New accounting standards creating headaches for public institutions

LIMA NEWS, June 1, 2014

By Craig Kelly

A change in the way public entities, including city government and school districts, list employee pension liabilities is coming, and representatives from the School Employees Retirement System of Ohio, the pension fund for all non-teaching school employees in the state, are touring Ohio, ensuring members of the public are not caught off guard.

“What will change is that the Government Accounting Standards Board, which is not a government agency, but is an organization that determines accounting standards, has issued statements requiring all the pension systems that we determine, using a different formula, what’s called the net pension liability, and then we proportion that across all of our employers,” SERS executive director Lisa Morris said. “We have to determine for each employer what their net pension liability is.”

SERS, as well as other public pension plans in Ohio, is a trust fund that operates on a defined benefit system, where pensioners are guaranteed a certain payout or other benefit each month. Employers also have a defined amount that they pay out each year.

“The statement says that what we have to pay is 14 percent of an employee’s salary each year, and then we’re done,” Apollo Career Center treasurer Greg Bukowski said.

This differs from retirement plans such as a 401(k), where the employees contribute a defined amount to the plan each month, with the total funds available variable depending on how that money was traded in the market.

Because pensions like those operated by SERS are operated in trust and not by the districts, this accounting change will force school districts and other public entities to list a liability on their financial statements that is not actually theirs.

“An analogy would be, say a private company and an employee pay Medicare tax at 1.45 percent,” Bukowski said. “When you pay that percentage, you’re done with your Medicare tax liability. But what GASB is trying to say is Medicare has a liability for all the people who have retired and are on Medicare, and that private company would have to show on their financial statements a portion of what is owed to those employees who are retired and no longer part of that company.”

Tim Barbour, a senior communications coordinator for SERS said that with this new standard being implemented nationwide, there are states in which this new standard could actually benefit, but not in Ohio.

“Ohio’s different from every other state as far as pensions,” he said. “In almost every state, employers are liable for that pension liability because of the way they’re set up. So this is probably good for those states. To pay for the pension liability, they’ll increase or decrease their employer contribution each year, where we’re set at 14 percent.”

While SERS is concerned that this new liability listing may make it appear to the public that school districts may have more liabilities than assets, the group is also concerned about how this change could affect a public institution's credit rating.

"Moody's and the other rating agencies have said they will not downgrade on the basis of this portion of the pension liability," Morris said. "What Moody's has said is it will take that and add it to other liabilities, and if they are over a certain threshold, they will get downgraded."

Work is currently being done to create a footnote that would be included on these institutions' financial statements, noting that any listed pension liabilities are not charged to those public institutions, but rather to the pension trust funds themselves.

"I don't know how it's going to be reported, whether it will be a footnote or if it will just be added in with other liabilities," Bukowski said.

This new accounting standard will be applied to this upcoming fiscal year, meaning the first pension liability listings would be seen on public institutions' financial records in 2015.