



# GASB 68 Frequently Asked Questions

For all public school reporting units

Please use as a reference to commonly asked questions regarding GASB 68.

## 1. What is GASB 68?

A new financial reporting standard that requires participants in a multi-employer cost sharing plan to:

- a. Record a proportionate share of the net pension liability on their balance sheet.
- b. Record a proportionate share of pension expense as defined by GASB on their income statement.
- c. Requires additional note disclosures and required supplemental information. For more details visit: [www.gasb.org](http://www.gasb.org)
- d. This change will **not** result in new retirement costs for reporting units.

## 2. What is the net pension liability?

The amount of the total pension benefit that is not funded by investment assets. This is the net unfunded pension benefit and will be a line item in your balance sheet (statement of net position). As a participating employer in the Michigan Public School Employees' Retirement System (MPERS) you will record your proportionate share of the pension liability. This liability is not something new but rather exists as a normal part of pension funding where a pension system can be overfunded or underfunded depending on the value of the investments. MPERS has had a net pension liability since the early 2000s, worsened by the market losses in 2008 and 2009. It is possible to have a net pension asset, in cases where assets exceed the liabilities of the system. While the goal of prefunding the pension is to be 100% funded, funding a pension benefit is very long term in nature. During this time span, it is normal to be either overfunded or underfunded at any given point in time.

## 3. How did you calculate the net pension liability of the system?

Each year, the system's actuary calculates the amount of money needed to fund the accrued benefits of both active and retired members. This liability is compared to current assets. The net pension liability is the difference between the assets and the liability. The actuarial calculation is based on assumptions such as how long people work, how much they are paid, when they will retire, life expectancy, etc.

## 4. How do I reduce my liability?

The liability is reduced over time through the contribution rates. The system is designed to eliminate the liability over time (currently 24 more years), like paying off a mortgage on a house. No additional action is required of the reporting units.

## 5. How can I pay off this liability?

The liability will be paid off according to the amortization of the unfunded liability over time, consistent with past practice. Since the liability itself is a shared liability, individual reporting units can't "pay off" their proportionate share.

## 6. Why isn't the State recording this liability on their financial statements?

MPERS is a multi-employer cost sharing plan. The State of Michigan has no employees in this plan and is not a participating employer in the MPERS plan. The pension liability and pension expense are required to be recorded by the participants in the MPERS plan.

## 7. What is the GASB 68 required pension expense?

GASB 68 requires that pension expense be reported using a new method that presents service cost, interest on the liability, projected investment returns, employee contributions, administrative expenses, changes to the plan as well as the differences between projected and actual investment returns and differences between expected and actual actuarial experience. ORS will provide the pension expense.



[www.michigan.gov/psru](http://www.michigan.gov/psru)



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**8. What is pension expense?**

It is a line item in the income statement (statement of activities). The pension expense represents the annual cost of the retirement benefit. As a participating employer in the Michigan Public School Employees Retirement System (MPERS) you will be required by GASB to record your proportionate share of the pension expense.

**9. Does this affect my budgeting for next year?**

These estimates are not used for budgeting purposes as the budgeting process (what is actually charged on reported compensation) has not changed.

**10. Will this affect my ability to get loans or bonds?**

This question is best left up to the professionals in the banking industry. These professionals have known about the unfunded pension liability for a long time and so have presumably taken the liability into account already.

**11. Isn't this the same as the rate stabilization we already are doing?**

No. GASB changes are related to preparing and reporting financial statements. Rate stabilization is related to funding the pension system.

**12. Does this affect my regular payroll reporting?**

Regular payroll reporting will not change.

**13. Do I have to report the amounts in this letter on my financials?**

No. These are estimates calculated from FY 2012 contributions, to give an example of what will be provided for financial reporting starting in fiscal year 2015. Do not use these estimates in your financial reporting; they are provided to you for planning and informational purposes only.

**14. When do I have to record/implement this?**

GASB 68 requires recording the proportionate share of pension liability, pension expense, and the additional note disclosure and required supplemental information for the reporting units' fiscal year ending June 30, 2015.

**15. If this is estimated data, when will we receive actual data?**

You will be provided with estimates based on fiscal year 2012 data followed by estimates based on fiscal year 2013 data. These estimates are for informational purposes only and should not be recorded in your financial statements in fiscal year 2014 or fiscal year 2015. Actual figures begin in 2014-2015 will be provided in time to prepare your fiscal year 2014-2015 financial statements.

| <b>Plan Fiscal Year</b> | <b>When must reporting units record GASB 68 liability and expense in their financial statements?</b>                          |
|-------------------------|---|
| 2012-estimated          | The estimated liability and expense are informational only and <b>not</b> to be recorded in the school's financial statements |
| 2013-estimated          | The estimated liability and expense are informational only and <b>not</b> to be recorded in the school's financial statements |
| 2014-actual             | School fiscal year 2015   |
| 2015-actual             | School fiscal year 2016   |

16. **Will these numbers change every year, and if so, when will you notify me?**  
These numbers will change every year, with the pension liability scheduled to be paid off over the next 24 years. ORS will notify all reporting units at the end of the MPSERS system plan year and before the start of the next reporting unit's fiscal year.
17. **How do I share this with my auditor?**  
Share this information with your auditor as you see fit.
18. **What accounting do I use to record this?**  
The Michigan Department of Education (MDE) will provide you with the accounting treatment for the pension liability, the pension expenses, the note disclosures and the required supplementary information.
19. **How can I get more information on how to record this liability?**  
You can discuss these issues with either staff from MDE or your professional auditors.
20. **How am I going to record this expense and reconcile that with what I've paid you throughout the year?**  
ORS will work with MDE to make sure that you are provided this information.
21. **How does ORS determine proportionate share?** Your percentage of the whole liability is based on your contributions to the system. ORS will annually determine each reporting unit's proportionate share of the liability by measuring their proportionate share of the prior year's liability contributions. The proportionate share calculation is based on the plans fiscal year.
22. **How was the amortization schedule determined?**  
GASB sets the minimum amortization schedule. ORS works with its professional actuary to set the amortization period. (Amortization is the length of time over which payments will be made.)
23. **How do I report this to the administrative board?**  
You could share these estimates as informational.
24. **What does it mean to be "fully funded?"**  
A plan is "fully funded" when the accumulated financial assets are equal to or greater than the amount of the actuarial liability for the pension benefits.
25. **Why do I have to record this in my books?**  
The Governmental Accounting Standards Board (GASB) sets rules on how accounting must be done. GASB requires recording pension liability and pension expense starting with fiscal year 2014-2015 for all participants in the MPSERS multi-employer cost sharing plan.
26. **What is market value?**  
The cash value of the pension assets at a given time. The price at which a willing buyer and willing seller agree to exchange an asset at a particular time.

