

# New Accounting Standard

FOR

## Length of Service Award Programs



May 1, 2017

In June 2015, the Governmental Accounting Standards Board (GASB) adopted Statement Number 73. This new accounting standard applies to plan fiscal years beginning after June 15, 2016 and covers many defined benefit plans sponsored by public sector entities, including certain sponsors of Length of Service Awards Programs (LOSAP). This new standard is intended to facilitate consistency when reporting assets and liabilities on the plan sponsor's financial statements.

GASB 73 applies to all public sector benefit plans that are *exempt* from the rules applicable to tax qualified pension arrangements as described by Sections 401 and 501 of the Internal Revenue Code (Code) of 1954. When a LOSAP is designed in a manner that intends to be exempt from these sections of the Code, the plan and trust will outline that assets of the plan are subject to claims of the sponsor's general creditors. The VFIS group benefit trust and template documents provided by VFIS were designed in this manner. This design is key to ensuring that benefits accumulating in the LOSAP *remain tax-deferred* until the participant qualifies to receive a benefit.

GASB 73 prescribes the actuarial assumptions and methods that must be used to calculate plan liabilities. These assumptions and methods will likely differ from what is currently used for your LOSAP. ***GASB 73 does not effect how plan sponsors are expected to fund LOSAP benefits;*** rather, it outlines a specific method to calculate plan liabilities with the intent of standardizing financial reporting for governmental entities.

VFIS is making preparations to offer a report that includes information required for GASB 73 disclosures. Beginning with Plan years 7/1/2017 and thereafter we will enclose an election form that you will complete when preparing your annual census data. This election form is intended to notify us if your accounting or audit firm requires a GASB 73 disclosure report. The cost associated with preparation of the GASB 73 report will be \$750. We suggest you proactively share this publication with your accounting and/or audit firm to determine if you will need to request this report in order to comply with this new standard.

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