THOMAS P. DiNAPOLI
STATE COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

GABRIEL F. DEYO
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

Updated May 2015 (Originally Issued September 2011)

To: **Chief Fiscal Officers**

From: **Division of Local Government and School Accountability**

Subject: **Pension Accounting and Reporting Changes**

Please provide copies of this bulletin to others who may need this information.

Purpose of Bulletin

This bulletin provides updated information on pension accounting and reporting, superseding earlier bulletins issued by the Office of the State Comptroller for local government employers in New York State. All applicable previous guidance has been incorporated into this bulletin, as well as corrections to past instructions for expenditure and liability recognition of pension costs in governmental funds.

Accounting and Reporting Requirements

The New York State and Local Retirement System (NYSLRS) and the New York State Teachers' Retirement System (TRS) (Systems) are cost-sharing, multiple-employer, defined benefit pension plans. Participating local government employers in these cost-sharing plans are required to recognize annual pension expenditures (in governmental funds) or expenses (in proprietary funds and in the government-wide financial statements) equal to their contractually required contributions to the Systems.

Previously, guidance for expenditure and liability recognition of pension costs in governmental funds mirrored the guidance for expense and liability recognition in proprietary funds and the government-wide financial statements. After careful consideration of the issue, our Office has altered its position regarding recognition of pension costs in governmental funds.

Governmental Funds – Measuring the Contractually Required Contribution

Any amount for which a local government employer has entered into an authorized agreement with a pension system is an alteration of the agreement setting the contractually required contribution, and as such, for governmental fund expenditure and liability recognition, only the amount due and payable on the Systems' bills under that authorized agreement should be recognized.[1] The contractually required contribution may not match the actuarially required contribution, but generally accepted accounting principles (GAAP) dictate that local government employers only recognize the contractually required contribution (the amount due and payable to the Systems), regardless of the actuarially required contribution.

Examples of situations where the contractually required contribution has been altered include: any permanent or temporary changes in plan (such as Tier II police officers and firefighters at age 55 being allowed to retire[2] or lump sum retirement incentive programs[3]) and amortizations (deferrals) authorized with the Systems directly (such as the employer contribution stabilization program[4] or multi-year retirement incentive programs[5]).

The authorized deferred payment amount would **not** be reported as a liability in the governmental funds, but would be reported in the Schedule of Non-Current Government Liabilities as an increase to **Accounts 129 – Total Non-Current Government Liabilities** and **637 – Due to Employees' Retirement System;** these account balances would subsequently be reduced each year by the amount paid on the amortized balance.

Under programs where a local government employer is authorized to issue bonds to help finance any or all of the eligible portion of the bill with NYSLRS,[6] the expenditure in governmental funds would still be the amount due and payable to the Systems; this amount would be higher in the first year and may be lower in subsequent years than if the employer were to amortize the eligible portion directly with NYSLRS. The expenditure for the amount amortized will even out over the life of the amortization period.

Governmental Funds – Recognizing the Contractually Required Contribution

Previous guidance on the timing of expenditure and liability recognition in governmental funds and options for prepayment are unchanged by this bulletin. Amounts billed to local governments and school districts by the Systems are based on 12-month periods. For NYSLRS, the billing period is April 1st through March 31st. For TRS, the billing period is July 1st through June 30th. The amount that is due and payable to NYSLRS by February 1 (or December 15 for those that opt to prepay the bill) will still be recognized by

[1] Per GASB Statement No. 27, paragraph 19 and GASB Technical Bulletin 2004-2, paragraph 8.
[2] Chapter 674 of the Laws of 2003
[3] Chapter 105 of the Laws of 2010
[4] Chapter 57 of the Laws of 2010
[5] See Footnote 3.
[6] Chapter 260 of the Laws of 2004

apportioning the pension system bill that covers the State fiscal year over the covered fiscal years of the local government employer.

All local government employers will recognize 12 months of expenditures at their fiscal-year end, apportioned between the two NYSLRS bills that overlap the local government employer's fiscal year, regardless of when they actually pay the NYSLRS bill (see Table 1 below). Additionally, local government employers will need to record an accrued liability based on their fiscal year-end for the following year's pension system bill (see Table 2 below). The **only** local government employers who **will not** record an accrued liability and instead **will** record a prepaid expense (asset) will be December 31st fiscal year-end employers who opt to prepay the NYSLRS bill in December. Those employers should record three months of prepaid expense.

The following tables provide summary information for recognition of retirement expenditures and liabilities based on fiscal year-end. For illustrative purposes, only the more common fiscal year-end dates have been included. Local government employers who have fiscal year-end dates that differ from those dates listed in the tables should adjust their calculation of retirement expenditures and liabilities accordingly.

Table 1 - Expenditure Recognition

System Billing (FYE 3/31/1X)	**FISCAL YEAR ENDING**					
	5/31/2011	**6/30/2011**	**12/31/2011**	**5/31/2012**	**6/30/2012**	**12/31/2012**
2010-2011	**10/12**	**9/12**	**3/12**	**--**	**--**	**--**
2011-2012	**2/12**	**3/12**	**9/12**	**10/12**	**9/12**	**3/12**
2012-2013	**--**	**--**	**--**	**2/12**	**3/12**	**9/12**

Note: The fractions represent the number of months that pertain to the related retirement expenditure for that particular fiscal year. Payment dates do not affect expenditure recognition.

Table 2 - Liability Recognition

System Billing (FYE 3/31/1X)	**FISCAL YEAR ENDING**					
	5/31/2011	**6/30/2011**	**12/31/2011**	**5/31/2012**	**6/30/2012**	**12/31/2012**
2011-2012	**2/12**	**3/12**	**9/12***	**--**	**--**	**--**
2012-2013	**--**	**--**	**--**	**2/12**	**3/12**	**9/12***

Note: The fractions represent the number of months that pertain to the reported amount of accrued liability for that particular fiscal year. Payment dates do not affect liability recognition, **except** for December fiscal year-end employers who prepay the bill in December.

*Assumes a February 1st NYSLRS payment date; there is no accrued liability if payment is made in December.

Proprietary Funds and the Government-Wide Financial Statements

A local government employer would recognize an expense in proprietary funds and the government-wide financial statements based on the expense recognition guidance that can be found in the 2015 bulletin, *Accounting and Financial Reporting for Pensions as Required by GASB 68*, issued by the OSC for local government employers in New York State. Local government employers who choose to issue bonds to help finance the eligible portion of pension contribution bills should not record the proceeds of serial bonds as fund revenues. Instead, bond proceeds should be recorded directly as a fund liability using **Account 628 – Bonds Payable**. The amount of the actuarially required contribution that is amortized with the Systems would be reported as a proprietary fund or government-wide statement of net position liability using **Account 637 – Due to Employees' Retirement System**, which would be reduced each year as the principal amount of the liability is paid on the amortized balance. The related interest payments on the amortized amount would be treated as an expense using **Account 9789.7 – Other Debt – Interest**.

A local government employer that participates in the Employer Contribution Stabilization Program (Program)[7] may in the future be required to pay more than the actuarially required contribution. In this case, the employer would still recognize an expense in its proprietary funds and government-wide financial statements based on the expense recognition guidance that can be found in the 2015 bulletin, *Accounting and Financial Reporting for Pensions as Required by GASB 68*, issued by the OSC for local government employers in New York State. The amount paid in excess of the actuarially required contribution would first be used to pay off any existing amortized balances, and any remainder would be recorded as a prepaid asset on the balance sheet using **Account 480 – Prepaid Expenses**.

Sample Journal Entries

Payment of the February 1st NYSLRS Bill on or before December 15th

The following sample journal entries are intended to illustrate GAAP-compliant accounting recognition for pension expenditures and liabilities associated with **calendar year-end units**. For units with fiscal year-end dates other than December 31, follow sample entries 5 through 7 below regardless of the payment date. These sample journal entries are based on the following assumptions:

- A NYSLRS bill of $1,500 (this amount represents the full actuarially required contribution).
- The portion of the retirement bill eligible to be financed by the issuance of bonds or amortized directly with NYSLRS is $300 (including any retirement incentives).
- These entries are being recorded in governmental funds.

[7] Chapter 57 of the Laws of 2010

1. Opted not to finance the eligible portion of their bill:

To record the payment:				
	Account	**Subsidiary Account**	**Debit**	**Credit**
480	Prepaid Expenses		375	
522	Expenditures		1,125	
	9010.8 State Retirement System	1,125		
200	Cash			1,500

2. Opted to issue bonds to finance the eligible portion of their bill:

a) To record the proceeds of bonds in a governmental fund:				
	Account	**Subsidiary Account**	**Debit**	**Credit**
200	Cash		300	
980	Revenues			300
	5710 Proceeds of Bonds	300		

b) To record bonds payable in the Schedule of Non-Current Governmental Liabilities:				
	Account	**Subsidiary Account**	**Debit**	**Credit**
W129	Total Non-Current Government Liabilities		300	
W628	Bonds Payable			300

c) To record the payment:				
	Account	**Subsidiary Account**	**Debit**	**Credit**
480	Prepaid Expenses		375	
522	Expenditures		1,125	
	9010.8 State Retirement System	1,125		
200	Cash			1,500

3. Opted to amortize the eligible portion of their bill directly with NYSLRS:

a) To record the payment:			
Account	**Subsidiary Account**	**Debit**	**Credit**
480 Prepaid Expenses		300	
522 Expenditures		900	
9010.8 State Retirement System	900		
200 Cash			1,200

b) To record the amount amortized with NYSLRS in the Schedule of Non-Current Governmental Liabilities:			
Account	**Subsidiary Account**	**Debit**	**Credit**
W129 Total Non-Current Government Liabilities		300	
W637 Due to Employees' Retirement System			300

4. To re-classify prepaid expenses as retirement expenditures in the following calendar year (for journal entries #1, #2c and #3a):

Account	Subsidiary Account	Debit	Credit
522 Expenditures		375/300	
9010.8 State Retirement System	375/300		
480 Prepaid Expenses			375/300

<u>Payment of the February 1st NYSLRS Bill on February 1st</u>

The following sample journal entries are intended to illustrate GAAP-compliant accounting recognition for pension expenditures and liabilities associated with **<u>calendar year-end units</u>**. These entries are also applicable for units with fiscal year-end dates other than December 31, regardless of the payment date, using the apportionment schedules described in Tables 1 and 2 above. These sample journal entries are based on the following assumptions:

- A NYSLRS bill of $1,500 (this amount represents the full actuarially required contribution).
- The portion of the retirement bill eligible to be financed by the issuance of bonds or amortized directly with NYSLRS is $300 (including any retirement incentives).
- These entries are being recorded in governmental funds.

5. Opted not to finance the eligible portion of their bill:

a) To record retirement expenditure and corresponding liability at fiscal year-end:				
Account		Subsidiary Account	Debit	Credit
522	Expenditures		1,125	
	9010.8 State Retirement System	1,125		
637	Due to Employees' Retirement System			1,125

b) To record the payment on February 1st of the ensuing year:				
Account		Subsidiary Account	Debit	Credit
522	Expenditures		375	
	9010.8 State Retirement System	375		
637	Due to Employees' Retirement System		1,125	
200	Cash			1,500

6. Opted to issue bonds to finance the eligible portion of their bill:

a) To record the proceeds of bonds in a governmental fund:
See journal entry #2a

b) To record bonds payable in the Schedule of Non-Current Governmental Liabilities:
See journal entry #2b

c) To record retirement expenditure and corresponding liability at fiscal year-end:
See journal entry #5a

d) To record the payment on February 1st of the ensuing year:
See journal entry #5b

7. Opted to amortize the eligible portion of their bill directly with NYSLRS:

a) To record retirement expenditure and corresponding liability at fiscal year-end:				
Account		Subsidiary Account	Debit	Credit
522	Expenditures		900	
	9010.8 State Retirement System	900		
637	Due to Employees' Retirement System			900

b) To record the payment on February 1st of the ensuing year:				
	Account	Subsidiary Account	Debit	Credit
522	Expenditures		300	
	9010.8 State Retirement System	300		
637	Due to Employees' Retirement System		900	
200	Cash			1,200

c) To record the amount amortized with NYSLRS in the Schedule of Non-Current Governmental Liabilities:
See journal entry #3b

Reserve Funds

General Municipal Law Section 6-r authorizes most participating local government employers in NYSLRS to establish a retirement contribution reserve fund for reserving funds for future payments of retirement contributions. Local governments and school districts are authorized to pay into a retirement contribution reserve fund moneys derived from a variety of sources, including budgetary appropriations, revenues not required by law to be paid into any other fund, transfers from certain other reserve funds (e.g., capital reserve funds),[8] or other funds that may be legally appropriated. Setting funds aside in a retirement contribution reserve fund does not alter the measurement or recognition of expenditures/expenses and liabilities for financial reporting. **Account 827 – Retirement Contribution Reserve** should be used to account for and report moneys of the reserve in the fund financing the reserve.

Prior Period Adjustments

The pension expenditure and liability changes contained in this bulletin will not require a prior period adjustment. In each of the previous fiscal years governed by our Office’s 2005 accounting bulletin, local government employers would have been charging more in pension expenditure in governmental funds than if this updated guidance had applied, but that difference would have been offset by an “other financing source” (other debt); therefore, both methods would have had the same effect on ending fund balance. Local government employers may have to adjust previous years’ contributions if they are presented as comparative information in the notes to the financial statements or required supplementary information, as appropriate.

[8] Transfers from other reserve funds may require a public hearing. Consult with your legal counsel, as appropriate, to determine if a hearing is necessary.

Note Disclosures

Local government employers should update any applicable pension note disclosures in accordance with the guidance provided in this bulletin. Sample note disclosures for pension costs and related legislation can be found below.

Plan Description

The *[insert unit name]* of *[insert local government name]* participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan, collectively known as NYSLRS. These are cost-sharing multiple-employer retirement systems. The NYSLRS provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the NYSLRS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the NYSLRS and for the custody and control of its funds. The NYSLRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Funding Policy

The NYSLRS are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 (ERS) or January 9, 2010 (PFRS) who generally contribute 3 percent of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSLRS' fiscal year ending March 31. Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows:

	ERS	PFRS
Year	$______	$______
Year	______	______
Year	______	______

- Chapter 260 of the Laws of 2004 of the State of New York allows local employers to bond or amortize a portion of their retirement bill for up to 10 years in accordance with the following schedule:

- For State fiscal year (SFY) 2004-05, the amount in excess of 7 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the bonding/amortization was instituted.
- For SFY 2005-06, the amount in excess of 9.5 percent of employees' covered pensionable salaries.
- For SFY 2007-08, the amount in excess of 10.5 percent of employees' covered pensionable salaries.

This law requires participating employers to make payments on a current basis, while bonding or amortizing existing unpaid amounts relating to the NYSLRS's fiscal years ending March 31, 2005 through 2008. [The total unpaid liability at the end of the fiscal year was $_______, of which $______ is reported in the Proprietary Funds and $_______ in the Schedule of Non-Current Governmental Liabilities.]

- Chapter 57 of the Laws of 2010 of the State of New York allows local employers to amortize a portion of their retirement bill for 10 years in accordance with the following stipulations:
  - For State fiscal year 2010-11, the amount in excess of the graded rate of 9.5 percent of employees' covered pensionable salaries, with the first payment of those pension costs not due until the fiscal year succeeding that fiscal year in which the amortization was instituted.
  - For subsequent State fiscal years, the graded rate will increase or decrease by up to one percent depending on the gap between the increase or decrease in the NYSLRS's average rate and the previous graded rate.
  - For subsequent State fiscal years in which the NYSLRS's average rates are lower than the graded rates, the employer will be required to pay the graded rate. Any additional contributions made will first be used to pay off existing amortizations, and then any excess will be deposited into a reserve account and will be used to offset future increases in contribution rates.

This law requires participating employers to make payments on a current basis, while amortizing existing unpaid amounts relating to the NYSLRS's fiscal years when the local employer opts to participate in the program. [The total unpaid liability at the end of the fiscal year was $________, of which $______ is reported in the Proprietary Funds and $_______ in the Schedule of Non-Current Governmental Liabilities.]

- Chapter 105 of the Laws of 2010 of the State of New York authorizes local governments to make available a retirement benefit incentive program with an estimated total cost of $________, of which $______ was charged to expenditures in the Governmental Funds and $________ to expenses in the Proprietary Funds in the current fiscal year. The cost of the program will be billed and paid over five years beginning February 1, 2012.

School Districts – Teachers' Retirement System (TRS) Information

School districts do not make direct payments to TRS for their annual pension contribution. Instead, a school district's annual pension contribution owed to TRS is satisfied through deductions from State school aid payments. To illustrate, estimated pension contributions owed to TRS by a school district for contributions pertaining to the district's fiscal year ended June 30 will be satisfied as deductions from State aid in the ensuing months of September 15, October 15 and November 15.

All school district employers will recognize 12 months of expenditures and liabilities at their fiscal-year end for the TRS bill that matches their fiscal year. The amount recognized will be the amount actually deducted from State school aid payments in the ensuing months, regardless of any amortizations (deferrals) with TRS.

Sample Journal Entries

The following sample journal entries pertain to pension contribution amounts owed by school districts to the Teachers' Retirement System.

8) To record retirement expenditure and corresponding liability at fiscal year-end:

Account	Subsidiary Account	Debit	Credit
522 Expenditures		XXX	
9020.8 Teachers' Retirement System	XXX		
632 Due to Teachers' Retirement System			XXX

9) To record amounts withheld from State school aid representing payment to TRS:

Account	Subsidiary Account	Debit	Credit
632 Due to Teachers' Retirement System		XXX	
980 Revenues			XXX
3101 State Aid, Basic Formula	XXX		

Additional Information

If you have questions pertaining to the accounting guidance described in this bulletin, please contact the State Comptroller's regional office that serves your local government. If you have questions pertaining to the retirement incentives, other amortization programs, or retirement system billing, visit the NYSLRS website at www.osc.state.ny.us/retire/employers or contact NYSLRS at RTEmpSer@osc.state.ny.us or (518) 486-3921.