NO. 34-P | JUNE 27, 2011

Governmental Accounting Standards Series

EXPOSURE DRAFT

Proposed Statement of the Governmental Accounting Standards Board

Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25

This Exposure Draft of a proposed Statement of Governmental Accounting Standards is issued by the Board for public comment. Written comments should be addressed to:

Director of Research and Technical Activities
Project No. 34-P

Comment Deadline: September 30, 2011

Governmental Accounting Standards Board
of the Financial Accounting Foundation

FINANCIAL REPORTING FOR PENSION PLANS

Notice of Public Hearings, User Forums, and Request for Written Comments

Public hearings and user forums:

- October 3, 2011, (public hearing) and October 4, 2011 (user forum) at LaGuardia Plaza Hotel, 104-04 Ditmars Blvd., East Elmhurst, NY
- October 13, 2011 (public hearing) and October 14, 2011 (user forum) at Sir Francis Drake Hotel, 450 Powell Street, San Francisco, CA
- October 20, 2011 (public hearing) and October 21, 2011 (user forum) at Renaissance Chicago O'Hare, 8500 West Bryn Mawr Avenue, Chicago, IL.

The public hearings are scheduled to begin at 8:30 a.m. local time. The user forums are scheduled to begin at 1:00 p.m. local time.

PUBLIC HEARINGS AND USER FORUMS

Deadline for notice of intent to participate in public hearings and user forums:

- October 3 and 4, 2011 public hearing and user forum: September 20, 2011
- October 13 and 14, 2011 public hearing and user forum: September 30, 2011
- October 20 and 21, 2011 public hearing and user forum: September 30, 2011.

Basis for public hearings and user forums. The GASB has scheduled the public hearings and user forums to obtain information from interested individuals and organizations about the issues discussed in this Exposure Draft. The hearings and forums will be conducted by one or more members of the Board and its staff. Interested parties are encouraged to participate at the hearings or forums and through written response.

Public hearing oral presentation requirements. Individuals or organizations that want to make an oral presentation in person or by telephone at a public hearing are required to provide, **by the deadline for notice of intent to participate,** a written notification of that intent and a copy of written comments addressing the issues discussed in this Exposure Draft. The notification and written submission should be addressed to the Director of Research and Technical Activities, Project No. 34-P, and emailed to director@gasb.org or mailed to the address below. The notification should indicate a preference for participating in person or via telephone. The public hearings may be canceled if sufficient interest is not expressed by the deadline.

The Board intends to schedule all respondents that want to make oral presentations and will notify each individual or organization of the expected time of the presentation. The time allotted each individual or organization will be limited to about 30 minutes—10 minutes to summarize or elaborate on the written submissions, or to comment on the written submissions or presentations of others, and 20 minutes to respond to questions from those conducting the hearing.

User forum participation requirements. Participation in the user forums is limited to external financial statement users, including financial statement analysts and legislators. All participants are asked to engage in a discussion of the Exposure Draft, including issues raised in the Plain-Language Supplement; additional issues raised by the Board members and staff; and issues raised by other participants. Every participant will be provided with the opportunity to express his or her views.

Observers. Observers are welcome at the public hearings and user forums and are urged to submit written comments.

REQUEST FOR WRITTEN COMMENTS

Requirements for written comments. Any individual or organization that wants to provide written comments but does not intend to participate in the public hearings or forums should provide those comments by **September 30, 2011.** Comments should be addressed to the Director of Research and Technical Activities, Project No. 34-P, and emailed to director@gasb.org or mailed to the address below.

OTHER INFORMATION

Public files. Written comments and transcripts of the public hearings will become part of the Board's public file and will be available for inspection at the Board's offices. Photocopies of those materials may be obtained for a specified charge. The GASB will make all comments publicly available by posting them to the Projects portion of its website.

Orders. Any individual or organization may obtain one photocopy of this Exposure Draft on request without charge until September 30, 2011, by writing or phoning the GASB Order Department. For information on prices for additional copies and copies requested after that date, please contact the Order Department. The Exposure Draft also may be downloaded from the GASB's website at www.gasb.org.

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GASB publications also may be ordered at www.gasb.org.

Notice to Recipients of This Exposure Draft

The Governmental Accounting Standards Board (GASB) is responsible for developing standards of state and local governmental accounting and financial reporting and other accounting and financial reporting communications that will (1) result in useful information for users of financial reports and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

The due process procedures that we follow before issuing our standards and other communications are designed to encourage broad public participation in the standards-setting process. As part of that due process, we are issuing this Exposure Draft setting forth a proposed Statement that would amend the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as they apply to defined benefit pension plans and defined contribution pension plans that are administered through trusts, or equivalent arrangements, that have certain characteristics defined in this proposal. Pending the issuance of additional guidance, the requirements of Statement 25 for defined benefit and defined contribution pension plans would remain effective for those plans that are not included in the scope of this Exposure Draft, and the requirements of Statement 25 that apply to defined contribution other postemployment benefit plans would remain effective for those plans.

This Exposure Draft is being issued together with another Exposure Draft, *Accounting and Financial Reporting for Pensions*, which proposes new standards for accounting and financial reporting for pensions for governments whose employees are provided with pensions through plans that are within the scope of this Exposure Draft and for certain nonemployer governments that contribute to those plans.

We invite your comments on all matters in this proposed Statement. Because this proposed Statement may be modified before it is issued as a final Statement, it is important that you comment on any aspects with which you agree as well as any with which you disagree. To facilitate our analysis of comment letters, it would be helpful if you explain the reasons for your views, including alternatives that you believe the GASB should consider.

All responses are distributed to the Board and to staff members assigned to this project, and all comments are considered during the Board's deliberations leading to a final Statement. When the Board is satisfied that all alternatives have adequately been considered and modifications, if any, have been made, a vote is taken on the Statement. A majority vote is required for adoption.

Summary

The objective of this proposed Statement is to improve financial reporting by state and local governmental pension plans. It is the result of a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This proposed Statement would amend the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts, or equivalent arrangements, that meet certain criteria. Requirements of those Statements would remain applicable to pension plans that are not covered by the scope of this proposed Statement, and requirements applicable to defined contribution plans that provide postemployment benefits other than pensions would remain effective for those plans.

A related proposed Statement, *Accounting and Financial Reporting for Pensions,* would establish new accounting and financial reporting requirements for governments whose employees are provided with pensions through plans that are within the scope of this Exposure Draft, as well as for certain nonemployer governments that contribute to those plans.

This proposed Statement and the related proposed Statement would establish a definition of pension plan that reflects the primary activities of a fund that is used to provide pensions—the accumulation and management of assets dedicated for pensions and the payment of pensions to plan members as the benefits come due. A trust, or equivalent arrangement, that is used to administer a pension plan and that has the following characteristics is referred to as a qualified trust:

1. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a nonemployer contributing entity, and earnings on those contributions are irrevocable.
2. Plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
3. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

This proposed Statement would establish standards for financial reporting by defined benefit pension plans administered through qualified trusts. These standards would outline the basic framework for the separately issued financial reports of defined benefit pension plans and specify the required approach to measuring employer obligations associated with pensions. Distinctions are made regarding the particular requirements depending upon the type of plan administered:

- Single-employer pension plans—those in which pensions are provided to the employees of one employer

- Agent multiple-employer pension plans—those in which plan assets are pooled for investment purposes but are legally segregated to pay the pensions of each employer's employees
- Cost-sharing multiple-employer pension plans—those in which the participating employers pool or share their obligations to provide pensions to their employees and plan assets can be used to pay the pensions of the employees of any participating employer.

The standards also would detail the note disclosure requirements for defined contribution pension plans administered through qualified trusts.

Defined Benefit Pension Plans

Financial Statements

This proposed Statement would require defined benefit pension plans administered through qualified trusts to present two financial statements—a statement of plan net position and a statement of changes in plan net position. The statement of plan net position would present the following items as of the end of the plan's reporting period:

- Assets, such as cash and cash equivalents, receivables from employers and plan members, the fair value of investments, and equipment and other assets used in plan operations
- Deferred outflows of resources
- Liabilities, such as benefit payments due to plan members
- Deferred inflows of resources
- Net position, which equals assets plus deferred outflows of resources minus liabilities minus deferred inflows of resources.

The statement of changes in plan net position would present the following items for the plan's reporting period:

- Additions, such as contributions from employers (including those from nonemployer contributing entities on behalf of employers), contributions from plan members, and net investment income
- Deductions, including benefit payments and administrative expenses
- Net increase (decrease) in plan net position, which equals the difference between additions and deductions.

Defined benefit pension plans also would continue to be required to follow all accounting and financial reporting requirements of other standards, as applicable.

Notes to Financial Statements

The notes to financial statements of defined benefit pension plans administered through qualified trusts would offer descriptive information, such as the types of benefits provided, the classes of plan members covered, and the composition of the plan's board.

Notes regarding plan investments would present the plan's investment policies, describe how it determines fair value, identify concentrations of investments with individual organizations equaling or exceeding 5 percent of plan net position, and disclose both time-weighted and money-weighted rates of return on plan investments. The notes also would provide information about contributions, reserves, and allocated insurance contracts.

Single-employer and cost-sharing pension plans also would disclose the following:

- As of the end of the plan's reporting period, (1) the total pension liability of the employer(s), (2) the amount of plan net position, (3) the net pension liability of the employer(s), and (4) the ratio of plan net position to the total pension liability of the employer(s)
- Significant assumptions used to calculate the total pension liability of the employer(s), including those about salary increases, inflation, mortality, cost-of-living adjustments (COLAs) and other postemployment benefit changes, and the discount rate, as well as the date(s) of the experience studies and published sources, such as mortality tables
- With respect to the discount rate, assumptions used in calculating the discount rate, including those related to contributions and other projected cash flows, the basis for selecting the long-term expected rate of return on plan investments and the municipal bond index rate (if applicable), the projection periods to which each rate was applied to determine the single rate that was used as the discount rate, and the sensitivity of the net pension liability of the employer(s) to the discount rate assumption.

Required Supplementary Information

This proposed Statement would require single-employer and cost-sharing pension plans administered through qualified trusts to present the following schedules covering the past 10 fiscal years as required supplementary information:

- Changes in the net pension liability of the employer(s), including the beginning and ending balances of the total pension liability of the employer(s), the amount of plan net position, and the effects on those amounts of items such as service costs, benefit changes, changes of assumptions, contributions, net investment income, and benefits paid
- Information about the components of the net pension liability of the employer(s) and related ratios, including (1) the total pension liability of the employer(s), (2) the amount of plan net position, (3) the net pension liability of the employer(s), (4) the ratio of plan net position to the total pension liability of the employer(s), (5) the amount of covered-employee payroll, and (6) net pension liability of the employer(s) as a percentage of covered-employee payroll.

If the contributions of employer(s) to a single-employer or cost-sharing pension plan are actuarially determined, the plan would present in required supplementary information a schedule covering the past 10 fiscal years that includes (1) the actuarially calculated employer contribution, (2) the amount of employer contributions made, (3) the difference between 1 and 2, (4) the amount of covered-employee payroll, and (5) contributions made as a percentage of covered-employee payroll.

All defined benefit pension plans, including agent pension plans, would present in required supplementary information a schedule covering the past 10 fiscal years that includes (1) the actual annual time-weighted rate of return on plan investments, net of investment expenses, and (2) the actual annual money-weighted rate of return on plan investments, net of investment expenses.

Single-employer and cost-sharing pension plans also would identify significant methods and assumptions used in determining the actuarially calculated contributions as notes to the schedules, if not disclosed elsewhere, and all plans would explain factors that significantly affect the identification of trends in the amounts reported in the schedules, such as changes in benefit provisions, the size or composition of the population covered by the pensions provided through the plan, or assumptions used.

Measurement of the Net Pension Liability of the Employer(s)

The net pension liability of the employer(s) would equal the total pension liability of the employer(s) less plan net position restricted for pensions (plan net position). The total pension liability of the employer(s) would be the portion of the present value of projected benefit payments that is attributed to plan members' past service. Actuarial valuations of the total pension liability of the employer(s) would be required of the employer(s) to be conducted at least every two years under the proposed Statement, with more frequent valuation encouraged. If a valuation is not conducted as of the end of the plan's reporting period, measurement of the total pension liability of the employer(s) would be based on update procedures to roll forward amounts from the most recent actuarial valuation conducted as of a date no more than 24 months prior to the plan's most recent year-end.

Projections of Benefit Payments

Projections of benefit payments to plan members would be based on the then-existing benefit terms and legal agreements and would incorporate projected salary increases (if the pension formula is based on compensation levels) and service credits (if the pension formula is based on periods of service), as well as projected automatic COLAs and other automatic postemployment benefit changes. Projections also would include ad hoc COLAs and other ad hoc postemployment benefit changes, if they are considered to be substantively automatic. All assumptions underlying the projections would be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board of the American Academy of Actuaries.

Discount Rate

Projected benefit payments would be discounted to their present value using a single rate that would reflect (1) a long-term expected rate of return on plan investments to the extent that plan net position is projected to be sufficient to pay benefits and the net position projected to remain after each benefit payment can be invested long-term, and (2) a tax-exempt, high-quality municipal bond index rate to the extent that the conditions in (1) are not met.

Attribution Method

The attribution of the actuarial present value of benefit payments would be accomplished using the entry age normal actuarial cost method as a level percentage of pay. The actuarial present value would be attributed to each plan member individually, from the period when the plan member first accrues pensions through the period when the employee retires.

Defined Contribution Pension Plans

Defined contribution pension plans would apply the existing reporting requirements for fiduciary funds when preparing their financial statements. In the notes to their financial statements, defined contribution plans would disclose the classes of employees covered, current membership, the number of participating employers and nonemployer contributing entities, and the fair value of plan investments (if they are not reported at fair value in the financial statements).

Effective Date and Transition

A single-employer pension plan with plan net position of $1 billion or more in the first fiscal year ending after June 15, 2010, would be required to implement the requirements of the proposed Statement in periods beginning after June 15, 2012, if all of the following conditions are met:

- The participating employer does not have a special funding situation in which the nonemployer contributing entity has an unconditional legal requirement to make contributions, as described in paragraph 12 of the related proposed Statement.
- The plan is not included in the financial report of a public employee retirement system or other government that also reports (1) a single-employer pension plan in which a nonemployer contributing entity has an unconditional legal requirement to make contributions, (2) an agent pension plan, or (3) a cost-sharing pension plan.

For all other pension plans, this proposed Statement would be effective for financial statements for periods beginning after June 15, 2013. Earlier application would be encouraged for all plans.

How the Changes in This Proposed Statement Would Improve Financial Reporting

The requirements of this proposed Statement would improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information. The new information would enhance the decision-usefulness of information in plan financial reports and its value for assessing accountability by providing information about measures of the net pension liabilities of employer(s), including information that explains how and why the net pension liability changed from year to year, which would improve the transparency of reporting. The net pension liability information, including ratios, would offer an up-to-date indication of the extent to which the total pension liability of the employer(s) is covered by resources held by the plan. The employer contribution schedule would provide measures to evaluate decisions related to the assessment of contribution rates in comparison to actuarially determined rates, when such rates are determined. It also would provide information about whether participating employers are keeping pace with actuarially calculated pension contributions. In addition, new information about rates of return on plan investments would inform financial report users about the effects of market conditions on the plan's assets over time and would provide information for users to assess the relative success of the plan's investment strategy and the relative contribution that investment earnings provide to plan net position.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments; public benefit corporations and authorities; public employee retirement systems; and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraphs 5–11 discuss the applicability of this Statement.

Proposed Statement of the Governmental Accounting Standards Board

Financial Reporting for Pension Plans

an amendment of GASB Statement No. 25

June 27, 2011

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Financial Reporting for Pension Plans

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June 27, 2011

INTRODUCTION

1. The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental **pension plans**[1] for making decisions and assessing accountability.

2. A related Statement, *Accounting and Financial Reporting for Pensions* (the related Statement), establishes standards for governmental employer recognition, measurement, and presentation of information about **pensions** provided through pension plans that are within the scope of this Statement. It also establishes requirements for reporting information about pension-related financial support provided by certain entities that make contributions to pension plans on behalf of governmental employers (**nonemployer contributing entities**). Certain provisions of this Statement refer to the related Statement.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability of This Statement

3. This Statement establishes financial reporting standards for state and local governmental pension plans—**defined benefit pension plans** and **defined contribution pension plans**—that are administered through trusts, or equivalent arrangements, in which:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a nonemployer contributing entity, and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing pensions to **plan members** in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

A trust, or equivalent arrangement, that is used to administer a pension plan and that has these characteristics is referred to in this Statement as a **qualified trust.**

[1]Terms defined in the Glossary are shown in **boldface type** the first time they appear in this Statement.

4. This Statement focuses on provisions specific to pension plan financial reporting. Pension plans should continue to follow all other accounting and financial reporting requirements applicable to the transactions and other events reported in their basic financial statements, including notes to those statements, and required supplementary information.

5. The provisions of this Statement apply to state and local governmental pension plans. The requirements apply whether (a) the plan's financial statements are included in a separate financial report issued by the plan or by the **public employee retirement system** that administers the plan (**stand-alone plan financial report**) or (b) the plan is included as a pension (or other employee benefit) trust fund of another government.

6. **Defined benefit pensions** are those for which the income or other benefits that the plan member will receive at or after separation from employment are defined by the benefit terms. The benefits may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. In contrast, **defined contribution pensions** have terms that (a) provide an individual account for each plan member; (b) define the contributions (or credits) that an employer is required to make to an active plan member's account for periods in which that member renders services; and (c) provide that the benefits a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members and plan administrative costs that may be allocated to the plan member's account. If the benefit to be provided is a function of factors other than the amounts contributed (or credited) and amounts earned on contributed (or credited) assets, the pension plan that is used to provide the benefit should apply the requirements of this Statement for defined benefit pension plans. Otherwise, the disclosure requirements for defined contribution pension plans should be applied.

7. Pension plans are used to provide benefits in the form of retirement income and also may provide other types of **postemployment** benefits, including disability benefits, death benefits, life insurance, and other ancillary benefits. As used in this Statement, the term *pensions* includes retirement income, as well as postemployment benefits other than retirement income that are provided through a defined benefit pension plan. Pensions do not include **postemployment healthcare benefits** and **termination benefits.**[2] When postemployment benefits other than retirement income are provided separately from a defined benefit pension plan, they are classified as **other postemployment benefits** (OPEB),[3] and the plans that are used to provide those benefits should be accounted for and reported as OPEB plans. For financial reporting purposes, assets accumulated and managed for the payment of postemployment healthcare benefits should be accounted for and reported as part of an OPEB plan.

8. Defined benefit pension plans are classified according to the number of employers whose employees are provided with pensions through the plan and whether pension obligations and assets are shared. For purposes of this classification, a primary government and its component

[2]Termination benefits generally are addressed in Statement No. 47, *Accounting for Termination Benefits,* as amended. However, the effects of a termination benefit on an employer's defined benefit pension liabilities should be included in measures of the employer's net pension liability that are required by this Statement.

[3]Financial reporting for OPEB plans primarily is addressed in Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* as amended.

units are considered to be one employer. If a defined benefit pension plan is used to provide pensions to the employees of only one employer, the plan should be classified for financial reporting purposes as a **single-employer defined benefit pension plan (single-employer pension plan).** Single-employer pension plans should apply the measurement and recognition requirements of paragraphs 14–29 of this Statement, as well as the requirements for note disclosures and required supplementary information in paragraphs 30–32 and 34.

9. If a defined benefit pension plan is used to provide pensions to the employees of more than one employer, the plan is classified for financial reporting purposes as a **multiple-employer defined benefit pension plan.** If the assets of a multiple-employer defined benefit pension plan are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the pensions of only its employees, the plan should be classified as an **agent multiple-employer defined benefit pension plan (agent pension plan).** Agent pension plans should apply the measurement and recognition requirements of paragraphs 14–29 of this Statement, as well as the requirements for note disclosures and required supplementary information in paragraphs 30, 33, and 34. For agent pension plans, the provisions of this Statement apply at the aggregate (all employers) plan level for each agent pension plan administered.

10. If the employers in a multiple-employer defined benefit pension plan pool or share their obligations to provide pensions to their employees and plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan, the plan is considered to be a **cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan).** Cost-sharing pension plans should apply the measurement and recognition requirements of paragraphs 14–29 of this Statement, as well as the requirements for note disclosures and required supplementary information in paragraphs 30–32 and 34.

11. In some cases, a state or local government acts as a fiduciary entity entrusted with administering one or more pension plans. Some governments also administer other types of plans, including deferred compensation plans and OPEB plans. If the financial report of a public employee retirement system or other government includes more than one pension plan, the provisions of this Statement should be applied separately to each pension plan administered, determined in accordance with the requirements of paragraph 13.

12. This Statement amends Statement No. 14, *The Financial Reporting Entity,* paragraph 81; Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* paragraph 8; Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions,* footnotes 7 and 12; Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* paragraph 4; Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* paragraphs 107–109, 129, and 140, and footnotes 43, 44, 63, and 64; Statement No. 50, *Pension Disclosures,* paragraph 3; and Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements,* paragraph 5 and footnote 2.

Number of Plans

13. A single pension plan should be reported if, on an ongoing basis, all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of plan member contributions, to *any* of the plan members, as defined by the benefit terms. If any portion of plan assets (a) is accumulated solely for the payment of pensions to certain classes of plan members (for example, public safety employees) or to plan members who are the current and former employees of certain entities (for example, state government employees) and (b) may not legally be used to pay pensions to other classes of plan members (for example, general employees) or other entities' plan members (for example, local government employees), that portion of the total assets should be reported as part of a separate pension plan for which separate financial reporting is required, even if the assets are pooled with other assets for investment purposes.

Defined Benefit Pension Plans

Financial Statements

14. A defined benefit pension plan should present the following financial statements, prepared on the accrual basis of accounting:

a. A *statement of plan net position* that includes information about the plan assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of the end of the plan's reporting period.
b. A *statement of changes in plan net position* that includes information about the additions to, deductions from, and net increase (or decrease) in plan net position for the reporting period.

Statement of Plan Net Position

Assets

15. Plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in plan operations) and (b) the principal components of the receivables and investments categories.

Receivables

16. Plan receivables generally are short term and consist of contributions due as of the reporting date from the employer(s), nonemployer contributing entities, and plan members, and interest and dividends on investments. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

17. Receivables for contributions payable to the plan more than one year after the end of the reporting period pursuant to, for example, installment contracts, should be recognized in full in the period the contract is made. When a contract is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results.

Investments

18. Purchases and sales of investments should be recorded on a trade-date basis. Unless otherwise provided for in this paragraph, plan investments—whether equity or debt securities, real estate, investment derivative instruments, or other investments—should be reported at their fair value at the end of the reporting period. The fair value of an investment is the amount that the plan could reasonably expect to receive in a current sale between a willing buyer and a willing seller—that is, other than in a forced or liquidation sale.[4] Fair value should be measured by the market price if there is an active market for the investment. If such prices are not available, fair value should be estimated. The fair value of open-end mutual funds, external investment pools, and interest-earning investment contracts should be determined as provided in Statement 31, paragraphs 7–11, as amended, and in Statement No. 59, *Financial Instruments Omnibus*, paragraph 5. Investments in life insurance should be reported at cash surrender value. **Unallocated insurance contracts** should be reported as interest-earning investment contracts according to the provisions of Statement 31, paragraph 8. Synthetic guaranteed investment contracts that are fully benefit responsive (as defined in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* paragraph 67) should be reported at contract value.

19. **Allocated insurance contracts** should be excluded from plan assets if (a) the contract irrevocably transfers to the insurer the responsibility for providing the benefits, (b) all required payments to acquire the contracts have been made, and (c) the likelihood is remote that the employer or plan will be required to make additional payments to satisfy the benefit payments covered by the contract.

Liabilities

20. Plan liabilities generally consist of benefits and refunds due to plan members and accrued investment and administrative expenses. Plan liabilities for benefits and refunds should be recognized when benefits or refunds are currently due and payable in accordance with the benefit terms. Benefits payable from allocated insurance contracts excluded from plan assets should be excluded from plan liabilities.

Net position

21. Total plan assets, plus deferred outflows of resources, less total plan liabilities, less deferred inflows of resources at the reporting date should be captioned *net position restricted for pensions.*

[4]The fair value of an investment should reflect brokerage commissions and other costs normally incurred in a sale, if determinable.

Statement of Changes in Net Position

Additions

22. The additions section of the statement of changes in plan net position should include separate display of the following, if applicable:

a. Contributions directly from the employer(s)
b. Contributions from nonemployer contributing entities on behalf of the employer(s) (for example, state government contributions to a local government plan)
c. Contributions from plan members, including those transmitted by the employer(s)
d. Net investment income, including separate display of (1) investment income (see paragraphs 23–25), and (2) total investment expense, including investment management and custodial fees and all other significant investment-related costs (see paragraph 26).

Investment income

23. For purposes of this Statement, investment income includes (a) the net increase (decrease) in the fair value of plan investments and (b) interest income, dividend income, and other income not included in (a). Components (a) and (b) of investment income may be separately displayed or combined and reported as one amount.

24. The net increase (decrease) in the fair value of investments should include realized gains and losses on investments that were both bought and sold during the period. Realized and unrealized gains and losses should not be separately displayed in the financial statements. Plans may disclose realized gains and losses in the notes to financial statements, computed as the difference between the proceeds of sale and the original cost of the investments sold.[5] The disclosure also should state that (a) the calculation of realized gains and losses is independent of a calculation of the net change in the fair value of plan investments and (b) realized gains and losses on investments that had been held in more than one reporting period and sold in the current period were included as a change in the fair value reported in the prior period(s) and the current period.

25. Consistent with reporting investments at fair value, interest income should be reported at the stated interest rate. Any premiums or discounts on debt securities should not be amortized.

Investment expense

26. Investment-related costs that are separable from (a) investment income and (b) the general administrative expenses of the plan should be reported as investment expense.

[5]The disclosure of default losses and recoveries on reverse repurchase agreements and securities lending transactions, as provided by paragraph 80 of Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements,* and paragraph 15 of Statement 28, respectively, does not constitute a reporting of realized losses that under the provisions of this Statement would require reporting of all realized gains and losses for the year.

Deductions

27. The deductions section of the statement of changes in plan net position should, at a minimum, separately display benefits and refunds paid to plan members and total administrative expense.

28. Amounts paid by the plan to an insurance company pursuant to an allocated insurance contract that is excluded from plan assets, including purchases of annuities with amounts allocated from existing investments with the insurance company, should be included in amounts recognized as benefits paid. Dividends from an allocated insurance contract, should be recognized as a reduction of benefit payments recognized in the period. Benefits paid should not include pension payments made by an insurance company in accordance with such a contract.

Net increase (decrease) in plan net position

29. The difference between total additions and total deductions presented in the statement of changes in plan net position should be reported as the *net increase* (or *decrease*) *in plan net position.*

Notes to Financial Statements[6]

30. Defined benefit pension plans should disclose the following in notes to financial statements, as applicable:

a. Plan description:
   (1) The name of the plan and identification of the public employee retirement system or other entity that administers the plan.
   (2) Identification of the plan as a single-employer, agent, or cost-sharing pension plan and disclosure of the number of participating employers and nonemployer contributing entities, if any.
   (3) Information regarding the pension board and its composition (for example, the number of trustees by source of selection or the types of constituency or credentials applicable to selection).

[6]The notes to financial statements of a defined benefit pension plan should include all disclosures required by paragraphs 30 and 31, as applicable, when the financial statements are presented (a) in a stand-alone plan financial report or (b) solely in the financial report of another government (as a pension [or other employee benefit] trust fund). The related Statement includes the requirements for notes to financial statements of employers whose employees are provided with pensions and of governmental nonemployer contributing entities that have an unconditional legal requirement to contribute to a pension plan on behalf of another government. When a defined benefit pension plan is included in the financial report of a government that applies the requirements of the related Statement and similar information is required by this Statement and the related Statement, the government should present the disclosures in a manner that avoids unnecessary duplication.

(4) Classes of plan members covered (for example, general employees and public safety employees) and the number of members covered by the terms of the benefits provided through the plan, separately identifying numbers of the following:
   (a) Retired plan members (or their beneficiaries) currently receiving benefits
   (b) Inactive plan members entitled to but not yet receiving benefits
   (c) Active plan members.

   If the plan is closed to new entrants, that fact should be disclosed.
(5) The authority under which benefit provisions are established or may be amended and the types of benefits provided through the pension plan. If the pension plan has the authority to establish or amend benefit provisions, the plan also should provide a brief description of the benefit provisions, including the key elements of the pension formula(s) and the provisions or policies with respect to **automatic cost-of-living adjustments (COLAs)** and other **automatic postemployment benefit changes** and **ad hoc COLAs** and other **ad hoc postemployment benefit changes**.

b. Investments:
   (1) Investment policies of the plan, including:
      (a) Procedures and authority for establishing and amending investment policy decisions
      (b) Policies pertaining to asset allocation
      (c) Description of significant investment policy changes during the period
   (2) A brief description of how the fair value of investments is determined, including the methods and significant assumptions used to estimate the fair value of investments if that fair value is based on other than quoted market prices
   (3) Identification of investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of plan net position
   (4) Actual annual **time-weighted** and **money-weighted rates of return** on plan investments, net of investment expenses, and an explanation that (a) a time-weighted rate of return expresses investment performance, net of investment expenses, without consideration of the timing and amounts invested and (b) a money-weighted rate of return expresses investment performance, net of investment expenses, after consideration of the impact of the changing amounts actually invested.

c. Receivables—The terms of any long-term contracts between (1) the employer(s) or nonemployer contributing entities and (2) the plan for contributions to the plan and the balances outstanding on any such long-term contracts at the end of the plan's reporting period.

d. Contributions:
   (1) Authority under which contribution requirements of the employer(s) (including those of nonemployer contributing entities on behalf of the employer(s)) and plan members are established or may be amended and the current-period contribution rates of those entities
   (2) If the pension plan has the authority to establish or amend contribution requirements, information about the following:
      (a) The basis for determining actual contributions to the plan (for example, by statute, by contract, on an actuarial basis, or in some other manner)
      (b) Significant methods and assumptions used in the calculation of current-period contributions, if actual contributions are determined on an actuarial basis.
e. Reserves—In circumstances in which there is a policy of setting aside, for purposes such as benefit increases or reduced employer contributions, a portion of the plan net position that otherwise would be available for existing pensions or for plan administration:
   (1) A description of the policy related to such reserves
   (2) The authority under which the policy was established and may be amended
   (3) The purpose(s) for and condition(s) under which the reserve is required or permitted to be used
   (4) The balance of the reserve.
f. Allocated insurance contracts excluded from plan assets:
   (1) The amount in the current period attributable to the purchase of allocated insurance contracts in benefit payments recognized by the plan
   (2) A brief description of the pensions for which allocated insurance contracts were purchased in the current period
   (3) The fact that the obligation for the payment of pensions covered by allocated insurance contracts effectively has been transferred to one or more insurance companies.

Disclosures Specific to Single-Employer and Cost-Sharing Pension Plans

31. In addition to the information required by paragraph 30, a single-employer or cost-sharing pension plan should disclose the following in notes to financial statements:

a. The components of the **net pension liability of the employer(s)** as of the end of the plan's reporting period, calculated in conformity with the requirements of paragraphs 35–44:
   (1) The **total pension liability of the employer(s)**
   (2) The amount of plan net position
   (3) The net pension liability of the employer(s)
   (4) The ratio of plan net position to the total pension liability of the employer(s).
b. Significant assumptions used to measure the total pension liability of the employer(s), including assumptions about salary increases, inflation, mortality, COLAs and other postemployment benefit changes, and the discount rate, as well as the date(s) of the experience studies and published sources, such as mortality tables, on which significant assumptions are based. If an assumption uses different rates for different periods, information should be disclosed about what rates were applied to the different periods of the measurement.
   (1) With regard to the discount rate, disclosures should include:

(a) Assumptions made about contributions of the employer(s) (including those of nonemployer contributing entities on behalf of the employer(s)) and plan members and about other projected cash flows into and out of the plan
(b) The long-term expected rate of return on plan investments and a description of how the long-term expected rate of return on plan investments was determined, including the assumed asset allocation of the portfolio, the best estimate of the long-term expected **real rate of return** for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means
(c) The municipal bond index rate, the index selected, and the reasons for selection of that index, if the discount rate incorporates a municipal bond index rate
(d) The periods of **projected benefit payments** to which the long-term expected rate of return and the municipal bond index rate, if used, were applied to determine the discount rate
(e) The effects on the current-period net pension liability of the employer(s) of a 1-percentage-point increase and a 1-percentage-point decrease in the discount rate.

c. The date of the **actuarial valuation** on which the total pension liability of the employer(s) is based and, if the amount reported is the result of the use of update procedures to roll forward amounts to the end of the plan's reporting period, identification of that fact.

Required Supplementary Information[7]

Single-Employer and Cost-Sharing Pension Plans

32. Single-employer and cost-sharing pension plans should present the information indicated in subparagraphs a–d, below. All information should be measured as of the plan's most recent fiscal year-end at the end of plan's reporting period.

a. A 10-year schedule of changes in the net pension liability of the employer(s), presenting for each fiscal year (1) the beginning and ending balances of the total pension liability of the employer(s), plan net position, and the net pension liability of the employer(s), calculated in conformity with paragraphs 35–44, and (2) the effects on those items during the year of the following:
(1) **Service cost**
(2) Interest on the total pension liability of the employer(s)
(3) Changes of benefit terms
(4) Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability
(5) Changes of assumptions about future economic or demographic factors
(6) Contributions—employer(s) (If a nonemployer contributing entity made contributions on behalf of an employer or employers, the schedule should separately identify the

[7]The related Statement includes the requirements for required supplementary information to be presented in the financial reports of employers whose employees are provided with pensions and of governmental nonemployer contributing entities that have an unconditional legal requirement to contribute to a pension plan on behalf of another government. When a defined benefit pension plan is included in the financial report of a government that applies the requirements of the related Statement and similar information is required by this Statement and the related Statement, the government should present the information in a manner that avoids unnecessary duplication.

amount of employer contributions made directly by the employer(s) and the amount of employer contributions made by the nonemployer contributing entity on behalf of the employer(s).)

(7) Contributions—plan members
(8) Net investment income
(9) Refunds of contributions
(10) Benefits paid
(11) Plan administrative expenses
(12) Other changes, separately identified if individually significant.

b. A 10-year schedule presenting the following for each fiscal year:
   (1) The total pension liability of the employer(s)
   (2) The amount of plan net position
   (3) The net pension liability of the employer(s)
   (4) The ratio of plan net position to the total pension liability of the employer(s)
   (5) The amount of **covered-employee payroll**
   (6) The net pension liability of the employer(s) as a percentage of covered-employee payroll.

c. A 10-year schedule presenting the following for each fiscal year, if an **actuarially calculated employer contribution** is determined:
   (1) The actuarially calculated employer contribution. If a nonemployer contributing entity has an unconditional legal requirement to contribute to the plan, the actuarially calculated employer contribution should be the total of the amount associated with the employer's direct contribution and the amount associated with the contribution of the nonemployer contributing entity.
   (2) For cost-sharing pension plans, the contractually required employer contribution, if different from (1). If a nonemployer contributing entity has an unconditional legal requirement to contribute to the plan, the contractually required employer contribution should be the total of the amount associated with the direct contribution of the employer(s) and the amount associated with the contribution of the nonemployer contributing entity.
   (3) The amount of employer contributions made. The schedule should separately identify the amount of employer contributions made directly by the employer(s), employer contributions made on behalf of the employer(s) by nonemployer contributing entities, and the total contributions made by the employer(s) directly and by nonemployer contributing entities, if applicable.
   (4) The difference between the actuarially calculated employer contribution and the amount of employer contributions made.
   (5) The amount of covered-employee payroll.
   (6) Employer contributions made as a percentage of covered-employee payroll.

d. A 10-year schedule presenting for each fiscal year (a) the actual annual time-weighted rate of return on plan investments, net of investment expenses, and (b) the actual annual money-weighted rate of return on plan investments, net of investment expenses.

Agent Pension Plans

33. Agent pension plans should present in required supplementary information a 10-year schedule presenting for each fiscal year (a) the actual annual time-weighted rate of return on plan investments, net of investment expenses, and (b) the actual annual money-weighted rate of return on plan investments, net of investment expenses.

Notes to the Required Schedules

34. If not otherwise disclosed, significant methods and assumptions used in determining the actuarially calculated employer contributions, if any, should be presented as notes to the schedules required by paragraph 32c. In addition, for each of the schedules in paragraphs 32 and 33, information about factors that significantly affect the identification of trends in the amounts reported, including, for example, changes in benefit provisions, the size or composition of the population covered by the benefit terms, or assumptions used. (The amounts presented for prior years should not be restated.)

Measurement of the Net Pension Liability of the Employer(s)[8]

35. The net pension liability of the employer(s) is determined as the total pension liability of the employer(s) measured in conformity with paragraphs 36–44 of this Statement, net of the amount of plan net position.

Total Pension Liability

36. The total pension liability of the employer(s) is the portion of the **actuarial present value of projected benefit payments** that is attributed to past periods of member services in accordance with the requirements of paragraphs 37–44.

Timing and frequency of measurement

37. Measurement of the total pension liability of the employer(s) as of the end of the plan's reporting period can be determined by (a) an actuarial valuation as of that date or (b) the use of update procedures to roll forward amounts from an actuarial valuation as of a date no more than 24 months earlier than the plan's most recent year-end. If update procedures are used and significant changes occur between the **actuarial valuation date** and the plan's year-end, professional judgment should be used to determine the extent of procedures needed to roll forward the measurement to the end of the plan's reporting period, and consideration should be given to whether a new actuarial valuation is needed. For financial reporting purposes, an actuarial valuation of the total pension liability of the employer(s) should be performed at least biennially. More frequent actuarial valuations are encouraged.

[8]The related Statement includes the same requirements for measuring the total pension liability of the employer(s).

Selection of assumptions

38. Unless otherwise specified by this Statement, the selection of all assumptions should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board of the American Academy of Actuaries. The pension plan and the employer(s) that provide pensions through the plan should use the same assumptions when measuring similar or related pension information.

Projection of benefit payments

39. Projected benefit payments should include all pensions to be provided to plan members in accordance with (a) the benefit terms and (b) any additional legal agreement(s) to provide pensions that are in force at the actuarial valuation date. Projected benefit payments should include the effects of automatic COLAs and other automatic postemployment benefit changes. In addition, projected benefit payments should include the effects of (1) projected ad hoc COLAs and other ad hoc postemployment benefit changes, to the extent that they are considered to be substantively automatic,[9] (2) projected salary increases in circumstances in which the pension formula is based on future compensation levels, and (3) projected service credits both in determining a plan member's probable eligibility for benefits and in the projection of benefit payments in circumstances in which the pension formula is based on years of service. Benefit payments to be provided by means of allocated insurance contracts excluded from plan assets should be excluded.

Discount rate

40. The discount rate should be the single rate that reflects (a) the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions to the extent that (1) plan net position is projected to be sufficient to make the benefit payments that are projected to occur in a period and (2) assets are expected to be invested using a long-term investment strategy and (b) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) to the extent that the conditions in (a) are not met.

41. Determination of the discount rate requires projection of cash flows into and out of the pension plan. For each future period, the amount of projected benefit payments should be compared to projected plan net position. For this purpose, projected plan net position should incorporate, based on current contribution policies and practices, all employer contributions (including on-behalf contributions from nonemployer contributing entities, if any) intended to fund benefits of current plan members and all contributions from current plan members. However, it should not include (a) employer contributions intended to fund the service costs of future plan members or (b) contributions of future plan members.

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[9]Considerations that might be relevant in determining whether such changes are substantively automatic include the historical pattern of granting the changes, the consistency in the amounts of the changes or in the amounts of the changes relative to a defined cost-of-living or inflation index, and whether there is evidence to conclude that changes might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such changes are substantively automatic.

42. For each future period, if the amount of plan net position is projected to be sufficient to make the benefit payments that are projected to occur in that period and assets are expected to be invested using a long-term investment strategy, the present value of benefit payments projected to occur in that period should be determined using the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions. The long-term expected rate of return should be based on the nature and mix of current and expected pension plan investments. The municipal bond index rate discussed in paragraph 40 should be used to calculate the present value of all other benefit payments, including those projected to occur in periods in which assets sufficient to make the projected benefit payments are projected to be available in the pension plan but those assets are expected only to be held for a short time such that there would be little or no opportunity to invest them using a long-term investment strategy.

43. The single rate of return that, when applied to all projected benefit payments, results in a present value of projected benefit payments equal to the total of the present values determined under paragraph 42 is the discount rate for purposes of this Statement.

Attribution of the actuarial present value of projected benefit payments to periods

44. The **entry age normal actuarial cost method** should be used to attribute the actuarial present value of projected benefit payments of each member to periods in accordance with the following:

a. Attribution should be made on an individual plan member-by-plan member basis.
b. Each plan member's service costs should be level as a percentage of that member's projected pay. For purposes of this calculation, if a member does not have projected pay, the projected inflation rate should be used in place of the projected salary increase rate.
c. The beginning of the attribution period should be the first period in which the plan member's service accrues pensions under the benefit terms, notwithstanding vesting or other similar provisions.
d. The service costs of all pensions should be attributed through all assumed exit ages, through retirement.
e. Each plan member's service costs should be determined based on the same benefit provisions reflected in that member's actuarial present value of benefit payments.

Defined Contribution Pension Plans

45. Defined contribution plans that are used to provide pensions should apply the reporting requirements for fiduciary funds generally, including pension (or other employee benefit) trust funds, and for component units that are fiduciary in nature set forth in paragraphs 69–73 and 106–111 of Statement 34, as amended,[10] and the note disclosure requirements set forth in paragraph 46 of this Statement.

[10]Requirements for financial reporting by special-purpose governments engaged only in fiduciary activities (for example, a public employee retirement system) are discussed in paragraphs 139–141 of Statement 34, as amended.

46. A defined contribution plan should disclose the following in notes to financial statements:[11]

a. Plan description:
   1. Identification of the plan as a defined contribution plan
   2. Classes of plan members covered (for example, general employees or public safety employees), the total current membership, and the number of participating employers and nonemployer contributing entities
   3. The authority under which the plan is established or may be amended.

b. Fair value of plan investments (unless plan investments are reported at fair value).

EFFECTIVE DATE AND TRANSITION

47. This Statement is effective for financial statements for periods beginning after June 15, 2012, for defined benefit pension plans that meet all of the following criteria:

a. The plan is a single-employer pension plan.
b. Plan net position[12] reported in the first fiscal year ending after June 15, 2010, is $1 billion or more.
c. The participating employer does not have a **special funding situation** to which the requirements of paragraph 75 of the related Statement apply.
d. The plan is not included in the financial report of a public employee retirement system or other government (including the employer) that also reports any of the following:
   (1) A single-employer pension plan in which the employer has a special funding situation to which the requirements of paragraph 75 of the related Statement apply
   (2) An agent pension plan
   (3) A cost-sharing pension plan.

For all other pension plans, this Statement is effective for financial statements for periods beginning after June 15, 2013. Earlier application is encouraged for all plans.

48. In the first period that this Statement is applied, changes made to comply with this Statement should be treated as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. If restatement is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect. Also, the reason for not restating prior periods presented should be explained.

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[11]The related Statement includes the requirements for note disclosures to be presented in the financial reports of employers whose employees are provided with pensions and of governmental nonemployer contributing entities that have an unconditional legal requirement to contribute to a pension plan on behalf of another government. When a defined contribution pension plan is included in the financial report of a government that applies the requirements of the related Statement and similar information is required by this Statement and the related Statement, the government should present the information in a manner that avoids unnecessary duplication.

[12]If a plan has not implemented the requirements of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* as of its first fiscal year ending after June 15, 2010, the effective date of this Statement should be determined based on reported plan net assets.

49. In the fiscal year in which this Statement is first implemented (transition year), the 10-year schedule of information about employer contributions required by paragraph 32c should be presented if applicable. Plans are encouraged, but not required, to present all years of other required supplementary information retroactively. If retroactive information is not presented, in the transition year and until 10 years of information measured in accordance with the requirements of this Statement is available, information required to be presented in required supplementary information should be presented for as many years as are available. The schedules should not include information not measured in accordance with the requirements of this Statement.

The provisions of this Statement need not be applied to immaterial items.

GLOSSARY

50. This paragraph contains definitions of certain terms *as they are used in this Statement;* the terms may have different meanings in other contexts.

Actuarial present value of projected benefit payments
Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.

Actuarial valuation
The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability of the employer(s), and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial valuation date
The date as of which an actuarial valuation is performed.

Actuarially calculated employer contribution
An employer's target or recommended contribution to a defined benefit pension plan for the reporting period, determined in accordance with Actuarial Standards of Practice by the most recent measurement available when the contribution for the reporting period was adopted.

Ad hoc cost-of-living adjustment (COLA) or other postemployment benefit change
A COLA or other postemployment benefit change that requires a decision to grant by a responsible authority.

Agent multiple-employer defined benefit pension plan (agent pension plan)
A multiple-employer defined benefit pension plan in which plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the pensions of only its employees.

Allocated insurance contract
A contract with an insurance company under which related payments to the insurance company are currently used to purchase immediate or deferred annuities for individual members. Also may be referred to as an annuity contract.

Automatic COLA or other postemployment benefit change
A COLA or other postemployment benefit change that occurs without a requirement for a decision to grant by a responsible authority, including those for which the amounts are determined by reference to a specified experience factor (such as the earnings experience of the plan) or to another variable (such as an increase in the consumer price index).

Cost-of-living adjustment (COLA)

A postemployment benefit change intended to adjust benefit payments for the effects of inflation.

Cost-sharing multiple-employer defined benefit pension plan (cost-sharing pension plan)

A multiple-employer defined benefit pension plan in which the participating employers pool or share their obligations to provide pensions to their employees, and plan assets can be used to pay the pensions of the employees of any employer that provides pensions through the plan.

Covered-emplyee payroll

The payroll of employees that are provided with pensions under the benefit terms.

Defined benefit pension plans

Pension plans that are used to provide defined benefit pensions.

Defined benefit pensions

Pensions in which the benefits that the plan member will receive at or after separation from employment are stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation.

Defined contribution pension plans

Pension plans that are used to provide defined contribution pensions.

Defined contribution pensions

Pensions having terms that (a) provide an individual account for each plan member; (b) define the contributions (or credits) that an employer is required to make to an active plan member's account for periods in which that member renders services; and (c) provide that the benefits a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members and plan administrative costs that may be allocated to the plan member's account.

Entry age normal actuarial cost method

A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the *normal cost.* The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the *actuarial accrued liability*.[13]

[For purposes of application to the requirements of this Statement, the term *normal cost* is the equivalent of *service cost,* and the term *actuarial accrued liability* is the equivalent of *total pension liability*.]

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[13]"Definitions from ASOPs and ACGs of the ASB (including those from current exposure drafts) February 2011." Actuarial Standards Board of the American Academy of Actuaries, http://www.actuarialstandardsboard.org/pdf/definitions.pdf.

Money-weighted rate of return

A method of calculating period-by-period returns on investments that considers the size and timing of external cash flows.

Multiple-employer defined benefit pension plan

A defined benefit pension plan that is used to provide pensions to the employees of more than one employer.

Net pension liability of the employer(s)

The total pension liability of the employer(s), net of plan net position.

Nonemployer contributing entities

Entities that make contributions to a pension plan on behalf of another entity or entities. For purposes of this Statement, plan members are not considered nonemployer contributing entities.

Other postemployment benefits

Postemployment benefits other than pensions. Other postemployment benefits are all postemployment benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) provided separately from a pension plan, as well as postemployment healthcare benefits regardless of the manner in which they are provided. Other postemployment benefits do not include benefits defined as termination benefits.[14]

Pension plans

Trusts or other funds through which assets dedicated to the payment of pensions are accumulated and managed, and pensions are paid as they come due in accordance with the benefit terms.

Pensions

Retirement income, as well as postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits) that are provided through a defined benefit pension plan. Pensions do not include postemployment healthcare benefits and termination benefits.[15]

Plan members

Individuals that are covered under the terms of a pension provided through a pension plan. Plan members generally include employees in active service, terminated employees who have accumulated benefits but are not yet receiving them, and retired employees or their beneficiaries currently receiving benefits.

Postemployment

The period after employment.

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[14]The effects of a termination benefit on an employer's defined benefit obligations for other postemployment benefits should be accounted for and reported in accordance with the requirements for defined benefit other postemployment benefits.

[15]The effects of a termination benefit on an employer's defined benefit obligations for pensions should be accounted for and reported in accordance with the requirements for defined benefit pensions.

Postemployment benefit change

An adjustment to the pension of an inactive employee.

Postemployment healthcare benefits

Medical, dental, vision, and other health-related benefits provided to terminated or retired employees (or their beneficiaries) and their dependents.

Projected benefit payments

All benefits estimated to be payable to plan members as a result of their service through the valuation date and their expected future service.

Public employee retirement system

A special-purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment healthcare plans and deferred compensation plans.

Qualified trust

A trust, or equivalent arrangement, that is used to administer a pension plan and that has the following characteristics:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a nonemployer contributing entity, and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator. If the plan is a defined benefit plan, plan assets also are legally protected from creditors of the plan members.

Real rate of return

The rate of return on an investment after adjustment to eliminate inflation.

Service cost

The portion of the actuarial present value of projected benefit payments that is allocated to a valuation year.

Single-employer defined benefit pension plan (single-employer pension plan)

A defined benefit pension plan that is used to provide pensions to employees of only one employer.

Special funding situation

A circumstance in which an entity is legally responsible for contributions to pension plans that are used to provide pensions to the employees of another entity or entities.

Stand-alone plan financial report

A report that contains the financial statements of a pension plan and is issued by the pension plan or by the public employee retirement system that administers the plan. The term *stand-*

alone is used to distinguish such a financial report from plan financial statements that are included as a pension (or other employee benefit) trust fund of another government.

Termination benefits

Inducements offered by employers to employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination-related benefits.

Time-weighted rate of return

A method of calculating period-by-period returns on investments that does not consider the amount and timing of external cash flows.

Total pension liability of the employer(s)

The portion of the actuarial present value of projected benefit payments that is attributed to past periods of member services in accordance with the requirements of this Statement.

Unallocated insurance contracts

A contract with an insurance company under which payments to the insurance company are accumulated in an unallocated pool or pooled account (not allocated to specific members) to be used either directly or through the purchase of annuities to meet benefit payments when employees retire. Monies held by the insurance company under an unallocated contract may be withdrawn and otherwise invested.

Appendix A

BACKGROUND

51. This Statement was preceded by Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* which was issued in November 1994 and was effective for financial reporting periods beginning after June 15, 1996. A companion Statement—Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*—which established accounting and financial reporting requirements for employers that provide pensions, also was issued at that time.

52. Since its issuance, various provisions of Statement 25 have been updated or amended, and the GASB considered financial reporting issues similar to those for defined benefit pension plans during the development of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans,* which was issued in April 2004. In addition, significant work has been completed on the GASB's conceptual framework. Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,* was issued in April 2005, and Concepts Statement No. 4, *Elements of Financial Statements,* was issued in June 2007. Concepts Statement 3 established criteria for selection of the appropriate method of communication for items of reportable financial information—recognition in basic financial statements, disclosure in notes to basic financial statements, or presentation as required supplementary information or supplementary information. Concepts Statement 4 established definitions and characteristics of elements of financial statements.

53. Consistent with the GASB's commitment to periodically reexamine its standards, in January 2006, the Board approved a research project to gather information regarding how effective Statements 25 and 27 had been in meeting financial reporting objectives and to determine whether opportunities for improvement existed. The staff prepared a research report describing the research efforts and related findings and presented it to the Board in April 2008.

54. In light of the issues identified in the research project and the conceptual developments that had taken place since the issuance of Statements 25 and 27, the postemployment benefit accounting and financial reporting project was added to the GASB's current technical agenda in April 2008. Work was initiated at that time to develop the project's initial document for public comment—the Invitation to Comment, *Pension Accounting and Financial Reporting*—which was issued in March 2009.

55. The Invitation to Comment solicited constituent views on issues and questions related to fundamental topics associated with employer accounting and financial reporting, as well as issues and questions specific to financial reporting by pension plans. The Board received 117 written responses to the Invitation to Comment from organizations and individuals. In addition, the Board received oral responses from, and had the opportunity to further explore the views of, 17 individuals or groups at 2 public hearings. Further, the Board received feedback from members of a project task force—comprising 18 experts broadly representative of the GASB's constituency—at a meeting of that group in December 2009 and throughout the Board's

discussions. The Board also regularly updated the members of the Governmental Accounting Standards Advisory Council (GASAC) on project developments and heard feedback from individual GASAC members over the course of that organization's periodic meetings.

56. In June 2010, the Board issued a Preliminary Views, *Pension Accounting and Financial Reporting by Employers*, which presented the Board's tentative decisions on issues related to employer accounting and financial reporting. During the comment period on the Preliminary Views, the Board began its initial deliberations of issues related to financial reporting by pension plans. Deliberation of issues related to pension plans included consideration of the views and suggestions expressed by respondents to the Invitation to Comment, as well as comments received from members of the project task force and members of the GASAC throughout the project. The tentative conclusions reached by the Board on pension plan financial reporting issues as a result of those deliberations are presented in this Statement.

Appendix B

BASIS FOR CONCLUSIONS

Introduction

57. This appendix summarizes factors considered significant by Board members in reaching the conclusions in this Statement. It includes discussion of the alternatives considered and the Board's reasons for accepting some and rejecting others. Individual Board members may have given greater weight to some factors than to others.

58. As described in Appendix A, the reexamination project that has led to the issuance of this Statement included consideration of issues related to financial reporting by pension plans, as well as those related to accounting and financial reporting by employers whose employees are provided with pensions through those plans and by governmental nonemployer entities that are legally responsible for contributions to pension plans. Because of the relationships of plans, employers, and nonemployer contributing entities, the Board has given joint consideration to this Statement and the related Statement, *Accounting and Financial Reporting for Pensions* (the related Statement). The Board believes that consistency in the measurement and disclosure of pension information reported by all governments associated with pension transactions will enhance the understandability and usefulness of pension information to users of governmental financial reports. Therefore, many of the measurement and disclosure requirements of the two Statements are the same or closely related.

Overview

59. The requirements of this Statement generally reflect an overall decision of the Board to carry forward without detailed reexamination the basic accounting and financial reporting model for fiduciary activities from Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* As applied in this Statement, that model focuses on the recognition and disclosure of information essential to assessing accountability of those that have a fiduciary responsibility for the activities of a pension plan. The decision to continue to apply the fiduciary model is discussed in more detail in paragraphs 67–69.

60. Within the context of that fiduciary model, the Board evaluated the primary recognition issue for pension plans—the recognition of liabilities to plan members for pensions—and concluded that the event that creates a present obligation of the pension plan for a portion of the pension obligation created by the exchange of benefits for services between an employer and an employee is the attainment of the due date for payment. Therefore, this Statement requires that defined benefit pension plans continue to recognize a liability to plan members for pensions in the amount of benefits due and payable, limited by the availability of plan net position. Considerations related to this requirement are discussed in more detail in paragraphs 72–75.

61. In addition, because accountability includes the effective use of assets to generate additional resources, this Statement establishes recognition and disclosure requirements related

to assets held and managed by the pension plan, with detailed requirements related to investment policies and performance. Factors considered with regard to investment-related requirements of this Statement are discussed in more detail in paragraphs 77–80 and 84–87. In addition, the Board has concluded that information about the employer pension obligations for which the assets of pension plans are restricted is essential to understanding the activities of the pension plan. Therefore, this Statement requires defined benefit pension plans to present summary information about employer net pension liabilities in notes to financial statements. The Board's view regarding presentation of this information is discussed in more detail in paragraphs 88–92. This Statement also requires defined benefit pension plans to present schedules of required supplementary information, including those that present details of sources of changes in employer liabilities for pensions and information about employer contributions in certain circumstances, because the Board believes that such information is essential to providing context for the activities of the pension plan. Considerations related to these requirements are discussed in more detail in paragraphs 93–96.

Scope and Applicability

62. This Statement establishes financial reporting requirements for defined benefit pension plans and defined contribution pension plans that are administered as trusts, or equivalent arrangements, in which the criteria set forth in paragraph 3 are met (qualified trusts). The criteria for a qualified trust were developed based on similar criteria established in Statement 43 with regard to defined benefit other postemployment benefit plans. The criteria adopted in this Statement and in the related Statement reflect the Board's belief that it would be misleading to report as contributions and to include in measures of plan net position earmarked resources over which an employer retains discretionary control and that potentially could be redirected to other purposes, or resources that are subject to claims of the parties associated with the benefits. Pending issuance of additional guidance related to pension plans that are not administered through qualified trusts, those plans should continue to apply the requirements of all Statements effective prior to issuance of this Statement, including Statement 25, as amended, and Statement No. 50, *Pension Disclosures.*

63. Consistent with the approach of Statement 25, this Statement addresses all three types of defined benefit pension plans—single-employer, agent, and cost-sharing. The Board believes that the needs of users of the financial statements of all three types of plans are generally similar. Therefore, the requirements of this Statement related to defined benefit pension plans also generally are similar. An exception to this general approach was made for the presentation of aggregated information about the pension liabilities of agent employers in the notes and required supplementary information of agent pension plans. This exception is discussed in more detail in paragraphs 91–95.

64. Also similar to Statement 25, this Statement provides guidance related to pension plans administered by public employee retirement systems. However, it does not include specific guidance related to financial reporting by public employee retirement systems or other governments that administer one or more pension plans. General requirements for those governments were established in Statement 34, paragraph 140. The scope of the project leading to the issuance of this Statement did not include reexamination of the requirements of

Statement 34. Therefore, the Board did not address those requirements, and the provisions of that Statement and other applicable standards remain effective for such governments.

65. This Statement also establishes disclosure requirements for defined contribution pension plans. Because the scope of the phase of the Board's reexamination project that resulted in this Statement was limited to pensions, note disclosures for defined contribution OPEB plans are not addressed in this Statement and the related requirements of Statement 25 remain in effect for those plans.

Definition of Pension Plan

66. This Statement establishes a definition for financial reporting purposes of the term *pension plan.* Prior to this Statement, no formal definition had existed for that purpose. The Board is aware that the term has been used in different ways in different contexts. For example, the general arrangement for pensions between an employer and its employees has sometimes been referred to as a pension plan. In other contexts, the term *pension plan* has referred to the trust or other fund through which pensions are provided. The definition established for use in this and in the related Statement clarifies that the term describes the fund that is used to accumulate and manage assets for the payment of pensions and to pay those benefits when they are due to plan members.

Defined Benefit Pension Plans

Financial Reporting Objectives

67. The Board believes that the users of pension plan financial statements primarily include (a) the plan members and their representatives; (b) legislative and executive officials of the plan sponsor, participating employer(s), and agencies with plan oversight responsibilities; (c) the plan's board of trustees or other governing body; (d) municipal analysts; and (e) citizens. Because plan operations affect the employer's resources and claims on those resources, information in a plan's financial report also might be useful to the citizenry and to investors and creditors of the employer(s).

68. As noted earlier, in the project leading to this Statement, the Board decided to address issues related to pension plan financial reporting within the existing fiduciary reporting framework rather than to undertake a reexamination of the general model for reporting pension plans and other fiduciary activities. Therefore, this Statement reflects a continuation of a financial reporting approach that is intended to provide the primary users of pension plan financial statements with information that is useful in assessing (a) the stewardship of plan resources and the ongoing ability of the plan to pay pensions when due, (b) the results of plan operations, and (c) compliance with finance-related statutory, regulatory, and contractual requirements.

69. To accomplish these objectives, the financial report of a defined benefit pension plan should provide information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the plan, as well as period-to-period changes in plan net position and disclosures about plan activities that are essential to understanding how the

fiduciary responsibilities of the trustees and administrators have been discharged. In addition, the Board has concluded that defined benefit pension plan financial reports should contain information about trends that allow the user to place information in the financial statements in appropriate historical and economic context. Such information includes, when relevant to the nature of the plan:

a. Information about the net pension liability of the employer(s)
b. The sources of changes in the components of the net pension liability of the employer(s)
c. The contribution requirements of plan members, employer(s), and nonemployer contributing entities; the extent of compliance with those requirements; and trends associated with contribution requirements
d. The performance of plan investments.

General Approach to Developing Financial Reporting Standards for Defined Benefit Pension Plans

70. The requirements of this Statement were developed as a result of reexamining the guidance provided in Statement 25, which generally was intended to present a comprehensive reporting model for defined benefit pension plans. As a result of the evolutionary nature of financial reporting, the Board decided to exclude from this Statement requirements that are general and for which guidance is provided in other literature because the Board considered it impractical for this Statement to present a comprehensive reporting model specific to defined benefit pension plans administered through qualified trusts. A comprehensive approach would require repeating requirements that are included in other pronouncements and would add complexity to the ongoing maintenance of standards for defined benefit pension plans because subsequent revisions to all general pronouncements applicable to pension plans would require revisions to this Statement. Therefore, this Statement includes only (a) requirements specific to defined benefit pension plans (for example, requirements related to the display of information in the plan's statement of net position and statement of changes in net position, note disclosures about the net pension liability of the employer(s) and about plan investment returns, and requirements about transactions subsequently addressed more broadly in Statements that exclude pension plans from their scopes) and (b) requirements that are not specific to defined benefit pension plans but that establish guidance that is used as a basis for guidance in other literature (for example, the requirement to use the trade-date basis for purchases and sales of investments). This approach resulted in the omission from this Statement of some requirements that are included in Statement 25—for example, requirements related to accounting for assets used in plan operations, which are addressed in general requirements related to accounting for and reporting capital assets, and certain note disclosure requirements that were repetitive of similar requirements in other standards. Those requirements in other standards remain in effect.

71. Certain requirements specific to defined benefit pension plans that have been carried forward from Statement 25 are similar to requirements in other Statements that were issued subsequent to Statement 25 but that exclude pension plans from their scope. For those requirements, this Statement updates the language of Statement 25 to conform to subsequently issued pronouncements. For example, this approach was applied to requirements related to the presentation of the components of net investment income and those related to the disclosure of realized gains and losses.

Statement of Plan Net Position

Benefit Liability Recognition

72. This Statement carries forward for defined benefit pension plans administered through qualified trusts the requirement of Statement 25 to recognize a liability for pensions to plan members to the extent that benefits are currently due and payable, limited by the availability of plan net position. With regard to the benefit liability that should be reported by the plan, the Board considered three alternatives:

a. The plan should recognize a liability to employees for the total benefit liability, and consequently, the statement of plan net position would report total assets, deferred outflows of resources, total liabilities (including the total pension liability of the employer(s)), deferred inflows of resources, and the residual plan net position (underfunded position).
b. The plan should recognize a liability to employees for benefits to the extent that the plan currently is able to service benefit payments (that is, for the portion of the total pension liability of the employer(s) for which the other components of plan net position have been accumulated), and consequently, benefit liability recognition by the plan complements recognition by the employer(s) of their net pension liability, with the sum of the benefit liabilities displayed on the face of the two entities' financial statements equaling the total pension liability of the employer(s).
c. The plan should recognize a liability to employees for benefits to the extent that benefits are currently due and payable, and consequently, the statement of plan net position reports plan net position restricted for pensions.

73. In evaluating these alternatives, the Board considered comments from respondents to the Invitation to Comment regarding a question that presented alternatives similar to those identified in paragraph 72—that is, whether a pension plan should report as its liability (a) a liability for benefits currently due and payable or (b) an accrued benefit obligation. The Invitation to Comment, however, did not define the manner in which an accrued benefit obligation would be measured, and several potential variations of this measurement were reflected in respondent comments. Despite these variations, respondents that advocated for pension plan recognition of a plan liability only for benefits currently due and payable generally believe that this measure better meets the definition of a liability in Concepts Statement 4, that it provides better information for assessing the stewardship of the trustees and administrator of the plan, and that the accrued benefit obligation, however measured, is a liability of the employer(s), not the plan. Respondents that believe that a pension plan's liability for benefits should be a measure of the accrued benefit obligation believe that measure better represents the obligation that is to be paid using plan net position and that plan recognition of that measure, therefore, would present a more complete view of the plan's financial position. Some also suggested that, although the accrued benefit obligation originates with the employer—that is, it results from the employer–employee exchange—the establishment of a pension plan and employer adoption of a funding policy effectively transfers the accrued benefit obligation, in full, to the plan. Similar views of the relationships and responsibilities of the employer and the pension plan were expressed by respondents to the Preliminary Views within the context of employer accounting issues.

74. With regard to the alternative in which the plan would report as its liability the total pension liability of the employer(s) (Alternative A), the Board is not persuaded that the existence of a pension plan, combined with the adoption of a funding plan and the achievement of some degree of funding progress, is sufficient to settle the employer's obligation to its employees as a result of the original employment-exchange transactions. Further, the Board does not believe that the pension plan appropriately can be viewed as assuming the portion of the pension obligation that exceeds the amount of its net position available for pensions because the pension plan does not have an independent ability to obtain resources to satisfy that obligation.

75. With regard to the alternative that bases the liability on available net position (Alternative B), the Board believes that the amount that would be recognized as a liability under this alternative would not be consistent with the definition of liabilities in Concepts Statement 4—"present obligations to sacrifice resources that the government [in this case, the pension plan] has little or no discretion to avoid."[16] Because of the purpose for which a plan is created—payment of pensions when due—a plan clearly has an obligation related to pensions. However, for that obligation also to be considered a liability and recognized in the statement of net position, it also is required to be a present obligation—a condition that requires that the event creating the liability has taken place, and the Board is not persuaded that the sole act of accumulating net position represents an event that creates a present obligation of the pension plan for pensions. Rather, the Board believes that the accumulation of net position provides the plan with a greater ability to fulfill its mission—that of paying pensions when due. Within the context of the current model used for fiduciary fund reporting, the Board concluded that the event that makes a portion of the benefit obligation a present obligation of the pension plan is the attainment of the due date for payment of defined benefits to plan members. Therefore, this Statement requires that defined benefit pension plans recognize a liability to employees for benefits to the extent that benefits are currently due and payable (Alternative C).

Receivables

76. Under the requirements of Statement 25, pension plans are required to recognize receivables for contributions pursuant to "formal commitments" to contribute to the plan, as well as those resulting from statutory or contractual contribution requirements. For plans administered through qualified trusts, this Statement limits pension plan recognition of contributions receivable to those that are due pursuant to legal requirements, consistent with the definition of an asset in Concepts Statement 4, which was issued subsequent to Statement 25. Concepts Statement 4 defines assets as "resources with present service capacity that the government presently controls" (paragraph 8). With regard to formal commitments, the Board concluded that balances related to such commitments do not meet the definition of an asset because employers do not have a requirement to make the contributions to the pension plan. Consequently, these formal commitments do not represent resources in the control of the pension plan.

[16]Concepts Statement 4 establishes definitions of elements of the financial statements of governmental units generally. The definition and characteristics of liabilities and the other elements of financial statements in Concepts Statement 4 apply to trusts, including pension plans, as well as to governmental entities generally.

Investments

77. This Statement carries forward from Statement 25 the requirement for defined benefit pension plans generally to report investments at fair value. The Board retained this approach because it continues to believe that plan financial statements should focus on providing information to assess accountability for the resources held and managed by the pension plan and that fair value measures support that objective. Accountability for resources comprises not only the safekeeping of assets but also the effective use of assets in order to generate additional resources. Therefore, information about investment performance is essential in assessing accountability.

78. Fair value provides the most relevant information about the composition, value, and recent changes in the value of a pension fund. Fair value eliminates reporting identical and interchangeable securities at different amounts merely because they were acquired at different times. Reporting changes in fair value provides information necessary for assessing investment performance, including the results of holding, as well as selling, investments.

79. The Board believes that changes in fair value should be included as a component of net investment income in the period they occur. The changes in fair value are as relevant as other earnings on investments, such as dividends and interest, to assessments of investment management and performance and the financial position of the fund. A pension fund is in a better financial position when investment values increase and in a worse position when they decline. From that perspective, failure to include changes in fair value in net investment income results in a misstatement of the period-to-period changes in plan net position. The Board also notes that reporting at fair value eliminates the potential for distortions of investment income caused by timing investment sales to produce a particular result.

80. With regard to specific requirements for determining the fair value of various types of investments, this Statement carries forward guidance from Statement 25, as amended. The Board did not reconsider measurement issues associated with specific investment types as part of the project leading to this Statement. Instead, it believes that because the assessment of methods of determining fair values of investments has broader implications for accounting and financial reporting than for pension plans alone, if any such evaluation is necessary, it should be considered more comprehensively and, therefore, was outside the scope of this Statement.

Notes to Financial Statements and Required Supplementary Information

81. As noted in Appendix A, subsequent to the issuance of Statement 25, the Board completed the conceptual framework project on methods of communications, culminating in the issuance of Concepts Statement 3. That Concepts Statement provides specific guidance for the Board in evaluating what information should be presented as notes to financial statements and what information should be presented as required supplementary information.

82. Paragraph 36 of Concepts Statement 3 discusses the role of notes to financial statements as follows:

> Notes have a clear and demonstrable relationship to information in the financial statements to which they pertain and are essential to a user's understanding of those financial statements. In this context, "essential to a user's understanding" means so important as to be indispensable to a user (a) with a reasonable understanding of government and public finance activities and of the fundamentals of governmental financial reporting and (b) with a willingness to study the information with reasonable diligence. The use of professional judgment may be necessary for making a determination about whether an item of information is "essential to a user's understanding."

In addition, Concepts Statement 3 describes required supplementary information as "supporting information that the GASB has concluded is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context" (paragraph 42).

83. The requirements for note disclosures and required supplementary information in Statement 25 were reviewed by the Board with respect to the guidance in Concepts Statement 3. New requirements for information that the Board considered to be essential to a user of the financial statements have been included in this Statement, and certain other requirements (for example, funding-based measures of plan assets relative to employer liabilities) have been omitted.

Rates of Return on Investments

84. This Statement establishes a requirement that the financial reports of all defined benefit pension plans include certain information about the rate of return on plan investments, net of investment expenses. As notes to financial statements, the Board concluded that this information is essential to understanding a plan's investment performance compared to relevant benchmark rates and rates achieved by other plans and is an essential element in assessing stewardship responsibility. As required supplementary information, the Board concluded that actual annual rates of return are essential for providing historical and economic context about the amount of investment earnings reported in the statement of changes in net position. Plans generally invest in a portfolio designed in accordance with a long-term investment strategy. Rates of return for a single year should be considered in the context of the rates of return that have been earned over time. After observing the variability of rates of return over various periods, the Board was persuaded that 10 years of annual rates would provide an appropriate context for a rate of return of an individual year.

85. This Statement requires that pension plans present information about two different measures of rate of return—a time-weighted rate of return and a money-weighted rate of return. A time-weighted rate of return considers investment performance of a hypothetical dollar invested from the beginning of an investment period to the period's end. The time-weighted rate of return does not consider the effect of varying amounts invested due to receipt of contributions, reinvestment of investment returns, or payment of benefits. The Board's research indicates that a time-weighted rate of return communicates information that is suitable for comparisons to relevant benchmark rates, provides information to assess investment manager performance, and provides comparability among plans and investment managers.

86. In contrast, a money-weighted rate of return provides information about the actual performance of the plan's investment portfolio because it takes into account the effects of transactions that increase the amount of plan investments, such as employer and employee contributions, and those that decrease the amount of plan investments, such as benefit payments. Additionally, the money-weighted rate of return provides information that is comparable with the long-term expected rate of return of plan investments, which is used in calculating information presented in other disclosures. The Board concluded that information about both aspects of performance is essential to users of plan financial statements.

87. Because of the importance of providing information to assess single-period rates of return in the context of rates of return earned over time, the Board also considered the possibility of requiring presentation of multi-year rates of return. The Board concluded that a multi-year return requirement would add additional complexity and is not essential to provide context for the rate of return used in pension measurements due to the fact that these disclosures would be redundant to some degree of the information provided in the 10-year schedule of time-weighted and money-weighted rates of return.

Information about the Net Pension Liability of the Employer(s)

88. Statement 25, as amended, required all defined benefit pension plans to include information about the most recent actuarially calculated funded status of employers in notes to financial statements, with multiple years of such information required to be presented as a schedule in required supplementary information.

89. In the related Statement, the Board has established a reporting approach for employers that provide pensions through qualified trusts that separates accounting measures from funding-oriented measures. With this separation, the Board believes that it is not within the scope of its activities to establish standards with regard to the employer's method of financing the benefits it has obligated itself to provide (that being a policy decision for government officials or other responsible authorities to make) or to regulate a government's compliance with the financing policy or method it adopts. Therefore, this Statement does not include a requirement related to the calculation or disclosure of information about funding-based measures of funded status for pension plans that administer pensions that are within the scope of the related statement.

90. However, because assets accumulated in a defined benefit pension plan administered through a qualified trust cannot be used for purposes other than those related to the provision of pensions to plan members, the Board concluded that information about the magnitude of employer pension liabilities for which assets are being accumulated is essential to understand the balance of plan net position reported by the plan and that without this information, the balance of plan net position potentially would be misleading. Therefore, this Statement requires that single-employer and cost-sharing pension plans disclose the components of the net pension liability of the employer(s) as of the end of the plan's reporting period and the ratio of plan net position to the total pension liability of the employer(s) at that date. In addition, because measurement of the net pension liability of the employer(s) necessarily involves assumptions about future events, significant assumptions used to measure the total pension liability also are required to be disclosed. (For purposes of this Statement, the net pension liability of the employer(s) is required

to be measured in the same manner as required in the related Statement. The reasons for requiring the measurement method specified are discussed in detail in the related Statement.)

91. For agent pension plans, however, disclosure of aggregated information about the net pension liabilities of the employers is not required because the Board believes that the potential cost of producing the information necessary to meet this disclosure requirement may exceed the potential benefit of the information that would be provided. First, in the Board's view, the cost of determining aggregated funded status information for an agent pension plan could be significant in relation to benefits derived from such information. In an agent pension plan, each individual employer has a separately calculated total pension liability, and in some plans, the ends of the employers' reporting periods differ from each other and from the end of the plan's reporting period. In cases in which there are several different employer period-ends, it could be costly to roll the total pension liability information for each employer forward and back, as necessary, to aggregate the liabilities. Second, the Board concluded that the potential relative benefit of plan-level aggregated information about employers' liabilities is lower than for that similar information for single-employer and cost-sharing pension plans. That is, in an agent pension plan, aggregated information about the employers' net pension liabilities is thought to have limited decision utility because the individual relationship between each employer's total pension liability relative to the portion of net position of the agent pension plan associated with that employer's liability is obscured.

92. Because Statement 25, as amended by Statement 50, required all pension plans, including agent pension plans, to disclose funded status information similar to that considered by the Board for this Statement, research was conducted related to the potential use of the disclosures for agent pension plans. Based on users' feedback from surveys, the Board concluded that aggregated funded status information about agent pension plans is not essential to understand the financial statements and the balance of the net position of those plans.

93. With regard to the presentation of multi-year information about the net pension liability of the employer(s), the Board concluded that information about the components of the net pension liability and related information presented for each of the most recent 10 years would provide economic context regarding an amount in the plan's financial statements—the balance of plan net position—as well as historical context for plan net position relative to the total pension liability of the employer(s). Similar to the single-period note disclosure requirements for the same information, the Board concluded that, although essential for single-employer and cost-sharing pension plans, the potential benefit of this information for an agent pension plan would not exceed the cost to provide the information. Therefore, this requirement similarly has been limited to single-employer and cost-sharing employer pension plans.

Information about Changes in the Net Pension Liability of the Employer(s)

94. This Statement requires that a 10-year schedule of changes in the net pension liability of the employer(s) be presented as required supplementary information by single-employer and cost-sharing pension plans. This schedule integrates information that is presented in the financial statement(s) of the employer(s) with information that is presented in the plan's financial statements—plan net position. As such, the Board concluded that the information in this schedule is essential for providing historical and economic context for that balance reported in

the plan's financial statements. For the same cost–benefit reasons that influenced the Board's decision related to the presentation of aggregated information about the component balances of employers' net pension liabilities in note disclosures and required supplementary information for agent pension plans, the Board concluded that this requirement for presentation of detailed information about changes in the net pension liability of the employer(s) should apply to single-employer and cost-sharing pension plans only.

Information about Actuarially Calculated Contributions

95. Statement 25 requires that pension plans present a schedule of employer contributions as required supplementary information. The actual employer contributions reported in that schedule are required to be presented in comparison to an annual required contribution, for which calculation requirements are established in Statement 25. As discussed above, in this Statement and in the related Statement, for pensions administered through qualified trusts, the Board has decided to remove the specific link between the accounting measures of the employer's pension liability and pension expense and the actuarially determined funding-based measures. However, the Board concluded that, in circumstances in which an actuarially calculated contribution rate is established, a 10-year schedule providing information about employer contributions—including actual contributions, actuarially calculated contributions, and (for cost-sharing employers) contractually required contributions, if different—as well as information related to covered-employee payroll, is essential for providing historical and economic context for the amount of contributions reported as additions to plan net position and should be presented as required supplementary information. The detail of actual contributions over a 10-year period provides historical context for the amount of contributions in the current period. Information about actuarially calculated and contractually required contributions, as well as covered-employee payroll information, provides economic context to the amounts of actual contributions reported. As discussed above with regard to other information aggregated for all employers in an agent pension plan, the Board concluded that aggregated information about employer contributions has limited decision utility because the aggregation obscures the individual relationships between each employer and the aggregated amounts reported by the agent pension plan. Consequently, this Statement does not require information about contributions to be presented in required supplementary information by agent pension plans.

10-Year Schedules

96. The provisions of earlier standards include a requirement to present required supplementary information about funded status and employer contributions for six years—a period that, for some pension plans, includes only three actuarial valuations. The Board has received feedback from some users of financial statements that, if the intent is to provide historical context, six years of information may not be sufficient. To provide information that is essential to understand trends and to place the information reported for the current period into historical perspective, this Statement requires that all schedules of required supplementary information for pension plans administered through qualified trusts present information for 10 years—a period of time that the Board believes will provide information to identify some cyclical factors and other trends in the information without resulting in an overly burdensome presentation.

Timing of Measurements

97. The information disclosed in notes to financial statements is required to be reported as of the end of the plan's reporting period. Information presented in schedules of required supplementary information is required to be reported as of the plan's most recent fiscal year-end. Certain disclosures and required supplementary information include details about the net pension liability of the employer(s), which comprises the total pension liability of the employer(s), net of plan net position. The Board believes that it would be confusing and potentially misleading if disclosures that include plan net position were to present information about that balance as of a date other than the end of the plan's reporting period or if disclosures that include both plan net position and the total pension liability of the employer(s) were to present balances that are not as of the same date. Furthermore, disclosures of the relative amounts of employer liabilities and plan net position would not be effective in providing information for understanding the plan net position reported in the financial statement unless the disclosures are presented as of the same date as the balance of plan net position reported in the financial statements. Consequently, the Board concluded that all information disclosed in notes to the plan's financial statements should reflect measures as of the end of the plan's reporting period. Because the information in the 10-year schedules that are required to be presented as required supplementary information is derived from amounts disclosed in the notes to financial statements in the current or in prior years and because such information would already have been measured as of the plan's year-end financial statements for purposes of note disclosures, the Board believes that the information needed to present the required supplementary information as of the plan's year-end should be readily available.

Defined Contribution Pension Plans

98. This Statement and the related Statement include in the description of defined contribution pensions the possibility that the timing of payments into individual accounts does not coincide with the period of employee services to which defined contributions pertain (as when an employer accounts for the credits for a nonvested employee but delays payment into the employee's account until the employee has vested). The Board believes that arrangements in which amounts are credited to a member's account can qualify as defined contribution benefits. However, the underlying notion inherent in the definition in Statement 25 remains. That is, a pension is classified as defined contribution for accounting and financial reporting purposes if the amount of benefits that the plan member will receive is dependent solely upon amounts contributed or credited to the member's account, actual earnings on the underlying assets associated with contribution or credits to the member's account, and adjustments for forfeitures or administrative expenses that are assessed to the member's account. This definition excludes from the category of defined contribution pensions those benefits that are provided through plans in which interest earnings in individual member accounts are not derived from actual earnings on underlying assets contributed or credited to the account. Such benefits include those in which the employer provides a defined rate of return on member balances and those in which interest crediting is based on a specified index rather than on actual investment earnings. It also excludes circumstances in which the employer has longevity risk associated with an annuitization feature of a pension that otherwise would be classified as defined contribution.

99. In addition, similar to the approach taken for defined benefit pension plans with regard to repetition of requirements that are contained in other standards, the Board has included only requirements that are defined-contribution pension-plan specific in this Statement. Therefore, this Statement omits disclosure requirements, such as those for information in the summary of significant accounting policies and those related to investments, that are the subject of other standards applicable to defined contribution pension plans. Nonetheless, defined contribution pension plans should continue to meet the requirements of all other applicable standards.

Effective Date and Transition

100. Because of the importance that users of financial statements place on information about public pensions and pension plans, the Board believes that the requirements of this Statement should be implemented as soon as practicable. Information from an actuarial valuation is needed in order to comply with all of the reporting requirements; therefore, the Board believes that the provisions of this Statement should be implemented after the next actuarial valuation, which would need to be performed in a manner that produces the information necessary to implement this Statement. The Board noted that larger plans, in particular, those with over $1 billion in net position, have annual actuarial valuations. The Board also considered the practicality of implementing the provisions of this Statement when there is a need for planning and coordination of activities between the pension plan and its participating employers. These activities would be more extensive for multiple-employer plans (as well as plans in which a nonemployer contributing entity is required to recognize a portion of the net pension liability of the employer(s)), especially when there are multiple employer year-ends. As a result of these considerations, the Board concluded that large single-employer pension plans in which there is no nonemployer contributing entity involvement for which the nonemployer contributing entity is required to recognize a portion of the employer's net pension liability should implement the provisions of this Statement one year earlier than other pension plans, if the plans are not reported by governments that also report information about multiple-employer pension plans or other single-employer pension plans that have special funding situations in which the nonemployer contributing entity reports a portion of the net pension liability of the employer(s). The Board believes that the effective dates address the users' needs regarding information about public pensions and pension plans, while not requiring plans to perform actuarial valuations sooner than they would have ordinarily scheduled them.

Appendix C

ILLUSTRATIONS

101. This appendix illustrates certain requirements of this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of this Statement or to indicate the Board's endorsement of the policies or practices shown. Disclosures in addition to those shown in Illustrations 3 and 4 are required, if applicable. Illustrations 3 and 4 are coordinated with Illustrations 2 and 3 of Appendix C of the related Statement.

Illustration 1—Calculation of Rates of Return

Illustration 1a: Time-Weighted Rate of Return
Illustration 1b: Money-Weighted Rate of Return

Illustration 2—Calculation of the Discount Rate

Illustration 3—Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer Pension Plan

Illustration 4—Financial Statements, Note Disclosures, and Required Supplementary Information for a Cost-Sharing Pension Plan

Illustration 1a: Time-Weighted Rate of Return

The following illustration depicts the calculation of the time-weighted rate of return on plan investments. The time-weighted rate of return measures investment performance without consideration of the timing and amounts of cash flows into and out of the investment portfolio. To do this, whenever there is an external cash flow, such as a deposit to or withdrawal from the portfolio during the year, the return on the investments that have been in the portfolio since the previous cash flow is measured. The returns from each period between cash flows are then compounded to calculate the annual time-weighted rate of return.

In this illustration, the fair value of investments at the beginning of the year is $18,907,442, and the fair value of investments at the end of the year is $20,047,797. The period between cash flows is assumed to be a month, and cash flows are assumed to be on the last day of each month.

When the rate of return is calculated for each period between flows, that period's return is calculated as the investment income for the period, divided by the value of the portfolio after it has been adjusted for cash flows; that is, as if the cash flows had not occurred during the period. In that way, actual cash flows of the period are excluded from the calculation of that period's return. They are considered, however, in the beginning fair value of investments for each subsequent period. In this illustration, this calculation for each month is shown in column (e) in the table below.

Returns for each period are compounded to calculate the annual time-weighted rate of return. This calculation is shown in column (f). The annual time-weighted rate of return is the cumulative return for all 12 months, which in this illustration is 7.65 percent.

The following table details the calculation of the time-weighted rate of return for the period from July 1–June 30.

Period	Beginning Fair Value of Investments (a)	Investment Income (b)	Cash Flow (c)	Ending Fair Value of Investments (d) = (a) + (b) + (c)	Period Return (e) = (b) ÷ [(a) + (b)]	Cumulative Return * (f) = ([1 + (f) $_{t-1}$] × [1 + (e)]) – 1
July	$ 18,907,442	$ 339,687	$ (25,240)	$ 19,221,889	1.765%	1.76%
August	19,221,889	322,378	(32,334)	19,511,934	1.649	3.44
September	19,511,934	452,195	(29,969)	19,934,159	2.265	5.79
October	19,934,159	(162,271)	(27,605)	19,744,284	(0.821)	4.92
November	19,744,284	(210,952)	(35,290)	19,498,042	(1.080)	3.79
December	19,498,042	318,051	(24,649)	19,791,444	1.605	5.45
January	19,791,444	287,761	(30,561)	20,048,644	1.433	6.96
February	20,048,644	(232,588)	(25,831)	19,790,224	(1.174)	5.71
March	19,790,224	(157,944)	(29,378)	19,602,903	(0.805)	4.86
April	19,602,903	(196,889)	(32,925)	19,373,089	(1.015)	3.79
May	19,373,089	337,524	(28,787)	19,681,825	1.712	5.57
June	19,681,825	395,941	(29,969)	20,047,797	1.972	7.65

* Rounded.

Illustration 1b: Money-Weighted Rate of Return

The following illustration depicts the calculation of the money-weighted rate of return on plan investments. The money-weighted rate of return considers the timing of cash flows into and out of the investment portfolio during a period and weights the cash flows by the proportion of time they are available to earn interest during that period. The rate of return is then calculated by solving for the rate that equates (1) the sum of cash flows into and out of the portfolio, adjusted for interest, to (2) the ending fair value of plan investments.

In this illustration, the fair value of investments at the beginning of the year is $18,907,442, and the fair value of investments at the end of the year is $20,047,797. The period between cash flows is assumed to be a month, and cash flows are assumed to be on the last day of each month.

The following details the calculation of the money-weighted rate of return for the period from July 1–June 30.

Step 1:

	Plan Investments/ Cash Flows (a)	Periods Invested (b)	Period Weight (c) = (b) ÷ 12	(d) = (a) × $(1 + r_{mw})^{(c)}$
Beginning value—July 1	$ 18,907,442	12	1.00	$18,907,442 × $(1 + r_{mw})^{1.0}$
Monthly net cash flows:				
July	(25,240)	11	0.92	(25,240) × $(1 + r_{mw})^{0.92}$
August	(32,334)	10	0.83	(32,334) × $(1 + r_{mw})^{0.83}$
September	(29,969)	9	0.75	(29,969) × $(1 + r_{mw})^{0.75}$
October	(27,605)	8	0.67	(27,605) × $(1 + r_{mw})^{0.67}$
November	(35,290)	7	0.58	(35,290) × $(1 + r_{mw})^{0.58}$
December	(24,649)	6	0.50	(24,649) × $(1 + r_{mw})^{0.50}$
January	(30,561)	5	0.42	(30,561) × $(1 + r_{mw})^{0.42}$
February	(25,831)	4	0.33	(25,831) × $(1 + r_{mw})^{0.33}$
March	(29,378)	3	0.25	(29,378) × $(1 + r_{mw})^{0.25}$
April	(32,925)	2	0.17	(32,925) × $(1 + r_{mw})^{0.17}$
May	(28,787)	1	0.08	(28,787) × $(1 + r_{mw})^{0.08}$
June	(29,969)	0	0.00	(29,969) × $(1 + r_{mw})^{0.00}$
Ending value—June 30	$ 20,047,797			

Step 2:

Solve for r_{mw} such that the ending value of plan investments ($20,047,797) equals the sum of amounts in column (d). In this illustration, r_{mw} is 7.96%.

Illustration 2—Calculation of the Discount Rate

The following illustration is an example of the projections and calculations used to determine the discount rate in conformity with paragraphs 40–43 of this Statement. The discount rate is the single rate that reflects (1) the long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of pensions to the extent that (a) plan net position is projected to be sufficient to make the benefit payments that are projected to occur in a period and (b) assets are expected to be invested using a long-term investment strategy and (2) an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another scale) to the extent that the conditions of (1) are not met.

To calculate the discount rate, the cash flows into and out of the plan are required to be projected. In this illustration, this includes contributions to the plan (Table 1), benefit payments (Table 2), administrative expenses (Table 2), and investment earnings (Table 2). These cash flows are used to determine projected plan net position (Table 2). Projected plan net position is compared to the amount of benefit payments projected to occur in each period (Table 3). In this illustration, it is assumed that plan net position can always be invested using a long-term investment strategy because additional plan net position related to future employees will be available. Consequently, in this illustration, the benefit payments that are projected to occur are discounted using the long-term expected rate of return on pension plan investments when the amount of projected plan net position is sufficient to make the benefit payments (Table 3, column (f)). The projected benefit payments that are not projected to be paid from the projected amount of plan net position are discounted using an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) (Table 3, column (g)).

Determining the single rate that is the discount rate for purposes of this Statement is an iterative process that involves the following steps:

1. A single rate that is between the long-term expected rate of return on plan investments and the index rate used to calculate amounts in Table 3, column (g), is selected.
2. The selected rate is used to calculate the total present value of all projected benefit payments.
3. The total present value resulting from step 2 is compared to the sum of the present values determined in Table 3, columns (f) and (g).
4. If the selected rate results in a total present value greater than the sum of the present values determined in columns (f) and (g) in Table 3, a new higher rate is selected. If the total present value is less than the sum of the present values determined in columns (f) and (g) in Table 3, a new lower rate is selected.
5. Steps 2–4 are repeated until the single rate that results in a total present value of all projected benefit payments equal to the sum of the present values determined in Table 3, columns (f) and (g), is determined.

In this illustration, solving for the single rate that satisfies the condition of step 5 results in a discount rate of 5.35 percent. The proof of this calculation is shown in Table 3, column (h).

Facts and Assumptions

The following facts are assumed in this illustration:

a. Total payroll increases 4.25 percent per year.
b. Current employees are required by statute to contribute 5.00 percent of payroll to the plan.
c. The employer is required by statute to contribute 10.00 percent of payroll to the plan.
d. Benefit payments are projected as required by paragraph 39 of this Statement.
e. The service cost is 12.00 percent of payroll.
f. Initial plan net position is $1,431,956.
g. Initial administrative expenses are $1,000.
h. Administrative expenses increase 3.00 percent per year.
i. For purposes of projecting investment earnings, benefit payments, contributions, and administrative expenses occur halfway through the year.
j. The long-term expected rate of return on pension plan investments is 7.50 percent.
k. The tax-exempt high-quality municipal bond index rate is 4.00 percent.

Table 1: Projection of Contributions

	Projected Payroll			Projected Contributions			
Year	Payroll for Current Employees (a)	Payroll for Future Employees (b) = (c) – (a)	Total Employee Payroll * (c)	Contributions from Current Employees (d) = (a) × 5%	Employer Contributions for Current Employees (e) = (a) × 10%	Contributions Related to Payroll of Future Employees † (f) = (b) × 3% ‡	Total Contributions (g) = (d) + (e) + (f)
0	$ 488,072	$ -	$ 488,072	$ 24,404	$ 48,807	$ -	$ 73,211
1	474,494	34,321	508,815	23,725	47,449	1,030	72,204
2	469,203	61,237	530,440	23,460	46,920	1,837	72,217
3	463,875	89,109	552,984	23,194	46,388	2,673	72,255
4	457,451	119,035	576,486	22,873	45,745	3,571	72,189
5	450,018	150,969	600,987	22,501	45,002	4,529	72,032
6	441,785	184,744	626,529	22,089	44,179	5,542	71,810
7	432,704	220,452	653,156	21,635	43,270	6,614	71,519
8	422,353	258,562	680,915	21,118	42,235	7,757	71,110
9	411,044	298,810	709,854	20,552	41,104	8,964	70,620
10	399,081	340,942	740,023	19,954	39,908	10,228	70,090

Note: Years subsequent to year 10 have been omitted from this table.

* Payroll increases 4.25% each year.

† Contributions related to future employees that are above service cost and therefore can be allocated to payment of pensions of current employees.

‡ Three precent is the difference between total contributions for future employees of 15% of future employee payroll (10% of future employee payroll from employer contributions and 5% of future employee payroll from future employee contributions) and service cost of future employees (12%).

Table 2: Projection of Plan Net Position

Year	Projected Beginning Plan Net Position (a)	Projected Total Contributions * (b)	Projected Benefit Payments † (c)	Projected Administrative Expenses ‡ (d)	Projected Investment Earnings § (e)	Projected Ending Plan Net Position (f) = (a) + (b) – (c) – (d) + (e)
0	$ 1,431,956	$ 73,211	$ 109,951	$ 1,000	$ 105,981	$ 1,500,197
1	1,500,197	72,204	116,500	1,030	110,815	1,565,686
2	1,565,686	72,217	123,749	1,061	115,454	1,628,547
3	1,628,547	72,255	131,690	1,093	119,871	1,687,890
4	1,687,890	72,189	140,229	1,126	123,998	1,742,722
5	1,742,722	72,032	149,168	1,160	127,768	1,792,194
6	1,792,194	71,810	158,466	1,195	131,120	1,835,463
7	1,835,463	71,519	168,332	1,231	133,983	1,871,402
8	1,871,402	71,110	178,591	1,268	136,277	1,898,930
9	1,898,930	70,620	189,069	1,306	137,929	1,917,104
10	1,917,104	70,090	199,709	1,345	138,872	1,925,012

Note: Years subsequent to year 10 have been omitted from this table.

* From Table 1: Projection of Contributions, column (g).

† Projected as required by paragraph 39 of this Statement.

‡ Administrative expenses increase 3.00% per year.

§ The benefit payments, contributions, and administrative expenses occur halfway through the year.

Table 3: Present Values of Projected Benefit Payments

			Projected Benefit Payments		Present Values of Projected Benefit Payments		
Year (a)	Projected Plan Net Position * (b)	Projected Benefit Payments † (c)	Funded Portion of Benefit Payments (d)	Unfunded Portion of Benefit Payments (e)	Present Value of Funded Benefit Payments (f) = (d) ÷ (1 + 7.5%)[(a)]	Present Value of Unfunded Benefit Payments (g) = (e) ÷ (1 + 4%)[(a)]	Present Value of Benefit Payments Using the Single Discount Rate ‡ (h) = (c) ÷ (1 + 5.35%)[(a)]
0	$ 1,431,956	$ 109,951	$ 109,951	$ -	$ 109,951	$ -	$ 109,951
1	1,500,197	116,500	116,500	-	108,372	-	110,586
2	1,565,686	123,749	123,749	-	107,084	-	111,504
3	1,628,547	131,690	131,690	-	106,005	-	112,635
4	1,687,890	140,229	140,229	-	105,004	-	113,850
5	1,742,722	149,168	149,168	-	103,904	-	114,960
6	1,792,194	158,466	158,466	-	102,680	-	115,926
7	1,835,463	168,332	168,332	-	101,463	-	116,892
8	1,871,402	178,591	178,591	-	100,136	-	117,720
9	1,898,930	189,069	189,069	-	98,615	-	118,301
10	1,917,104	199,709	199,709	-	96,898	-	118,615
25	547,880	322,779	322,779	-	52,929	-	87,752
26	316,985	326,326	316,985	9,341	48,352	3,369	84,213
27	64,800	328,997	-	328,997	-	114,102	80,592
28	-	330,678	-	330,678	-	110,274	76,892
29	-	331,266	-	331,266	-	106,221	73,118
30	-	330,744	-	330,744	-	101,975	69,297
95	-	1	-	1	-	1	-
96	-	-	-	-	-	-	-
Total					$ 2,315,885 +	$ 1,679,188 =	$ 3,995,073

Note: Years 11–24 and 31–94 have been omitted from this table.

* From Table 2: Projection of Plan Net Position, column (a).

† From Table 2: Projection of Plan Net Position, column (c).

‡ In this illustration, 5.35% is the rate that produces a total present value that equals the sum of the present values of funded and unfunded benefit payments in columns (f) and (g).

Illustration 3—Financial Statements, Note Disclosures, and Required Supplementary Information for a Single-Employer Pension Plan

[Note: The following is not a complete set of note disclosures and required supplementary information for the pension plan.]

County Employees Retirement System

County Employees Pension Plan

Statement of Plan Net Position as of June 30, 20X9

(Dollar amounts in thousands)

	20X9
Assets	
Cash and deposits	$ 74,934
Security lending cash collateral	180,945
Total cash	255,879
Receivables:	
Contributions	7,464
Due from broker for investments sold	63,851
Investment income	4,655
Security lending income	47
Other receivables	114
Total receivables	76,131
Prepaid items	8
Investments, at fair value:	
Domestic fixed income securities	681,470
Domestic equities	1,075,201
International equities	459,827
Real estate	147,245
Total investments	2,363,743
Total assets	2,695,761
Liabilities	
Payables:	
Investment management fees	1,562
Due from broker for investments	115,212
Collateral payable for securities lending	181,645
Other	7,760
Total liabilities	306,179
Net position restricted for pensions	$ 2,389,582

Statement of Changes in Plan Net Position for the Year Ended June 30, 20X9

(Dollar amounts in thousands)

	20X9
Additions	
Contributions:	
Employer	$ 107,830
Member	50,319
Total contributions	158,149
Investment income:	
Net appreciation in fair value of investments	162,137
Interest and dividends	42,179
	204,316
Less investment expense	(8,905)
Net investment income	195,411
Security lending income	989
Less security lending expense	(246)
Net security lending income	743
Total net investment income	196,154
Other additions	41
Total additions	354,344
Deductions	
Benefits	122,141
Refunds of member contributions	2,736
Administrative expense	3,373
Other	33
Total deductions	128,283
Net increase (decrease)	226,061
Net position restricted for pensions	
Beginning of year	2,163,521
End of year	$ 2,389,582

Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Method Used to Value Investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

General Information about the Plan

Plan Description. The County Employees Retirement System (CERS) administers the County Employees Pension Plan (CEPP)—a single-employer defined benefit pension plan that provides benefits for all permanent full-time general and public safety employees of the County. Article 15 of the Regulations of the State grants the authority to establish and amend the benefit provisions to the CERS Board of Trustees (CERS Board).

Management of the CEPP is vested in the CERS Board, which consists of nine members—four elected by active and retired plans members, four appointed by the County Board, and the County Treasurer, who serves as an ex-officio member.

CEPP provides retirement and disability benefits. Retirement benefits for general members are calculated as 2 percent of 5-year final average salary times the member's years of service. Benefits for public safety members are calculated as 3 percent of 3-year final average salary times the member's years of service. General members with 10 years of continuous service are eligible to retire at age 60. Public safety members with 10 years of continuous service are eligible to retire at age 55. General members may retire at any age after 30 years of service. Public safety members may retire at any age after 20 years of service. All members are eligible for non-duty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two-times the member's final full-year salary. A member who leaves County service may withdraw his or her contributions, plus any accumulated interest.

The plan terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. The annual adjustments are based on the change in the Consumer Price Index. The maximum increase in retirement allowance is 2 percent for general members and 3 percent for public safety members.

Plan Membership. As of June 30, 20X9, plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	4,002
Inactive members entitled to but not yet receiving benefits	1,207
Active members	5,347
	10,556

Investments

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the CERS Board by a majority vote of its members. It is the policy of the CERS Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 20X9:

Asset Class	Target Allocation
Equity	67%
Fixed income	27
Real estate	6
Cash	0
Total	100%

Concentrations. [If the plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of plan net position, it would disclose information required by paragraph 30b(3) of this Statement.]

Rates of Return. Rates of return on plan investments are calculated in two ways—as time-weighted rates and as money-weighted rates. The time-weighted rate of return expresses investment performance, net of investment expenses, without consideration of the timing and amounts invested. For the year ended June 30, 20X9, the annual time weighted rate of return, net of investment expenses, was 9.05 percent. The money-weighted rate of return expresses investment performance, net of investment expenses, after consideration of the impact of the changing amounts actually invested. For the year ended June 30, 20X9, the annual money-weighted rate of return, net of investment expenses, was 9.12 percent.

Contributions

Article 15 of the Regulations of the State requires the County and active plan members to make contributions to CEPP based on actuarially calculated rates recommended by an independent actuary and adopted by the CERS Board. The County's rate is determined as the estimated amount necessary to finance benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. The average member rate for the period ended June 30, 20X9, was 11.74 percent of annual pay. The County's contribution rate for that period was 25.16 percent of annual pensionable payroll. The County's contribution rate was calculated using the following methods and assumptions:

Valuation date	June 30, 20X7
Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Inflation	3.5 percent
Investment rate of return	7.75 percent, including inflation
Projected salary increases	5.20 percent, average, including inflation
Cost-of-living adjustments	1/2 CPI increase—maximum 2 percent for general members, 3 percent for safety members

Receivables

[If the plan reported receivables from long-term contracts with the County for contributions, it would disclose information required by paragraph 30c of this Statement.]

Reserves

[If the plan had reserves, it would disclose information required by paragraph 30e of this Statement.]

Allocated Insurance Contracts

[If the plan had allocated insurance contracts that are excluded from plan assets, it would disclose information required by paragraph 30f of this Statement.]

Net Pension Liability of the County

The components of the current-year net pension liability of the County as of June 30, 20X9, were as follows:

County's total pension liability	$ 3,122,108
Plan net position	(2,389,582)
County's net pension liability	$ 732,526
Ratio of plan net position to the County's total pension liability	76.54%

The actuarial assumptions related to inflation, investment rate of return, projected salary increases, and cost-of-living adjustments used in the measurement of the County's net pension liability in the June 30, 20X9 actuarial valuation were the same as those used to determine contributions in the June 30, 20X7 actuarial valuation. The discount rate (interest rate) was 7.75 percent (net of investment expenses), equal to the long-term expected rate of return on plan investments, applied to all periods.

The plan's actuaries develop the best-estimate range for the investment return assumption based on the target asset allocation adopted by the CERS Board. The target allocation and best estimates of geometric real rates of return (expected return, net of inflation) for each major asset class are summarized in the following chart:

Asset Class	Target Allocation	Projected Real Rate of Return
Domestic equity	46%	5.4%
International equity	21	5.5
Fixed income	27	1.3
Real estate	6	4.5
Cash	0	0.0
Total	100%	

To calculate the discount rate, cash flows into and out of the plan are projected in order to determine whether resources are projected to be sufficient in future periods for the payment of projected benefit payments of current plan members. The projection assumes that County and member contributions will be made at current actuarially calculated contribution rates. For this purpose, County contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected County contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. In each period of the projection, County contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected County contributions for current plan members.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the County calculated using the current-period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Net pension liability	$ 801,164	$ 732,526	$ 654,219

Retired-Life Mortality. The same retired-life mortality rates are used in the valuation for active members, members retired from service, and beneficiaries. Beneficiary mortality is assumed to be the same assumption as healthy members. For service retirement, rates are based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustment for white-collar workers. Ages are set back two years for males and three years for females. For disability retirement, rates are the same as for service retirement, except the general member minimum was assumed to be 1.5 percent for males and 1.25 percent for females, and the safety member minimum was assumed to be 1.0 percent for both males and females. All rates incorporate adjustments for mortality improvements based on Scale AA.

Experience Studies. The actuarial assumptions used in the June 30, 20X9 valuation are based on the results of an actuarial experience study for the period July 1, 20X5–April 30, 20X7.

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYER'S NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Plan net position										
Contributions—employer	$ 107,830	$ 106,123	$ 105,340	$ 100,550	$ 76,090	$ 76,931	$ 60,042	$ 36,070	$ 33,541	$ 39,482
Contributions—member	50,319	50,372	60,111	42,696	39,962	33,647	27,094	22,650	16,627	15,287
Net investment income	196,154	(44,099)	(16,138)	298,260	166,826	140,132	193,107	39,142	(82,410)	(65,750)
Benefit payments	(122,141)	(113,991)	(103,970)	(94,788)	(87,915)	(83,182)	(74,016)	(68,989)	(65,186)	(58,807)
Administrative expense	(3,373)	(3,287)	(2,774)	(2,582)	(2,086)	(2,235)	(1,912)	(1,887)	(1,509)	(1,491)
Refunds of contributions	(2,736)	(2,795)	(3,075)	(2,244)	(2,258)	(1,458)	(1,734)	(1,206)	(1,551)	(1,846)
Other	8	(83)	173	(175)	9	75	(493)	8	-	-
Net change in plan net position	226,061	(7,760)	39,667	341,717	190,628	163,910	202,088	25,788	(100,488)	(73,125)
Plan net position—beginning	2,163,521	2,171,281	2,131,614	1,789,897	1,599,269	1,435,359	1,233,271	1,207,483	1,307,971	1,381,096
Plan net position—ending (a)	2,389,582	2,163,521	2,171,281	2,131,614	1,789,897	1,599,269	1,435,359	1,233,271	1,207,483	1,307,971
Total pension liability										
Service cost	100,103	100,530	106,411	90,960	72,354	71,176	60,054	36,066	33,541	39,483
Interest	226,709	212,957	193,904	177,989	165,282	145,623	135,134	125,974	106,229	97,756
Benefit changes	-	-	-	-	-	-	-	23,467	119,513	-
Difference between expected and actual experience	(67,539)	(15,211)	(3,562)	38,438	19,926	(28,227)	34,335	13,463	30,981	35,780
Changes of assumptions	-	-	61,010	-	-	152,500	(13,989)	(7,797)	32,979	-
Benefit payments	(122,141)	(113,991)	(103,970)	(94,788)	(87,915)	(83,182)	(74,016)	(68,989)	(65,186)	(58,807)
Refunds of contributions	(2,736)	(2,795)	(3,075)	(2,244)	(2,258)	(1,458)	(1,734)	(1,206)	(1,551)	(1,846)
Net change in total pension liability	134,396	181,490	250,718	10,355	167,389	256,432	139,784	120,978	256,506	112,366
Total pension liability—beginning	2,987,712	2,806,222	2,555,504	2,345,149	2,177,760	1,921,328	1,781,544	1,660,566	1,404,060	1,291,694
Total pension liability—ending (b)	3,122,108	2,987,712	2,806,222	2,555,504	2,345,149	2,177,760	1,921,328	1,781,544	1,660,566	1,404,060
Net pension liability—ending (b) – (a)	$ 732,526	$ 824,191	$ 634,941	$ 423,890	$ 555,252	$ 578,491	$ 485,969	$ 548,273	$ 453,083	$ 96,089

SCHEDULE OF THE EMPLOYER'S NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability	$ 3,122,108	$ 2,987,712	$ 2,806,222	$ 2,555,504	$ 2,345,149	$ 2,177,760	$ 1,921,328	$ 1,781,544	$ 1,660,566	$ 1,404,060
Plan net position	(2,389,582)	(2,163,521)	(2,171,281)	(2,131,614)	(1,789,897)	(1,599,269)	(1,435,359)	(1,233,271)	(1,207,483)	(1,307,971)
Net pension liability	$ 732,526	$ 824,191	$ 634,941	$ 423,890	$ 555,252	$ 578,491	$ 485,969	$ 548,273	$ 453,083	$ 96,089
Ratio of plan net position to total pension liability	76.54%	72.41%	77.37%	83.41%	76.32%	73.44%	74.71%	69.22%	72.72%	93.16%
Covered-employee payroll	$ 428,559	$ 436,424	$ 416,243	$ 407,812	$ 363,648	$ 334,315	$ 365,385	$ 323,896	$ 301,891	$ 274,318
Net pension liability as a percentage of covered-employee payroll	170.93%	188.85%	152.54%	103.94%	152.69%	173.04%	133.00%	169.27%	150.08%	35.03%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially calculated employer contribution	$ 107,830	$ 106,123	$ 105,340	$ 100,550	$ 76,090	$ 76,931	$ 60,042	$ 36,070	$ 33,541	$ 39,482
Actual employer contributions	(107,830)	(106,123)	(105,340)	(100,550)	(76,090)	(76,931)	(60,042)	(36,070)	(33,541)	(39,482)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 428,559	$ 436,424	$ 416,243	$ 407,812	$ 363,648	$ 334,315	$ 365,385	$ 323,896	$ 301,891	$ 274,318
Actual contributions as a percentage of covered-employee payroll	25.16%	24.32%	25.31%	24.66%	20.92%	23.01%	16.43%	11.14%	11.11%	14.39%

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Annual time-weighted rate of return, net of investment expenses	9.05%	(2.04%)	(0.76%)	16.46%	10.40%	9.73%	15.59%	3.29%	(6.45%)	(4.85%)
Annual money-weighted rate of return, net of investment expenses	9.12%	(2.04%)	(0.78%)	16.45%	10.34%	9.67%	15.60%	3.27%	(6.32%)	(4.77%)

Notes to Required Supplementary Information for the Fiscal Year Ended June 30, 20X9

Benefit Changes. In 20X1, benefits were amended to base public safety member benefits on a three-year final average instead of a five-year final average. The change is reflected in the net pension liability in 20X1 and 20X2.

Changes of Assumptions. In 20X4 and 20X7, amounts reported as changes of assumptions arose primarily due to an increase in assumed life expectancy. In 20X3, changes of assumptions included an increase in the inflation rate from 3.0 percent to 4.0 percent and a decrease in the rates of projected salary increases. In 20X2, changes of assumptions included a decrease in the rates of projected salary increases. In 20X1, amounts reported as changes of assumptions arose primarily due to an increase in assumed life expectancy.

Illustration 4—Financial Statements, Note Disclosures, and Required Supplementary Information for a Cost-Sharing Pension Plan

[Note: The following is not a complete set of note disclosures and required supplementary information for the pension plan.]

Teachers Retirement System

Teachers Pension Plan

Statement of Plan Net Position as of June 30, 20X9

(Dollar amounts in thousands)

	20X9
Assets	
Cash	$ 20,433
Receivables:	
Accounts receivable—sale of investments	471,576
Accrued interest and dividends	130,799
Accounts receivable—other	78,472
Total receivables	680,847
Investments at fair value:	
Domestic and international equities	19,099,517
Fixed income	10,503,809
Private equity	2,430,856
Real estate	3,592,491
Commodities	357,788
Total investments	35,984,461
Total assets	36,685,741
Liabilities	
Accounts payable—purchase of investments	641,632
Retiree benefits and other payables	193
Accrued expenses	32,386
Tax withholding payable	17,643
Accounts payable—other	14,517
Total liabilities	706,371
Net position restricted for pensions	$ 35,979,370

Statement of Changes in Plan Net Position
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

	20X9
Additions	
Contributions:	
Employer	$ 863,626
Member	347,701
Total contributions	1,211,327
Investment income	3,704,555
Less investment expense	(217,371)
Net investment income	3,487,184
Other additions	1,803
Total additions	4,700,314
Deductions	
Benefits	1,774,616
Administrative expense	43,880
Refunds of member contributions	18,041
Other	197
Total deductions	1,836,730
Net increase	2,863,580
Net position restricted for pensions	
Beginning of year	33,115,790
End of year	$ 35,979,370

Notes to the Financial Statements
for the Year Ended June 30, 20X9
(Dollar amounts in thousands)

Summary of Significant Accounting Policies

Method Used to Value Investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

General Information about the Plan

Plan Description. The Teachers Retirement System (TRS) administers the Teachers Pension Plan (TPP)—a cost-sharing multiple-employer defined benefit pension plan that provides benefits for teaching-certified employees of participating school districts. Article 33 of the Regulations of the State grants the authority to establish and amend the benefit provisions of the plan to the TRS Board of Trustees (TRS Board).

Management of TPP is vested in the TRS Board, which consists of nine members—five elected by the active and retired members, and the state director of finance, the state superintendent, the state treasurer, and the state controller, who serve as ex-officio members.

TPP provides retirement, disability, and death benefits. Retirement benefits are determined as 2.5 percent of the member's final 3-year average compensation. Members with 10 years of continuous service are eligible to retire at age 60. Members are eligible for service-related disability benefits regardless of length of service. Five years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two-times the member's final full-year salary.

Plan Membership. As of June 30, 20X9, total plan membership (all school districts) consisted of the following:

Retired members or beneficiaries currently receiving benefits	51,392
Inactive members entitled to but not yet receiving benefits	7,911
Active members	92,096
	151,399

Investments

Investment Policy. The plan's policy in regard to the allocation of invested assets is established and may be amended by the TRS Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the pension fund. The following was the TRS Board's adopted asset allocation policy as of June 30, 20X9:

Asset Class	Target Allocation
Fixed income and cash	30%
Domestic equity	31
International equity	21
Real estate	10
Private equity	7
Commodities	1
Total	100%

The preceding target allocation was amended at the beginning of 20X9 to reduce the previous allocation to domestic equities and to increase the allocation to commodities. The previous target allocation was 32 percent domestic equity and no allocation to commodities.

Concentrations. [If the plan held investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent 5 percent or more of plan net position, it would disclose information required by paragraph 30b(3) of this Statement.]

Rates of Return. Rates of return on plan investments are calculated in two ways—as time-weighted rates and as money-weighted rates. The time-weighted rate of return expresses investment performance, net of investment expenses, without consideration of the timing and amounts invested. For the year ended June 30, 20X9, the annual time-weighted rate of return, net of investment expenses, was 10.52 percent. The money-weighted rate of return expresses investment performance, net of investment expenses, after consideration of the impact of the changing amounts actually invested. For the year ended June 30, 20X9, the annual money-weighted rate of return, net of investment expenses, was 10.62 percent.

Contributions

Per Article 33 of the Regulations of the State, contribution requirements of the plan members and the participating school districts are established and may be amended by the TRS Board. Plan members are required to contribute 6.19 percent of their annual pay. The school districts' contribution rate for that period was 15.38 percent of annual pensionable payroll. The school districts' contribution rate was calculated using the following methods and assumptions:

Valuation date	June 30, 20X8
Actuarial cost method	Entry age normal
Amortization method	Level percent of payroll, closed
Remaining amortization period	30 years
Asset valuation method	3-year smoothed market
Actuarial assumptions:	
Inflation	3.5 percent
Investment rate of return	7.75 percent, including inflation
Projected salary increases	3.76–9.74 percent, including inflation

Receivables

In addition to actuarially determined contributions, certain school districts also make semi-annual installment payments, including interest at 8 percent per year, for the cost of service credits granted retroactively to employees when the school districts initially joined TPP. As of June 30, 20X9, the outstanding balance was $6,409. These payments are due over various time periods not exceeding 10 years at June 30, 20X9.

Reserves

[If the plan had reserves, it would disclose information required by paragraph 30e of this Statement.]

Allocated Insurance Contracts

[If the plan had allocated insurance contracts that are excluded from plan assets, it would disclose information required by paragraph 30f of this Statement.]

Net Pension Liability of Participating School Districts

The components of the current-year net pension liability of the school districts as of June 30, 20X9, were as follows:

School districts' total pension liability	$ 39,502,453
Plan net position	(35,979,370)
School districts' net pension liability	$ 3,523,083
Ratio of plan net position to the school districts' total pension liability	91.08%

The actuarial assumptions related to inflation, investment rate of return, and cost-of-living adjustments used in the measurement of the school districts' net pension liability in the June 30, 20X9 actuarial valuation were the same as those used to determine contributions in the June 30, 20X8 actuarial valuation. The assumptions related to projected salary increases in the June 30, 20X9 actuarial valuation ranged from 4.26 to 10.24 percent, including inflation. The discount rate (interest rate) was 7.75 percent (net of investment expenses), equal to the long-term expected rate of return on plan investments, applied to all periods.

The Plan's actuaries develop the best-estimate range for the investment return assumption based on the target asset allocation adopted by the Board. The target allocation and best estimates of geometric real rates of return (expected return, net of inflation) for each major asset class are summarized in the following chart:

Asset Class	Target Allocation	Projected Real Rate of Return
Fixed income	28%	1.3%
Domestic equity	31	5.4
International equity	21	5.6
Real estate	10	5.0
Private equity	7	7.4
Commodities	1	2.3
Cash	2	0.0
Total	100%	

To calculate the discount rate, cash flows into and out of the plan are projected in order to determine whether resources are projected to be sufficient in future periods for the payment of projected benefit payments of current plan members. The projection assumes that school district and member contributions will be made at current actuarially calculated contribution rates. For this purpose, school district contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected school district contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions of future plan members, are excluded. In each period of the projection, school district contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected school district contributions for current plan members.

Sensitivity of the Net Pension Liability to the Discount Rate Assumption. The following presents the current-period net pension liability of the school districts calculated using the current-period discount rate assumption of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current assumption:

	1% Decrease (6.75%)	Current Assumption (7.75%)	1% Increase (8.75%)
Net pension liability	$ 3,853,196	$ 3,523,083	$ 3,146,465

Retired-Life Mortality. Rates are based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with ages set back three years and adjustments for mortality improvements based on Scale AA.

Experience Studies. The actuarial assumptions used in the June 30, 20X9 valuation are based on the results of an actuarial experience study for the period July 1, 20X6–April 30, 20X9.

Schedules of Required Supplementary Information

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Plan net position										
Contributions—employer	$ 863,626	$ 855,531	$ 750,352	$ 521,978	$ 518,922	$ 414,708	$ 390,679	$ 342,060	$ 317,285	$ 243,489
Contributions—member	347,701	296,176	286,096	262,699	233,192	265,573	216,297	198,618	202,062	179,476
Net investment income	3,487,184	4,092,410	3,396,193	4,118,500	924,991	(1,533,625)	(1,382,548)	3,335,941	3,342,362	3,460,959
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Administrative expense	(43,880)	(42,469)	(43,182)	(38,684)	(41,523)	(37,402)	(33,417)	(29,401)	(27,562)	(24,904)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Other	1,606	1,507	2,686	2,318	150,991	(471)	2,319	440	(1,965)	1,223
Net change in plan net position	2,863,580	3,404,692	2,829,782	3,419,300	447,371	(2,131,588)	(1,962,340)	2,782,393	2,834,001	2,916,648
Plan net position—beginning	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179	18,575,531
Plan net position—ending (a)	35,979,370	33,115,790	29,711,098	26,881,316	23,462,016	23,014,645	25,146,233	27,108,573	24,326,180	21,492,179
Total pension liability										
Service cost	990,261	881,703	786,992	769,005	770,226	722,455	722,380	685,803	602,269	602,153
Interest	2,740,602	2,594,446	2,473,748	2,305,646	2,152,012	2,004,909	1,871,047	1,724,536	1,585,716	1,465,668
Benefit changes	-	50,152	-	-	-	440,809	-	-	-	-
Difference between expected and actual experience	789,864	155,142	(22,933)	(97,644)	453,496	19,715	571,295	590,600	634,956	698,072
Changes of assumptions	515,454	-	-	696,984	-	-	(239,456)	-	-	(245,993)
Benefit payments	(1,774,616)	(1,778,732)	(1,543,733)	(1,429,423)	(1,322,446)	(1,224,112)	(1,138,030)	(1,048,015)	(981,886)	(927,204)
Refunds of contributions	(18,041)	(19,731)	(18,630)	(18,088)	(16,756)	(16,259)	(17,640)	(17,250)	(16,295)	(16,391)
Net change in total pension liability	3,243,524	1,882,980	1,675,444	2,226,480	2,036,532	1,947,517	1,769,596	1,935,674	1,824,760	1,576,305
Total pension liability—beginning	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946	19,383,641
Total pension liability—ending (b)	39,502,453	36,258,929	34,375,949	32,700,505	30,474,025	28,437,493	26,489,976	24,720,380	22,784,706	20,959,946
Net pension liability—ending (b) – (a)	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)

SCHEDULE OF THE EMPLOYERS’ NET PENSION LIABILITY

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability	$ 39,502,453	$ 36,258,929	$ 34,375,949	$ 32,700,505	$ 30,474,025	$ 28,437,493	$ 26,489,976	$ 24,720,380	$ 22,784,706	$ 20,959,946
Plan net position	(35,979,370)	(33,115,790)	(29,711,098)	(26,881,316)	(23,462,016)	(23,014,645)	(25,146,233)	(27,108,573)	(24,326,180)	(21,492,179)
Net pension liability	$ 3,523,083	$ 3,143,139	$ 4,664,851	$ 5,819,189	$ 7,012,009	$ 5,422,848	$ 1,343,743	$ (2,388,193)	$ (1,541,474)	$ (532,233)
Ratio of plan net position to total pension liability	91.08%	91.33%	86.43%	82.20%	76.99%	80.93%	94.93%	109.66%	106.77%	102.54%
Covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Net pension liability as a percentage of covered-employee payroll	62.74%	60.38%	93.63%	118.29%	142.13%	114.30%	30.55%	(58.14%)	(39.95%)	(14.94%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last 10 Fiscal Years
(Dollar amounts in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially calculated employer contribution	$ 863,626	$ 855,531	$ 750,352	$ 521,978	$ 518,922	$ 414,708	$ 390,679	$ 342,060	$ 317,285	$ 243,489
Actual employer contributions	(863,626)	(855,531)	(750,352)	(521,978)	(518,922)	(414,708)	(390,679)	(342,060)	(317,285)	(243,489)
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered-employee payroll	$ 5,615,736	$ 5,205,802	$ 4,982,084	$ 4,919,531	$ 4,933,615	$ 4,744,340	$ 4,398,443	$ 4,107,964	$ 3,858,090	$ 3,562,416
Actual contributions as a percentage of covered-employee payroll	15.38%	16.43%	15.06%	10.61%	10.52%	8.74%	8.88%	8.33%	8.22%	6.83%

SCHEDULE OF INVESTMENT RETURNS

Last 10 Fiscal Years

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Annual time-weighted rate of return, net of investment expenses	10.52%	13.75%	12.62%	17.52%	4.04%	(6.20%)	(5.17%)	13.69%	15.51%	18.58%
Annual money-weighted rate of return, net of investment expenses	10.62%	13.92%	12.75%	17.79%	4.06%	(6.17%)	(5.15%)	13.85%	15.72%	18.88%

Notes to Required Supplementary Information
for the Fiscal Year Ended June 30, 20X9

Benefit Changes. In 20X4, benefits were amended to reflect a new definition of base compensation.

Changes of Assumptions. In 20X9, changes in assumptions included a 0.5 percent increase in the rates of projected salary increases and an adjustment of the expectation of life after disability.

In 20X6, changes of assumptions included a decrease in the inflation rate from 4.0 percent to 3.5 percent and an expectation of retired life mortality based on RP-2000 Mortality Tables rather than on the 1983 Group Annuity Mortality Table.

In 20X3, changes of assumptions for purposes of determining contribution rates included an increase in the amortization period of the unfunded actuarial accrued liability from a 25-year amortization period to a 30-year period.

In 20X0, changes of assumptions for purposes of determining contribution rates included a change in the actuarial asset valuation method from 5-year smoothed market to 3-year smoothed market and an increase in the projected salary increase assumption of 0.5 percent.

Appendix D

CODIFICATION INSTRUCTIONS

102. The sections that follow update the June 30, 2010, *Codification of Governmental Accounting and Financial Reporting Standards*, for the effects of this Statement. Only the paragraph number of the Statement is listed if the paragraph will be cited in full in the Codification.

* * *

SUMMARY STATEMENT OF PRINCIPLES SECTION 1100

.110 [In subparagraph c, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5.]

[Revise sources of section as follows:] [NCGAS 1, pp. 2–4, as amended by GASBS 6, ¶15 and ¶25, and GASBS 34, ¶15, ¶80, and ¶82; GASBS 14, ¶11, ¶12, ¶19, ¶43, ¶65, and ¶66; GASBS 34, ¶6, ¶13–¶16, ¶18, ¶21, ¶22, ¶30, ¶53, ¶63, ¶75, ¶79, ¶80, ¶82, ¶88, ¶89, ¶92, ¶101, ¶106, ¶108, ¶112, and ¶125, and fn53; GASBS 34, ¶100, as amended by GASBS 48, ¶21; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS XX, ¶20; GASBS 34, ¶130, as amended by GASBS 41, ¶3; GASBS 37, ¶6 and ¶10; GASBS 42, ¶9; GASBS 51, ¶17]

* * *

FUND ACCOUNTING SECTION 1300

.102 [In subparagraph c, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5.] [NCGAS 1, ¶18; GASBS 34, ¶63, ¶64, ¶66, ¶69, ¶78, ¶79, ¶91, ¶92, and ¶106; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS XX, ¶20]

[In footnote 1, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5.] [GASBS 34, fn43, as amended by GASBS 43, ¶11, and GASBS XX, ¶14]

* * *

BASIS OF ACCOUNTING SECTION 1600

[In Statement of Principle, subparagraph c, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5.] [NCGAS 1, ¶57, as amended by GASBS 6, ¶15; GASBS 34, ¶6, ¶79, and ¶92; GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS XX, ¶16]

.134 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 34, ¶107, as amended by GASBS 43, ¶11 and ¶24, and GASBS XX, ¶16]

* * *

COMPREHENSIVE ANNUAL FINANCIAL REPORT SECTION 2200

[In footnote 34, add cross-reference to new Section Pe5 and update cross-references to current Section Pe5.] [GASBS 34, fn43, as amended by GASBS 43, ¶11, and GASBS XX, ¶14]

[In footnote 35, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 34, fn44, as amended by GASBS 43, ¶11, and GASBS XX, ¶14]

.176 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 34, ¶108, as amended by GASBS 43, ¶11, and GASBS XX, ¶15–¶21]

.177 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 34, ¶109, as amended by GASBS 43, ¶11, and GASBS XX, ¶22–¶29]

.181 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 25, ¶44; GASBS 27, ¶39; GASBS 34, ¶6; GASBS 34, ¶129, as amended by GASBS XX, ¶32–¶34; GASBS 43, ¶46; GASBS 45, ¶40]

[In footnote 41, update cross-reference to current Section Pe5.]

* * *

NOTES TO FINANCIAL STATEMENTS SECTION 2300

.107 [In subparagraph n, add cross-reference to new Sections Pe5 and Pe6 and update cross-references to current Sections Pe5 and Pe6; in subparagraph o, replace cross-reference to current Section Pe6 with reference to new Section Po51.]

* * *

INVESTMENTS SECTION I50

.103 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5; delete subparagraph a and renumber remaining subparagraphs.] [GASBS 31, ¶4, as amended by GASBS 53, ¶20 and ¶67, and GASBS XX, ¶18]

* * *

INVESTMENTS—REVERSE REPURCHASE AGREEMENTS **SECTION I55**

Sources: [Add the following:] GASBS XX

[In footnote 5, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBI 3, ¶5, as amended by GASBS XX, ¶24; GASBI 3, fn2, as amended by GASBS XX, ¶14; GASBS 34, ¶13, ¶91, and ¶106; GASBS XX, fn5]

* * *

INVESTMENTS—SECURITIES LENDING **SECTION I60**

Sources: [Add the following:] GASBS XX

[In footnote 7, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 28, fn7, as amended by GASBS XX, ¶26]

[In footnote 12, add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.] [GASBS 28, fn12, as amended by GASBS XX, ¶24; GASBS XX, fn5]

* * *

ACCOUNTING FOR PARTICIPATION IN JOINT VENTURES AND JOINTLY GOVERNED ORGANIZATIONS **SECTION J50**

.115 [Add cross-reference to new Sections Pe5 and Pe6 and update cross-references to current Sections Pe5 and Pe6.] [GASBS 14, ¶81, as amended by GASBS 43, ¶11, and GASBS XX]

* * *

PENSION ACTIVITIES—EMPLOYER REPORTING **SECTION P20**

[In current Section P20, update cross-references to current Sections Pe5 and Pe6 and add new Sections Pe5 and Pe6. See also references.]

* * *

POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS—EMPLOYER REPORTING **SECTION P50**

See also: [Add cross-reference to new Sections Pe5 and Pe6 and update cross-references to current Sections Pe5 and Pe6.]

[In footnote 25, update cross-reference.]

* * *

[Rename Section Pe5 and replace entire section as follows:]

PENSION PLANS ADMINISTERED THROUGH QUALIFIED TRUSTS—DEFINED BENEFIT **SECTION Pe5**

Sources: GASB Statement XX

See also: Section P20, "Pension Activities—Employer Reporting for Benefits Provided through Qualified Trusts"
Section P50, "Postemployment Benefits Other Than Pensions—Employer Reporting"
Section Pe6, "Pension Plans Administered through Qualified Trusts—Defined Contribution"
Section Pe7, "Pension Plans Not Administered through Qualified Trusts—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Qualified Trusts—Defined Contribution"
Section Po50, "Postemployment Benefit Plans Other Than Pension Plans—Defined Benefit"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"
Section Sp20, "Special-Purpose Governments"
Section T25, "Termination Benefits"

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for state and local governmental **defined benefit pension plans**[1] that are administered through trusts, or equivalent arrangements, in which:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a **nonemployer contributing entity,** and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing **pensions** to **plan members** in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, plan members, and the plan administrator.

A trust, or equivalent arrangement, that is used to administer a pension plan and that has these characteristics is referred to in this section as a **qualified trust.** [GASBS XX, ¶3]

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[1][GASBS XX, fn1; change *Statement* to *section*.]

.102–.103 [GASBS XX, ¶4–¶5; change *Statement* to *section.*]

.104 **Defined benefit pensions** are those for which the income or other benefits that the plan member will receive at or after separation from employment are defined by the benefit terms. The benefits may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. In contrast, **defined contribution pensions** have terms that (a) provide an individual account for each plan member; (b) define the contributions (or credits) that an employer is required to make to an active plan member's account for periods in which that member renders services; and (c) provide that the benefits a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members and plan administrative costs that may be allocated to the plan member's account. If the benefit to be provided is a function of factors other than the amounts contributed (or credited) and amounts earned on contributed (or credited) assets, the pension plan that is used to provide the benefit should apply the requirements of this section for defined benefit pension plans administered through a qualified trust or of Section Pe7 for defined benefit pension plans not administered through a qualified trust. Otherwise, the disclosure requirements for **defined contribution pension plans** in Section Pe6 or Pe8 should be applied. [GASBS XX, ¶6]

.105–.109 [GASBS XX, ¶7–¶11, including footnotes; change *Statement* to *section;* and update cross-references.]

Number of Plans

.110 [GASBS XX, ¶13]

[Insert new paragraphs .111–.141 as follows:]

.111–.141 [GASBS XX, ¶14–¶44, including headings and footnotes; change *Statement* to *section* and update cross-references.]

DEFINITIONS

.501 Paragraphs .502–.540 contain definitions of certain terms as they are used in this section and in Section Pe6; the terms may have different meanings in other contexts.

.502–.540 [GASBS XX, ¶50, including footnotes; change *Statement* to *section* and update cross-references.]

* * *

[Rename Section Pe6 and replace entire section as follows:]

PENSION PLANS ADMINISTERED THROUGH QUALIFIED TRUSTS—DEFINED CONTRIBUTION **SECTION Pe6**

Sources: GASB Statement XX

See also: Section P20, "Pension Activities—Employer Reporting for Pensions Provided through Qualified Trusts"
Section Pe5, "Pension Plans Administered through Qualified Trusts—Defined Benefit"
Section Pe8, "Pension Plans Not Administered through Qualified Trusts—Defined Contribution"
Section Po51, "Postemployment Benefit Plans Other Than Pension Plans—Defined Contribution"
Section Sp20, "Special-Purpose Governments"

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for state and local governmental **defined contribution pension plans**[1] that are administered through trusts, or equivalent arrangements, in which:

a. Employer contributions to the plan, including contributions made on behalf of the employer(s) by a **nonemployer contributing entity,** and earnings on those contributions are irrevocable.
b. Plan assets are dedicated to providing **pensions** to **plan members** in accordance with the benefit terms.
c. Plan assets are legally protected from the creditors of the employer(s), nonemployer contributing entities, and the plan administrator.

A trust, or equivalent arrangement, that is used to administer a pension plan and that has these characteristics is referred to in this section as a **qualified trust.** [GASBS XX, ¶3]

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[1]Terms defined in Section Pe5, paragraphs .502–.540, are shown in **boldface type** the first time they appear in this section. [GASBS XX, fn1]

.102 This section focuses on provisions specific to defined contribution pension plan financial reporting. Pension plans should continue to follow all other accounting and financial reporting requirements applicable to the transactions and other events reported in their basic financial statements, including notes to those statements, and required supplementary information. [GASBS XX, ¶4]

.103 [GASBS XX, ¶5, change *Statement* to *section*.]

.104 **Defined benefit pensions** are those for which the income or other benefits that the plan member will receive at or after separation from employment are defined by the benefit terms.

The benefits may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation. In contrast, **defined contribution pensions** have terms that (a) provide an individual account for each plan member; (b) define the contributions (or credits) that an employer is required to make to an active plan member's account for periods in which that member renders services; and (c) provide that the benefits a plan member will receive will depend only on the contributions (or credits) to the plan member's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other plan members and plan administrative costs that may be allocated to the plan member's account. If the benefit to be provided is a function of factors other than the amounts contributed (or credited) and amounts earned on contributed (or credited) assets, the pension plan that is used to provide the benefit should apply the requirements of Section Pe5 for **defined benefit pension plans** that are administered through a qualified trust or Section Pe7 for defined benefit pension plans that are not administered through a qualified trust. Otherwise, the disclosure requirements of this section for defined contribution pension plans administered through a qualified trust or Section Pe8 for defined contribution pension plans not administered through a qualified trust should be applied. [GASBS XX, ¶6]

.105 [GASBS XX, ¶7, omit footnote 2 and include footnote 3; change *Statement* to *section* and update cross-reference.]

.106 [GASBS XX, ¶11; change *Statement* to *section* and update cross-reference.]

Number of Plans

.107 [GASBS XX, ¶13]

Financial Reporting

.108–.109 [GASBS XX, ¶45 and ¶46, including footnotes; change *Statement* to *section* and update cross-references.]

* * *

[Insert new section as follows:]

PENSION PLANS NOT ADMINISTERED THROUGH QUALIFIED TRUSTS—DEFINED BENEFIT — SECTION Pe7

Sources: [Insert sources from current Section Pe5.]

See also: [Insert references from current Section Pe5; update titles of sections and add the following:]

Section Pe5, "Pension Plans Administered through Qualified Trusts—Defined Benefit"

Section Pe8, “Pension Plans Not Administered though Qualified Trusts—Defined Contribution”

[Insert Note from current Section Pe5.]

[Insert remainder of current Section Pe5; revise paragraph .101 as follows and update cross-references throughout:]

.101 This section establishes financial reporting standards for **defined benefit pension plans**[1] that are not administered through qualified trusts, as defined in Section Pe5, paragraph .101. Requirements for presenting notes to financial statements of **defined contribution plans** not administered through qualified trusts are included in Section Pe8. Requirements for defined benefit and defined contribution pension plans that are administered through qualified trusts are included in Sections Pe5 and Pe6, respectively. Section P20 addresses financial reporting of the pension expenditures/expense of employers. [GASBS 25, ¶8, as amended by GASBS XX, ¶3]

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[1][Insert current footnote 1 from Section Pe5.]

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PENSION PLANS NOT ADMINISTERED THROUGH QUALIFIED TRUSTS—DEFINED CONTRIBUTION **SECTION Pe8**

Sources: [Insert sources from current Section Pe6.]

See also: [Insert references from current Section Pe6; update titles of sections and add the following:]

Section Pe6, “Pension Plans Administered through Qualified Trusts—Defined Contribution”
Section Pe7, “Pension Plans Not Administered through Qualified Trusts—Defined Benefit”

[Insert Note from current Section Pe6.]

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for the notes to financial statements of **defined contribution plans**[1] that are used to provide pension benefits and are not administered through qualified trusts, as defined in Section Pe6, paragraph .101. Requirements for presenting notes to financial statements of defined contribution plans administered through qualified trusts are included in Section Pe6. Section Sp20, paragraphs .108–.110, discusses financial reporting requirements for special-purpose governments engaged only in fiduciary activities (for example, a public employee retirement system). [GASBS 25, ¶8, as amended by GASBS XX, ¶3]

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[1]Terms that are **boldfaced** in this section are defined in Section Pe7.

.102 [Insert current Section Pe6, paragraph .102; in footnote 2, replace *pensions or OPEB* with *pensions*.]

.103 A plan that has characteristics of both a defined benefit plan and a defined contribution plan requires analysis. If the substance of the plan is to provide a defined benefit in some form—that is, if the benefit to be provided is a function of factors other than the amounts contributed and amounts earned on contributed assets—the provisions of Section Pe5 or Pe7 apply. [GASBS 25, ¶10]

.104 [Insert current Section Pe6, paragraph .104, including heading and footnote; update cross-reference.]

* * *

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED BENEFIT **SECTION Po50**

See also: [Update section references.]

[In footnote 1, replace *Section Pe5* with *Section Pe7*.]

.132 [In subparagraph d, update cross-reference.]

* * *

[Insert new section as follows:]

POSTEMPLOYMENT BENEFIT PLANS OTHER THAN PENSION PLANS—DEFINED CONTRIBUTION **SECTION Po51**

Sources: [Insert sources from current Section Pe6.]

See also: [Insert references from current Section Pe6; update titles of sections and add the following:]

Section Pe6, “Pension Plans Administered through Qualified Trusts—Defined Contribution”

[Insert Note from current Section Pe6.]

Scope and Applicability of This Section

.101 This section establishes financial reporting standards for the notes to financial statements of **defined contribution plans**[1] that are used to provide other postemployment benefits. Section Sp20, paragraphs .108–.110, discusses financial reporting requirements for special-purpose governments engaged only in fiduciary activities (for example, a public employee retirement system). [GASBS 25, ¶8; GASBS 43, ¶42]

[1]Terms that are **boldfaced** in this section are defined in Section Pe7.

.102 [Insert current Section Pe6, paragraph .102; in footnote 2 replace *pensions or OPEB* with *OPEB*.]

.103 An OPEB plan may have both defined benefit and defined contribution characteristics. If the plan provides a defined benefit in some form—that is, if the benefit to be provided is a function of factors other than the amounts contributed and amounts earned on contributed assets—the provisions of Section Po50 apply. [GASBS 43, ¶7]

.104 [Insert current Section Pe6, paragraph .104, include heading and omit footnote; update cross-reference.]

* * *

SPECIAL-PURPOSE GOVERNMENTS SECTION Sp20

.109 [Revise second sentence of current paragraph .109 as follows:] A PERS that administers more than one defined benefit pension or OPEB plan is required to present in its financial report combining financial statements for all plans administered by the system and, if applicable, required schedules for each plan. [GASBS 34, ¶140, as amended by GASBS 43, ¶11, and GASBS XX, ¶4 and ¶11]

[In footnote 7, add cross-references to new Section Pe5 and update cross-references to current Section Pe5; revise sources as follows:] [GASBS 34, fn63, as amended by GASBS 43, ¶12, and GASBS XX, ¶11 and ¶50]

[In footnote 8, add cross-references to new Section Pe5 and update cross-references to current Section Pe5; revise sources as follows:] [GASBS 34, fn64, as amended by GASBS 43, ¶13, and GASBS XX, ¶9]

* * *

103. The section that follows updates the Codification Instructions of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* for the effects of this Statement. The requirements of Statement 62 are effective for periods beginning after December 15, 2011.

* * *

.196 [Add cross-reference to new Section Pe5 and update cross-reference to current Section Pe5.]