

## GASB Preliminary Views on Pension Reporting Point to Radical Shift in Accounting Practices

### Overview

On June 16, 2010, the Government Accounting Standards Board (GASB) issued its Preliminary Views on major issues related to pension accounting and financial reporting by governmental employers (not pension plans). The views expressed by GASB would, if adopted, represent a radical departure from past practice and would bring the pension reporting and disclosure for governmental employers much closer to those for private employers under statements issued by the Financial Accounting Standards Board (FASB). Governmental employers should anticipate that the GASB views would have a significant impact on their balance sheet and income statement.

Last year, GASB issued an invitation to comment regarding pension accounting and has been considering the comments received since that time. The Preliminary Views is the next step by GASB in potentially replacing Statement Nos. 25 and 27. The principles adopted in this process are also likely to be applied in a future revision of Statement Nos. 43 and 45 (Other Postemployment Benefits). It is important to understand that the Preliminary Views document is not an exposure draft of proposed changes, but only a step toward actually proposing changes. GASB typically issues Preliminary Views on a topic when it anticipates that respondents might be sharply divided on the issues. GASB wants to receive comments, and it is possible (even likely) that at least some of the items within the preliminary views will change when an exposure draft is issued.

This advisory analyzes the effect of the changes GASB is suggesting and provides numerical examples. We also highlight the areas where there are questions as to what GASB intends.

**Note to clients:** Cheiron intends to submit comments on the Preliminary Views. Cheiron will be happy to assist any clients who would like to submit comments on their own. Written comments are due September 17, 2010.

### Primary Changes from Current Statements in Preliminary Views

These are the key areas of potential change from the current GASB Statements 25 and 27 contained in the Preliminary Views:

- Separation of accounting from funding: No longer will the accounting disclosures be derived from the regular funding actuarial valuation, but potentially will be a separate and distinct set of numbers.
- Net pension liability on the balance sheet: The disclosure of unfunded liability will move from the notes to the balance sheet and also will be computed based on actual market value (not smoothed value) as of the fiscal year end.
- Allocation of net pension liability and pension expense to cost sharing plans: Under current standards, cost sharing plans only report their required contributions to the plan. Preliminary Views anticipates that these sponsors will have to report their share of the unfunded liability on the balance sheet.
- Potentially lower discount rate for valuing liabilities: If a plan's projected assets under current contribution policies are not expected to cover future benefits, then a rate lower than the current actuarial rate of return would need to be used.
- Entry Age Normal actuarial cost method required: There will be no choice of method as exists under current standards.
- Inclusion of expected future ad hoc COLAs in current measures of liability: Under current

standards, only automatic COLAs are required to be included.

- Drastic change to the calculation of pension expense. Plan sponsors will no longer be able to use the annual pension expense as a funding policy.
- Immediate recognition of investment gains and losses outside a corridor. During periods of unusually large losses or gains, this change will introduce a very high level of volatility in the pension expense calculation.
- Faster amortization (sometimes immediate) of changes in actuarial liability: For changes attributable to inactive members, the requirement will be to recognize the change immediately. For active members, changes will be amortized over substantially shorter periods than the 30-year period allowed under current standards.
- Requirement to disclose a projection of the liability as of the end of the fiscal year: Rather than disclosing the liability at the last actuarial valuation date, all liabilities will need to be stated as of the employer's fiscal year end.

More details about each of these areas are contained in the commentary that follows.

## Separation of Accounting from Funding

When Statement Nos. 25 and 27 were issued, GASB specifically adopted rules that incorporated the methods used to fund pension plans. GASB's goal was to have one set of numbers for all users. That is, the numbers derived by the actuaries to determine contribution rates could also be used for financial accounting purposes, as long as the methods fell within certain prescribed boundaries. In general, these boundaries were very broad and plans have had great flexibility in adopting actuarial methods for this purpose.

As a part of the current rules, two primary funding measures evolved for users of financial statements. First is the percentage of the annual required contribution (ARC) which was contributed to the plan. The second is the net pension obligation (NPO) representing the cumulative difference between the ARC and actual contributions. The rules of Statement Nos. 25 and 27 became a *de facto* national funding standard for public plans.

In the introduction to the Preliminary Views, GASB explicitly states its intention to separate the accounting and financial reporting for pension plans from funding considerations. No longer would there be an expectation that governments would mirror accounting disclosures in their funding policies. In fact, the Preliminary Views would make it virtually impossible to budget an amount equal to the pension expense for a year. However, the methodology used to determine the pension expense can form the basis of a funding policy and approximate the pension expense to a certain degree.

**Cheiron observation:** *This is a major philosophical change that would add volatility to the accounting and financial reporting requirements. The ARC as we have come to know it will disappear. For most public plans, there have been no external funding standards other than the de facto GASB standards. On one hand, this change would make it easier for plans to adopt responsible funding policies that previously wouldn't always meet the requirements of an ARC. On the other hand, it would be very difficult for many observers to tell if a plan is following a responsible funding policy until many years later when it may be too late to make a correction.*

*As a first step, public retirement systems may want to develop detailed statements of funding policy, based upon advice from their actuaries and following applicable Actuarial Standards of Practice. If current statutes governing a plan refer to current GASB requirements, these statutes may also need to be revisited.*

## Net Pension Liability on the Balance Sheet

Currently the balance sheet pension liability for a governmental employer is the NPO. The NPO is an accumulation of the historical differences between the ARC and the actual contributions made to the plan. For an employer which has always contributed the ARC, the NPO, and therefore the balance sheet liability, is zero.

Under the Preliminary Views, employers would be required to disclose a measure of the unfunded actuarial liability (UAL) on their balance sheet as a net pension liability (NPL). For employers with underfunded plans, this change would substantially increase the liability reported on the balance sheet. Also, the asset value used in this calculation appears

to be the market value, rather than the actuarial value of assets, and the discount rate may be required to change from one period to the next. As a result, the NPL will be extremely volatile.

In suggesting this change, GASB is making a statement that the liabilities of the plan are liabilities of the plan sponsor to the extent that the plan assets are not enough to provide benefits. This recognizes the reality that over time the plan sponsor will ultimately have to make the necessary contributions to fund all plan benefits.

**Cheiron observation:** *The unfunded actuarial liability is currently disclosed in the notes to financial statements, so bond underwriters and other financial statement users already have the information available. However, moving the amount onto the balance sheet certainly will make it more visible and potentially more of a sensitive issue for public plans. However, from an actuarial perspective, it is not completely clear what the impact of this additional liability will be on governmental employers, nor its effect on balance sheet volatility if the reporting requirement does not affect actual contributions to the plan. One unknown is how the bond rating agencies will react to the new disclosures if they are ultimately required.*

### **Allocation of Net Pension Liability to Cost-Sharing Plans**

In a multiple employer cost sharing plan, experience is shared among all participating employers. Under current accounting standards, the participating employers in a cost-sharing plan only disclose the contractually required contributions made to the plan. Unless they fail to make these contributions, no liability is reported on the balance sheet regardless of whether or not the contractually required contributions satisfy the requirements for an ARC.

Under the Preliminary Views, the NPL of the plan would be allocated to all of the participating employers. GASB has proposed that these allocations would be done in proportion to contractually required contributions, but is seeking input on other methodologies.

The allocation of liability is particularly important in the situation where the plan is maintained by the state, but municipalities are covered by the plan and

make contributions to it. Under the Preliminary Views, the municipalities would be asked to report their share of the NPL on their own balance sheets.

**Cheiron observation:** *For the first time, employers in multiple employer cost-sharing plans would be required to disclose their share of the NPL. In fact, such amounts would be reported as liabilities upon the balance sheets of these employers. Some of these employers are quite small (with as little as only one employee), and the retirement system will incur an obligation to provide the NPL to all of these employers in a timely fashion so they can complete their financial statements. It is unclear how these newly disclosed liabilities will be viewed by bond underwriters and other users of public sector financial statements including the news media. Furthermore, the method contemplated by GASB for allocating the liability to an employer could differ from the liability that the employer would incur through the future ongoing operation of the cost-sharing plan or the liability the employer would incur if the employer were to withdraw from the plan (where permitted).*

### **Discount Rate for Calculating Liabilities**

The present value of plan liabilities is determined using an interest rate (often termed the “discount rate”), a mortality table and other actuarial assumptions. Under current standards, the discount rate is the expected long-term rate of return on plan assets. The average discount rate as reported in a number of public sector surveys is around 8%, although in recent years a number of plans have been lowering their discount rate.

Under the Preliminary Views, the discount rate would be determined as follows:

- For future plan benefits expected to be covered by current and projected plan assets, use the expected long-term rate of return on plan assets (i.e., the same as is used to determine the discount rate today).
- For future plan benefits not expected to be covered by current and projected plan assets, use a high quality municipal bond index.

GASB based this approach for determining the discount rate on the concept that the liability “should reflect an expectation of the employer’s projected sacrifice of resources, reduced by the expected return

on investments.” So, to the extent assets are available, the discount rate reflects the expected return on assets, but to the extent assets are not available, a high quality municipal bond index is required. GASB rejected discount rates based on a risk-free surrogate index and rates reflecting the credit rating of the sponsor.

As an example, consider a plan with the following projection of plan assets based on expected investment returns, expected contributions for current active employees, and expected benefit payments for current members (see Exhibit A).

In determining the period of time that projected plan assets would cover benefit payments, projected plan assets would include assets derived from future contributions by current employees and by employers for current employees. GASB has left unclear the key questions as to what determines if a future employer contribution is for a current employee:

- Future normal cost contributions for current employees would probably be included.
- Future contributions for the current unfunded

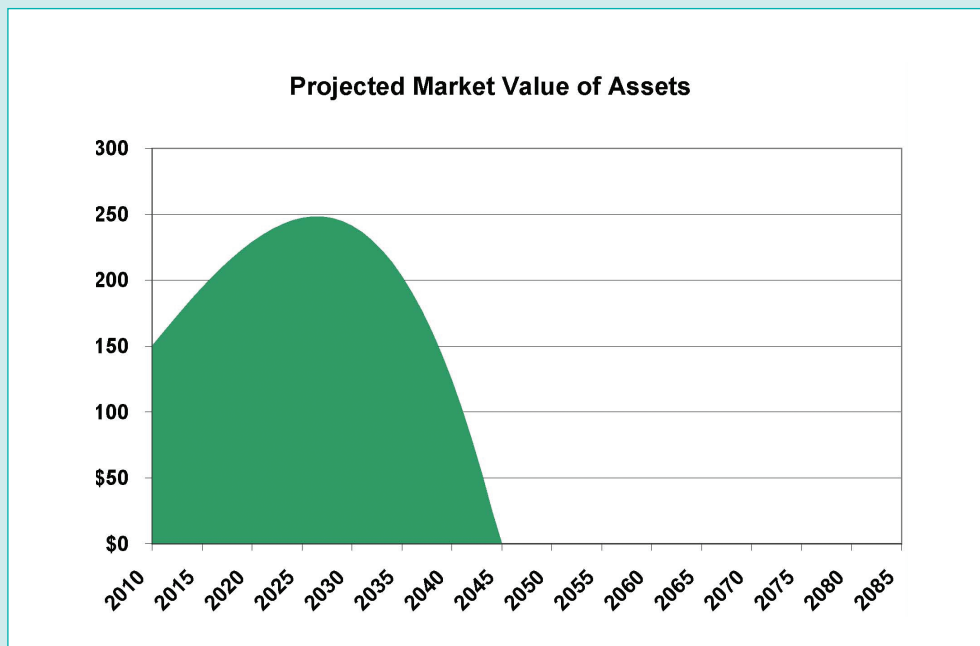
accrued liability may be included for current employees if they are expressed as dollar amounts. But, what if contributions are assessed as a level percent of payroll that includes new hire payroll? Or, what if the amortization period extends beyond the period of employment for current employees?

- What if the contribution rate is set in statute? How much of future contributions are deemed to be “for current employees?”

In Exhibit A, the assets are sufficient to provide benefits for the next 35 years. Exhibit B shows the projected benefit payments split between those that are covered by the assets and those that are not.

The benefit payments for the first 35 years are discounted using the expected return on assets; 8 percent for example. The remaining benefit payments are discounted using a high quality municipal bond index; 5 percent for example. The combination in our example is equivalent to a single discount rate of approximately 6.75 percent. Consequently, the NPL and annual pension expense for the year would be calculated using a discount rate of 6.75%.

## EXHIBIT A



The table below shows how the NPL would change for the example plan based upon changes in discount rate.

Discount Rate	8.00 %	6.75 %	5.00 %
Total Pension Liability	\$200	\$240	\$340
Assets	\$150	\$150	\$150
<b>Net Pension Liability</b>	<b>\$50</b>	<b>\$90</b>	<b>\$190</b>

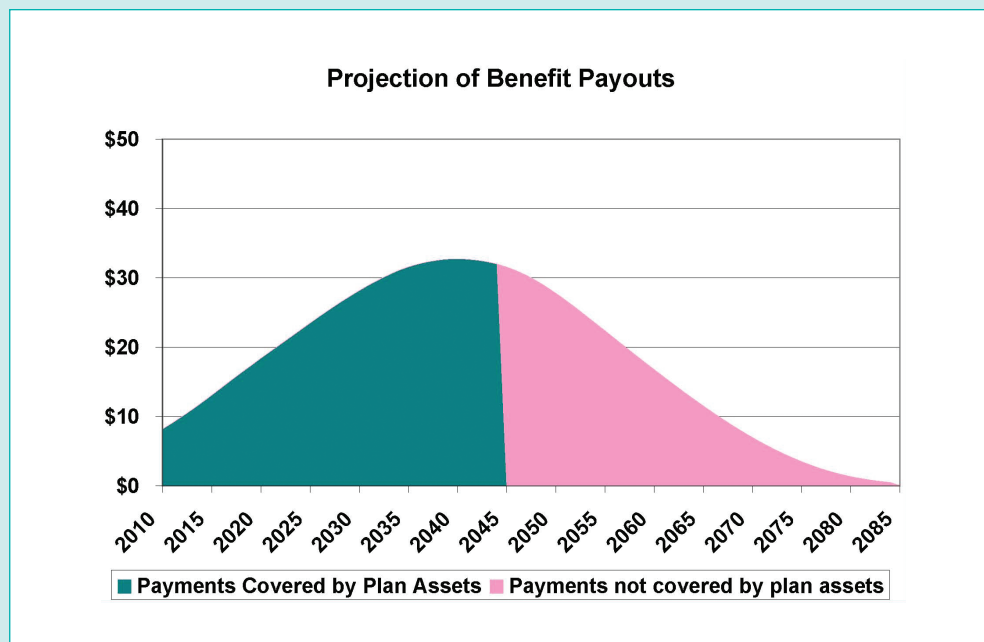
The actual impact on the NPL for a plan would depend on the maturity of the plan and the length of time assets are projected to be sufficient.

**Cheiron observation:** Most plans would probably consider that if they are making full contributions under a recognized actuarial cost method, then projected plan assets would cover all projected plan benefits. However, GASB’s wording within Preliminary Views does not seem to lead automatically to this conclusion.

Given the blended structure of the discount rate, investment returns in a given year can affect both the measurement of assets and the measure of liabilities. A good investment year may increase the discount rate (potentially up to the expected return on assets) resulting in a lower measurement of liabilities. A bad investment year could decrease the discount rate, increasing the measurement of liabilities. As a result, the NPL will be even more volatile than otherwise due to these counter-cyclical movements.

Also note that if a plan uses a blended discount rate, an additional contribution will reduce the NPL by more than the dollar amount of the contribution. In the example above, an additional contribution of \$50 may reduce the NPL from \$190 to \$0. If the balance sheet disclosure of a significant NPL matters to an employer, the blended discount rate may encourage the use of pension obligation bonds at least until the discount rate equals the expected return on assets. However, the volatility of the NPL may mitigate this practice, as decision makers see that eliminating the NPL in one year may not erase it forever.

## EXHIBIT B



## Entry Age Normal Actuarial Cost Method Required

Under current accounting standards, a plan may select any of six specified actuarial cost methods. However, the method must be the same method used for funding the plan, unless the method used for funding is not one of the six specified methods. In addition, plans using the Aggregate Method must disclose the UAL using the Entry Age Normal Method.

Under the Preliminary Views, all plans must use the Entry Age Normal Method (with the costs determined as a level percentage of payroll) for accounting and financial reporting. Since 70% or more of all plans today already use Entry Age Normal, most plans will not need to change methods.

**Cheiron observation:** GASB is looking for consistency in financial reporting in specifying one cost method for all plans. Also, GASB likes the level percentage of pay cost allocation which is inherent within the method. However, there are a number of variations of the entry age normal method in use, and it is not clear whether all of these would be permitted under a new accounting standard.

## Treatment of *ad hoc* COLAs

Under the current standards, future automatic COLAs must be recognized in calculations of actuarial liabilities. However, for *ad hoc* COLAs, such recognition is discretionary, even in cases where an *ad hoc* COLA is granted every year.

Under the Preliminary Views, future *ad hoc* COLAs must be recognized in the liability if there has been a regular pattern of COLAs and an expectation that future COLAs will be granted.

**Cheiron observation:** There will need to be judgment applied as to when a “regular pattern” exists. It should also be noted that GASB’s proposal for COLAs is similar to the standard that has already been in place for private sector employers under FASB accounting rules.

## Drastic Change to Pension Expense Calculation

Under current accounting standards, the ARC is calculated in a manner similar to many funding strategies as the sum of the normal cost and an amortization of the UAL over a period not exceeding 30 years. If the NPO is zero, then the annual pension expense is equal to the ARC. If there is an NPO (either positive or negative), there is an adjustment to the ARC to derive the pension expense, but in most cases the adjustment is not large relative to the size of the ARC.

Under the Preliminary Views, the Pension Expense would be computed as follows:

- Entry age normal cost, plus
- Interest on the entry age actuarial liability, minus
- Expected return on plan assets, plus
- Recognition of cumulative unrecognized investment (gains) / losses outside a 15% corridor, plus
- Amortizations of changes in the entry age normal actuarial liability due to:
  - i. Liability (gains) / losses,
  - ii. Changes in plan terms, and
  - iii. Changes in actuarial assumptions.

**Cheiron observation:** The proposed calculation of pension expense is somewhat similar to how private companies compute pension expense under FASB rules. Note that for a plan that is 100% funded, the interest on the entry age actuarial liability and the expected return on assets will net to zero. To the degree a plan is not fully funded, a portion of the annual expense will be due to the difference between interest on the plan’s assets and interest on the plan’s liabilities. The real volatility in pension expense, however, comes from the recognition of investment gains and losses outside the corridor and the amortization of changes in the entry age actuarial liability.

## Immediate Recognition of Investment Gains and Losses

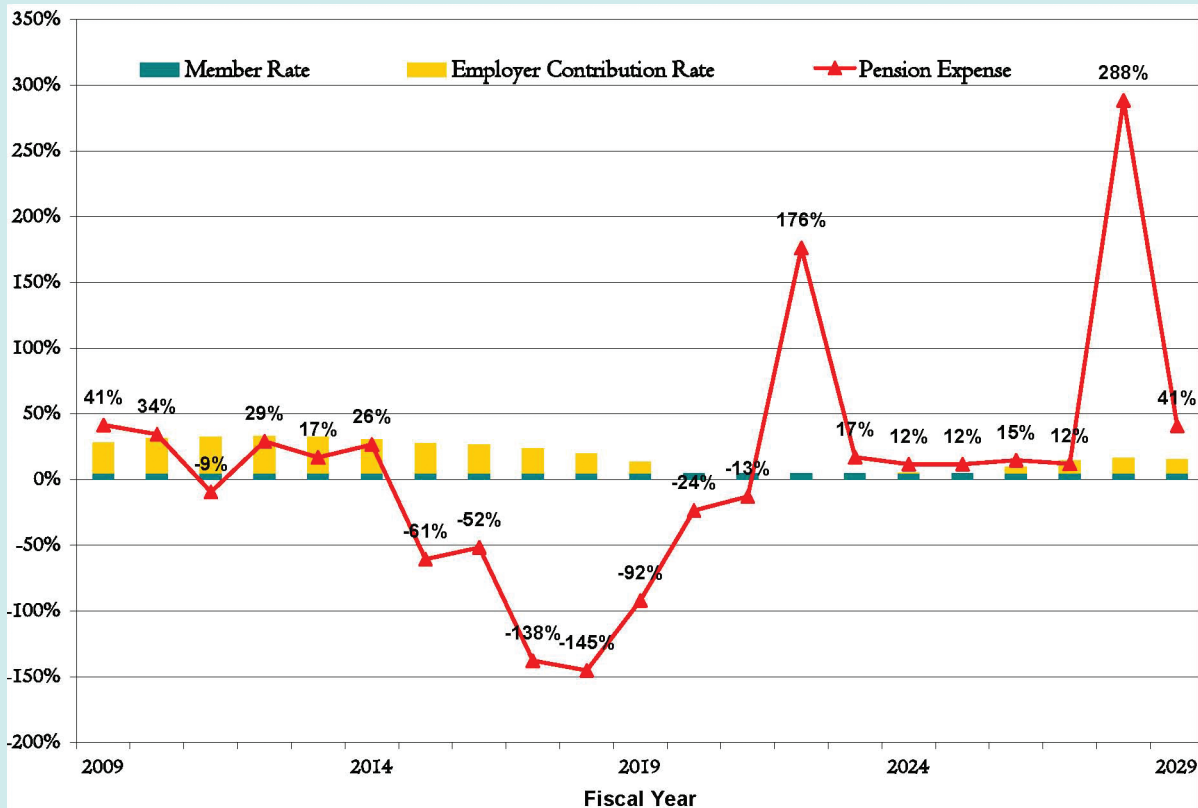
Currently, investment gains and losses (compared to the rate assumed by the actuary) are first smoothed under a plan's asset valuation method and then amortized once they are recognized by the asset smoothing method. Many asset smoothing methods are in use, but typically current year investment gains or losses are spread over some number of future years (5 years is frequently used). Also, the smoothed value of assets may or may not be confined to a corridor around market value. A common corridor, if used, is a minimum of 80% of market value or a maximum of 120% of market value.

Under the Preliminary Views, pension expense would be calculated each year using the assumed rate of

return on market value. Any differences between the assumed rate of return and the actual rate of return for the year would be ignored for computing annual pension expense until the accumulated differences between assumed and actual returns exceeds 15% of current market value. At this time, the entire amount of the difference between current market value and the 15% corridor would be recognized in pension expense.

GASB reasoned that "differences between expected and actual investment experience generally will offset over time." However, if the difference becomes too large, "reversal of differences between expected and actual returns may not occur until periods relatively far into the future." Based on an analysis of historical data, GASB concluded that a 15% corridor appropriately balanced these two principles.

### EXHIBIT C



As long as a plan is within the 15% corridor, pension expense will be less volatile than under current practice, since it will be based on the assumed rate of return. However, when the 15% corridor is exceeded and the entire amount of the excess is recognized in expense, there will potentially be extreme volatility in pension expense. The chart in Exhibit C shows a sample projection starting in 2009 for a plan with assets equal to 5 times payroll and assuming investment returns in the future are the same as those experienced in the past, beginning in 1989. That is, we are replaying the last 20 years of investment experience.

Notice that the volatility in this example ranging from a pension income of 145% of payroll to expense of 288% of payroll completely dwarfs the volatility in actual contribution rates represented by the teal and yellow bars. This example also assumes no changes in benefits or assumptions, and no actuarial liability gains or losses during the period.

**Cheiron observations:** *This provision of the Preliminary Views can easily cause a plan whose regular pension expense might be 15% or 20% of payroll to go above 100% of payroll in a given year (or to drop well below zero in the case of extraordinarily high returns creating pension income). It is not clear why GASB chose immediate recognition of amounts outside the corridor as opposed to some period of amortization or asset smoothing.*

*The 15% percent corridor acts like a reservoir for investment return that differs from the expected return. Once the 15% threshold has been passed, the “reservoir” overflows and places the excess into the pension expense. If the expected investment return is not a reasonable assumption, then there will be annual amounts that need to go into the pension expense as the reservoir continues to overflow.*

*Two additional comments on this methodology:*

- *The method is biased more towards immediate recognition of losses than gains. Since the 15% corridor is computed on the market value of assets immediately after such loss or gain, the corridor will be smaller after a loss than after a gain.*
- *In the case where a large loss one year is followed by a large gain in the subsequent year, it is likely that much of the large loss will need to be recognized, but since the plan asset value for expense purposes would then be at*

*the top of the 15% corridor, a large gain in the next year would probably remain within the corridor. (A similar result could occur with a large gain followed by a large loss.) This seems to go against GASB’s goal of offsetting investment gains and losses against one another.*

## **Faster Amortization of Changes in Actuarial Liability**

Under current GASB standards, amortization of the UAL must occur over a period not exceeding 30 years. The amortization amounts can be computed either as level dollar amounts or as a level percent of pay where the amounts increase over time as covered payroll increases. In the case of level dollar amortization, the amortization as a percentage of payroll typically decreases slowly over time as payroll increases.

In addition, the amortization period used can either be closed (i.e., the amortization ends at a future fixed date) or open (i.e., a new amortization period is started at each valuation date). For open periods, the UAL would never be paid off if all actuarial assumptions are exactly met.

Under Preliminary Views, investment gains and losses would be recognized as described in the preceding section. For changes in the entry age actuarial accrued liability (i.e., liability changes), the amortization would be as follows:

- For changes related to active employees, the amortization period would be the average expected future lifetime of the group of employees affected (normally this period is about 10 to 15 years).
- For changes related to inactive employees, the full amount of the liability change would be recognized in pension expense immediately.

These changes will increase volatility in pension expense by requiring recognition over substantially shorter periods of time than under the current standard.

Also, it appears as though GASB is thinking about using a “straight line” amortization rather than a level dollar or level percentage of pay approach. The straight line amortization (which is used in the private sector under FASB rules) divides the total increase by



the number of years to be amortized. This amount is then added to interest on the liability in determining pension expense. This methodology front loads the amortization amounts, recognizing more in the early years than under either the level dollar or level percent of pay approaches.

The following table in Exhibit D shows how this method will work where there is a change to both active and inactive participant liabilities. The amortization charge excludes the interest on the actuarial liability.

**Cheiron observations:** *Again we see a provision in the Preliminary Views which will add to volatility of pension expense. Also, it is not clear why GASB expects investment gains and losses to offset over time allowing a complete deferral as long as the cumulative gain or loss remains within a corridor, but doesn't expect gains and losses on other actuarial assumptions to offset over time and requires immediate recognition or recognition over a relatively short period of time. Even the FASB rules allow a gain or loss for retirees to be spread over a period of time such as the expected lifetime of the retirees.*

*Under the Preliminary Views, it appears that the overall gains and losses will have to be allocated between actives*

*and inactives. This can be a complicated calculation particularly due to members who changed from active to inactive status during the year, creating either a gain or loss.*

*In addition, it is not completely clear how changes in the discount rate should be attributed between actives and inactives. For example, if the discount rate is reduced because the projected period of time assets are expected to cover benefit payments is reduced from 50 years to 40 years, could that impact be attributed to active employees and amortized over the average expected remaining service life, or is a portion allocated to retired employees and recognized immediately even though very few retirees would be expected to still receive benefits in 40 years?*

To illustrate the potential volatility of pension expense, suppose a plan has a normal cost of \$20 million, an actuarial liability of \$1 billion and an annual payroll of \$200 million. The assumed rate of return is 8%. Consider the following five scenarios:

- A. Funded ratio is 100%. There are no amortizations of liability changes and no recognition of asset gains or losses outside the 15% corridor.
- B. Funded ratio is 70%. There are no amortizations of liability changes and no recognition of asset gains or losses outside the 15% corridor.

#### EXHIBIT D

	Actives	Inactives	Total
Expected Total Pension Liability	\$500	\$500	\$1,000
Demographic/Economic (Gain)/Loss	\$5	\$5	\$10
Assumption Changes	\$25	\$25	\$50
Benefit Changes	\$50	\$50	\$100
<b>Actual Total Pension Liability</b>	<b>\$580</b>	<b>\$580</b>	<b>\$1,160</b>
Average Expected Remaining Service Life	15	—	—
<b>Amortization Charge</b>	<b>\$5</b>	<b>\$80</b>	<b>\$85</b>
<b>Deferred Amount</b>	<b>\$75</b>	<b>—</b>	<b>\$75</b>

- C. Funded ratio is 70%. There is an amortization of a liability change but no recognition of asset gains or losses outside the 15% corridor.
- D. Funded ratio is 70%. There is an amortization of a liability change and recognition of a significant **asset loss** outside the 15% corridor.
- E. Funded ratio is 70%. There is an amortization of a liability change and recognition of a significant **asset gain** outside the 15% corridor.

The table in Exhibit E shows the pension expense for each of these plans.

The pension cost for the five scenarios ranges from a low of negative 88% of payroll to a high of 122% of payroll.

**Cheiron observation:** *As actuaries, it is not completely clear to us what the impact would be on governmental employers of an extremely volatile pension expense if contributions remain stable. In our experience, most employers appear to be primarily concerned about the cash contribution requirements and budgeting for those contributions.*

## Year-end Disclosure of Liabilities

GASB Statement No. 27 states that the ARC reported for a year should be based upon the results of an actuarial valuation performed not more than 24 months before the beginning of the employer's fiscal year (or the beginning of the first two fiscal year period for biennial valuations).

Under the Preliminary Views, GASB is retaining the concept of biennial valuations. However, the timing for using the information from the valuation has changed significantly.

- The net pension liability is measured as of the fiscal year end.
- An actuarial valuation can be performed up to 24 months prior to the fiscal year end, but liabilities must be projected to the fiscal year end and must reflect any significant changes since the valuation date.
- The most recent actuarial valuation must be used.
- It appears that assets must be measured at market value as of the fiscal year end (no projections allowed).

### EXHIBIT E

Scenario	A	B	C	D	E
Payroll	\$200	\$200	\$200	\$200	\$200
Assets	\$1,000	\$700	\$700	\$700	\$700
EAAL	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Normal Cost	\$20	\$20	\$20	\$20	\$20
Exp. Return	8%	8%	8%	8%	8%
<b>Percent of Payroll</b>					
Service Cost	10%	10%	10%	10%	10%
Interest Cost	40%	40%	40%	40%	40%
Expected Return on Assets	40%	28%	28%	28%	28%
Amortizations	0%	0%	10%	10%	10%
Immed Asset Recognition	0%	0%	0%	90%	-120%
<b>Total Pension Expense</b>	<b>10%</b>	<b>22%</b>	<b>32%</b>	<b>122%</b>	<b>-88%</b>

Note that the 24-month period is now measured from the valuation date to the end of the fiscal year, rather than the beginning of the fiscal year under current rules. In addition, the most recent valuation must be used where current rules have no such requirement.

**Cheiron observations:** *The net pension liability and pension expense cannot be determined prior to the end of the fiscal year. Plans will need to determine the market value of assets as of the end of the fiscal year before the 15% corridor can be determined and before the net pension liability can be calculated. In addition, if a valuation is issued in the middle of the fiscal year, that valuation will need to be used to determine the net pension liability at the end of the fiscal year and may need to be used for the entire pension expense calculation even if that valuation was not the basis used in developing the actual contribution for that period. Furthermore, it is not clear whether the assets at the end of the fiscal year could alter the discount rate that would need to be used to calculate the net pension liability at the end of the year and whether a change in discount rate would require pension expense recognition in the year ending with the discount rate change or the year beginning with the discount rate change. Finally, any benefit changes during the year may require some recognition during the fiscal year in which they are enacted.*

*Under the Preliminary Views, it is likely that there will be some confusion as to the “right” measurement of liabilities. The financial disclosure may require the actuary to estimate the year end liability from the results of an actuarial valuation for an earlier year (“rolling-forward” the prior results). Once the actual valuation as of the year end has been completed, there will be a difference between the prior estimate and the more accurate numbers based upon the data as of year end. Thus, two sets of numbers will be provided and possibly cause confusion as to which is the right one.*

*For multiple employer plans, these requirements may create a logistical problem in getting all of the necessary information to all of the employers in time to be included in their financial statements. For cost sharing plans, the net pension liability and pension expense would need to be allocated to each individual employer.*

## Transition Issues

The Preliminary Views does not discuss any issues with respect to transition from current standards, but has deferred consideration of such rules to the exposure draft. Those rules are likely to include the following:

- Amortization periods to be used for existing NPL balances at time of change (or alternatively whether the entire NPL would be recognized in pension expense immediately, or amortization of the difference between the current NPO and the NPL)
- Possible restatements of prior disclosures to comply with new rules

Also, the exposure draft is expected to indicate the effective date for changes to current standards. It is not known whether this will be a single date for all plans, or the effective dates will be phased-in similar to the phase-ins that occurred when the OPEB statements were adopted by GASB.

**Cheiron observation:** *While the Preliminary Views does not include any thoughts on transition, employers and plans with recommendations on transition rules should include these in any comment letters to GASB.*

## What Governments Should Do

Comments on the Preliminary Views are due by September 17, 2010. In addition, GASB has scheduled public hearings in October in Dallas, San Francisco and New York. It is expected that work will begin on developing exposure drafts shortly after the public hearings. The Preliminary Views document has not addressed plan accounting, notes disclosures or required supplementary information. It isn't clear whether GASB intends to issue preliminary views covering these topics, or if they will just be included in the exposure drafts. Also, at some point, GASB will need to make parallel changes to the reporting of other post-employment benefits (OPEB) that are currently subject to GASB Statement Nos. 43 and 45.

**Cheiron observation:** *Now is the time to let GASB know if you have concerns about the direction expressed in the Preliminary Views. If you have questions, would like to see projections of pension expense for your plan under the Preliminary Views, or need help drafting a comment letter, contact your Cheiron consultant.*

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