TEACHERS' RETIREMENT SYSTEM OF KENTUCKY

GARY L. HARBIN, CPA
Executive Secretary

SERVING KENTUCKY TEACHERS SINCE 1940

ROBERT B. BARNES, JD
Deputy Executive Secretary
Operations and General Counsel

J. ERIC WAMPLER, JD
Deputy Executive Secretary
Finance and Administration

June 5, 2013

To: School Superintendents and Finance Officers

From: Gary L. Harbin, CPA
Executive Secretary

Subject: New Accounting Standards

Recent media reports have discussed the new accounting standards promulgated by the Governmental Accounting Standards Board (GASB) for public pension plans and participating employers. These reports have described, in part, a new provision for cost-sharing multi-employer plans that will be effective in 2015, and which will require each individual employer to report their pro rata share of any unfunded liability of their employees' pension plan in the employer's own financial reports.

There has been some concern as to how these new accounting standards would apply to Kentucky school districts, particularly whether these new accounting standards would affect the districts' budgets. In response, there are two important points to note.

First, as a critical reminder, GASB standards in general apply only to financial reporting. They do not mandate how a governmental pension plan is to be funded. In Kentucky, the Commonwealth has a statutory obligation to provide pension funding through the employer retirement contributions it makes on behalf of teachers and administrators. As such, the responsibility for making employer contributions and addressing the unfunded liability of KTRS rests with the Commonwealth, not the local school districts. The new GASB accounting standards do not change that. GASB accounting standards have never required school districts to make any employer contributions to KTRS.

Second, it is true that the new GASB accounting standards do impose financial reporting standards on governmental employers regarding pension liability. However, Kentucky is very different from other states in the respect that Kentucky teachers and administrators are generally treated as employees of the Commonwealth for pension and other purposes. Given this circumstance, KTRS takes the position that the Commonwealth will be responsible for reporting the annual required contributions and pension liabilities. Furthermore, KTRS takes the position that Kentucky school districts will not be required to report a share of the KTRS pension liability in their financial reports. Although official implementation rules for the new accounting standards have not yet been provided by GASB, the rather uncommon employer/employee relationship between the Commonwealth and her teachers has been acknowledged, informally, by a GASB representative.

As a side note, financial reporting of pension liability for teachers in federally funded positions would rest with the federal government.

This letter is not intended to address the treatment of financial reporting of any unfunded pension liability for classified employees. For information regarding classified employees, please contact Kentucky Retirement Systems.

If you have any questions, please do not hesitate to contact me.

479 Versailles Road | Frankfort, Kentucky 40601-3800 | Phone 502-848-8500