accounting and financial reporting purposes.

303. As previously noted with regard to issues related to control, the Board concluded that the lack of ability to control the benefit terms or the manner in which defined benefit pensions are financed does not change whether the employers collectively receive the benefits of employees' services in exchange for compensation that includes pensions. Further, on the issue of transfer of the obligation from the employers collectively to the pension plan, the Board does not believe that the existence of, participation in, and payment of contributions to a pension plan by the cost-sharing employers, in and of itself, transfers the entire pension obligation created through the employment exchanges with employees to the pension plan for financial reporting purposes. It is the Board's view that for financial reporting purposes, a pension plan can have an obligation for the pensions of its participating employers only to the extent that the pension plan is holding fiduciary net position available for payment of those

benefits. A cost-sharing pension plan is not financially self-sufficient but continually is reliant on employee and employer contributions and earnings on those contributions as the source of funding for promised benefits. Through contractually required contributions, the cost-sharing employers have an ongoing responsibility to provide financial support for the benefits created by their collective employment exchanges with their employees. If past contributions and earnings on those contributions are not sufficient to provide assets to the pension plan to pay benefits when they come due, the employers (and those that contribute on their behalf) are the only sources of assets to satisfy the benefit obligation. Therefore, to the extent that net position is not available in the pension plan, the Board believes that the employers collectively remain responsible for the unfunded obligation.

304. As the Board considered whether a cost-sharing arrangement shares similar characteristics to that of an insurance arrangement in which risk is transferred to a third-party insurer, it noted several distinguishing differences between the two arrangements. The differences identified included that in an insurance arrangement (a) the premium payments generally are for events that have not occurred, (b) the payments to the insured or others on behalf of the insured are for economic losses sustained from an unexpected (accidental) events, and (c) participants often have the ability to withdraw from the insurance arrangement at will. These differences were so significant that the Board concluded that potential application of an insurance model to cost-sharing arrangements should not be pursued.

305. With regard to the relationship of a nonemployer contributing entity to the cost-sharing pension plan and the participating employers, this Statement generally carries forward the overall approach to accounting for the involvement of nonemployer entities that was proposed in the Exposure Draft, with certain refinements based on respondent feedback to the Exposure Draft proposals. The approach is consistent with the view of some respondents that in special funding situations, the involvement of a nonemployer contributing entity should affect the accounting and financial reporting by the employer for its pension liability. The Board notes, however, that issues related to the involvement of nonemployer entities are not unique to cost-sharing pensions. (Considerations of the Board related to special funding situations for all employers are discussed in paragraphs 352–362.)

306. The Board also considered situations in which the employers are legally responsible for annual contractually required contributions while another entity provides a legally enforceable guarantee of benefit payments should there not

be sufficient assets available to pay benefits when they are due to employees. In these circumstances, the Board believes that the entity that provides the guarantee should not be viewed as having an individual responsibility for a portion of the collective unfunded obligation, per se. Rather, in this case, the other entity has an obligation akin to a financial guarantee that should be accounted for and reported under guidance relevant to such guarantees.

Selection of a Basis for Determining Proportionate Share

307. As discussed above, the Board believes that the relationship of an individual employer to the collective net pension liability is fundamentally linked to the amount of that employer's expected sacrifice of resources relative to the total projected sacrifice of resources of the employers and other contributing entities for that purpose. This Statement, therefore, generally requires employer measurement to be based on a measure that compares the individual employer to the employers and other contributing entities collectively—the employer's proportion.

308. In the Exposure Draft, the Board proposed the use of a long-term projection of the employer's relative share of total employer contributions as the sole basis for determining the employer's proportionate share of the collective net pension liability. This Statement expands the number of permissible bases for determining an employer's proportionate share as compared to the approach proposed in the Exposure Draft and permits the use of bases that are related to the manner in which contributions to the pension plan are determined. As discussed further below, these changes were made based on feedback from respondents to the Exposure Draft that indicated that (a) the range of facts and circumstances present among cost-sharing pension plans necessitates flexibility in the required approach and (b) the approach that was proposed in the Exposure Draft was considered to be too complex and too costly, in some circumstances.

309. Some respondents to the Exposure Draft disagreed with the use of any approach to measurement of a net pension liability for an individual employer that provides benefits through a cost-sharing pension plan. These respondents believe that no allocation approach would be representationally faithful of an individual employer's obligation because of the inherent uncertainties associated with the ultimate satisfaction of the obligation. On this point, the Board notes that it considered similar arguments from respondents about the potential for future events to occur differently than anticipated in the measurement

process in relation to single and agent employers. The Board believes that the same evaluation is relevant to measures for cost-sharing employers, generally. Furthermore, although the amounts reported would be estimates that incorporate assumptions about future events, the use of assumptions in measurement does not automatically preclude an item from being a faithful representation of what it purports to represent.

310. In the Exposure Draft, the proposal for determining the employer's proportionate share of the collective net pension liability focused on a measure of relative future contributions over the long term because some respondents to the Preliminary Views, which proposed the potential use of a single-period measure of contributions as the basis for determining an employer's proportionate share, objected specifically to the use of a single-period measure of relative contributions. Those respondents expressed concerns about the potential for volatility in an employer's pension liability and pension expense due to period-to-period variations in an employer's proportion if that proportion was based solely on current-period contributions. In the Exposure Draft, the Board noted that use of a long-term projection of the employer's relative share of total employer contributions, when coupled with the requirement that changes in the employer's proportionate share of the collective net pension liability that result from differences between the employer's contributions in the period and the employer's projected proportionate share of all employer contributions in the period be recognized as a deferred outflow of resources or a deferred inflow of resources related to pensions and included in pension expense over future periods, would address these concerns. However, some respondents to the Exposure Draft disagreed with the Board's evaluation, indicating that they believe that many cost-sharing pension plans are relatively stable and that use of projected, rather than current-period, measures of relative contributions would do little to enhance reliability, while significantly increasing the cost and complexity of applying the requirements.

311. Other respondents expressed concerns that proportions based on projected measures potentially would create challenges relative to the preparation or audit of information because they believe that certain information that would be needed to apply that approach would not be readily available to individual employers to permit them to prepare their own measures. Generally, these respondents indicated that measures of an employer's share should be based on more verifiable or less subjective information. Some of these respondents suggested that pension plans be required, as part of their financial reports, to present statements or schedules of information about individual employers' proportions or proportionate shares of the collective net pension liability. These

respondents believe that presentation of this information in pension plan financial reports would (a) facilitate the availability of the information for use in accounting and financial reporting by employers that provide benefits through the pension plan and (b) address some of the audit-related issues associated with the presentation of proportionate shares of pension-related measures in employer financial reports. It should be noted, however, that Statement 67 does not include a requirement for cost-sharing pension plans to present such information in their financial reports. (A discussion of the Board's considerations relative to this respondent request is presented in Appendix B of Statement 67.)

312. Some respondents objected to the use of an allocation method based on the consideration of the relative contribution requirements for an employer's proportionate share because, in their view, the resultant measures would not reflect, for an individual employer, the portion of the collective obligation that is related to its own employees. The Board agrees with the respondents' evaluation of the effects of the required approach—that is, that the required allocation basis would not reflect the portion of the collective net pension liability that arose as a result of the employer receiving services from specific employees in past periods. However, the Board does not believe that is the objective of the measurement. Such an approach ignores an essential characteristic of cost-sharing pension plans—the pooling of the benefit obligations of the employers. The Board believes that the lack of a one-to-one relationship to the original employment exchange reflects the basic structure of a cost-sharing arrangement. That is, the employers have individual exchanges with their employees; however, the employers collectively are responsible for the obligation that arises from the individual exchanges.

313. Some respondents to the Exposure Draft recommended alternative allocation bases, despite disagreeing with the overall proposal for individual-employer recognition of a proportionate share of the collective net pension liability. The respondent-recommended alternatives generally were intended to address perceived complexity, challenges associated with the availability of verifiable data for employer reporting purposes, and other concerns about perceived costs of preparation associated with the proposed methodology. Alternatives suggested included ratios based on current-period contributions or current-period payroll, average historical contributions or average historical payroll, single-period forward-looking contributions, and other methods that are used internally by some pension plans in some circumstances to associate a portion of the unfunded pension obligation to individual employers.

314. In addition to these recommendations for alternative allocation bases, some respondents to the Exposure Draft provided examples of specific circumstances in which they believe that the Exposure Draft approach may fail to faithfully represent an employer's individual responsibility relative to the collective net pension liability. Examples include situations in which (a) different rates are assessed for different classes of employees, (b) contribution rates assessed on employers in different classes include multiple components that are determined on different bases (for example, for contribution purposes, circumstances in which service cost is determined on the basis of the class and the component of the employer's required contribution related to amortization of the unfunded pension liability is based on the employer payroll of all employers), and (c) contribution patterns of one or more employers or groups of employers are expected to be irregular or of limited duration.

315. To accommodate the range of potential facts and circumstance that are present in cost-sharing pension plans and to alleviate concerns expressed about the verifiability of information that is required to be presented by a cost-sharing employer about its defined benefit pension liability and related measures, the Board concluded that this Statement should allow flexibility with regard to the determination of an employer's proportion of the collective net pension liability. In reaching this conclusion, the Board recognized that each potential estimation approach would involve subjective assessments about the future. Given the relative complexity of pension-related calculations, generally, and the number of assumptions that are needed to capture that complexity over the long term, the Board believes that certain simplifications reasonably can be applied to the determination of an individual employer's proportion without impairing the estimate so significantly that it would no longer be sufficiently reliable to be recognized—provided that a description of the basis for the proportion used to determine the employer's proportionate share of the collective net pension liability is disclosed in notes to the employer's financial statements.

316. The Board also concluded that to be representationally faithful, if different contribution rates are associated with different portions of the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or tiers of employees), an employer's calculation of its proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships. However, as a potential simplifying feature, this Statement provides that an employer in such a circumstance can use the measure of its proportionate share of the collective net pension liability, calculated considering the effects of

different contribution rates, to determine a single proportion of the collective net pension liability. That proportion can then be used to determine the employer's share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. In cases in which contribution rates are defined in the plan terms to be irregular or of a limited duration, the consideration of classes or groups also might provide a means of more faithfully representing an employer's proportionate share of the collective net pension liability.

Employer-Specific Accounting Considerations

317. The approach required by this Statement for individual cost-sharing employer accounting necessitates individual-employer accounting for events such as (a) changes in an employer's assumption about its proportion and (b) differences between employer contributions and the employer's assumed proportionate share of total employer contributions to the pension plan. The Board believes that to minimize complexity, these events should be accounted for in a manner consistent with the treatment of changes of assumptions or other inputs and differences between expected and actual experience in measurement of the collective net pension liability. The approach used for the effects of those types of changes in the collective net pension liability includes those amounts in pension expense over a number of future periods equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), with amounts that have not been included in pension expense reported as deferred outflows of resources or deferred inflows of resources related to pensions. Some respondents to the Exposure Draft expressed concern about the complexity associated with the proposed accounting approach for the effects of theses events and suggested that individual-employer amounts be recognized in the employer's pension expense in the period in which they occur in order to reduce that complexity. The Board continues to believe that recognition of the effects of such events in pension expense over future periods is consistent with the nature of the changes within the context of a pension long-term view. However, to address some of the respondents' concerns about complexity, this Statement provides that an employer can account for the effects of these two employer-specific changes on a net basis in each period. Such an approach would permit an individual employer to separately account for only one deferred outflow or deferred inflow balance related to these employer-specific changes for each period.

Notes to Financial Statements of Employers

318. The Board evaluated potential note disclosure requirements in the context of the conceptual guidance in Concepts Statement 3, which states that "notes to financial statements are integral to financial statements and are essential to a user's understanding of financial position or inflows and outflows of resources" (paragraph 35). Notes are used to provide:

a. Descriptions of the accounting and finance-related policies underlying amounts recognized in financial statements
b. More detail about or explanations of amounts recognized in financial statements
c. Additional information about financial position or inflows and outflows of resources that does not meet the criteria for recognition.

General Requirements

319. This Statement requires that employers disclose in notes to financial statements certain basic information about the benefits provided, how those benefits are administered and established, and the availability of pension plan financial statements. These requirements build on the requirements in Statement 27 to disclose general information about the benefits. The Board concluded that due to the complexity and variety of the features of defined benefit pensions, it is essential for users of financial statements to have such basic information provided in an employer's financial report.

320. This Statement also requires that employers disclose information about significant assumptions and other inputs used to measure the total pension liability. In contrast to liabilities that have fixed payment schedules, the measurement of the total pension liability is an estimated amount and is dependent upon the subjective assessment of a number of variables, each of which could have a significant effect on the resultant measurement. Because this measurement is not objective in nature, it is essential for users of the employer's financial statements to have information about what assumptions were made for purposes of potentially assessing the reasonableness of such assumptions or for purposes of comparison with other entities.

321. This Statement includes disclosure requirements specific to the assumptions made and other inputs used in determining the discount rate used in measuring the total pension liability. The Board concluded that additional detail

about the specific assumptions and other inputs used in determining the discount rate, as well as information about the sensitivity of the net pension liability to the discount rate, is essential because of the significant effect that the discount rate has on the measurement of the net pension liability and because of the focus that the users of financial statements have on the discount rate. In addition, this Statement requires disclosure of information related to the expected asset allocation of the pension plan's investment portfolio and the long-term expected real rates of return on the major asset classes in that portfolio. Some respondents to the Exposure Draft noted that such information is a part of only certain approaches that commonly are used to develop long-term expected rate of return assumptions. The Board concluded, however, that regardless of the methods used to develop the long-term expected rate of return, such information should be presented to provide essential information to assist users in assessing the reasonableness of that rate.

322. Some respondents to the Exposure Draft expressed concern regarding the cost of producing additional measures of the net pension liability that would be necessary to comply with the requirement to present such measures using different discount rates than that used for recognition purposes. Other respondents suggested that different or additional calculation points be considered. The Board concluded that because of concerns about cost, calculations beyond those proposed should not be required. However, it determined that because of the significance of the discount rate to the amounts reported by employers under the requirements of this Statement, this information is essential to provide users with information about the sensitivity of the net pension liability to the discount rate and, therefore, should be required to be presented in notes to the financial statements.

Information about the employer's funding policy (contributions)

323. Many respondents to the Preliminary Views, the Exposure Draft, or both, commented that information related to the adequacy of an employer's funding policy in comparison to actuarially calculated funding benchmarks, in their view, is critical to assessing accountability of employers and of those (if different) that are responsible for determining contribution policies of employers. As discussed above, some respondents noted that by (a) requiring employers to report measures such as the annual required contribution (ARC) introduced in Statements 25 and 27 and the extent to which they contributed the ARC and (b) establishing parameters (including a maximum amortization period for unfunded actuarial liabilities) for the calculation of those measures, the GASB

also has been viewed as having established de facto contribution policy standards. In this Statement, the Board has made clear the separation between its objectives related to establishing standards for the financial reporting of pensions by employers, on the one hand, and public policy matters such as pension contribution policy, on the other. Consistent with this distinction, this Statement does not establish an ARC, or similar measure. As a result, the Board does not believe that it would be appropriate to require disclosures in this Statement about a standardized measure of the amount an employer would need to contribute to a pension plan each year as part of a systematic contribution pension plan in order to reach projected objectives.

324. Instead of the alternatives suggested by respondents, the Board believes that the relevance for financial reporting of information related to the amounts computed as part of a systematic contribution plan depends on whether that measure is used to determine an employer's contributions to the pension plan each year. The measure of contributions from the employer to the pension plan during the measurement period is required by this Statement to be presented in the detailed schedule of changes in the net pension liability of a single or agent employer. A measure of contributions from the employer that includes amounts recognized as additions to the pension plan's fiduciary net position as a result of actual contributions and contributions recognized by the pension plan as current receivables during the employer's reporting period also is required to be disclosed. The Board concluded that, in addition to information about the amount of contributions from the employer to the pension plan, the most relevant information pertaining to employer contributions is the basis for determining actual contributions. This Statement, therefore, includes a requirement that an employer disclose that basis. In certain circumstances, additional information about contributions is required to be presented in an employer's required supplementary information schedules. (These requirements are discussed in paragraphs 338–340.) For employers that do not have a funding policy based on actuarially determined amounts, that fact would be evident through the required description of the employer's funding policy and the absence of actuarially determined contribution information in the employer's financial report.

Disclosures about the Pension Plan's Fiduciary Net Position

325. This Statement includes a requirement for an employer to include in its basic financial statements all disclosures about the elements of the pension plan's basic financial statements (assets, deferred outflows of resources, liabili-

ties, deferred inflows of resources, and fiduciary net position) that are required to be presented by standards applicable to the pension plan and its activities. The Board concluded that information that has been determined to be essential to understand those elements in other reporting contexts also would be essential to a user of an employer's financial statements, in which measures based in part on the pension plan's fiduciary net position are recognized.

326. With regard to investments, receivables, capital assets, and accounts payable, the Board determined that existing guidance—for example, Statements No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and No. 40, *Deposit and Investment Risk Disclosures,* which include disclosure requirements related to these items—is appropriate to fulfill the essential information needs of users of financial statements. The Board has not identified any specific features of these items that when reported by a pension plan would suggest additional disclosures. Consequently, the Board determined that disclosure requirements in addition to those already included in other pronouncements are not essential.

327. The Board notes that the required disclosures are included and available in the financial statements of the pension plan, if that pension plan issues stand-alone financial statements or is included in the financial report of another government. Therefore, because there may be potential cost savings in the preparation and audit of employer financial statements—and a potentially confusing presentation of information could be avoided in a situation in which an employer financial report also includes (as a fiduciary fund) a pension plan with a fiscal year-end that differs from the measurement date of the employer's net pension liability—this Statement includes a provision that an employer can exclude certain disclosures related to the elements of the pension plan's basic financial statements and instead refer to a pension plan's stand-alone financial report or the report of another government that includes the pension plan, provided that the financial report is available to the public on the Internet. In cases in which the date of the financial statements of the pension plan is not the same as the measurement date of the employer's net pension liability, reference is permitted. However, if there has been a significant change between the date of the financial statements of the pension plan and the measurement date of the net pension liability recognized by the employer, the Board concluded that additional disclosures about the nature and significance of the change are essential to understanding the amounts recognized in the net pension liability.

Changes in the Net Pension Liability

328. For single and agent employers, this Statement requires detailed disclosure of information about the components of the changes in the net pension liability.[33] Previous requirements for accounting and financial reporting for pensions included provisions for disclosure in notes to financial statements about the actuarially determined funded status of the pension plan as of the most recent actuarial valuation but did not require information about the changes in the components of funded status. The requirements of this Statement are similar in some ways to that funded status information but provide a greater depth of information that reflects the requirement that employers recognize a net pension liability.[34]

329. The employer's net pension liability is complex in the sense that the liability is created, and its amount may be increased or decreased, by diverse types of transactions or other events in each financial reporting period. The Board concluded that for financial statement users to understand and assess this liability and its position within a government's financial statements, it is essential for financial statement users to have information not only about the amount of the balance but also about the transactions or other events that created or changed the amount of the liability. These changes include both the direct effects of actions by the employer and the effects of events to which the employer is exposed as a consequence of its pension commitments and policies. Further, because the net pension liability encompasses two distinctly different components—the total pension liability and the pension plan's fiduciary net position—each of which is affected by different events, the Board concluded that to enhance transparency, information about the two separate components of the net pension liability, and changes in the two components of that liability, is essential to a user's understanding of the amount recognized in the employer's financial statements.

330. Some respondents to the Exposure Draft made recommendations regarding the presentation of information about the components of the changes in the net pension liability. Some of those respondents requested a consolidation of

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[33]For single and agent employers that have a special funding situation, note disclosures about changes in the net pension liability are required to be presented for changes in the collective net pension liability.

[34]For single and agent employers that have a special funding situation, a liability is recognized for the employer's proportionate share of the collective net pension liability and references to a single or agent employer's net pension liability are intended to include that circumstance.

high-level information about changes in deferred outflows of resources and deferred inflows of resources related to pensions with the information in this schedule to result in the presentation of the net effect of defined benefit pensions on amounts recognized in the employer's statement of net position. Other respondents suggested that the components presented in the schedule be reorganized or grouped differently in order to facilitate certain comparisons thought to be informative by those respondents. With regard to these requests, the Board concluded that much of the underlying information requested by the respondents already was proposed to be included in single and agent employer note disclosures. The Board recognized that alternative groupings could enhance comparability; however, given the requests for different groupings from various respondents, the comparability desired by each respondent through specific grouping requests could not be achieved.

Information about Pension Expense

331. For single and agent employers, the Exposure Draft proposed disclosure of the details of the components of pension expense. The Board believed that this information would assist users of the financial statements in understanding information about the cost of services because the nature of pension expense is complex and is an aggregation of a number of diverse components, including amounts related to service cost, interest, changes of benefit terms, pension plan investment experience, and others (including the recognition over time of deferred outflows of resources and deferred inflows of resources related to pensions arising from various sources). To address general concerns of some respondents to the Exposure Draft about the volume of proposed disclosures, as well as to minimize requirements for duplicative information, the Board considered whether the disclosure of components of pension expense should be presented in a more consolidated format. However, the information about the components of pension expense, when presented in a consolidated format, did not provide information at an appropriate level of understandability. The Board notes that many of the individual components of pension expense are presented in the schedule of changes in the single or agent employer's net pension liability, and consequently, this Statement requires only disclosure of the amount of pension expense recognized.

Information about Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

332. For deferred outflows of resources and deferred inflows of resources related to pensions, the Exposure Draft proposed that single and agent employers disclose information about the sources of changes in the balances from the beginning of the period to the end of the period. The balances of deferred outflows of resources and deferred inflows of resources related to pensions might change as a result of a number of diverse transactions and other events including changes of assumptions or other inputs, differences between expected and actual experience, and differences between projected and actual pension plan investment earnings, and the Board believed that information about such changes would assist a user of the financial statements in understanding the balances recognized in those statements. However, to address concerns from some respondents to the Exposure Draft about the volume and repetitiveness of proposed disclosures, the Board reconsidered whether the detail of the sources of changes in the balances from the beginning of the period to the end of the period was the appropriate level of detail to provide users of the financial statements with the necessary understanding of the balances. The Board recognized that the proposed information about changes in the balances during the period does not provide a full understanding of how those balances will be recognized in pension expense or in another manner in the future and does not provide information about the sources of those balances—changes of assumptions or other inputs, differences between expected and actual experience, differences between projected and actual pension plan investment earnings, contributions made subsequent to the measurement date of the net pension liability, and, if applicable, changes of proportion and differences between the employer's contributions to a pension plan and the employer's proportionate share of total contributions. To address the needs of users, while being mindful of minimizing duplicative information, the Board concluded that a summarized presentation of the sources of the balances of deferred outflows of resources and deferred inflows of resources related to pensions, as well as summarized information about how those balances will recognized in future periods would provide information that is essential for users of financial statements to understand balances of deferred outflows of resources and deferred inflows of resources related to pensions.

Disclosure Requirements for Cost-Sharing Employers

333. This Statement requires cost-sharing employers to disclose the same basic information about their pensions as is required for single and agent employers. The Board concluded that the characteristics of cost-sharing pensions do not diminish the needs of users for information about the key elements of the pensions that are provided to employees through those pension plans. For similar reasons, cost-sharing employers are required to disclose assumptions applied in measuring the total pension liability, information about the pension plan's fiduciary net position, and descriptions of events that gave rise to changes in those components (for example, changes of benefit terms or changes of assumptions or other inputs) in the period. Information also should include disclosure of the assumptions used to determine the employer's proportion of the collective net pension liability.

334. With regard to information about a cost-sharing employer's proportionate shares of the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions, the Board concluded that information about the employer's recognized amounts for each of an employer's cost-sharing pension plans would be essential to a user's understanding of the employer's financial statements. As noted earlier, this Statement requires a cost-sharing employer to disclose descriptive information about events that affected the total pension liability in the current period—for example, a description of changes of benefit terms. However, this Statement does not include requirements for cost-sharing employers to present detailed information about changes in the components of the collective net pension liability, as is required for single and agent employers. In the view of the Board, that level of detail would provide meaningful information if presented for components of the collective net pension liability. However, the Board determined that level of detail is not essential to understand the amounts recognized by the individual cost-sharing employer. Because of the pooling features of cost-sharing pension plans, individual employers are one step removed from the collective measures. Although changes in the collective net pension liability impact the pension liabilities recognized by each employer, the components of changes in the collective net pension liability can be viewed as having a more direct relationship to the employers collectively than to any individual employer. The Board, therefore, concluded that this information should not be required in cost-sharing employer financial statements.

Required Supplementary Information of Employers

335. The Board evaluated potential requirements for the presentation of required supplementary information in the context of the conceptual guidance in Concepts Statement 3, which states that required supplementary information is "supporting information that . . . is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context" (paragraph 42).

336. This Statement requires that single and agent employers include in required supplementary information a 10-year schedule of changes in the net pension liability, for which the current-year information also is required to be included in notes to the financial statements. The Board determined that the information in this schedule would explain, in terms of historical transactions or other events, the factors that have resulted in the net pension liability that is recognized by the employer in the current-period financial statements. The Board also determined that a multiyear presentation of this information enhances the analytical potential of the current-year disclosure of changes by supporting analysis of the various types of changes, individually or in combination, over time. In the Exposure Draft, the Board proposed that cost-sharing employers be required to present this schedule with amounts determined for the collective net pension liability because the Board believed that this information would provide essential context for the amounts that are recognized by the individual cost-sharing employers. In response to concerns expressed by some respondents to the Exposure Draft about the cost and complexity of the proposed accounting and financial reporting approach for cost-sharing employers, generally, and considering that the information in this proposed schedule was believed to have information value primarily when presented relative to the collective liability of the employers, the Board concluded that cost-sharing employers should not be required to provide this information, which Statement 67 requires be presented in the pension plan's financial report.

337. This Statement also includes requirements for single and agent employers to supplement the required information about the net pension liability and its two components with ratios to place the individual balances into perspective. The Board concluded that such ratios provide information that enables users to assess changes in the relationship of the components of the net pension liability over time at a higher level than the information presented in the schedule of changes in the net pension liability. The information may be presented together with the schedule of changes in the net pension liability or as a separate

schedule. For similar reasons, cost-sharing employers are required to present similar information about their proportionate share of the collective net pension liability. For this summary information, the Board concluded generally that it is essential to present the information measured at the individual-employer level to relate these schedules to amounts recognized in the employer's financial statements. In addition, information about the employer's proportionate share of the net pension liability of the employer over time would provide essential context to understanding period-to-period changes in the pension liability recognized by the employer. However, it also concluded that ratio information about the relationship of the amount of the pension plan's fiduciary net position to the total pension liability bears a more direct relationship to collective net pension liability; therefore, this Statement requires that ratio to be measured at the collective level for presentation in the employer's schedule.

338. The Board also has included in this Statement a requirement that single and agent employers present as required supplementary information a 10-year schedule that presents employer contributions in comparison to actuarially determined contributions, if such contributions are determined. As previously discussed, in this Statement and in Statement 67, the Board has decided to remove the specific link between the accounting measures of the employer's pension liability and pension expense, on the one hand, and actuarially calculated funding-based measures, on the other. However, the Board determined that, in circumstances in which an actuarially determined contribution rate is established, a 10-year schedule providing information about employer contributions—including contributions and actuarially calculated contributions—as well as information related to covered-employee payroll, is essential for providing historical and economic context for the amount of contributions reported as additions to the pension plan's fiduciary net position and should be presented as required supplementary information. In addition, information about the key methods and assumptions used in determining the annual requirement is required to be presented in notes to schedules of required supplementary information. The detail of contributions over a 10-year period provides historical context for the amount of contributions in the current period. Information about actuarially determined contributions, as well as covered-employee payroll information, provides economic context to the contribution amounts reported. Some respondents to the Exposure Draft believe that the information in this schedule should be required to be presented by all employers, regardless of whether an actuarially determined contribution rate is established for another purpose. Some of those respondents believe that a standardized approach to the calculation of the measures should have been required; others believe that the schedule should be required without estab-

lishing parameters for the calculation of the actuarially determined employer contribution. With regard to these recommendations, the Board concluded that this Statement should require presentation of the schedule of actuarially determined contributions only if the employer already has such information. For the reasons discussed above, the Board believes that it is not appropriate to establish measures for benchmarks related to pension funding in this Statement. Further, any requirement to present this information (whether standardized or not) potentially would require employers to perform an additional actuarially based calculation for financial reporting purposes and, thus, to incur additional preparation costs.

339. The Exposure Draft proposed that a schedule of information about actuarially determined contributions be presented by cost-sharing employers, with additional identification of the amount of the contractually required contributions, if different from the actuarially determined contributions, at both the collective level and at the individual-employer level. The Board concluded that for practical reasons, cost-sharing employers should not be required to present the actuarially based information that was proposed in that schedule and noted that similar information, at the collective level, is required by Statement 67 to be presented by cost-sharing pension plans.

340. For single and agent employers that do not have actuarially determined contributions but do have statutorily or contractually established contribution requirements, the Board determined that there would be little incremental cost to provide information about contributions relative to the employer's statutory or contractual requirements. The Board believes that this information would provide users of the employer's financial statements with historical context relative to the employer's contribution policy and, therefore, this Statement requires that single and agent employers in that circumstance disclose information about the statutory or contractual rates, as well as the amounts of employer contributions relative to those rates, over a 10-year period. Similarly, for cost-sharing employers that have statutorily or contractually determined contribution requirements, the Board concluded that information comparing the employer's contributions to those statutorily or contractually determined rates provides essential context to evaluate the contribution policies of individual employers. Therefore, this Statement requires presentation of a 10-year schedule with those comparisons in required supplementary information.

Ten-Year Schedules

341. Earlier standards include a requirement to present required supplementary information about funded status resulting from three actuarial valuations, which covers three or six years, depending on the frequency of those actuarial valuations. The Board has received feedback from some users of financial statements that, if the intent is to provide historical context, so few years of information may not be sufficient. To provide information that is essential to understanding trends and to place the information reported for the current period into historical perspective, this Statement requires that all schedules of required supplementary information present information for 10 years—a period that the Board believes will provide information to identify some cyclical factors and other trends in the information without resulting in an overly burdensome presentation.

Requirements When a Primary Government and Its Component Units Provide Benefits through the Same Defined Benefit Pension Plan

342. This Statement includes guidance related to the applicability of its requirements to the reporting entity, as well as to a primary government and its component units. To minimize variations in application of the requirements of this Statement, in circumstances in which a primary government and its component units provide pension benefits through the same defined benefit pension plan, the note disclosure and required supplementary information requirements for single employers should be presented in the financial statements of the financial reporting entity. This Statement also requires that in the reporting entity's note disclosures, amounts associated with the primary government and amounts associated with the discretely presented component units (in the aggregate) should be separately identified. However, in this circumstance, a primary government and its component units are required to apply the cost-sharing provisions of this Statement when presenting information in their stand-alone financial statements, if applicable.

343. Some respondents objected to this approach because they believe that the primary government should be viewed as responsible for the obligation of a discretely presented component unit. The Board believes that if that is the case, the application of the requirements related to special funding situations should be applied to determine the appropriate reporting of the pension liability by each government. Some respondents questioned why a primary government and its

component units should be considered a single entity if a cost-sharing approach is required to be applied to accounting and financial reporting in the primary government and the component unit financial reports. The Board's approach recognizes that the perspective of the relationship between the primary government and its component units varies depending upon the entity that is presenting the financial report. The Board believes that when the financial statements are presented for the reporting entity, the perspective for pension information is on the reporting entity as a whole—a single employer. However, when the financial statements relate to the primary government alone or to a stand-alone component unit, the Board believes that the perspective should be on an entity that participates with other employers in a pension plan—a cost-sharing employer. Other respondents believe that the required approach would be administratively burdensome because, in some cases, pension plans do not aggregate data in the manner that would be required to allocate amounts between the primary government and the component units. The Board concluded that the additional administrative burden is not greater than that imposed on other cost-sharing pension plans. Still others suggested that individual component units be permitted to refer to the financial statements of the reporting entity for note disclosure information. The Board was not persuaded that a reference to information in other financial reports was appropriate because that would not be consistent with requirements for other cost-sharing employers.

344. The Board concluded that this approach generally will address the need to provide information to assess accountability of the primary government for its component units and that comparability of information reported by governments will be enhanced by a single approach to classify pension plans as single employer or multiple employer, combined with the establishment of a consistent methodology for the allocation of pension-related measures among the primary government and its component units, in such circumstances.

Application of Requirements to Fund Financial Statements and to Activities

345. This Statement does not provide specific guidance for allocating pension liabilities and related measures among fund financial statements and between governmental and business-type activities in the government-wide statement of net position. Some respondents to the Exposure Draft recommended that the Board provide such allocation guidance because of the complexities of potential methods of allocation of the pension measurements to funds and activities.

After consideration of the existing guidance related to reporting liabilities, the Board concluded that additional guidance is not needed for allocation to funds and activities. The Board continues to believe that there is nothing unique about a government's net pension liability (and related measurements) that for purposes of allocation to funds and activities distinguishes it from other long-term liabilities that are based on estimates—circumstances for which existing guidance already is available.

Application of Requirements to Financial Statements Prepared Using the Modified Accrual Basis of Accounting

346. This Statement specifically addresses the application of the requirements to financial statements prepared using the modified accrual basis of accounting. The Exposure Draft included language that was conceptual in nature with regard to the modified accrual basis of accounting. Some respondents to the Exposure Draft suggested that additional clarification would be appropriate to promote consistency in application, and the Board was persuaded that additional guidance regarding when pension liabilities are normally expected to be liquidated with expendable available resources was needed.

Application of Regulatory Accounting

347. This Statement does not specifically address the application of regulatory accounting to its provisions. Respondents to the Exposure Draft questioned whether the provisions of regulatory accounting in paragraphs 476–500 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* were applicable to pension accounting and financial reporting. In some previous pronouncements, the Board specifically has indicated that the provisions of regulatory accounting may be applied. However, when those pronouncements were issued, the provisions related to regulatory accounting were included in FASB Statement No. 71, *Accounting for the Effects of Certain Types of Regulation.* Now that the regulatory accounting provisions are a part of the GASB's literature, there should be no question that those provisions continue to apply—as do all other provisions in GASB literature—unless a Statement specifically indicates that those provisions do not apply or do not apply to all circumstances.

Payables to a Defined Benefit Pension Plan

348. This Statement includes accounting and financial reporting requirements for payables of an employer or governmental nonemployer contributing entity to a pension plan. Such payables can arise from several types of events. For example, liabilities to a pension plan can be created as a result of a legally required contribution to a pension plan that has not been made as of the period-end. These payables typically are short term in nature. Other payables to a pension plan are longer term obligations. For example, when entering a preexisting cost-sharing pension plan, an employer often enters into a separate financing arrangement with the pension plan for the past service cost of that employer's employees. (Under previous standards, such long-term liabilities of an employer to a pension plan were termed *pension-related debt.*) The Board believes that because short-term and long-term obligations to a pension plan have similar characteristics (notwithstanding differences in their duration), the accounting requirements for both types of liabilities should be similar. The Board concluded that such obligations, because they are legally required (including those that are contractually created), meet the definition of a liability in Concepts Statement 4 and should continue to be recognized as liabilities of an employer or governmental nonemployer contributing entity. Further, the Board concluded that disclosure of information about the terms of the liability, the balances outstanding at period-end, and the circumstances giving rise to such liabilities would be essential to inform a user of the financial statements about the existence, magnitude, and conditions of a liability to the pension plan, separate from the liability to the employees as a result of the employment exchange.

349. Some respondents to the Exposure Draft recommended that an employer or nonemployer contributing entity be required to display or report its liability to a defined benefit pension plan as a subset of the net pension liability. The Board concluded that the payable to the pension plan is not a direct subset of the net pension liability and that presentation of the two amounts in a manner that implies such a relationship potentially would be misleading. Further, because of the potential for measurement differences between the amount recognized as a liability (payable) to the pension plan and the amounts reported as a net pension liability, the presentation requested by respondents would not be feasible. Rather, the Board believes that the separate disclosure of information about the amounts reported for such liabilities will provide users of financial statements with information within an appropriate context to evaluate the nature and size of those obligations.

Defined Contribution Pensions

350. This Statement generally carries forward the requirements of Statement 27 for employer accounting and financial reporting for defined contribution pensions. The Board, however, is aware of circumstances in which the timing of payments into an employee's defined contribution account may differ from the timing of the provision of services for which the payments provide compensation. The Board believes that defined contributions are the amounts that are defined by the benefit terms as being attributable to employees' services in a period, notwithstanding variations that may exist with regard to the occurrence or timing of actual payments into an employee's individual account. Therefore, in this Statement, the definition of defined contribution pensions, as well as the accounting requirements for such pensions, include provisions to accommodate circumstances in which the timing of payments into individual accounts does not coincide with the period of employee service to which defined contributions pertain (as when a nonvested employee accumulates credits for which the employer delays payment into the employee's account until vesting provisions have been satisfied). However, the underlying notion inherent in the definition in Statement 27 remains. That is, a pension is classified as defined contribution for accounting and financial reporting purposes if the amount of pensions that the employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on the underlying assets associated with contributions (or credits) to the employee's account, and adjustments for forfeitures of contributions as well as pension plan administrative costs, that are allocated to the employee's account. This definition excludes from the category of defined contribution pensions those pensions that are provided through pension plans in which interest earnings in individual employee accounts are not derived from actual earnings on underlying assets contributed or credited to the account. Such pensions include those in which the employer provides a defined rate of return on member balances and those in which interest crediting is based on a specified index rather than on actual investment earnings. It also excludes circumstances in which the employer has longevity risk associated with an annuitization feature of a pension that otherwise would be classified as defined contribution.

351. This Statement also establishes requirements to address accounting for forfeitures. Previous GASB standards have not included provisions related to forfeitures. The Board's research indicated that forfeitures can be relatively significant in some defined contribution pension plans in at least some periods. Therefore, to improve consistency and comparability in the accounting for

defined contribution pensions, this Statement requires that employers recognize pension expense net of forfeited amounts that are removed from the individual accounts of former employees. The Board considered an alternative approach that would have recognized pension expense based on measures that incorporate expectations about future forfeiture rates but concluded that the additional complexity that would result from a requirement to follow such an approach is not warranted because of the relatively small proportion of employers for which forfeitures are significant.

Special Funding Situations

352. As previously discussed, the Board believes that the liability for pensions originates with employers as a result of employment exchanges that promise pensions for employee service. Therefore, employer accounting in this Statement is based on recognition of the employer's liability to employees for pensions to the extent that fiduciary net position is not currently held by the pension plan—an amount that reflects the expected future sacrifice of resources relative to those benefits. In some cases, however, there are entities other than the employers that are expected to sacrifice resources to satisfy the liability to employees for pensions because of legal requirements to make contributions directly to a pension plan—certain of these circumstances are referred to as special funding situations. Special funding situations are most commonly found among cost-sharing employers; however, the Board determined that special funding situations can and potentially will exist in other types of pensions plans. Therefore, this Statement also addresses the effects of special funding situations on the pensions of single and agent employers, as well as on employers that provide defined contribution pensions.

353. With regard to these situations, the Board considered two possible views, each with different implications for accounting and financial reporting purposes. That is, the legal responsibility of the nonemployer contributing entity to contribute directly to the pension plan should be viewed as either (a) an assumption by the paying government of a portion of the unfunded pension liability of the employer or (b) a responsibility to assist in funding the employer's pension liability with no assumption of the unfunded pension liability of the employer. Some respondents to the Exposure Draft supported the latter view. These respondents generally advocated for the application of the requirements of Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions,* to these circumstances. In their view, the involvement of a nonemployer contributing entity should have the same effect for accounting and

financial reporting purposes whether the entity provides its support through payments directly to the employer or through payments directly to the pension plan. These respondents also believe that because the exchange that creates the pension obligation occurs between the employer and the employee, the resultant liability should be reported by the employer until it is satisfied by payments of benefits to the employee or by transfer of assets to the pension plan.

354. After considering these two distinctly different views, the Board concluded that, unlike in a typical nonexchange transaction addressed in Statement 33, the nonemployer contributing entity in a special funding situation has a direct obligation under the economic resources measurement focus and accrual basis of accounting. That obligation warrants the recognition of a liability based on when the benefits are earned rather than on when contributions are due and payable (which would result from the application of an eligibility requirements-based view).

355. Within the context of the definition of a liability in Concepts Statement 4, the Board concluded that if (a) an entity is legally required to provide assets to the pension plan in the future to satisfy the accrued pension obligation and (b) that requirement is not dependent on the occurrence of an event unrelated to the pensions, that entity has a present obligation to sacrifice resources (that is, a liability) for those benefits. Therefore, in such circumstances, the Board concluded that a nonemployer contributing entity's legal requirement to contribute should be viewed for accounting and financial reporting purposes as an assumption by the nonemployer contributing entity of a portion of the pension liability of the employer on whose behalf the contributions are made. The Board also concluded that in all circumstances in which a nonemployer contributing entity is the only entity with a legal obligation to make contributions to the pension plan, the nonemployer entity's involvement should be viewed as an assumption of the employer's entire pension obligation.

356. Consistent with these views, the Exposure Draft proposed and this Statement requires an approach that results in (a) the employer recognizing a net pension liability that reflects an adjustment for the proportion of the employer's liability that is allocated to a nonemployer contributing entity as a result of its requirement to contribute and (b) a governmental nonemployer contributing entity that has a legal requirement to make payments to a pension plan consistent with the characteristics identified in paragraph 355 recognizing in its financial statements its proportionate share of the collective net pension liability of the employers on whose behalf it contributes. To reduce the complexities of

the approach, this Statement requires that the measurements of the governmental nonemployer contributing entity's deferred outflows of resources and deferred inflows of resources be based solely on its proportion of the collective net pension liability, rather than requiring the nonemployer contributing entity to obtain information about each individual employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, as would have been required by the Exposure Draft proposal. The individual balances of deferred outflows of resources and deferred inflows of resources that will be reported by the employers and the governmental nonemployer contributing entities as a result of using the approach required by this Statement will differ from those that would result if the governmental nonemployer contributing entity's approach was based on individual employer balances. However, the Board believes that practical concerns about the cost of measurements and potential challenges associated with obtaining information from potentially numerous individual employers warrants deviation from the conceptual approach for these measurements.

357. In broad terms, the approach required by this Statement is a continuation of the basic approach required in Statement 27 for special funding situations. That approach requires the entity that is legally responsible for employer contributions to follow the applicable employer provisions of that Statement for measurement and recognition of pension expense and liabilities. It also requires both the employer and the governmental nonemployer contributing entity to apply the requirements of Statement 24. Within the context of accounting for pensions, applying Statement 24 results in an employer recognizing an amount of pension expense that reflects the total cost of services associated with those benefits, with the financial support of the nonemployer contributing entity recognized as revenue. The project leading to this Statement did not reexamine or reconsider the requirements of Statement 24, generally, and, therefore, this Statement incorporates the requirements of Statement 24, with modifications only to reflect changes in the overall accounting framework applied to pensions.

358. Modifications required as a result of the accounting framework of this Statement included consideration of issues similar to those related to the measurement of the net pension liabilities and other measures by individual cost-sharing employers. That is, issues related to (a) assumptions about relative proportion and (b) accounting for a change in proportion and for differences between amounts recognized by the pension plan as contributions and each entity's share of those amounts, are relevant to both circumstances. Generally, the objective of the measurement of a nonemployer contributing entity's assumption of an employer's net pension liability and related measures is the

same as the objective of similar measurements for cost-sharing employers—that is, to result in recognition of liabilities that represent the expectation of future sacrifices of the entities' resources. Therefore, the requirements of this Statement for measurement of pension-related balances and expense by governmental nonemployer contributing entities in special funding situations generally are parallel to the requirements for cost-sharing employers.

359. Some respondents to the Exposure Draft questioned whether the amount of the nonemployer contributing entities' contributions that is related to the employer's net pension liability would be determinable. These respondents noted that contributions can be made for current service cost, past service cost, or a combination of those costs. Further, the purpose of the contributions might not be specified in the pension plan terms or other, related legal documents. In those cases (and in the absence of evidence to the contrary), because the Board views the involvement of the nonemployer contributing entity as being similar to the role of an employer, the Board believes that the nonemployer entity's contributions should be viewed as applying to current and to past periods in the same proportion in which they would be assigned if made directly by the employer. This being said, despite differences in service cost amounts because of measurement differences that might exist between funding calculations and accounting calculations, the Board believes that if a nonemployer entity expresses its intent, through the plan terms related to contributions, to be responsible for all or a portion of contributions relative to past service under the pension plan's funding methodology, the entity should be considered to be assuming responsibility for some or all of the net pension liability of the employers.

360. Some respondents also questioned whether there is a substantive difference between special funding situations and circumstances in which there is a legal obligation for a nonemployer entity to make contributions but neither of the criteria in paragraph 15 of this Statement are not met—for example, when the amount of an employer's required contribution is defined as a portion of a specific revenue stream and the nonemployer is not the only entity with a legal requirement to make contributions. The Board acknowledges that there are commonalities between a special funding situation and the circumstances described. However, it concluded that in circumstances in which the amount of nonemployer contributing entity contributions are based on pledged revenue streams or defined in terms of residual fund balances, the amount of contributions (and, in fact, the probability of any contributions) is too uncertain to be considered an indicator of an intent to assume a portion of the

employer's obligation unless the nonemployer contributing entity is the only entity that is responsible for contributions to the pension plan. Therefore, this Statement requires such circumstances to be accounted for in the same manner as nonexchange transactions.

Note Disclosures and Required Supplementary Information for Special Funding Situations

361. This Statement includes note disclosure requirements for governmental nonemployer contributing entities in special funding situations. This Statement also requires modifications to note disclosures of employers to describe the effects of the involvement of a nonemployer contributing entity on certain amounts recognized by the employer. With regard to governmental nonemployer contributing entities that recognize a *substantial* portion of the collective net pension liability, this Statement requires note disclosures and schedules of required supplementary information that generally are consistent with those required for cost-sharing employers. The Board believes that when the relative share of the governmental nonemployer contributing entity is substantial, the relationship of the entity to the collective net pension liability is similar to that of a cost-sharing employer to that measure. Therefore, similar information about that relationship is essential to a user's understanding of the governmental nonemployer contributing entity's financial statements.

362. With regard to governmental nonemployer contributing entities that do not recognize a substantial portion of the collective net pension liability, this Statement requires presentation of information in notes and required supplementary information at a level of detail that is reduced from that of an employer. Required disclosures include basic descriptive information about the pension plan, the basis on which the entity's contributions are determined, the proportionate share of the collective net pension liability recognized by the governmental nonemployer contributing entity as a result of the special funding situation, and the entity's proportion represented by that amount. Requirements for presentation of information in required supplementary information comprise a 10-year schedule of information about the total of the proportionate shares of the collective net pension liabilities recognized by the governmental nonemployer contributing entity as a result of special funding situations and the amount of contributions from the nonemployer contributing entity as support for the pensions of employees of other governments. The Board concluded that more detailed information about changes in and the relationships of the components of the amounts recognized by the governmental nonemployer contrib-

uting entity in this circumstance is not essential to a user of its financial statements. Unlike the employers, whose relationships with employees create the underlying liabilities, the nonemployer contributing entity in such a circumstance does not have a direct relationship to the exchange. Rather, the relationship is one of the nonemployer contributing entity to the employers, and the schedules presented in required supplementary information should reflect that relationship over time.

Effective Date and Transition

363. Because of the importance that users of financial statements place on information about public pensions, the Board believes that the requirements of this Statement should be implemented as soon as practicable. Information from an actuarial valuation is needed in order to comply with all of the reporting requirements; therefore, the Board believes that the provisions of this Statement generally should be implemented after the next actuarial valuation, which would need to be performed in a manner that produces the information necessary to implement this Statement. The provisions of this Statement are required to be implemented one year subsequent to the date at which pension plans are required to implement the provisions of Statement 67. This is consistent with the provisions regarding the timing of measurements, which permit the net pension liability reported by employers to be measured as of a date no earlier than the end of the employer's prior fiscal year, as well as with the provisions in Statement 67 that require a pension plan to disclose information about the net pension liability as of the pension plan's fiscal year-end.

364. In the Exposure Draft, the Board proposed an implementation date two years earlier than the effective date in this Statement for employers that participate only in certain large pension plans and proposed an implementation date one year earlier for all other employers, including those that participate in smaller pension plans, multiple-employer pension plans, or pension plans with special funding situations. The phased-in approach proposed in the Exposure Draft would have required employers in pension plans that typically have annual valuations and relatively fewer issues related to planning and coordination between the employer and the pension plan to implement more quickly than other employers. Some respondents to the Exposure Draft expressed concern about the proposed effective date and generally requested that the effective dates be delayed. Those respondents noted that they believe that additional time is needed for planning, coordination, and education related to the proposed requirements, including time to develop processes and information

systems to provide data that currently is not available. Those respondents also identified the need for additional time to educate pension plan participants, elected officials, and auditors, as well as to allow time for pension plan sponsors to evaluate their current policies and budgeting practices. Some of those respondents also did not believe that the benefit of earlier implementation by employers in certain large pension plans was greater than the potential confusion created by the use of phased-in effective dates. Because of these concerns and because of the changes made to the required timing of the measurement of the net pension liability, the Board eliminated the phased-in implementation approach and delayed the effective date of this Statement.

365. In addition, because of the potential cost associated with determining the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, especially for employers that participate in pension plans with complex features, the Board concluded that it is appropriate to require retroactive application of the provisions of this Statement to the extent that it is practicable. Likewise, the Board did not require presentation of information for all periods for the 10-year required supplementary information schedules that contain information about the employer's pension liability during transition because of concerns about potential cost and the availability of information for past periods.

Considerations Related to Benefits and Costs

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

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

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

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

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

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

371. The Board assessed the expected benefits and perceived costs of its proposed requirements at two levels—for individual decisions and for the entirety of the Statement. Throughout its deliberations, the Board specifically considered the relative expected benefits and perceived costs of individual major decisions. For example, the Board proposed in the Exposure Draft to require measurement of the net pension liability as of the employer's fiscal year-end, determined by an actuarial valuation as of that date or through the use of procedures to update to the measurement date the results of an actuarial valuation as of a date no more than 24 months prior. Based on respondent concerns about potential costs, the Board revised the requirement to a measurement date no earlier than the employer's prior fiscal year-end, determined by an actuarial valuation as of that date or through the use of procedures to update to the measurement date the results of an actuarial valuation as of a date no more than 30 months and 1 day prior to the employer's fiscal year-end—a change that is expected to significantly reduce costs for both employers and pension plans. On the other hand, the Board decided to retain the requirement that cost-sharing employers recognize their proportionate shares of the collective net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. However, the Board revised the proposed method of determining an employer's proportionate share in order to reduce the cost of complying with the requirement.

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

Appendix C

ILLUSTRATIONS

373. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Disclosures set forth in this Statement and in other GASB pronouncements, in addition to those shown in Illustrations 2–6, are required, if applicable. Illustrations 2 and 3 are coordinated with Illustrations 3 and 4 of Appendix C of Statement 67. Amounts presented may include rounding differences.

Illustration 1—Calculation of the Discount Rate

Illustration 2—Note Disclosures and Required Supplementary Information for a Single Employer (No Nonemployer Contributing Entities)

Illustration 3—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer (No Nonemployer Contributing Entities)

Illustration 4—Note Disclosures and Required Supplementary Information for a Cost-Sharing Employer That Has a Special Funding Situation (No Other Nonemployer Contributing Entities)

Illustration 5—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 6—Note Disclosures for an Employer with Defined Contribution Pensions (No Nonemployer Contributing Entities)

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 this Statement, 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 this Statement, as applicable (Table 3, column (g)).

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

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

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

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

Facts and Assumptions

The following facts are assumed in this illustration:

a. Total covered-employee payroll increases 4.25 percent per year.
b. Active employees are required by statute to contribute 5.00 percent of pay to the pension plan.
c. The employer is required by statute to contribute 10.00 percent of covered-employee payroll to the pension plan.
d. Benefit payments are projected as required by paragraphs 24 and 25 or 62 and 63 of this Statement, as applicable.
e. The service cost is 12.00 percent of covered-employee payroll.
f. The pension plan's initial fiduciary net position is $1,431,956.
g. Initial pension plan administrative expense is $1,000.
h. Pension plan administrative expense increases 3.00 percent per year.
i. Contributions, benefit payments, and pension plan administrative expense occur halfway through the year for purposes of projecting pension plan investment earnings.

j. The long-term expected rate of return on pension plan investments is 7.50 percent.
k. The tax-exempt, high-quality general obligation municipal bond index rate is 4.00 percent.

Table 1: Projection of Contributions

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

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

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

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

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

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

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

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

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

† Projected as required by paragraphs 24 and 25 or 62 and 63 of this Statement, as applicable.

‡ Pension plan administrative expense increases 3.00% per year.

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

Table 3: Actuarial Present Values of Projected Benefit Payments

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

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

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

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

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

Illustration 2—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 this Statement. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnotes 12, 13, and 25 of this Statement, 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 this Statement and should apply the requirements of paragraph 38 of this Statement. 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 this Statement 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 this Statement.]

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	5,347
	10,556

[If the pension plan was closed to new entrants, the County should disclose that fact, as required by paragraph 40b of this Statement.]

Contributions. Article 15 of the Regulations of the State grants the authority to establish and amend the contribution requirements of the County and active 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 this Statement differed from the amount of contributions to the pension plan from the County required to be disclosed by paragraph 44b(6) of this Statement, in the schedule of changes in the net pension liability, the County should disclose the contribution amount information required by paragraph 40d of this Statement.]

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 this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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
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 this Statement.]

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	75,864		75,864
Interest	216,515		216,515
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 this Statement, 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 this Statement.]

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

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

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 this Statement.]

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 $158,356. At June 30, 20X9, the County 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	$ 33,329	$ 53,995
Changes of assumptions	62,949	-
Net difference between projected and actual earnings on pension plan investments	133,976	-
Total	$ 230,254	$ 53,995

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	$ 57,966
20Y1	86,466
20Y2	43,069
20Y3	(1,778)
20Y4	1,465
Thereafter	(10,929)

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

Notes to Schedule:

Benefit changes. In 20X1, benefit terms were modified to base public safety 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.

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

SCHEDULE OF COUNTY CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

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

Notes to Schedule

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Retirement age	In the 20X7 actuarial valuation, expected retirement ages of general 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.

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

Illustration 3—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 this Statement. 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 this Statement, 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 this Statement and should apply the requirements of paragraph 75 of this Statement.]

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 two times the employee's final full-year salary. [If the benefit terms included postemployment benefit changes, the District should disclose information about those terms, as required by paragraph 76b of this Statement.]

[If the pension plan was closed to new entrants, the District should disclose that fact, as required by paragraph 76b of this Statement.]

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 this Statement.]

[If changes expected to have a significant effect on the measurement 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 this Statement.]

For the year ended June 30, 20X9, the District recognized pension expense of $2,395. 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	$ 2,657	$ 142
Changes of assumptions	1,714	130
Net difference between projected and actual earnings on pension plan investments	-	2,188
Changes in proportion and differences between District contributions and proportionate share of contributions	747	153
District contributions subsequent to the measurement date	1,065	-
Total	$ 6,183	$ 2,613

$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	$ (269)
20Y1	161
20Y2	217
20Y3	545
20Y4	551
Thereafter	1,300

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 this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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 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 this Statement.]

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%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	$ 16,476	$ 14,910	$ 13,091

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 this Statement.]

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 this Statement.]

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
District's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%
District's proportionate share of the net pension liability (asset)	$ 14,910	$ 11,738	$ 12,972	$ 13,495
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,553
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%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%

* The amounts presented for each fiscal year were determined as of 12/31.

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.

20X5		20X4		20X3		20X2		20X1		20X0
0.20%		0.20%		0.20%		0.21%		0.21%		0.21%
$ 14,892		$ 11,605		$ 4,372		$ (2,355)		$ (1,264)		$ (926)
$ 9,522		$ 9,299		$ 8,709		$ 8,175		$ 7,909		$ 7,659
156.40%		124.80%		50.20%		(28.81%)		(15.98%)		(12.09%)
75.79%		79.74%		91.78%		104.52%		102.63%		102.10%

SCHEDULE OF DISTRICT CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Contractually required contribution	$ 2,095	$ 2,057	$ 1,969	$ 1,649
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634
Contributions as a percentage of covered-employee payroll	17.32%	18.76%	19.57%	17.11%

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.

20X5		20X4		20X3		20X2		20X1		20X0	
$	1,176	$	898	$	820	$	769	$	880	$	1,082
	(1,176)		(898)		(820)		(769)		(880)		(1,082)
$	-	$	-	$	-	$	-	$	-	$	-
$	9,538	$	9,410	$	9,004	$	8,442	$	8,042	$	7,784
	12.33%		9.54%		9.10%		9.11%		10.94%		13.90%

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 4—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 this Statement. 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 this Statement, 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 this Statement and should apply the requirements of paragraph 75 of this Statement.]

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 two times the employee's final full-year salary. [If the benefit terms included postemployment benefit changes, the District should disclose information about those terms, as required by paragraph 76b of this Statement.]

[If the pension plan was closed to new entrants, the District should disclose that fact, as required by paragraph 76b of this Statement.]

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	$	14,910

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 this Statement.]

[If changes expected to have a significant effect on the measurement 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 this Statement.]

For the year ended June 30, 20X9, the District recognized pension expense of $2,332 and revenue of $2,093 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	75	15
District contributions subsequent to the measurement date	107	-
Total	$ 619	$ 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	$ (27)
20Y1	16
20Y2	22
20Y3	55
20Y4	55
Thereafter	130

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 this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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 this Statement.]

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%)	Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	$ 1,648	$ 1,491	$ 1,309

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 this Statement.]

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 this Statement.]

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
District's proportion of the net pension liability (asset)	0.020%	0.019%	0.019%	0.019%
District's proportionate share of the net pension liability (asset)	$ 1,491	$ 1,174	$ 1,297	$ 1,349
State's proportionate share of the net pension liability (asset) associated with the District	13,419	10,564	11,675	12,145
Total	$ 14,910	$ 11,738	$ 12,972	$ 13,494
District's covered-employee payroll	$ 11,512	$ 10,412	$ 9,715	$ 9,553
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%
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%

* The amounts presented for each fiscal year were determined as of 12/31.

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.

20X5	20X4	20X3	20X2	20X1	20X0
0.020%	0.020%	0.020%	0.021%	0.021%	0.021%
$ 1,489	$ 1,161	$ 437	$ (235)	$ (126)	$ (93)
13,402	10,445	3,935	(2,119)	(1,137)	(834)
$ 14,891	$ 11,606	$ 4,372	$ (2,354)	$ (1,263)	$ (927)
$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
15.64%	12.49%	5.02%	(2.87%)	(1.59%)	(1.21%)
75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

SCHEDULE OF DISTRICT CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Contractually required contribution	$ 210	$ 206	$ 197	$ 165
Contributions in relation to the contractually required contribution	(210)	(206)	(197)	(165)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered-employee payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634
Contributions as a percentage of covered-employee payroll	1.73%	1.88%	1.96%	1.71%

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.

20X5		20X4		20X3		20X2		20X1		20X0	
$	118	$	90	$	82	$	77	$	88	$	108
	(118)		(90)		(82)		(77)		(88)		(108)
$	-	$	-	$	-	$	-	$	-	$	-
$	9,538	$	9,410	$	9,004	$	8,442	$	8,042	$	7,784
	1.23%		0.95%		0.91%		0.91%		1.09%		1.39%

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 5—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 this Statement. 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 this Statement, 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 two times the employee's final full-year salary. [If the benefit terms included postemployment benefit changes, the State should disclose information about those terms, as required by paragraph 109b of this Statement.]

[If the pension plan was closed to new entrants, the State should disclose that fact, as required by paragraph 109b of this Statement.]

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 this Statement.]

[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 this Statement.]

[If changes expected to have a significant effect on the measurement 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 this Statement.]

As a result of its requirement to contribute to TPP, the State recognized expense of $1,046,389 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	$ 1,195,860	$ 63,917
Changes of assumptions	771,511	58,367
Net difference between projected and actual earnings on pension plan investments	-	984,559
State contributions subsequent to the measurement date	462,899	-
Total	$ 2,430,270	$ 1,106,843

$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	$ (150,414)
20Y1	42,185
20Y2	67,642
20Y3	217,249
20Y4	218,712
Thereafter	465,154

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 this Statement.]

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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 State should disclose information about that change, as required by paragraph 111a of this Statement.]

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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
State's proportionate share of the net pension liability	$ 7,414,022	$ 6,709,522	$ 5,890,960

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 this Statement.]

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 this Statement.]

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
State's proportion of the net pension liability (asset)	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
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%

* The amounts presented for each fiscal year were determined as of 12/31.

> 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.

20X5	20X4	20X3	20X2	20X1	20X0
90%	90%	90%	90%	90%	90%
$ 6,701,158	$ 5,222,402	$ 1,967,431	$ (1,009,210)	$ (541,588)	$ (396,933)
75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

SCHEDULE OF STATE CONTRIBUTIONS

Teachers Pension Plan

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6
Statutorily required contribution	$ 915,028	$ 914,246	$ 896,893	$ 764,380
Contributions in relation to the statutorily required contribution	915,028	914,246	896,893	764,380
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.

20X5	20X4	20X3	20X2	20X1	20X0
$ 548,328	$ 415,794	$ 374,616	$ 348,597	$ 391,275	$ 463,041
548,328	415,794	374,616	348,597	391,275	463,041
$ -	$ -	$ -	$ -	$ -	$ -

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 6—Note Disclosures for an Employer with Defined Contribution Pensions (No Nonemployer Contributing Entities)

[Note: This illustration includes only note disclosures required by this Statement. If the employer includes the pension plan in its financial reporting entity, the employer should apply the requirements of footnote 26 of this Statement. 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 this Statement.]

Appendix D

CODIFICATION INSTRUCTIONS

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

* * *

REPORTING LIABILITIES **SECTION 1500**

See also: [Update title of Section P20 and add reference to Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria"]

[Revise heading of paragraph .601 as follows:] **Recognition of Liabilities for Benefits Provided through Cost-Sharing Pension Plans and Other Postemployment Benefit Plans**

.601 [Revise the introductory paragraph as follows and update cross-references throughout:] This paragraph clarifies the requirements of Sections P21 and P50 for the recognition of liabilities by cost-sharing employers for (a) pensions not provided through pension plans administered through trusts that met the criteria in paragraph .101 of Section P20 and (b) other postemployment benefits (OPEB). Question 2 and its response also apply to the recognition of liabilities by cost-sharing employers and governmental nonemployer contributing entities with a legal requirement to contribute to cost-sharing pension plans for pensions within the scope of Section P20. [GASBTB 2004-2, ¶1, as amended by GASBS 68, ¶5]

[Revise Question 2 as follows:] How should employers apply the requirements of paragraphs .170 and .204 of Section P20, paragraph .113 of Section P21, and paragraph .117 of Section P50 to recognize governmental fund expenditures and liabilities on the modified accrual basis of accounting for pension or OPEB contributions to cost-sharing plans? [GASBTB 2004-2, ¶7, as amended by GASBS 68, ¶73 and ¶107]

* * *

BASIS OF ACCOUNTING **SECTION 1600**

See also: [Update title of Section P20 and add reference to Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria"]

[Revise heading of paragraph .601 as follows:] **Recognition of Liabilities for Benefits Provided through Cost-Sharing Pension Plans and Other Postemployment Benefits**

.601 [Revise the introductory paragraph as follows and update cross-references throughout:] This paragraph clarifies the requirements of Sections P21 and P50 for the recognition of liabilities to employees by cost-sharing employers for (a) pensions not provided through pension plans administered through trusts that meet the criteria in paragraph .101 of Section P20 and (b) other postemployment benefits (OPEB). Questions 2 and 3 and their responses also apply to the recognition of liabilities by cost-sharing employers and governmental nonemployer contributing entities with a legal requirement to contribute to cost-sharing pension plans for pensions within the scope of Section P20. [GASBTB 2004-2, ¶1, as amended by GASBS 68, ¶5]

[Revise the Question 2 as follows:] For purposes of expenditure recognition in Section P20, and expenditure/expense recognition in Sections P21 and P50, are employers' contractually required contributions to cost-sharing pension and OPEB plans attributable to the periods of time for which the contributions are assessed? [GASBTB 2004-2, ¶5, as amended by GASBS ¶73 and ¶107]

[In the response to Question 2, replace *Sections P20 and P50* with *Sections P20, P21, and P50*; revise sources as follows:] [GASBTB 2004-2, ¶6, as amended by GASBS 68, ¶5]

[Revise Question 3 as follows:] How should employers apply the requirements of paragraphs .170 and .204 of Section P20, paragraph .113 of Section P21, and paragraph .117 of Section P50 to recognize governmental fund expenditures and liabilities on the modified accrual basis of accounting for pension or OPEB contributions to cost-sharing plans? [GASBTB 2004-2, ¶7, as amended by GASBS 68, ¶73 and ¶107]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

.181 [Update title of Section P20 and add Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria" as a cross-reference for employee-benefit-related information; revise sources as follows:] [GASBS 25, ¶44; GASBS 27, ¶39; GASBS 34, ¶6; GASBS 34, ¶129, as amended by GASBS 68, ¶46, ¶47, ¶81, ¶82, ¶114, ¶115, and ¶117; GASBS 43, ¶46; GASBS 45, ¶40]

* * *

NOTES TO FINANCIAL STATEMENTS SECTION 2300

.101 [Revise sources as follows:] [NCGAS 1, ¶157, as amended by GASBS 14, GASBS 25, ¶40, GASBS 27, ¶22, GASBS 34, ¶6, ¶80, ¶82, ¶131, and ¶133, and GASBS 68, ¶47, ¶82, and ¶115]

.106 [Revise subparagraph (f) as follows:] Pension obligations. (See Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria," and Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria.")

.107 [Revise cross-reference in subparagraph (y) as follows:] (See Section N50, paragraph .135, and Section P20, paragraphs .142, .177, .205–.210, .213, .225, .229, .230, and .232, as applicable.)

[Revise footnote 5 as follows:] Information about pension and OPEB obligations to employees should be reported in a separate pension or OPEB note, as required by Sections P20, P21, and P50. Payables to a defined benefit pension plan administered through a trust that meets the criteria of paragraph .101 of

Section P20 should be disclosed with short-term or long-term liabilities, as appropriate, and governments also should apply the requirements of paragraph .219 of Section P20, as applicable. [GASBS 34, fn47, as amended by GASBS 68, ¶37–¶45, ¶74–¶80, ¶109–¶113, ¶116, ¶122]

.119 [Add sentence at the end of the paragraph as follows:] Governments that report balances of payables related to liabilities to a defined benefit pension plan that is administered through a qualified trust also should disclose information required by paragraph .219 of Section P20, as applicable. [GASBS 38, ¶13, as amended by GASBS 68, ¶122]

* * *

REPORTING ENTITY AND COMPONENT UNIT PRESENTATION AND DISCLOSURE — SECTION 2600

.122 [In the first sentence after subparagraph b(2), replace *Determining* with *Except for required disclosures about certain pensions administered through trusts that meet the criteria of paragraph .101 of Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria" (see paragraph .115 of Section P20), determining*.] [GASBS 14, ¶63, as amended by GASBS 34, ¶6, and GASBS 68, ¶18; GASBS 34, ¶113]

* * *

CLAIMS AND JUDGMENTS — SECTION C50

.102 [Update title of Section P20, add Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria" as a cross-reference for postemployment benefits requirements, and add GASBS 68, ¶4–¶6 to the amending sources of GASBS 10, ¶2.]

.146 [Replace the first word of the fourth sentence with the following:] *Except for required disclosures about certain pensions administered through trusts that meet the criteria of paragraph .101 of Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria"* *(see paragraph .115 of Section P20), determining* [GASBS 10, ¶78, as amended by GASBS 34, ¶6; GASBS 14, ¶11; GASBS 14, ¶63, as amended by GASBS 68, ¶18; GASBS 34, ¶113]

* * *

COMPENSATED ABSENCES **SECTION C60**

.108 [Revise footnote 6 as follows:] An accrual for the required contribution to (a) a defined contribution pension or OPEB plan, (b) a cost-sharing multiple-employer defined benefit pension plan that is not administered through a trust that meets the criteria of paragraph .101 of Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria," or (c) a cost-sharing multiple-employer defined benefit OPEB plan should be made if (1) the employer is liable for a contribution to the plan based on termination payments made to employees for vacation leave, sick leave, or other compensated absences and (2) those amounts are not included in the determination of employer contributions for the pension or OPEB. An additional accrual should not be made relating to single-employer or agent multiple-employer defined benefit pensions or for the required contribution to a cost-sharing multiple-employer defined benefit pension plan that meets the criteria of paragraph .101 of Section P20. [GASBS 16, fn7, as amended by GASBS 45, ¶9, and GASBS 68, ¶4, ¶5, ¶24, and ¶62]

* * *

INVESTMENTS **SECTION I50**

.123 [Replace the first word of the third sentence with the following:] *Except for required disclosures about certain pensions administered through trusts that meet the criteria of paragraph .101 of Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria" (see paragraph .115 of Section P20), determining* [GASBS 14, ¶11; GASBS 14, ¶63, as amended by GASBS 68, ¶18]

* * *

NONEXCHANGE TRANSACTIONS **SECTION N50**

See also: [Add reference to Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria"]

.103 [Insert the following at the end of the paragraph:] The provisions of this section do not apply to payments that are legally required to be made directly to a pension plan that (a) is administered through a trust that meets the criteria of paragraph .101 of Section P20 and (b) is used to provide pensions to the employees of another entity or entities. Section P20 provides guidance for accounting and financial reporting for these payments. [GASBS 33, ¶5, and GASBS 24, ¶3 as amended by GASBS 68, ¶5]

* * *

[Revise section title and replace entire section as follows:]

PENSION ACTIVITIES—REPORTING FOR BENEFITS PROVIDED THROUGH TRUSTS THAT MEET SPECIFIED CRITERIA **SECTION P20**

Sources: GASB Statement 68

See also: Section N50, "Nonexchange Transactions"
Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria"
Section P50, "Postemployment Benefits Other Than Pensions—Employer Reporting"
Section T25, "Termination Benefits"
Section Pe5, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Benefit"
Section Pe6, "Pension Plans Administered through Trusts That Meet Specified Criteria—Defined Contribution"
Section Po50, "Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"
Section Sp20, "Special-Purpose Governments"

Scope and Applicability of This Statement

.101 This section establishes standards of accounting and financial reporting for **defined benefit pensions**[1] 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 employers[2] and **nonemployer contributing entities** to the pension plan and earnings on those contributions are irrevocable.[3]
b. Pension plan assets are dedicated to providing **pensions** to **plan members** in accordance with the benefit terms.[4]
c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, pension plan assets also are legally protected from creditors of the plan members.

[GASBS 68, ¶4]

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[1]Terms defined in the Glossary (paragraphs .501–.551 of this section) are shown in **boldface type** the first time they appear in this section. [GASBS 68, fn1]

[2–4][GASBS 68, fn2–fn4; change *Statement* to *section*.]

.102 [GASBS 68, ¶5; change *Statement* to *section* and update cross-references.]

.103 [GASBS 68, ¶6; change *remain* to *are* and update cross-references.]

.104 This section does not include requirements for financial reporting by **defined benefit pension plans** or **defined contribution pension plans** administered through trusts that meet the criteria in paragraph .101. Requirements for those plans are presented in Sections Pe5 and Pe6, respectively.

.105–.232 [GASBS 68, ¶8–¶135, including headings and footnotes; change *Statement* to *section* and update cross-references; in paragraph .107b, boldface the term *active employee*, and in paragraph .111a, boldface the term *inactive employees*.]

DEFINITIONS

.501–.551 [GASBS 68, ¶139, including footnotes; in .502, modify the term and definition to be singular; change *Statement* to *section* and update cross-references.]

[Insert new .601, including heading as follows:]

Recognition of Pension Expenditures and Liabilities in Financial Statements Prepared Using the Current Financial Resources Measurement Focus and Modified Accrual Basis of Accounting by Cost-Sharing Employers and Certain Governmental Nonemployer Contributing Entities for Pensions Provided through Trusts That Meet Specified Criteria

.601 This paragraph clarifies the requirements of this section for the recognition of liabilities to employees by cost-sharing employers and governmental nonemployer contributing entities with a legal requirement to contribute to cost-sharing pension plans for pensions within the scope of this section in financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting. [GASBTB 2004-2, ¶1, as amended by GASBS 68, ¶73 and ¶107]

Question 1

For purposes of expenditure recognition, are employers' contractually required contributions to cost-sharing pension plans attributable to the periods of time for which the contributions are assessed? [GASBTB 2004-2, ¶5, as amended by GASBS 68, ¶5]

Response

Yes. Contractually required contributions from employers to cost-sharing pension plans are attributable to the periods of time for which the contributions are assessed by the plan. Contractually required contributions characteristically are:

a. Expressly identified as the contributions required from participating cost-sharing employers for a period of time (for example, a designated month, quarter, or year)

b. Expressed as a percentage of the payroll(s) for active plan members for that period.

Accordingly, this section reflects the understanding that pension contributions to cost-sharing plans are related to the designated payrolls, and the pay periods, for which contributions are calculated or required by the agreements pertaining to the plan. [GASBTB 2004-2, ¶6, as amended by GASBS 68, ¶5]

Question 2

How should the requirements of paragraph .170 or .204 of this section, as applicable, be applied to recognize governmental fund expenditures and liabilities on the modified accrual basis of accounting for pension contributions to cost-sharing plans? [GASBTB 2004-2, ¶7, as amended by GASBS 68, ¶73 and ¶107]

Response

In governmental fund financial statements, which are prepared on the modified accrual basis of accounting, a cost-sharing employer should recognize:

a. Pension expenditures equal to the sum of (1) amounts contributed (paid) during the financial reporting period as contractually required contributions for pay periods within that period and (2) any additional unpaid contractually required contributions for one or more pay periods within that period
b. A fund liability for the unpaid contractually required contributions (that is, the unpaid contributions assessed for one or more pay periods within the financial reporting period).

[GASBTB 2004-2, ¶8]

For example, assume that at year-end an employer has paid the contractually required contributions of $700,000 due to a cost-sharing pension plan for the first 6 months (July through December) of the employer's fiscal year ended June 30, 20X1. The contractually required contributions of $800,000 due to the plan for the second 6 months (January through June) of the fiscal year will be included in a payment that is scheduled on a date subsequent to year-end. The employer should recognize a pension expenditure of $1,500,000 and a liability of $800,000 in governmental fund financial statements for the year ended June 30, 20X1. [GASBTB 2004-2, ¶9]

* * *

[Insert new section as follows:]

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

Sources [Insert sources from current Section P20.]

See also: [Insert references from current Section P20; update titles of sections and add the following:]

Section P20, "Pension Activities—Reporting for Benefits Provided through Trusts That Meet Specified Criteria"
Section Pe7, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Trusts That Meet Specified Criteria—Defined Contribution"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"

[Insert Note from current Section P20.]

[Insert current Section P20, paragraphs .101–.584, including headings and footnotes; revise paragraph .101 as follows and update cross-references throughout:]

.101 This section establishes standards of accounting and financial reporting for pension expenditures/expense and related pension liabilities, note disclosures, and required supplementary information in the financial reports of 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 Section P20, paragraph .101.[1] It does not address accounting and financial reporting for pension (and other employee benefit) trust funds of the employer. [GASBS 27, ¶3, as amended by GASBS 34, ¶69, and GASBS 68, ¶4–¶6]

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[1][Insert current footnote 1 from Section P20; after *defined contribution plans*, insert *that are within the scope of this section*.]

[Revise heading of paragraph .601 as follows:] **Recognition of Pension Expenditures/Expense and Liabilities by Cost-Sharing Employers for Pensions Not Provided through Trusts That Meet Specified Criteria**

.601 [Revise the introductory paragraph as follows and update cross-references throughout:] This paragraph clarifies the requirements of this section for recognition of pension expenditures/expense and liabilities by cost-sharing employers for pensions not provided through pension plans administered through trusts that meet the criteria in paragraph .101 of Section P20. [GASBTB 2004-2, ¶1, as amended by GASBS 68, ¶4–¶6]

* * *

[Revise section title as follows and update cross-references throughout:]

POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS—EMPLOYER REPORTING — SECTION P50

See also: [Update title of Section P20 and add reference to Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria"]

* * *

Sources: [Add the following:] GASB Statement 68

See also: [Update title of Section P20 and add reference to Section P21, "Pension Activities—Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria"]

.102 [Add cross-reference to Section P21.] [GASBS 47, ¶4, as amended by GASBS 68, ¶4 and ¶5]

.113 [Revise parenthetical as follows and add a cross-reference to Section P21:] (for example, a change in an employer's net pension liability or proportionate share of the collective net pension liability, its separate liability to a defined benefit pension plan, or its actuarial accrued liability for pension benefits or postemployment healthcare benefits) [GASBS 47, ¶17, as amended by GASBS 68, ¶4, ¶5, ¶20, ¶59, ¶83, ¶92, and ¶120; GASBS 68, fn31 and fn32]

.115 [Revise last sentence as follows:] To meet this requirement, an employer that provides termination benefits that affect defined benefit pension obligations should disclose in the notes to the financial statements the change attributable to the termination benefits (for example, the change in the employer's net pension liability or proportionate share of the collective net pension liability, its separate liability to a defined benefit pension plan, or its actuarial accrued liability). An employer that provides termination benefits that affect defined benefit OPEB obligations should disclose the change in the actuarial accrued liability for the OPEB plan attributable to the termination benefit. [GASBS 47, ¶19, as amended by GASBS 68, ¶20, ¶59, ¶83, ¶92, and ¶120]