BULLETIN BOARD

Schools to Report Pension Liabilities on Fall Audit

Michigan school districts are required by statute to provide pension benefits through a cost-sharing pension plan and cannot choose to change or eliminate pension benefits. Because of this, school districts will have to recognize their proportionate share of the pension liability for the first time under new accounting standards. Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions,* is an amendment to GASB Statement No. 27 and will require school districts' audits to look somewhat different this year, particularly on the district-wide financial statements. This is something that school boards should be aware of, but understand that it is a reporting change, **not an actual cash position change** for districts.

Districts will be required to:

- Record the proportionate share of the net pension liability on the Statement of Net Position (district-wide financial statements).
- Record the proportionate share of the pension expense as defined by the GASB on the district-wide reconciliations.

These new standards do not directly impact the fund statements that the state uses for deciding financial emergencies nor do they impact retirement rates that will continue as they have in the past.

Key Points

- Because the contributions of all of the participating governments in cost-sharing pension plans are pooled, the liability for pensions is measured for all governments combined. Until recently, the portion of the liability not covered by assets in the pension plan trust was not divided among the governments for financial reporting purposes.
- The new accounting standards require each government in the plan to calculate their portion of the collective net pension liability.

Q&As

Q: ***What is a cost-sharing, multiple-employer pension plan?***

A: In a cost-sharing, multiple-employer pension plan, the contributions of multiple governments and

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their employees are combined. The pension benefits of the retirees of all participating governments are paid out of this common pool of assets.

Q: ***Do governments in cost-sharing pension plans really have a liability for pension benefits?***

A: For accounting purposes, a government's obligation to make contributions going forward to ensure that sufficient resources are available to make pension benefit payments constitutes a liability.

Q: ***What do the new accounting standards require?***

A: Governments that promise pension benefits (or are required to provide benefits) to their employees and are legally obligated for those benefits are required to report a *net pension liability* in their financial statements, along with other liabilities such as outstanding bonds. The NPL equals the total pension liability (a measure of the total cost of future pension benefit payments already earned, stated in current dollars) minus the value of the assets in the pension trust that can be used to make benefit payments. However, because the NPL is measured for all governments in the plan combined, participating governments are required to report only their proportionate share of the collective NPL in their own financial statements.

Q: ***Why do governments in cost-sharing plans have to report their pension liabilities?***

A: Taxpayer associations, municipal bond analysts and others who use audited financial reports need information about government pension obligations to make decisions and to assess government accountability. Most notably, users of government financial reports want to know the size of a government's pension liability and the degree to which the liability is covered by assets set aside in a pension plan trust fund. These financial report users need this information regardless of what type of pension plan a government participates in. The new pension standards require all governments to report their net pension liabilities regardless of the type of pension plan they have.