GASB Statement 68
Government Financial Reporting of Pension Finances
Summary Explanation of Predictor Model
10/16/12

The Governmental Accounting Standards Board (GASB) voted to approve new standards that make very major changes in how state and local governments in the United States will report the finances of their pension benefits. These standards are contained in GASB Statement No. 68 (GASB 68). However governments may elect to defer complying with these new standards until they produce financial statements for their fiscal years that begin after June 15, 2014.

These standards are going to cause many and probably most governments to report significantly higher annual pension expenses than today and will place a Net Pension Liability directly in financial statements for the first time – not just as a footnote disclosure of the funding position of Pension Funds. Governments across the US will report that instead of operating surpluses over the past 15 years or so they operated with significant deficits according to these new standards.

I developed a model to estimate what recent financial statements would have "looked like" had GASB 68 been in effect. The model was specifically designed for the 21 California counties that elected not to participate in CalPERS but instead have their own "independent" Pension Funds – 20 of these County Pension Funds were organized and operate under the provisions of California's County Employees' Retirement Law (CERL). However the model can easily be applied to most other local governments with separate Pension Funds.

One of the biggest problems that faced GASB in the development of these new standards was how to accommodate the very great complexity of statewide systems such as CalPERS that provide benefits for the employees and retirees of hundreds of California local governments as well as the state. It's very complex – and GASB gave these big systems and extra year to figure out how to provide those governments with the data they will need for their annual reports. We do not attempt to model the impact of GASB 68 on these governments because of this very great complexity.

This is an 8 page explanation of the model plus attachments. It's a summary of a longer more detailed explanation.

The results of this model can be used to acquaint citizens, media, the financial industry, and government officials with the likely impact these new standards will have on their government financial statements, explain why these new standards were imposed, and help them understand how to analyze the new statements to provide them with meaningful and "actionable" information.

It can also help government financial officials understand the implications GASB 68 has on the work they will have to do to implement the standards.

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I. INTRODUCTION - THE NEED FOR A GASB 68 PREDICTOR MODEL

A. Hugely Misleading Pension Finance Reporting

The people need accurate financial information about government pensions. But today's government pension reporting significantly understates pension expense and debt for many if not most governments. They are worse than worthless.

B. Major Reform of Government Pension Financial Reporting

On June 25, 2012 the Governmental Accounting Standards Board (GASB) adopted very significant reforms in government pension financial reporting. There are three huge reforms:

- Pension expenses that create unfunded pension debt will be reported pretty much when they happen, not over 30 to 40 years.
- Unfunded pension debt will be reported as a bona fide government liability for the first time.
- Hundreds of billions of unreported past pension expenses will be reported to expose decades of deep deficits.

C. Focus on Counties with Independent Pension Funds

Most local governments are in CalPERS or CalSTRS. Most people find them hard to understand and far removed. Twenty one counties with 80% of California's population have independent local Pension Funds. They are more understandable and are governed locally. Many are in financial trouble – some deeply so.

Statewide citizen-driven pension reform has stalled. My analysis is that PEPRA has a fatal flaw – it doesn't prevent continued rapidly increasing the government unfunded pension debt payments that are crowding out services the people are paying for and expect. Citizens are increasingly worried. Small volunteer resource-short reform groups have and are forming in these 21 counties. Fundamental pension reform requires statewide reform. The IRS is rumored to be likely to demand changes in the County Employee Retirement Law (CERL) creating the need to bring county-based reform groups together to drive real reform into CERL. This could be the nucleus of organized statewide reform.

D. The Need to Project the Impact of GASB 68 NOW

Counties don't have to comply with GASB 68 until their June 30, 2015 statements which would be released spring of 2016 – over 3 years from now. The nature of the unfunded pension debt problem is that the longer it takes to get "fixed" the worse it gets. The sooner we adopted comprehensive pension reform the better.

Unfunded pension and retiree healthcare debt may already be too high to pay without imposing a combination of forced destruction of public services the people won't be willing to accept and tax increases the people won't be willing to pay.

Too much will be lost if the people are forced to wait three more years to get the accurate and truthful financial information GASB 68 will produce. We must release results from this GASB 68 Predictor Model soon.

II. GASB 68 Model – General Principles

A. Applicability

Designed for 21 Counties with independent County Pension Funds, the model applies to similar local governments.

B. Main Values Estimated by the Model

Net Pension Liability, Annual Pension Expenses, and Prior Year Pension Expenses reported during transition.

C. Types of Government Employers

Single Employer, Agent and Cost Sharing.

D. Financial Statements Affected

1. Recent Statements

The model will estimate what recent financial statements would have been had GASB 68 been in effect.

2. Types of Financial Statements Affected

This model projects impacts on Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the economic resources measurement focus and the accrual basis of accounting. It won't project fund financial statements.

E. Data Sources

At least 10 years of government audited financial statements and actuarial valuations.

III. Pension Obligation Bonds

A. Pension Bonds are Part of Debt Caused by Unfunded Pensions

In general governments have two ways to eliminate unfunded pension debts – "UAAL Amortization Payments" to Pension Funds and Pension Obligation Bonds. Both are caused by unfunded pensions.

B. GASB 68 Will Eliminate Today's Net Pension Assets Related to Pension Bonds

Net Pension Assets related to previous Pension Bonds recognized under previous GASB rules will be written off the books – often a huge impact

IV. GASB 68 – Main Provisions to be Modeled

A. General

1. Source Documents

The attachment "Source Documents" on page 9 describes how to obtain copies of GASB 68 and GASB 67 and other relevant documents. The attachment "Excerpts from Final Version of GASB 68" on page 9 contains 4 ½ pages of text from GASB 68 that includes the main accounting standards that are reflected in the model.

2. Entry Age Actuarial Method

Only the Entry Age Actuarial method can be used to determine the Total Pension Liability.

3. Pension Fund Investment Value – "Smoothed" v. "Fair (Market) Value"

GASB 68 does not "smooth" investment returns in calculating reported Net Pension Liability whereas it does smooth in the calculation of reported annual Pension Expense.

B. Single and Agent Employer Calculations

Reportable values for these two types of governments can be directly calculated (see Cost-Sharing below).

1. Net Pension Liability or Asset ("NPL" or "NPA")

A Net Pension Liability or Asset will be reported in the Statement of Net Assets in the Government-Wide Financial Statements. The basic formula is:

Net Pension Liability ("NPL") = Total Pension Liability ("TPL") – Plan Fiduciary Net Position ("PFNP)

If Plan Fiduciary Net Position is greater than Total Pension Liability a Net Pension Asset ("NPA") will be reported.

a) Plan Fiduciary Net Position ("PFNP") Based on Fair Value of Pension Assets

"Plan Fiduciary Net Position" (basically Pension Fund assets) must be based on the Fair (generally Market) value of Pension Fund assets instead of a "smoothed" value used in actuarial valuations.

b) Total Pension Liability ("TPL")

GASB 68 defines the Total Pension Liability as … "the portion of the **actuarial present value of projected benefit payments** that is attributed to past periods of employee services ..." It must include the impact of Cost of Living Adjustments in the future that are "automatic" by contract, law, or practice.

This section describes how discount rates work and introduces GASB 68's method of possibly producing a "blended rate" combining the Pension Funds target rate of return with a "high quality" 20-year municipal bond index rate.

If the government has a history of paying all the contributions defined by actuaries for not only the normal-yearly contribution but also the unfunded actuarially accrued liability (UAAL) amortization payments, then the 20-year muni bond rate will not be incorporated into the calculation of the discount rate. However, if the government has a history of paying significantly less, then the lower rate will become incorporated into the "blended" discount rate and reported Net Pension Liability will be larger.

Our model does not attempt to model GASB's method; it's very complicated and probably has to be calculated by actuaries. **We will simply use the Actuarially Accrued Liability as the Total Pension Liability**.

c) Variables in the Calculation of Net Pension Liability

GASB 68 requires governments to provide a 10-year "Schedule of Changes in Net Pension Liability" in the footnotes attached to financial statements. The illustration for a Single-Employer attached to GASB 68 is shown in the full paper. This schedule is the most important source of the calculations we must make in our model.

A great deal of value is contained in this table. Today government financial statements provide very little useful information in terms of what is driving the changes in the pension obligation and expense. Therefore the statements provide very little guidance to point to where corrective action must be focused. This table defines the underlying math of much of our model. We will replicate most (not all) of this schedule. This remainder of this section in the larger paper describes what each item is – below is just a list. A later section describes how we will calculate or obtain these values.

Table 1 – Variables in Calculation of Net Pension Liability

Change in Total Pension Liability	Impact on Total Pension Liability: Increases	Decreases	May Do Both
Service Cost	✓		
Interest	✓		
Benefit Changes			✓
Difference Expected v. Actual Experience			✓
Changes in Assumptions			✓
Benefit Payments		✓	

Change in Plan Fiduciary Net Position	Impact on Fiduciary Net Position: Increases	Decreases	May Do Both
Contributions – Employers	✓		
Contributions – Employees	✓		
Net Investment Income			✓
Benefit Payments		✓	
Pension Fund Administration Expense		✓	
Other			✓

2. Pension Expense

Unlike the ten-year schedule of Changes in Net Pension Liability GASB 68 does not require governments to provide schedules showing the components of annual pension expenses and how they are calculated. We believe a schedule showing the calculation of pension expense should have been required.

a) GASB 68's Basic Rule

GASB 68 defines reportable annual pension expenses as the change in a year in Net Pension Liability with 4 modifications. Two are easily accommodated in our model:

- The value of Employer Contributions is not included.
- Special Rules are provided for "Special Funding Situations". We believe there are no such situations in the 21 counties. We will disregard these special rules in constructing our projection model.

The other two exceptions require that the annual changes in three variables be included (amortized) in reported annual pension expense gradually over a number of years in the future.

- Reported Over Five Years:
  - Difference between Projected and Actual Return on Investment
- Reported Over Average Remaining Employment of Current Staff, Inactive Employees, and Retirees:
  - Differences between Expected and Actual Actuarial Experience
  - Changed Assumptions

All other variables in the expense calculation will be recognized in annual pension expense in the year they occur.

b) Pension Expense Variables Recognized Over Several Years

(1) Projected and Actual Return on Investment

GASB 68 requires the annual difference each year between target and actual investment returns be recognized over that and the following four years in a "rational" method.

(2) Difference between Expected and Actual Experience and Changes in Assumptions

From GASB 68:

> *Each (of these two items) should be recognized in pension expense … using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees [including retirees]) determined as of the beginning of the measurement period.*[1]

The number of years will vary from employer to employer. In last year's public review documents GASB used 11.5 years as the remaining average years of service for current employees only. In this year's final standard GASB provided an illustration that used a weighted average of 8.25 years of remaining service for all 3 groups.

C. Cost Sharing Government Employers

1. Allocation of Reportable Items

The reportable values discussed above are first calculated for all governments in a Cost-Sharing Pension Fund. Then they are allocated to the participating governments based on proportional shares of contributions.

2. Changes in Proportion During Years

If the individual government's proportion of the collective net pension liability or its share of total contributions changes during a year the impact on these reportable values must be calculated. We will not model such changes.

D. Transition to GASB 68 – Recognition of Past Unreported Pension Expense

Although GASB asks that governments restate all previous year's statements far enough back to produce a 10 year schedule, if it isn't "practical" (a very unfortunate choice of words in our opinion) they don't have to. However they have to show what the net impact on beginning balances of their "Balance Sheet" would be and explain the components as well as why they didn't restate prior year statements. In very rough terms these will be the impacts for most governments:

- Impact on Balance Sheet (Statement of Net Assets)
  - Previous Net Pension Assets (especially created by Pension Obligation Bonds) will be written off.
  - The new Net Pension Liability will be reported.
  - The sum of those two will reduce "Unrestricted Net Assets" and hence "Net Worth"
- Impact on Statement of Activities (or Changes in Net Assets)
  - The value of the reduction of "Unrestricted Net Assets" will be reported as an adjustment to prior years as previously unreported pension expenses.

[1] GASB 68, page 14

V. Construction and Explanation of the Model

A. Modification of Variables

1. Benefits Changes

We will not include this variable in our model because the data is rarely available for the past.

2. Combine "Differences Expected & Actual Experience" & Changes of Assumptions

We will combine these two variables in our model because they will be treated the same in terms of calculating pension expenses and there isn't a good easily available source of data to separate them. These combined variables have to be calculated as "outputs" of the model.

B. Independent Variables

These are existing data inputs into the model. The data for these variables will be obtained from these sources:

- From Pension Fund Actuarial Valuations
  - Target Rate of Return
  - Annual Service Cost (Normal Cost)
  - Total Pension Liability (Actuarially Accrued Liability)
  - Contribution Rates and Projected Values in Cost Sharing Plans
- Actuarial Valuations Cross Checked with Pension Fund Financial Statements
  - Benefit Payments
    - Pension Payments and Refunds to Withdrawing Employees
    - Payments of Other Types of Benefits
  - Net Investment Income
- Actuarial Valuations Cross Checked with Footnotes to Government Financial Statements
  - Employer Contributions
  - Employee Contributions
- Pension Fund Financial Statements
  - Pension Fund Administrative Expenses
  - Plan Fiduciary Net Position (Value of Pension Fund Assets)

C. Dependent Variables in Changes in Net Pension Liability

The values of dependent variables are determined by formulas in the model that use the values of independent variables as inputs. Dependent variables are therefore the "outputs" or results of the model.

1. Interest

Conceptually the formula is "Average Total Pension Liability x Target Rate of Return". HOWEVER, when we compared the results of this formula to GASB's illustrations we found this calculated value was about 6.25% higher than the average in GASB's illustrations. In our model we reduce the value produced by the formula by 6.25%.

2. Difference Expected v. Actual Experience & Assumption Changes

These combined variables are the only "unknown – independent variables" related to the Change in Total Pension Liability. We calculate the value of this combined variable with a formula that uses all the other variables related to Changes in Total Pension Liability.

3. Other Changes in Plan Fiduciary Net Position

We calculate the value of this variable using a formula with input from all the other variables related to Changes in Plan Fiduciary Net Position.

D. Pension Expense

1. The Basic Calculation

The value of annual Pension Expense is the sum of the individual variables that are in the annual Change in Net Pension Liability with these differences:

- Employer Contributions, Benefit Changes, and Special Funding Situations are excluded.
- The difference between expected and actual net investment returns is amortized straight-line over 5 years.
- "Difference in Projected v. Actual Experience & Assumption Changes" is amortized straight-line 8.25 years.

2. Difference between Expected and Actual Net Investment Return

GASB 68 requires the difference between expected and actual net investment return to be included in pension expense over five years "using a systematic and rational method" beginning in the current year. The model uses a 5 year level value amortization. Actuarial Valuations often provide the three values we need in their "smoothing" calculations. We made a slight adjustment to the result of this formula to reproduce GASB's illustrations.

3. Amortization of Difference Expected v Actual Experience and Assumption Changes

As described above we combine two variables defined by GASB into this one variable because we don't have the data to separate them and they are both amortized over the same period (remaining average service life of all beneficiaries). The value that must be amortized is a dependent value produced by the model from all the related independent values. Actuaries will provide these values in the future. We amortize the value produce by the model over 8.25 years – almost the same used by GASB in its illustrations in the final publication of GASB 68. We use "straight-line" amortization.

E. Cost Sharing Government Employers

If a government's Pension Fund is a Cost-Sharing Plan, then additional calculations beyond those defined above for Single and Agent Employer Plans must be performed. We will attempt to allocate the reportable values solely by proportional shares of yearly contributions subject to a "simplifying assumption". But the information needed to do this isn't available for all counties. The model will use a hierarchy of methods driven by what information is available.

1. If Contributions are Identified for Each Government

If available we will use the most recent contribution rates and projected contribution totals for each government from Actuarial Valuations.

2. If Numbers of Employers per Government are Available

Contributions for the different participating governments aren't available for all counties. If a count of "covered employees" is available we'll use that.

3. Simplifying Assumption for Counties With 90% or More

If it appears a county is responsible for 90% or more of the finances of the Plan we will consider it a Single-Employer Plan and report the collective values as though they all "belong" to the County.

4. We'll Have to See What Happens

As we begin to enter data for these counties we will probably find a range of data issues related to these allocations and may well have to devise approaches other than those defined above.

F. Total Impact of GASB 68

We will present summary "before" and "after" Statements of Net Assets" and "Statements of Activities" (Statement of Changes of Net Assets) for each year we model with a set of columns between showing the shifts caused by GASB 68.

G. Pension Obligation Bonds

After presenting the results of the model we will add the outstanding liability and annual interest expense of any unpaid Pension Obligation Bonds to show the total financial impact of unfunded pensions on these 21 counties.

VI. ATTACHMENTS

A. Source Documents

The final pronouncements for GASB 67 & 68 were published on GASB's website on Monday, 8/3/12. They are available at:
http://www.gasb.org/cs/ContentServer?site=GASB&c=Page&pagename=GASB%2FPage%2FGASBSectionPage&cid=1176160042391

Scroll down the page a bit – they are the first pronouncements when you get to the list.

They also put a "Plain Language" Supplement on their website (this downloads a pdf):

http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160140567

The final pdf copy of GASB 68 is 268 pages long. Very little is "fluff". However, the "hard core" language necessary to evaluate this model is only about 15 pages or so.

The Attachment "**Error! Not a valid bookmark self-reference.**" below contains 4 ½ pages of descriptions in the Standard of the accounting that must be modeled. I think you can read these and have enough information to judge if the model does what it's supposed to do.

In addition the 10-page Summary of GASB 68 at the front of the document from pages i through x are worth reading if you want a global view of the new standard – a summary of the full 63 page Statement No. 68.

B. Excerpts from Final Version of GASB 68

These are excerpts of the most relevant sections of GASB 68 that define the accounting to be modeled. This model will produce values that will be reported in Government-wide financial statements consisting of a statement of net assets and a statement of activities prepared using the economic resources measurement focus and the accrual basis of accounting. This model will not project values shown in fund financial statements prepared using the current financial resources measurement focus and the modified accrual basis of accounting.

GASB produces Statements organized by paragraph number. You will see such paragraph numbers at the start of some of the paragraphs below.

Some of the emphasis below is in the original, some is added.

Summary – Page ii:

> Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:
>
> - **Single employers** are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
> - **Agent employers** are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans 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 benefits of only its employees.

- **Cost-sharing employers** are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

Page 9:

Single and Agent Employers

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that do not have a special funding situation

Net pension liability

20. A liability should be recognized for the net pension liability. The net pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of paragraphs 22– 32 (total pension liability), net of the pension plan's fiduciary net position.

Footnote 8 - In this Statement, unless otherwise indicated, references to net pension liability also apply to the situation in which the pension plan's fiduciary net position exceeds the total pension liability, resulting in a net pension asset.

Page 14:

Pension expense, deferred outflows of resources and deferred inflows of resources related to pensions, and support of nonemployer contributing entities

33. **Changes in the net pension liability should be recognized in pension expense** in the current reporting period **except** as indicated below:

a. Each of the following should be recognized in pension expense, beginning in the current reporting period, using a **systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees)**[2] determined as of the beginning of the measurement period:

(1) **Differences between expected and actual experience with regard to economic or demographic factors** (differences between expected and actual experience) in the measurement of the total pension liability

(2) **Changes of assumptions about future economic or demographic factors or of other inputs** (changes of assumptions or other inputs). The portion of (1) and (2) not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

b. The **difference between projected and actual earnings on pension plan investments** should be recognized in pension expense using a systematic and rational method over a **closed five-year period**, beginning in the current reporting period. The amount not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and reported as a net deferred outflow of resources related to pensions or a net deferred inflow of resources related to pensions.

[2] "inactive" employees are of two types – retirees receiving pensions and former employees who are qualified to receive pensions but have not yet begun to do so.

c. **__Contributions__** to the pension plan from the **__employer should not be recognized in pension expense__**.

d. **__Contributions__** to the pension plan from **__nonemployer contributing entities that are not in a special funding situation should be recognized as revenue__**.[3]

Page 19:

__Changes in the net pension liability__

44. For the current reporting period, a schedule of changes in the net pension liability should be presented. The schedule should separately include the information indicated in subparagraphs (a) - (d)[4], below. …

a. The beginning balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability

b. The effects during the period of the following items, if applicable, on the balances in subparagraph (a):

(1) Service cost

(2) Interest on the total pension liability

(3) Changes of benefit terms

(4) Differences between expected and actual experience in the measurement of the total pension liability

(5) Changes of assumptions or other inputs

(6) Contributions from the employer

(7) Contributions from nonemployer contributing entities

(8) Contributions from employees

(9) Pension plan net investment income

(10) Benefit payments, including refunds of employee contributions

(11) Pension plan administrative expense

(12) Other changes, separately identified if individually significant.

c. The ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability

Page 24 - 25:

__Cost-Sharing Employers__

Recognition and measurement in financial statements prepared using the economic resources measurement focus and accrual basis of accounting by employers that do not have a special **funding situation**

Proportionate share of the collective net pension liability

48. A liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The employer's proportionate share of the collective net pension liability should be measured by:

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[3] As stated in "Applicability" on page 2 this provision is not relevant to the model.

[4] The provisions of sub-paragraph (d) deal with special funding situations which are not relevant to this model.

a. Determining the employer's proportion—a measure of the proportionate relationship of (1) the employer (and, to the extent associated with the employer, nonemployer contributing entities, if any, that provide support for the employer but that are not in a special funding situation) to (2) all employers and all nonemployer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer to the pension plan, are determined. The use of the employer's projected long-term contribution effort to the pension plan (including that of nonemployer contributing entities that provide support for the employer but that are not in a special funding situation) as compared to the total projected long-term contribution effort of all employers and all nonemployer contributing entities to determine the employer's proportion is encouraged.

b. Multiplying the collective net pension liability (determined in conformity with paragraphs 59–70) by the employer's proportion calculated in (a).

49. To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships.

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Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions

52. Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions should be recognized for the items in paragraphs 53–57, as applicable. The effects of items in paragraphs 54 and 55 may be recognized on a net basis.

Proportionate Share

53. Pension expense, as well as deferred outflows of resources and deferred inflows of resources related to pensions, should be recognized for the employer's proportionate shares of **collective pension expense** and **collective deferred outflows of resources and deferred inflows of resources related to pensions.** The employer's proportionate shares should be determined using the employer's proportion of the collective net pension liability.

Change in Proportion

54. If there is a change in the employer's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred

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EFFECTIVE DATE AND TRANSITION

136. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

137. To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. It may not be practical for some governments to determine the amounts of all deferred inflows of resources and deferred outflows of resources related to pensions, as applicable, at the beginning of the period when the provisions of this Statement are adopted. In such circumstances, beginning balances for deferred inflows of resources and deferred outflows of resources related to pensions should not be reported. If restatement of all prior periods presented 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, including whether the restatement of beginning balances included deferred inflows of resources or deferred outflows of resources, as applicable. Also, the reason for not restating prior periods presented should be explained.

138. The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement.