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CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Fact Sheet
September 2011

New Accounting Standards May Dramatically Alter Financial Accountability

Although you may not be familiar with the Governmental Accounting Standards Board (GASB) they are about to change what is required in your school's financial reports. In brief, through proposed accounting standards changes school employers may be required to report unfunded pension liability.

This sheet provides a relevant overview of the little-known GASB Exposure Drafts, which detail proposed changes to *Accounting and Financial Reporting for Pensions (GASB Statement 27)* and *Financial Reporting for Pension Plans (GASB Statement 25)*, issued on July 8, 2011. The amendments, if adopted as proposed, would bring about significant changes in financial reporting requirements for pension information by the state, local governments and Local Education Agencies. A final statement of the changes may be adopted as proposed by June of 2012 and take effect for school financial reporting periods beginning after June 15, 2013 unless public concern is raised.

What do these changes mean for school employers?

GASB's proposed changes represent a radical departure from the way pension benefits have been accounted for by state and local governments in several key areas:

1. **Add a "Net Pension Liability" (NPL) to employer balance sheets equal to their proportionate share of the pension plan's unfunded liability.** This is a key principle guiding GASB's decision to define the pension obligation as a liability. **Consequently this new liability may dwarf most other liabilities on balance sheets and may result in a negative fund balance position for employers.**
2. Require employers to include new components in pension expense immediately. This change in expense may create significant volatility in the pension expense amounts from year to year.
3. Include provisions for non-employer contributions (i.e. the State of California) to

see reverse

WHAT CAN SCHOOL EMPLOYERS DO?

Review the Exposure Drafts, which can be found at www.gasb.org and submit your detailed comments to GASB before October 14, 2011.

This is the last opportunity to provide comments before the proposed changes are scheduled to become final June 2012.

Please visit www.CalSTRS.com or contact Phil Burkholder at 916-414-4376 or email at pburkholder@calstrs.com for more information.

reduce an employer's proportionate share of liability and expense. It is important to note the State of California does not currently recognize a liability on its financial statements for the California State Teachers' Retirement System.

4. Require pension plans to use a single discount rate comprised of two components to project future benefit payments.
5. Require employers to include more extensive note disclosures and required supplementary information. The plan administrator will need to create and pass on much of this information to the individual employers in a manner acceptable for employer audits.

Who is GASB?

GASB is the independent, not-for-profit organization formed in 1984 that establishes and improves financial accounting and reporting standards for state and local governments. Its seven members are drawn from the Board's diverse constituency, including preparers and auditors of government financial statements, users of those statements, and members of the academic community. More information about the GASB can be found at its website, www.gasb.org.

Under the proposed standards when the NPL was placed on a medium sized school's balance sheet –

it more than doubled their liability and caused them to have a negative fund balance.

Timeline for Action

2011

July 8
GASB releases pension Accounting and Financial Reporting exposure drafts and a plain language supplement.

October 4
NEW YORK
Public Hearing and User Forum

October 13 – 14
SAN FRANCISCO
Public Hearing 10/13
and User Forum 10/14
Request to participate due 9/30

October 14
DEADLINE
Written comments must be submitted to GASB

October 20 – 21
CHICAGO
Public Hearing 10/20
and User Forum 10/21

2012

June 28
GASB to issue final statements