



Select Committee on Pension Policy

Education Session: GASB and Moody's Pension Reporting Changes

Aaron Gutierrez, MPA, JD
Policy Analyst

October 15, 2013

Today's Presentation

- Overview
- Moody's
- GASB
- Designed with all audiences in mind
- Educational Only
- No action required



Overview

- Two separate entities making changes
 - Some overlap, but not part of one big coordinated effort
- Different measures for different uses
 - “Books, Bonds, and Budgets”
- Moody’s
 - Changing how they view pensions when rating credit-worthiness of state and local governments
- GASB
 - Changing how governments report pensions for accounting purposes



Moody’s

- Who are they?
- What is changing?
- When is it changing?
- Why is it changing?
- How does it impact Washington?



One Of The “Big Three” Bond Rating Agencies

- Credit rating impacts interest rate on borrowed money
- Changed the way they view pensions for purposes of credit rating
- Published changes
 - First time
 - Link to report in Appendix
- Purpose according to Moody’s publications
 - Increase comparability and transparency of pension information across governments



Moody’s Actions Are Internal; Not Binding To Governments

- They changed their own internal calculation method
- Actions not binding on governments
 - Not requiring governments to make any changes
- But credit ratings are important and impact may spur voluntary action



Changes To Reporting Of Pension Costs

- **Accrued liabilities adjusted**
 - Using high-grade long-term corporate bond index discount rate
 - Around 5.5 percent
 - Established a common amortization period
- **Where possible, eliminated asset smoothing (actuarial value) in favor of market value**
- **Allocated costs proportionately among participating employers**



Changes Already In Effect

- **Changes are just one piece of the ratings puzzle**
 - Some government credit ratings downgraded
 - Moody's states downgrades not solely due to changes
- **No practical impact to Washington**



Moody's: Recap

- Changed how pensions impact credit ratings
- Changes already in effect
- No practical impact for Washington
- According to Moody's the changes intended to increase comparability and transparency across governments



GASB

- Who are they?
- What is changing?
- When is it changing?
- Why is it changing?
- How does it impact Washington?



Government Accounting Standards Board

- Private non-governmental organization
- One source of Generally Accepted Accounting Principles (GAAP)
 - Actions are generally binding on entities that use GAAP or where statute requires conformity with GAAP



GASB Sets Reporting Standards; Not Funding Standards

- Different measures for different purposes
- Recent changes don't alter actual financial status of plans or how fiduciaries choose to fund them
 - Changes affect how the financial status is reported



Two New Statements: GASB 67 And 68

- GASB 67: Reporting at plan level
 - Impacts DRS reporting
 - Applies to FY 2014 and beyond
- GASB 68: Reporting at employer level
 - Impacts
 - OFM reporting
 - Local government reporting
 - Applies to FY 2015 and beyond



Net Pension Liability/Position

- Old rules
 - Compares present value of accrued liabilities the actuarial value of liabilities
 - Discount rate based on long-term expected rate of return
- New rules - beginning FY 2014
 - Compares present value of accrued liabilities to the market value of liabilities
 - Discount rate based on long-term expected rate of return **so long as** the plan is expected to remain solvent
 - If not, then must use long-term bond rate



Different Guidelines For Different Employers

- Old rules
 - Cost-sharing employers not required to report pension costs
- New rules - beginning FY 2015
 - Cost-sharing employers will report pension costs for the first time
 - Based on proportionate share of total cost



Pension Liabilities Included On Balance Sheet

- Old rules
 - Liabilities not required on balance sheet
 - Typically appeared in footnotes
- New rules - beginning FY 2015
 - Pension liabilities must be disclosed on balance sheet



General Impacts from GASB changes

- Use of market value will introduce significant volatility
- Poorly funded plans will see large increases in reported unfunded liability
- Some public plans (not Washington) may need to choose new funding method



Impacts To Washington

- May modify disclosures in future Actuarial Valuation Reports
- Inter-agency team created
 - Includes
 - OST, OFM, DRS, and OSA
 - Assessing impacts
 - Testing new standards
 - Developing new accounting exhibits
 - Preparing communications strategy
- Potential statewide coordination to assist local governments with new reporting requirements



GASB Recap

- New binding reporting standards
 - Net liabilities measured using market value of assets
 - Can only use long-term expected return if plan projected to remain solvent
 - Different measures for different employer types
 - Pension costs will appear on balance sheet for the first time
- Inter-agency team working to respond



Final Wrap Up

- Different measures for different purposes
 - Moody's
 - Changing how they view pensions when rating credit-worthiness of state and local governments
 - GASB
 - Changing how governments report pensions for accounting purposes
- Changes reporting, but does not change how plans are funded



No Direct Impacts To SCPP

- No formal SCPP action or response required
- Possible indirect impacts to SCPP
 - Recent changes may garner continued press coverage in future reporting cycles and as local governments are impacted
 - Different measures may lead to questions about which is the “correct” measure



Appendix

- [Understanding New Public Pension Funding Guidelines and Calculations](#)
- [Moody's: Adjusted Pension Liability Medians for US States](#)
- [GASB: Pension Accounting and Financial Reporting](#)

