

Upcoming GASB Changes: A Glossary

Actuarial present value: Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. (*Guide to Implementation of GASB Statement 67 on Financial Reporting for Pension Plans*, Governmental Accounting Standards Board, June 2013, p. 29.)

Actuarial value of assets: The asset value used in an actuarial valuation, determined after smoothing the effect of investment gains and losses.

Actuarial contribution rate: The contributions needed to prefund pension benefits on an annual basis.

Amortization: The gradual elimination of a liability, such as a mortgage, in regular payments over a specified period of time. (“Amortization,” www.investorwords.com/200/amortization.html, accessed on July 17, 2013.)

Blended rate: A new discount rate for financial reporting used when projected net assets are NOT sufficient to cover projected benefit payments. It uses the actuarial assumed investment return and a 20-year municipal bond index rate.

Cost-sharing multiple-employer plan: One in which the participating government employers pool their assets and their obligations to provide defined benefit pensions—meaning that plan assets can be used to pay the pensions of the retirees of any participating employer. (“Fact Sheet on the GASB’s New Pension Standards: Governments in Cost-Sharing Multiple-Employer Defined Benefit Pension Plans,” www.gasb.org, accessed on July 16, 2013.)

Deferred inflows of resources: An acquisition of net assets by the government that is applicable to a future reporting period. (Concepts Statement No. 4: *Elements of Financial Statements*, Governmental Accounting Standards Board, June 2007.)

Deferred outflows of resources: A consumption of net assets by the government that is applicable to a future reporting period. (Concepts Statement No. 4: *Elements of Financial Statements*, Governmental Accounting Standards Board, June 2007.)

Defined benefit plan: A retirement plan that provides a predictable monthly payment guaranteed for life, based on a formula that considers length of employment and salary. The plan—the individual—bears the investment risk and longevity risk.

Discount rate: The percentage rate used to calculate the present value of future cash flows. (*Benefits and Compensation Glossary*, 11th ed., International Foundation of Employee Benefit Plans, Inc., 2005, p. 40.)

Entry age actuarial cost method: An actuarial cost method designed to fund a member’s total plan benefit over the course of his or her career. This method is designed to produce stable . . . [contribution rates]. (“Glossary,” www.calpers.ca.gov/index.jsp?bc=/utilities/glossary/home.xml, accessed on July 15, 2013.)

Fiduciary net position: The market value of assets.

Funded ratio, also known as **funded status:** Actuarial assets divided by actuarial liabilities.

GAAP (Generally Accepted Accounting Principles): A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board. (“GAAP,” www.investorwords.com/2141/GAAP.html, accessed on July 15, 2013.)

GASB (Governmental Accounting Standards Board): An independent, not-for-profit organization formed in 1984 that establishes and improves financial accounting and reporting standards for state and local governments. (“GASB Issues Proposal Addressing Transition Issue in Pension Standards,” Governmental Accounting Standards Board, July 2, 2013, www.gasb.org, accessed on July 15, 2013.)

Net pension liability (NPL): Total pension liability minus market value of assets.

Pension expense (PE): The difference between the NPL from the prior fiscal year to the current fiscal year, with some adjustments.

Service cost: The present value of the projected retirement benefits earned by plan participants in the current period. ("Pension service cost," www.money-zine.com/definitions/investing-dictionary/pension-service-cost, accessed on March 30, 2015.)

Single equivalent interest rate (SEIR): A discount rate used for GASB purposes, which may factor in a 20-year municipal bond rate if the projected FNP is not enough to cover projected benefit payments.

Statement 67: The statement that applies to pension plans, titled *Financial Reporting for Pension Plans*.

Statement 68: The statement that applies to employing entities participating in pension plans, titled *Accounting and Financial Reporting for Pensions*.

Total pension liability (TPL): Actuarial present value of projected benefit payments attributed to past periods of employee service.