
Interpretation of Federal Financial Accounting Standards 4: Accounting for Pension Payments in Excess of Pension Expense

Status

Issued	December 19, 1997
Effective Date	For fiscal periods beginning on or after September 30, 1997
Affects	None.
Affected by	None.

Summary

Changes in normal costs due to re-estimates of demographic and economic assumptions should be accounted for by the administrative entity as a change in accounting estimate. The effect of the change should be recognized in current and future years.

When the employer entity's total payment for FERS and CSRS exceeds the related total pension expense as defined in SFFAS No. 5, the entity should account for the excess payment as a transfer-out. The entity should include the transfer-out when determining results of operations on its statement of changes in net position.

Any FERS-related payment that exceeds the FERS-related pension expense should be offset against any imputed financing resulting from a CSRS-related payment being less than CSRS-related pension expense in calculating the amount of the transfer out. Only when the total pension payment exceeds total pension expense would a transfer-out be recognized.

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Introduction

1. The Federal Accounting Standards Advisory Board (FASAB) was asked for guidance regarding accounting at the agency level for employer agencies' payments to the pension trust fund when they exceed pension expense (based on an allocation of the total service [or "normal"] cost¹ by the Office of Personnel Management). This is a situation that was not contemplated in Statement of Federal Financial Accounting Standards (SFFAS) No. 5, *Accounting for Liabilities of the Federal Government*.
2. The objective of SFFAS No. 5 (paras. 71-78) is to have employer entities recognize the annual cost of their employees' pensions (pension expense) as measured by the annual normal cost for their employees, less any amounts contributed by the employees (para. 74).
3. The employer entity payment rates for the two major civilian pension systems—the Federal Employees Retirement System (FERS) and the Civil Service Retirement System (CSRS)—are provided in law and are not the same. For FERS, the payment rate is the employer entity's normal cost less the amount contributed by its employees; for CSRS, the payment rate and the pension expense rate under SFFAS No. 5 theoretically would be the same, since both would be based on the same principle: that pension expense and employer payments to the pension trust fund equal normal cost less the employees' contribution. For most CSRS, employer payments to the pension trust fund are by law set at seven percent of salaries which is substantially less than normal costs and therefore also less than pension expense based on normal cost.
4. SFFAS No. 5 explicitly provides the accounting for a situation in which pension expense is more than employer payments to the pension trust fund. The difference between the pension expense and the payment to the plan is to be accounted for by the employer entity as imputed financing.
5. However, due to (1) planning and operational requirements of budgetary administration and (2) recent legislation, the employer entity's FERS pension expense may be less than the FERS-related employer payments to the pension trust fund.
6. The pension expense rate used by civilian employer entities to calculate pension expense is supplied by the administrative entity — in the case of FERS and CSRS, the administrative entity is the Office of Personnel Management (OPM). OPM analyzes the demographic and

¹"Service cost" and/or "normal costs"—the terms are used synonymously in SFFAS No. 5—are defined in SFFAS No. 5 as that portion of the actuarial present value of pension plan benefits and expenses that is allocated to a valuation year by the actuarial cost method.

economic assumptions periodically and recalculates normal costs (for both FERS and CSRS).²The recalculation was done during FY 1997 and resulted in a lower normal cost for both FERS and CSRS, and OPM has issued a revised FY 1997 pension expense rate based thereon. However, regarding the rate for employer payments to the pension trust fund, OPM allows time for employer entities to adopt the new rate for budgeting purposes during which the prior, higher payment rate will continue to be used by employer entities.

7. In addition, the Balanced Budget Act of 1997 (BBA) increases FERS employees' withholding rate from 1999 through 2001 without correspondingly decreasing the employer entity's payment rate. For example, if FERS normal costs were \$10,000 and the employees' contribution were raised from \$5,000 (as calculated absent BBA) to \$5,500 by the BBA, then the employer's expense according to SFFAS No. 5 should be \$4,500 (\$10,000 - \$5,500). However, the BBA does not allow the employer entity to reduce its payment, and therefore the employer pays what it would have paid without the BBA, \$5,000. The \$500 difference between the \$4,500 SFFAS No. 5 pension expense and the \$5,000 payment to the pension trust fund represents a payment in excess of pension expense.
8. For FY 1997, OPM has indicated that employer entities are unlikely to report total payments to the trust fund in excess of total pension expense (based on normal cost) at the entity-wide level, although it is possible, because the amount of the CSRS contribution deficiency is more than the excess FERS payment. However, OPM believes that it is probable that total payments will exceed total pension expense (based on normal cost less employee contributions) in future years.

Interpretation

9. **Change in Estimate** - Changes in normal costs due to re-estimates of demographic and economic assumptions should be accounted for by the administrative entity as a change in accounting estimate. The effect of the change should be recognized in current and future years.
10. **Payments in Excess of Pension Expense** - When the employer entity's total payment for FERS and CSRS exceeds the related total pension expense as defined in SFFAS No. 5, the entity should account for the excess payment as a transfer-out. The entity should include the transfer-out when determining results of operations on its statement of changes in net position.

²This is separate from OPM's annual recalculation of the actuarial liability which can result in actuarial gains and losses the accounting for which is provided in SFFAS No. 5.

11. Any FERS-related payment that exceeds the FERS-related pension expense should be offset against any imputed financing resulting from a CSRS-related payment being less than CSRS-related pension expense in calculating the amount of the transfer out. Only when the total pension payment exceeds total pension expense would a transfer-out be recognized.

12. Example #1:

- i. if an employer entity calculates total pension expense as \$635,000 reflecting a FERS-related pension expense of \$535,000 and a CSRS-related pension expense of \$100,000,³ and
- ii. it makes a total pension payment to the trust fund — excluding its employees' contribution — of \$630,000 reflecting \$570,000 for its FERS employees and \$60,000 for its CSRS employees,
- iii. then it would off-set the \$35,000 FERS-related excess payment (\$570,000 - \$535,000) against the \$40,000 CSRS-related under payment (\$100,000 - \$60,000) and recognize the net \$5,000 underpayment as an imputed financing as follows:

DR. Pension Expense (FERS \$535,000 + CSRS \$100,000)	635,000
CR. Funds with Treasury (FERS \$570,000 + CSRS \$60,000)	630,000
CR. Imputed Financing (FERS \$35,000 - CSRS \$40,000)	5,000

13. Example #2: Assuming the same facts as in the paragraph immediately above except that the employer entity makes a payment of \$640,000 (\$580,000 FERS-related and \$60,000 CSRS-related) instead of \$630,000, then the entity would recognize a net transfer-out of the amount that the FERS-related excess payment (\$580,000 - \$535,000 = \$45,000) exceeded the CSRS-related under payment (\$100,000 - \$60,000 = \$40,000) as follows:

DR. Pension Expense (FERS \$535,000 + CSRS \$100,000)	635,000
DR. Transfer-out (FERS \$45,000 - CSRS \$40,000)	5,000
CR. Funds with Treasury (FERS \$580,000 + CSRS \$60,000)	640,000

³The amounts used for CSRS are from the example in SFFAS No. 5, paragraph No. 78.

14. **Administrative Entity Intra-governmental Entries** - The administrative entity should account for funds received from employer entities in excess of the normal cost of pension expense as a transfer-in. The administrative entity should include the transfer-in when determining results of operations on its statement of changes in net position.
15. **Adjusting Entries** - Employer entities that recorded total FERS payments as pension expense during FY 1997 will need to adjust their accounts. The following examples use the amounts from paragraphs 12 and 13 above.
- a. Example #3 - if the entity had originally recorded the following pension expense based on an earlier provided normal cost rate:

DR. Pension Expense (FERS \$570,000 + CSRS \$100,000)	670,000	
CR. Funds with Treasury (FERS \$570,000 + CSRS \$60,000)		630,000
CR. Imputed Financing (CSRS)		40,000

then, when the revised estimate is provided, the entry would recalculate pension expense as \$635,000 (FERS-related \$535,000 + CSRS-related \$100,000) and adjust the accounts accordingly by means of the following two simultaneous entries:

- (1) to reduce pension expense from \$670,000 to \$635,000
(FERS \$535,000 + CSRS \$100,000):

DR. Transfer-out	35,000	
CR. Pension Expense		35,000

- (2) to off-set the transfer-out against imputed financing:

DR. Imputed Financing	35,000	
CR. Transfer-out		35,000

These entries adjust the accounts to the amounts that would have been entered had the original entry reflected the revised normal cost as shown in paragraph 12 above.

- b. Example #4 - Also, if the entity's accounting resulted in a net transfer-out, an adjustment may be necessary. For example, using the illustration in paragraph 13 above, the entity may have originally recorded pension expense based on an earlier provided normal cost rate as follows.

DR. Pension Expense (<i>FERS \$580,000 + CSRS \$100,000</i>)	680,000
CR. Imputed Financing (CSRS)	40,000
CR. Funds with Treasury (<i>FERS \$580,000 + CSRS \$60,000</i>)	640,000

then the adjustments would be the following two simultaneous entries:

- (1) to reduce pension expense from \$680,000 to \$635,000 (*FERS \$535,000 + CSRS \$100,000*):

DR. Transfer-out (<i>FERS \$580,000 - \$535,000 = \$45,000</i>)	45,000
CR. Pension Expense	45,000

- (2) to off-set the transfer-out against imputed financing:

DR. Imputed Financing (CSRS)	40,000
CR. Pension Expense	40,000

These entries adjust the accounts to the amounts that would have been entered had the original entry reflected the revised normal cost as shown in paragraph 13 above.

Scope of Interpretation

16. This interpretation applies to employer entity pension (and, if applicable, to retirement health care) expense, and to administrative entity's receipt of funds from employer entities, accounted for in accordance with SFFAS No. 5.

Effective Date

17. This interpretation should be applied for reporting periods that end on or after September 30, 1997. The FASAB has reviewed and agreed with this interpretation. After this interpretation is signed by the FASAB members who represent the Department of the Treasury, the Office of Management and Budget, and the General Accounting Office, it will be published by OMB and will be effective.

Basis For Conclusions

18. Regarding changes in normal cost estimates, the prospective treatment called for in this interpretation reflects current practice, including APB Opinion No. 20, *Accounting for Changes in Accounting Estimate*, which provides that a change in accounting estimate should be accounted for in the period of change, if the change affects that period only, or in the period of change and future periods if the change affects both.
19. Regarding employer payments to the pension trust fund in excess of pension expense, such payments are not an employer entity expense or an administrative entity revenue. Such payments do not meet the definition of employer pension expense in SFFAS No. 5,⁴ as discussed above, nor do they meet the general definition of expense.⁵ The entity receiving the transfer—in this case an employer payment in excess of pension expense --- does not sacrifice anything of value to obtain the payment, and the transferring entity does not acquire anything of value beyond what it would have gotten had it contributed an amount equalling normal cost less the employees' contribution. Thus, such payments meet the description of "transfer-out" provided in SFFAS No. 7.⁶

⁴SFFAS No. 5, para. 74.

⁵See Statements of Federal Financial Accounting Concepts and Standards, Original Statements, "Appendix E: Consolidated Glossary" on page 1, wherein expenses are defined as:

outflows or other using up of assets or incurrences of liabilities (or a combination of both) during a period from providing goods, rendering services, or carrying out other activities related to an entity's programs and missions, the benefits from which do not extend beyond the present operating period.

⁶For a description of transfers-in/out, see paragraphs 74 and 344 of SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*.