

GASB 68 FAQs

1. **GASB 68 indicates a net pension liability will be recognized on the modified accrual basis of accounting to the extent 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 these benefits. Is this a situation we are likely to encounter in Ohio?**

No, based on the funding levels of the state-wide pension plans, local governments will not be booking a liability on the modified accrual basis of accounting.

2. **My local government has employees who participate in the defined contribution plan offered by one of the state-wide pension plans; however, the participation in the defined contribution plan is immaterial. Do I still need to report the participation in this immaterial plan?**

If the activity related to defined contributions is immaterial, the Auditor of State does not believe employer governments need to address it in their statements or notes. You may want to calculate the liability each year in case it reaches the point where it is material. However, if your government offers a defined contribution plan, you are responsible for understanding and implementing GASB 68 for your plan.

3. **GASB 68 addresses the possibility of reporting a net pension asset. Will that be something we encounter in Ohio?**

Some of the State-wide plans offer multiple plans and calculate the net pension liability separately for each smaller plan. It is possible the smaller plans could be reporting a net pension asset.

4. **GASB 68 changes the definition of covered payroll to the total payroll of covered employees. Is there any definition of what should be included in the total payroll of covered employees?**

GASB has not provided any guidance for defining “total payroll.” One acceptable definition of total payroll would be, “Total payroll includes all pensionable amounts plus any additional wages paid to employees based on time worked not already included in the pensionable amount.” This definition is not intended to include termination payments. Any reasonable definition will be accepted. This definition could be modified as GASB provides additional guidance.

GASB 82 has recently been issued and addresses this issue. Paragraph 6 indicates that required supplementary information should present covered payroll which is the payroll on which the contributions to a pension plan are based.

5. **When calculating my deferred inflows and outflows, I need to include the amount of the changes in the employer’s proportion percentages. How is this amount calculated?**

For the first year of implementation, STRS and SERS are using the same proportionate share percentage for the beginning and ending amounts, so no calculation is needed. In future years, the difference between the employer’s beginning NPL calculated at the prior year’s proportionate share percentage and the current year percentage becomes part of the employer’s deferred inflows/outflows, as the employer’s beginning NPL should not be restated for this change.

6. When calculating my deferred inflows and outflows, I need to include the difference between the employer's contribution and the employer's proportional share of contributions. How is this amount calculated?

In order to calculate from the beginning NPL to ending NPL, various components are needed. One of those components is the employer contributions. For the pension system as a whole, total employer contributions are used. If there is a difference between your government's proportionate share of total employer contributions and your government's actual GAAP basis employer contributions, the difference (if significant) becomes part of deferred inflows/outflows.

7. My government has historically presented comparative statements, will I be able to present comparative statements the first year I implement GASB 68?

If you have selected a measurement date 12 months prior to your fiscal year end, STRS and SERS will not have the information necessary to restate the comparative information. GASB has advised us that governments in this situation have two options:

1. The current year can be presented following GASB 68 and the prior year can be presented following GASB 27. The notes will need to indicate the comparative year has not been restated and explain why it has not been restated. All GASB 27 disclosures and any relevant GASB 27 RSI will need to be included for the comparative year. Additionally, all GASB 68 disclosures and relevant RSI will need to be included for the current year.
2. Do not present the comparative year in the year GASB 68 is implemented. The comparative year can be added back in the subsequent year.

You should also consider if GASB guidance is the appropriate accounting guidance to be followed.

8. Which component of net position should be affected by the NPL?

Generally, a liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets. It can be argued the NPL will not be liquidated with restricted assets; therefore the NPL can be closed to unrestricted. However, local governments may opt to allocate the NPL to restricted funds, if payment of the NPL is an allowable expense for the restricted fund. It is management's responsibility to determine if restricted amounts can be used for this purpose.

It is unlikely the NPL will be an allowable expense for Federal grants. For certain Federal and State pass-through grants an indirect cost plan may be needed to make this allocation. Local governments should contact their grantor agencies for guidance if they wish to pursue the option of allocating the NPL to funds with restricted grants. The Auditor of State and IPA firms will audit the pension liability allocation to Federal and other restricted programs in accordance with the guidance the local government receives from its grantor agency or legal counsel. Absent such opinions, the local government must have a reasonable and well documented rationale for allocating its pension liability to restricted funds in proportion to the number of employees compensated from such fund.

9. Is there any portion of the NPL that is due in one year?

The pension system's fiduciary net position is sufficient to make benefit payments that are due and payable for the next year, thus no amounts are considered due in one year.

10. Will my pension expense tie to the pension expense reported in the audited employer schedules from the pension systems?

Due to accounting for the change in proportionate share, the difference between the proportionate share of employer contributions and actual employer contributions, and accounting for specific one-time liabilities, the pension expense reported in the employer's financial statements could differ from the amounts reported in the audited employer schedules. Typically, the amounts will be comparable.

11. My local government pays the employer contribution for certain contractual workers; we are not considered the employer for W-2 purposes, should I report the NPL?

Typically, the GASB 68 liability is reported by the employer. If the government sacrificing the resources is different from the employer for W-2 purposes, then a special funding situation may exist. Guidance related to special funding situations is provided in paragraph 15 of GASB 68. In the case of community schools with management companies, we believe, based on State Statute, the community school is both sacrificing its resources and is legally responsible for the employer contribution. Therefore, the GASB 68 liability should be reported by the community school.

Some fiscal agents make employer contributions for a legally separate organization with the legally separate organization's resources, but under the fiscal agent's employer ID. Although the legally separate organization does not have their own pension system employer ID, they should have standing to be an employer of record of the pension system. In order for the legally separate organization to report the NPL, they would need to be a party to the GASB 68 employer-employee exchange, and the employer contributions should be made from their resources (even if it is through a fiscal agent). In this situation, the fiscal agent does not need to report that portion of the NPL, rather it is the obligation of the legally separate organization where the GASB 68 exchange took place and where the resources are being sacrificed. The fiscal agent should develop an internal proportional share in a manner similar to the method used by the pension system. However, you may want to keep the special funding situation requirements in mind.

12. Will there be any additional authoritative guidance issued related to GASB 68?

The AICPA is planning to issue an Audit Risk Alert related to GASB 68. Once that information is available, any relevant guidance will be posted here.