



# Pensions and Other Fiduciary Activities

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# Textbook: Government and Not-for-Profit Accounting, Granof

- This presentation contains information, in addition to the material prepared and provided by the professor, from the book Government and Not-for-Profit Accounting, 7<sup>th</sup>. Ed., Granof which is the textbook assigned for the course CONT 4059 – “Contabilidad para Entidades que no son Negocios” at the University of Puerto Rico, Río Piedras Campus.

# Pensions

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## 1.1 General

- The accounting for pensions is, and no doubt will continue to be for many years to come, among the most important, yet controversial, issues of our era..
- The accounting for pensions would be important for no other reason that the magnitude of the assets and liabilities involved.

# Pensions

## 1.1 General



California Public  
Employees' Retirement  
System  
(June 30, 2014)

**\$301.8 billion assets**

California State  
Teachers' Retirement  
System  
(June 30, 2014)

**\$190.4 billion assets**

**The liabilities are no less huge.**



# Pensions

## 1.2 Type of Pension Plans

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### 1. Defined Contributions Plans:

# Pensions

## 1.2 Type of Pension Plans

### 1. Defined Contributions Plans:

- **Definition:** An employer agrees to make a series of pension contributions to a pension fund. Typically, the amount is expressed as a percentage of each employee's salary, and very often the pension fund is totally independent of the employer.
- *Example:* A College may contribute 8% of a faculty member's salary to the pension plan, provided that the faculty member also contributes a corresponding percentage.



# Pensions

## 1.2 Type of Pension Plans

### 1. Defined Contributions Plans:

- **Employee Risk:**
  - The employee bears all the investment risks. If the investment portfolio does well, the employee reaps the benefits.
  - If it does poorly, it is the employee who will have to cut back on his or her anticipated retirement lifestyle.

# Pensions

## 1.2 Type of Pension Plans

### 1. Defined Contributions Plans:

- **Financial or Accounting Complexities:**
  - The employer reports an annual expense for the amount that it is obligated to contribute to the pension fund.
  - As a result, the plan has **no** unfunded actuarial liabilities.

# Pensions

## 1.2 Type of Pension Plans

### 2. Defined Benefit Plans:

# Pensions

## 1.2 Type of Pension Plans

### 2. Defined Benefit Plans:

- **Definition:** The employer specifies the benefits, the actual pension payments, that the employee will receive.
- Usually the benefits will vary according to length of service and salary.

# Pensions

## 1.2 Type of Pension Plans

### 2. Defined Benefit Plans:

- **Employer Risk:** The employer guarantees the outputs, not the inputs. It is, therefore, up to the employer to ensure that it sets aside sufficient resources each year to make the required payments.

# Pensions

## 1.2 Type of Pension Plans

### 2. Defined Benefit Plans:

- **Financial or Accounting Complexities:** Both funding and accounting decisions relating to defined benefit plans are complex, mainly because of the uncertainties about the amounts that will have to be paid to the retirees **and** that will be earned on fund investments.

# Pensions

## 1.2 Type of Pension Plans

### 2. Defined Benefit Plans:

- **Key Uncertainties:**
  - Employee life expectancy
  - Employee turnover rates
  - Future wage and salary rates
  - The investment returns on pension fund assets



# Pension Accounting



# Pension Accounting

## 2.1 GASB Approach Rationale

- The GASB approach is grounded on the assumption that pensions are a form of compensation that is provided to employees in exchange for the services that they provide to the government.

# Pension Accounting

## 2.2 Employer Measure the Pension Obligation

- Per GASB Statement No. 68, the government employer is required to report as its pension liability the difference between the **total pension liability** and the **net plan position**.
- Total pension liability = Actuarial determination.
- Net plan position = Total assets less liabilities.

# Pension Accounting

## 2.2 Employer Measure the Pension Obligation

- Per GASB Statement No. 68, the government employer is required to report as its pension liability the difference between the **total pension liability** and the **net plan position**.

- Total pension liability = Actuarial determination.      **\$100,000**

- Net plan position = Total assets less liabilities.      **60,000**

**Pension Liability**      **\$40,000**

# Pension Accounting

## 2.3 Total Pension Liability

- The GASB specifies that for purposes of accounting and reporting, the allocation must be made using a method called the **entry age actuarial cost method**.
- This method allocates the present value of the projected benefits over the course of an employee's career as a level percentage of payroll.
- The total pension liability as of a specific date is that portion of the present value of projected benefits that has been allocated to the past years up through that date.



# Pension Accounting

## 3.1 Financial Statements

# Pension Accounting

## 3.1 Financial Statements

- Statement of Fiduciary Position
- Statement of Changes in Fiduciary Net Position

See pages 434 and 435.