The New Pension Accounting
Types of pension benefits

- Defined benefits (DB)
- Defined contributions (DC)
Types of DB plans

- Single employer plans
- Multiple-employer plans
  - Agent plans
    - IMRF
  - Cost-sharing plans
    - TRS
    - SURS
How benefits are funded

- Pay-as-you-go
- Advance funding
- Statutory funding
Advance funding

- Actuarial valuation
  - Three-step process
    - Project future benefit payments
    - Discount those payments to their present value
    - Allocate to individual periods
Years of active service

1. Project future payments

2. Discount to present value

3. Allocate to periods of employee service
Key ideas and terminology

- Present value of projected benefits
  - Old term – actuarial accrued liability
  - New term – total pension liability (TPL)
- Resources held in pension trust fund
  - Old term – actuarial value of assets
  - New term – fiduciary net position (FNP)
- Difference
  - Old term – unfunded actuarial accrued liability
  - New term – net pension liability (NPL)
Allocating costs to individual periods

- Old term – annual required contribution (ARC)
- New term – actuarially determined contribution (ADC)
Components of employer liability

Total pension liability (TPL)
- Fiduciary net position (FNP)
Net pension liability (NPL)
Why is there an unfunded amount?

- Unfunded contributions
- Changes in plan terms
- Actuarial gains and losses
How is the NPL eliminated?

- Two components of ADC
  - Service cost
  - Amortization of difference
Current pension accounting: employers in single-employer and agent plans

- Pension expense
  - Employer contribution (ARC/ADC)
- Pension Liability
  - Unfunded contribution (if any)
    - *Net Pension Obligation*
- Relationship to funding
  - Actuarial method = method used for funding
New pension accounting: employers in single-employer and agent plans

- Pension liability
  - *Unfunded actuarial accrued liability/net pension liability*
- Pension expense
  - Change in *net pension liability*
- Relationship to funding
  - Independent of funding
Current pension accounting: employers in cost-sharing plans

- Pension expense
  - Contractually required contributions
- Pension Liability
  - Deficiency in contractually required contributions
New pension accounting: employers in cost-sharing plans

- Pension liability
  - Proportionate share of total *Unfunded actuarial accrued liability/net pension liability*

- Pension expense
  - Proportionate share of change in total *net pension liability*

- Relationship to funding
  - Independent of contractually required contributions
Employers in single-employer and agent plans

- Total unfunded benefits \((net\ pension\ liability)\) vs. unfunded employer contributions
- No tie between pension expense and employer contributions
Summary of change (cont.)

- Employers in cost-sharing plans
  - Report proportionate share of total unfunded benefits (*net pension liability*)
  - Report proportionate share of total pension expense
  - No tie between pension expense and contractually required employer contributions