New Hampshire Retirement System
54 Regional Drive, Concord, NH 03301
Phone: (603) 410-3500 - Fax: (603) 410-3501
Website: www.nhrs.org - Email: info@nhrs.org

GASB Reporting Changes: An Overview for Political Subdivisions

This overview of Governmental Accounting Standards Board (GASB) Statements 67 and 68 was prepared as a reference for local officials. Additional information is available online at:
https://www.nhrs.org/employers/employer-resources/gasb

BACKGROUND

GASB is an independent, non-profit organization that sets financial accounting and reporting standards for state and local governments. GASB is the source of generally accepted accounting principles (GAAP) used by state and local governments. While GASB has no enforcement authority, public employee pension plans – including NHRS – typically comply with GASB statements in order to obtain unmodified opinions from their auditors.

GASB Statement No. 67, which took effect in 2014, impacts the accounting and financial reporting of the retirement system.

GASB Statement No. 68, which took effect in 2015, impacts financial reporting of participating state and local governments.

The standards – which replaced previous guidance from GASB – changed the way pension plans report financial information for accounting purposes, but did not require pension plans to change their funding policies, which are typically defined by statute. This is the case in New Hampshire. The most visible change under GASB 68 is that employers must report a proportionate share of the GASB-defined pension liability in their financial reports.

While GASB's stated intent in revising the standards was to increase the transparency, consistency, and comparability of pension information across governments, the reporting requirements may be somewhat confusing. While employer balance sheets typically reflect year-to-year assets and expenditures, the pension number on the balance sheets reflect a liability that's being paid down over many years. According to GASB, "While this information will, in some cases, give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed." *(GASB Letter 2012)*

GASB 67

As a result of GASB 67, the retirement system's actuary now calculates two different pension liability numbers: the liability for accounting purposes, referred to as the Net Pension Liability (NPL), which is calculated according to GASB 67 guidelines; and the liability for funding purposes, referred to as the Unfunded Actuarial Accrued Liability (UAAL), which is actuarially calculated pursuant to RSA 100-A, the NH Constitution, and the NHRS Actuarial Funding Policy.

For the fiscal year ended June 30, 2024, the NPL (accounting) was $5.19 billion, while the UAAL (funding) was $5.59 billion. For GASB purposes, NHRS had a funded ratio of 70.3%. For actuarial purposes, the funded ratio also was 68.6%.

The primary reason for this disparity is the GASB 67 requirement to use the fair value of assets at the close of the fiscal year to calculate the retirement system's funded ratio – as opposed to NHRS' actuarial method of "smoothing" investment gains and losses over a five-year period. In some years, this is likely to lead to greater annual fluctuations in NHRS' reported NPL as compared to the UAAL.

GASB 68

Under GASB 68, individual employers must report a proportionate share of the NPL and the pension expense on their financial statements, along with related deferred outflows and inflows of resources. Previously, employers only reported the annual contributions they made to the retirement system.

Reporting the proportionate share will not impact NHRS employer contributions or local property tax rates. However, the presence of a large number representing unfunded pension costs on local government or school district balance sheets could give the incorrect impression that employers/taxpayers have an immense debt that must be paid immediately, which is not the case.

ANSWERS TO COMMON QUESTIONS

Is there a simple way to explain this topic to a constituent? Yes. Using the analogy of a home mortgage, the previous GASB reporting standard required employers to report how much they paid toward their mortgage each year; under the current GASB standard, employers now have to report the outstanding balance of their mortgage. And just like a homeowner with a $200,000 unpaid mortgage, there is no expectation that this amount must be paid off in one year. The owner – just as NHRS employers currently do – makes consistent monthly payments and pays down the debt over time.

Bottom line: GASB 67 and 68 reporting is just a different way of accounting for the same pension liability that existed previously**,** which continues to be due over time, not immediately.

Does the GASB 68 pension data impact NHRS employer contribution rates? No. Employer contribution rates are actuarially determined pursuant to RSA 100-A, the NH Constitution, and the NHRS Actuarial Funding Policy. The retirement system has a statutory funding schedule to pay down the UAAL, which is not affected by GASB 68.

Will reporting this liability increase local property taxes? No. These reports are for accounting and financial reporting purposes only and do not impact local property tax rates or future NHRS employer contribution rates. This is because the pension liability will be presented in the "government-wide financial statement," not the "fund financial statement" that is used by the state Department of Revenue Administration for tax rate-setting purposes.

Why did GASB change the financial reporting rules? GASB's position is that pension costs and obligations should be recorded on financial statements as employees earn them, not when the government contributes or when a retiree receives benefits. Previous GASB rules provided a standard that measured funded ratios and defined annual contributions needed to maintain healthy funding of public pensions. The current rules no longer provide that funding standard, but merely tell governments how to account for and report pension costs.

How was the proportionate share for individual employers developed? The proportionate share for each employer was determined by comparing the pension contributions collected from each employer to the total pension contributions NHRS received.

The first part of the calculation is to take the amount of employer pension contributions made by individual employers in the fiscal year and divide each individual amount by the total amount of all employer pension contributions in that year.

The percentages derived in the above calculation are then multiplied by the Net Pension Liability to determine each employer's proportionate share.

It sounds like the proportionate share is an accounting approximation, not the employer's true pension liability. Is that correct? Yes. The GASB calculation of an employer's Net Pension Liability is not done on an actuarial basis and does not represent an employer's true unfunded accrued actuarial liability.

Can employers pay off their proportionate share early? No. The proportionate share is not a bill. Because NHRS is a multi-employer plan where all participating employers pay the same contribution rates, if an individual employer wanted to write a check – or issue a bond – to pay off its proportionate share, any funds received by NHRS in excess of the actuarially required contribution would be used to offset the liability for all employers.

Do employers need to report this data? NHRS Employers that report on a GAAP basis must comply with the requirements of GASB 68 in their audited financial statements for the fiscal years ending June 30, 2015, and later. GASB 68 requirements are not applicable to employers that report on a cash basis.

Although GASB has no enforcement authority, public employee pension plans typically follow GASB rules in order to obtain unmodified opinions from their auditors. Adhering to GASB standards is also an important consideration for bond rating agencies.

MORE INFORMATION

The GASB 67-68 reports and additional technical information can be accessed from the NHRS GASB reporting page at: https://www.nhrs.org/employers/employer-resources/gasb

Prepared by the New Hampshire Retirement System – February 2025