Implementation of GASB 68 Accounting and Financial Reporting for Pensions

History and Background

Currently, we fund our defined benefit plan (PERF) managed by the Indiana Public Retirement System (INPRS) at a rate of 11.2% of the salaries of active employees, comprised of 4.6% for active employees’ pension costs and 6.6% for unfunded liability. This contribution will continue to be made as long as we have active employees in the plan, declining over time as the participants in this plan retire or otherwise terminate their employment.

Reporting Requirement

In 2014, the Governmental Accounting Standards Board (GASB) issued Statement Number 68 Accounting and Financial Reporting for Pensions and Statement Number 71 Pension Transition for Contributions Made Subsequent to the Measurement Date, effective June 30, 2015. The GASB’s intent in implementing these standards is to ensure pension liabilities are presented fairly in the financial statements. These standards affect the reporting and recording of the pension liability only, they do not impose funding requirements. Implementation requires the recording of a liability for the unfunded portion of our defined benefit plan managed by INPRS, at June 30, 2015.

Impact to the Financial Statements

As of June 30, 2014 the overall PERF plan had a significant unfunded liability. As a participating employer, we are responsible for our prorata share of this unfunded liability. We were not required to report our prorata share of this liability, but it will be required for our FY15 financial statements. We are currently reviewing the numbers which are not yet finalized by INPRS. Based upon the preliminary information provided, it appears we will need to record a prior period adjustment and a current year entry to record a liability of approximately $91M.

In May 2013, the Board of Trustees approved that Purdue’s participation in the plan would be frozen beginning in September 2013, and a defined contribution plan would be offered to all new employees from that point forward. Currently, we have about 3,705 employees remaining in the plan. We pay into the plan annually, with approximately 59% of our funding associated with our unfunded liability and the remaining 41% associated with the future retirement costs for our existing plan participants. In FY 2015, we paid an estimated $13.6 million of which approximately $8 million represents payment towards the unfunded liability. Assuming we continue the status quo, the liability outlined above would be amortized over time by the portion of our annual payment related to the unfunded liability. According to information provided by INPRS, the unfunded liability will be paid off in 2061, when our last participant is expected to retire. Our total unfunded liability is affected by the following factors:

- INPRS rate of return assumption, currently 6.75% annually, after fees
- INPRS demographic assumptions
- Salary increases for all employers participating in the plan
- Changes to our proportionate share of the plan
- Other assumptions used by INPRS, modified at their discretion