



**Ohio
Retirement
Study
Council**

88 East Broad Street, Suite 1175
Columbus, Ohio 43215
PHONE: 614-228-1346
FAX: 614-228-0118

Analysis

H.C.R. 40

130th General Assembly

*(Reps. Schuring and
Ramos)*

December 12, 2013

ORSC STAFF RECOMMENDATION

Jeffery A. Bernard
(614) 228-5644

Voting Members

Representatives

Lynn Wachtmann, *Chairman*
Kirk Schuring
Dan Ramos

Senators

Shannon Jones, *Vice-Chair*
David Burke
Charleta B. Tavares

Governor's Appointees

Lora Miller
Seth Morgan
Vacant

Non-Voting Members

Mark Atkeson, *HPRS*
Karen Carraher, *PERS*
John Gallagher, *OP&F*
Lisa Morris, *SERS*
Mike Nehf, *STRS*

Director

Bethany Rhodes

House Concurrent Resolution 40 acknowledges the changes upcoming in Governmental Accounting Standard Board (GASB) statement numbers 67 and 68 and pledges the General Assembly's continued support of Ohio's public employers and retirement systems in their mission to provide secure and sustainable retirement, disability, and survivor benefits to Ohio's public employees.

Background

GASB 67, "Financial Reporting for Pension Plans," revises existing guidance for the financial reports of public pension plans. It replaces GASB statement 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." *GASB 67 is effective for 2014 and applies to the financial reports of Ohio's public retirement systems.*

GASB 68, "Accounting and Financial Reporting for Pensions," revises existing guidance for the financial reports of state and local governments providing pension benefits. It replaces GASB statement 27, "Accounting for Pensions by State and Local Government Employers." *GASB 68 is effective for 2015 and applies to the financial reports of state and local governments.*

GASB stated that the reason for the change is to "substantially improve the transparency, consistency, and comparability of the pension information reported by state and local governments and pension plans."¹ In analyzing former accounting standards, GASB concluded that the standards reflected more of the funding position of a pension plan rather than an accounting of its finances. GASB has indicated that their statements are not about funding, but instead about how pension costs and obligations are measured and reported in external financial reports.² GASB also desired a standardization of the actuarial cost allocation methods used by governments. GASB 67 reduces those methods from six options to one standard method.

Statement 68 requires, for the first time, that governments recognize long-term pension benefit obligations as a liability on their financial disclosures. To accomplish this, the portion of the net pension liability attributed to a specific governmental entity will be included on that government's financial statement.³

¹ GASB, "Background on the GASB's New Pension Standards" (available online at: http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176163582784, accessed November 21, 2013).

² GASB, "Background on the GASB's New Pension Standards."

³ GASB, "Summary-Statement 68" (available online at: http://www.gasb.org/cs/ContentServer?c=Pronouncement_C&pagename=GASB%2FPronouncement_C%2FGASBSummaryPage&cid=1176160219492).

Net pension liability refers to the difference between a pension plan's obligations and the amount available for paying benefits.

When reading statements 67 and 68, it is important to remember that the financial condition of both the retirement system and the government entity have not changed because of 67 and 68. The *accounting standards* have changed. In GASB's own words:

It is important to note that the new Statements relate to accounting and financial reporting issues only—how pension costs and obligations are measured and reported in audited external financial reports. The Statements do not address how governments approach pension plan funding—a government's policy regarding how much money it will contribute to its pension plan each year. While there has been a close relationship between how governments fund pensions and how they account for and report information about them until now, the new guidance establishes a decided shift from the funding-based approach to an accounting-based approach. The Board crafted its new Statements with the fundamental belief that funding is squarely a policy decision for elected officials to make as part of the government budget approval process.⁴

Staff Comments

The accounting changes required under GASB 67 and 68 are substantial. The statements mark a new division of accounting and funding that can be easily misunderstood. H.C.R. 40 rightly urges public employers to avail themselves of every opportunity to educate their officers fully in order to comply with GASB standards 67 and 68. For this reason, each of the public retirement systems have been actively preparing for the modified GASB requirements, including necessary training and education materials.

Recommendation

H.C.R. 40 serves as a notification of the upcoming changes under GASB 67 and 68. For the purpose of urging those responsible for complying with the requirements of GASB to become educated on those changes, the ORSC staff recommends that the 130th General Assembly approve H.C.R. 40.

⁴ GASB, "New GASB Pension Statements to Bring about Major Improvements in Financial Reporting," (June 2012; available online at: http://www.gasb.org/cs/ContentServer?c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160140567).