#### DIANN SHIPIONE\*

#### By Electronic Mail & U.S. Mail

October 14, 2011

Director of Research and Technical Activities Project No. 34: 34-E and 34-P Governmental Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116 director@gasb.org

### Re: Exposure Drafts Related to Pension Accounting and Reporting for Project 34

"The Board believes that financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Public accountability is based on the belief that the taxpayer has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Use of financial reporting by citizens and legislative and oversight officials to assess accountability is pervasive and is implied in the uses noted above. The Board also believes that financial reporting should provide information to assist users in assessing interperiod equity by showing whether current-year revenues are sufficient to pay for current-year services or whether future taxpayers will be required to assume burdens for services previously provided."

- 1987 Governmental Accounting Standards Board (GASB)

#### Overview

The undersigned comes again to this review task more aware than ever of the structural challenges the GASB faces addressing its accounting and reporting methods in light of its highly conflicted participating constituencies.

Recent efforts of the GASB had seemed to be moving (slowly) toward the highlighted objectives referenced above, especially in the areas of state/municipal pensions and OPEBs. Earlier letters reflected my less than satisfied view of the GASB pace, but hopeful sense of a GASB intent to right the mighty ship of existing financial and accounting mischief so that the behavior of governments and their retirement systems would move to within a horizon of understanding for taxpayers and trustees leading to more accountability and responsible behavior.

I apparently was wrong.

<sup>\*</sup>From 1997-2005 the undersigned was one of 13 Trustees of the then \$5bl+ San Diego City Employees' Retirement System (*sdCERS*).

With the proposed amendments, we are witnessing the deconstruction of the GASB as a standard setter intent on achieving its above referenced objectives.

The GASB now signals that it no longer wants to set "standards" within which governments and pension systems are required to operate. Instead, it appears intent on providing accounting and reporting techniques that will accommodate continued pension debt deferral practices. Such amendments will accelerate the next level of deconstruction because if we know anything from recently reported pension mischiefs, governments/retirement systems will always diminish present pension and OPEB payments and defer corresponding debt into the future if allowed to do so by the GASB and regulatory agencies.

That said, in fairness, perhaps we have all expected too much of the GASB.

Despite its name, it is not, after all, a regulatory agency or a governmental entity. It is instead a nonprofit heavily reliant upon "volunteer" contributions received from state and local governments and their related and affiliated groups. As a result, the GASB treads a narrow line to be meaningful, but not repel its financial support system. This is similar to the periodic episodes of accommodated vetting by credit rating agencies or the "elastic [definition] concept" of disability adopted by Social Security long ago because – "[a] too strict [definition] invites pressure to swing in the opposite direction."

Rather than responding to the needs of the original three primary users of governmental financial statements – "the citizenry, legislative and oversight bodies, and investors and creditors" - the GASB has moved almost entirely toward the interests of its more powerful and financially influential constituents, namely state and local governments, and the parallel interests of their politically influential employees. These two constituencies are rightfully motivated to influence the GASB's activities.

And, they do so with remarkable success.

These constituencies have expressed an appetite for more opaque standards which result in an informational asymmetry that:

- Prevents clear recognition of annual and future pension costs,
- Impairs comparison of costs between generations and between governments, and,
- Allows for the transfer of costs from current employees to future generations of employees and taxpayers.<sup>vi</sup>

Not surprisingly, state and local government officers populate the GASB board. Currently, six of the seven GASB board members are, or have been, employed by a government. This has led to suggestions that board members have potential conflicts of interest "because they work for local, state or county governments, giving them a vested interest in accounting standards that would help public pension funds minimize future contributions." That may be an unfair characterization but, what is not unfair, is the reality that state and municipal government entities find great relief in reporting systems which accommodate fuzzy methodologies that accrue, hide and defer floating debt.

For example, consider two CalPERS statements found in its 10/4/2011 comment letter to Project 34-E. The first raises the concern that if required to actually reflect pension deficits as an "indebtedness or liability" on financial statements (as per the exposure draft) such disclosures would document the intentional violation of Article 16, Sec. 18 of the California State

Constitution which clearly prohibits the accrual of this type of floating debt. The understandable solution from CalPERS' view is, just not report it. The massive debt remains - the disclosure is eliminated; leading to the exact opposite approach of what the GASB should embrace. The second CalPERS comment suggests that the GASB delay implementation of the proposed amendment that would require booking aggregated floating debt. Alternatively, CalPERS recommends an exception for public agencies caught in a conflict between the new accounting standard and their clear obligations under state law. Of course, the proposed exception, if granted, would consume the rule, which is understandably the point. ix

The majority of GASB comment letters come from state and local governments, retirement systems, their employees, their affiliated organizations and consultants that do business with public pensions such as pension actuaries, accountants, auditors and the like. These comments, for the most part, do not advocate for true standardization and comparability. Rather, they support methods that continue to conceal pension costs and the corresponding deferred debt. As pension director for the University of Toronto Keith Ambachtsheer recently noted, the GASB board members "are likely to listen to their constituents in state and local governments and the labor unions who [sic] say there is no problem using the current discount rate." Xi

However, not all "constituents" have similar informational needs.

Citizens, as taxpayers and recipients of government services, have other informational concerns.

Unfortunately, the proposed amendments fail to provide citizens the cost information related to their collective community interests.

This may just be where the GASB has to go, for its own internal reasons. I certainly appreciate the compelling power of the forces at hand. But, if the GASB is going to go there, it ought to consider repealing the references to "a taxpayer's right to know", "interperiod equity", "revenues sufficient to pay for current-year services", and the like so that the current and proposed governing rules will no longer be at odds with its own statement of fundamental purpose.

#### **Detailed Comments**

# 1) The existing GASB Statements 25 and 27 and their proposed amendments, as contained in the Exposure Drafts, do not create "Standards".

The Oxford English Dictionary defines a "standard" as "something used as a measure, norm, or model in comparative evaluations." "Comparable" means "able to be likened to another; similar" or "of equivalent quality." "xiii

The fulcrum word here is "comparative." A standard allows comparison.

Describing GASB Statements No. 25 and 27, and their proposed amendments, as "standards" would be generous. Nothing in the referenced documents provides for comparative, quantitative or qualitative evaluation of pension obligations and costs. \*\*iv\*\* There are no singular, uniform, "standard" methods or parameters with which governments/retirement systems are required to calculate and report pension related items. Instead, the GASB more or less identifies a menu of options, and ranges of alternatives, the results of which continue to produce interpretive issues, application disparity and incomparable metrics. \*\*v\*

Longitudinal and cross-sectional comparison is not possible.

For example, the term "Plan Net Position" (PNP) used over two hundred times, including as a component to determine the Net Pension Liability (NPL), xvi is undefined in the main text and glossary of both Exposure Drafts. (See this item more specifically addressed below).

The word "significant" is used more than eighty times, often in reference to whether assumptions, methods, changes, trends, or terms should be identified or disclosed.\*\* However, it is left as a subjective opinion or judgment reflecting no objective, comparative standard.

Mushy phrases like "expected long-term contribution effort", "viii" "the historical pattern", xix or "substantial proportion" are found throughout these documents. What is long-term: 1 year, 10 years, 30 years, or 100 years? What is historical: 1 year, 5 years, or 10 years?

Generic words are common throughout both Exposure Drafts. As an example, consider the abundant use of the word "elements" as in "elements" of a basic financial statement, "elements" of the pension formula(s), or the "elements" of the plan net position. Notwithstanding the considerable focus on these "elements," they remain undefined and open to anecdotal interpretation. There are many such inexact usages.<sup>xx</sup>

In its December 2008 retrospective document entitled, "Looking Back at Ten Years of Pension Reporting," the GASB acknowledges its absence of precise parameters in its current pension standards:

"The standards generally do not require governments to use a specific method or assumption, but rather set boundaries or limits on what can be used." xxi

The lack of clear, unambiguous parameters for calculating the Annual Required Contribution (ARC), Unfunded Actuarial Accrued Liability (UAAL) and Net Pension Obligation (NPO) preclude helpful comparison:

"One concern relating to parameters is how to balance comparability across governments with how the governments actually administer their plans, which requires some flexibility. All other things being equal, greater flexibility could mean less comparability." xxii

The GASB's "either/or" premise remains flawed. Governments/retirement systems are fully capable of reporting according to one "standard," administering a pension plan according to a completely different set of metrics and then reporting the difference.

What's needed is standardization.

Governments/retirement systems should report the ARC, NPO, UAAL, xxiii and other pension related metrics in a standard manner with the use of uniform actuarial methods and assumptions. While "standardized" actuarial assumptions might be different from actual internal assumptions or experience, explanation of the resulting difference would provide useful information to users.

Actuarial standardization would allow users to compare each entity's pension related financial condition from one year to the next, compare from one government/retirement system to another, and compare the reported standard to the actual experience to help assess if assumptions are reasonable and funding progress is being accomplished. It would bring differences between reports into high relief.

Dedicated pension plan assets, gross pension liability, and net pension liability should be reported in the body of the financial statements. \*xxiv\*

Management discussion should identify projected annual contributions required to pay off any deficit in a manner that is intergenerationally equitable. It should identify the anticipated source of contribution revenues. The discussion should include, among other things, reasons for any changes in the pension liability, including those related to actuarial assumptions, methods and/or benefit increases.

Pension related financial information should be located in a single, easy to find position within the financial report.

## a) The proposed Amendments do not materially improve pension reporting and accounting standards.

The proposed Exposure Drafts eliminate what few meager pension obligation/liability and cost measurements are currently available for users of financial statements (the ARC, NPO, UAAL and Schedule of Funding). As mentioned above, standardization of these measurements is what is needed –not elimination - so that interested parties such as the media, members of the public, plan participants, pension plan trustees, credit rating agencies, regulatory bodies, legislators, bond holders and creditors do not have to hire an actuary to understand the processes used to create the numbers and/or make comparisons.

The treatment of these metrics should be going the other way – toward greater internal consistency, precision and clarity.

With respect to pension cost and debt deferral, most existing deferral strategies available in Statements 25 and 27 will remain under the proposed amendments:

I. The expected assumed investment rate of return will remain as the discount rate for the majority of governments/retirement systems, despite all the hoopla around the unnecessarily complicated process for determining the so-called new "blended rate." Governments will now simply need to *project* that there will be sufficient resources in the future to make projected benefit payments based on "current contribution policies and practices" to allow the continued use of the assumed rate of return as the discount rate. xxvi

How difficult will it be for governments/retirement systems to come up with an unsubstantiated "sufficient resources" assumption, since the proposed GASB amendment specifically allows for <u>assuming actual receipt of all projected future contributions</u> as a <u>percent of future payroll</u> that includes projected future employees? Not very.

How does any of this work when there are multiple tiers of employees?

Ironically, only the most financially impaired governments will need to resort to the blended rate process and they will likely have an actual credit rating lower than the "high quality" AA municipal bond rate index.

II. Exclusion of Ad Hoc COLAs is still allowed thanks to footnote nine<sup>xxvii</sup> in the proposed amendment to Statement 27. This is true, even if payment of these COLAs occurs **every** 

year via retirement board approval, and notwithstanding the existence of "COLA banks" created solely for the accumulation of future increases. All it will take is for a state or local municipality to say it *may* not pay the ad hoc COLA at some point in the future to be able to exclude it from the Total Pension Liability. How difficult will it be for a state or local government to say it <u>may</u> not pay ad hoc COLAs sometime in the future? Not very.

- III. Outdated mortality tables can still be used thanks to the loophole that states mortality rates should be determined by *subjective judgment*<sup>xxix</sup> rather than by the use of objective current mortality tables. How difficult will it be for "subjective judgments" to include outdated mortality tables to manipulate funding requirements? Not very.
  - Stale mortality assumptions have been, and will continue to be, an expensive debt deferral technique.
- IV. Smoothing, and then "double smoothing" by a process of amortizing the already "smoothed" elements, will allow the impact of aggressive investment approaches that result in billion dollar capital losses to remain essentially hidden from the public.
- V. Irregular amortization schedules that violate intergenerational equity will still be available for use. The GASB's new, shorter amortization requirements apply only to pension *expense* and not to funding.
- VI. Actuarial valuations are remarkably still not required to be performed annually preventing timeliness of information.
- VII. Experience studies will still not be required at any uniform interval. How can you have reliable assumptions without appropriate and routine experience studies?
- VIII. While the GASB is finally recommending the Entry Age method, the amendments lack clarity as to the specific variation leaving it open to interpretation.
  - 2) The concepts of "Net Pension Liability" and "Plan Net Position" are essentially undefined and inconsistent with other liabilities.

The Exposure Drafts propose the use of a Net Pension Liability (NPL)<sup>xxx</sup> intended to represent the unfunded portion of the pension liability. Unfortunately, it is essentially undefined because determining components, including Plan Net Position (PNP), are undefined.

Furthermore, the NPL appears inconsistent with other liabilities measured in a manner that does not include expected potential earnings from identified sources.

It is curious that the GASB did not request comment on an appropriate and uniform method for the determination of plan asset value, particularly given the emphasis on the PNP.

3) Stronger "Real" Standards are required because taxpayers and the public are not intuitively able to understand why any party would voluntarily allow government employers to NOT put money in their pension plans.

Some that read this letter may wonder, as did I early on in my near decade long adventure as a public pension trustee, why any state and local municipal worker, pension beneficiary or pension

system would NOT want money coming into their pension plan in a timely manner? It is equally puzzling why state and local governments, and employee pension systems, work so hard, so consistently and pay so much money to consultants to advocate for accounting, reporting and actuarial schemes to DECREASE pension contributions?

Three reasons.

First, deferring pension costs provides short-term budgetary leeway for governments, the benefit of which is essentially "purchased" from employees through the granting of additional (unfunded), oftentimes unaffordable, pension entitlement increases.

Second, deferral allows current employees to not pay-in-full for their pension increases.

Third, perhaps most importantly, deferral prevents taxpayers from understanding the true cost of granting enhanced pension benefit entitlements.

As a result, the normal tension, from a government employee having to choose between receiving a higher paycheck today versus receiving a lower paycheck today but a better retirement entitlement tomorrow, has been eliminated. The proposed GASB compliant techniques will continue to allow deferral of current employee pension costs for payment by future generations. This means higher paychecks today *and* a better retirement without current employees having to pay the full cost. It violates interperiod and intergenerational equity impairing the ability of future generations of citizens and taxpayers to receive basic government services at reasonable costs.

A neutral review of the proposed GASB amendments, as applied, leads to the conclusion that *it will now be virtually impossible for a state or local municipality to not be "GASB compliant,"* even if it does not rationally measure and report its pension numbers, or make any effort to operate its system in a solvent or sustainable fashion.

What then is the purpose of the GASB?

#### **Conclusion**

For the past two decades, existing GASB pension related standards have allowed state and local governments and their retirement systems to claim compliance notwithstanding intentional underfunding of their pension plans. The proposed amendments do not materially change that platform.

As annual required contributions are increasing at alarming rates, it is becoming more difficult to hide the debt with just the existing assortment of past actuarial games. The GASB has now decided to eliminate several metrics that would, if standardized, help reflect these escalating costs. It has framed these changes as a move away from "policy" towards "accounting."

The proposals do not acknowledge the current absence of a rational relationship between the source and level of pension plan revenues and the required funding contributions. They ignore the compelling need for uniform actuarial measures, terminology, and standards necessary for users of financial statements to assess the present funding status and future funding needs of these systems.

Notwithstanding the many documents, years of meetings, and deliberative process, all of this "new" stuff not only wipes out "any-period equity," it precludes "inter-anything" analysis – an ironic result considering the GASB's own seminal principle of "interperiod equity" found in the Summary of Concept Statement No. 1. \*\*xxxii\*\*

The proposed amendments continue the GASB's decline into self-imposed marginalization. An opportunity for a more central role and greater relevance is being missed. Worse, the destructive legacy of pension debt deferral, essentially accommodated by the GASB standards, will eventually present many state and local municipalities with the Hobson's choice of having to pay out entitlements incorporated into massively underfunded pension systems, or alternatively, do the job of government – protect the health, safety and welfare of its citizens. They will likely not be able to do both.

Sincerely,

/S/

Diann Shipione Ds:mc

-

<sup>&</sup>lt;sup>i</sup> Governmental Accounting Standards Board (GASB), Summary of Concepts Statement No. 1 Objectives in Financial Reporting (Issued 5/87),

http://www.gasb.org/cs/ContentServer?c=Pronouncement C&pagename=GASB%2FPronouncement C%2 FGASBSummaryPage&cid=1176156708049.

Government Accounting Standards, 8, <a href="http://jameslchan.com/papers/ChanAmGASCh4Sept08.pdf">http://jameslchan.com/papers/ChanAmGASCh4Sept08.pdf</a>: "In 2005, the GASB generated \$2 million from subscription and publication sales, and \$2.1 million from contributions. The total revenue was sufficient to cover the approximately \$3.7 million direct expenses of the board and research staff and advisory council, and another \$0.3 million in direct administrative expenses. However, the GASB could not meet its share of \$1.5 million of its common costs shared with the Financial Accounting Standards Board (FASB). Contributions to the GASB come from its "constituent groups," including state and local governments, CPA firms, and individual practitioners, the municipal securities industry, foundations and other organizations. In October 2006, the GASB launched a GASB support fee program directed at governments that benefit from the GASB in the sense that their auditors use GAAP set by the GASB to audit their financial statements. These governments are assessed a voluntary fee based on the dollar amount of Federal financial assistance."

Compliance with the GASB is voluntary and, since there is no enforcement element municipalities may, as some have, refuse to comply. A positive result from the establishment of strict limits would be the ability to discern those municipalities that choose not to participate because they want to keep their books in an unorthodox or "overly creative" fashion.

iv Edward D. Berkowitz, (Statement Before the Subcommittee on Social Security of the Committee on Ways and Means, 7/13/2000), <a href="http://www.ssa.gov/history/edberkdib.html">http://www.ssa.gov/history/edberkdib.html</a>. "Although the Social Security officials sought a strict definition of disability, they knew that, if the program were administered in too

severe a manner, then the courts and the Congress would act to make federal officials admit more people to the disability rolls. One of the principal Social Security researchers thought of disability as an elastic concept. "Too strict a system invites pressure to swing in the opposite direction," he said."

http://www.gasb.org/cs/ContentServer?c=Pronouncement C&pagename=GASB%2FPronouncement C%2 FGASBSummaryPage&cid=1176156708049,

Concept Statement No. 1 encourages financial reporting that allows the citizenry; legislative and oversight bodies; and investors and creditors to compare actual financial results with the budget, assess the financial condition and results of operations, determine compliance with laws and regulations, and evaluation efficiency and effectiveness.

vii Governmental Accounting Standards Board, "Members of the GASB," http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176156726930.

viii Michael Corkery, "Board at Center of Pension Dispute," *The Wall Street Journal*, 10/1/2010, <a href="http://webcache.googleusercontent.com/search?q=cache:XwB\_UFiZqM4J:online.wsj.com/article/SB10001\_424052748704789404575524222376601804.html+gasb+board+at+center+of+pension+dispute&cd=1&hl=en&ct=clnk&gl=us&client=safari&source=www.google.com.">http://webcache.googleusercontent.com/search?q=cache:XwB\_UFiZqM4J:online.wsj.com/article/SB10001\_424052748704789404575524222376601804.html+gasb+board+at+center+of+pension+dispute&cd=1&hl=en&ct=clnk&gl=us&client=safari&source=www.google.com.

ix Russell G. Fong, Letter to the GASB re Project 34-E dated 10/4/201, p. 4, <a href="http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11">http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11</a> 75823031270&blobheader=application%2Fpdf.

<sup>x</sup> As noted in the 9/17/2010 Invitation To Comment Letter submitted by this author, the 2009 responses to the GASB's ITC on Project 34 regarding pension accounting and reporting contained letter after letter from state and local governments and their affiliated organizations in support of "standards" that allowed continuation of pension debt deferral techniques. The following entities wrote in basic support of maintaining current standards:

- The Missouri State Employees Retirement System
- California State Teachers' Retirement System (CALSTRS)
- <u>California Public Employees' Retirement Systems (CALPERS)</u>
- The New York State Teachers' Retirement System
- The School Employees Retirement System of Ohio
- The State Treasurers from Alaska, South Carolina, Idaho, Georgia, Utah, Iowa, Virginia, Alabama, Minnesota, Maryland, South Dakota and Maine
- In addition, the following organizations and public employee unions:
  - The National Conference of State Legislatures;
  - National Association of Counties;
  - U.S. Conference of Mayors;
  - National League of Cities;
  - National Association of State Treasurers;
  - National Association of State Auditors, Comptrollers and Treasurers;
  - International City/County Management Association;
  - American Federation of State, County and Municipal Employees;
  - Service Employees International Union;
  - American Federation of Teachers:
  - National Education Association; Fraternal Order of Police;
  - International Association of Fire Fighters;
  - National Association of Police Organizations; AARP;
  - National Council on Teacher Retirement;
  - National Association of State Retirement Administrators:
  - National Conference on Public Employee Retirement Systems;
  - National Conference of State Social Security Administrators;

<sup>&</sup>lt;sup>v</sup> Governmental Accounting Standards Board (GASB), Summary of Concepts Statement No. 1 Objectives in Financial Reporting (Issued 5/87),

vi In some jurisdictions, the entire Unfunded Actuarial Accrued Liability is paid for by taxpayers. For this reason, the creation of actuarial losses benefits employees in that it shifts that entire burden from employees to taxpayers.

- International Public Management Association for Human Resources;
- College and University Professional Association for Human Resources, and
- National Public Employer Labor Relations Association.

A review of the 2010 comment letters confirms a similar pattern.

xi Michael Corkery, "Board at Center of Pension Dispute," *The Wall Street Journal*, 10/1/2010, <a href="http://webcache.googleusercontent.com/search?q=cache:XwB\_UFiZqM4J:online.wsj.com/article/SB100014424052748704789404575524222376601804.html+gasb+board+at+center+of+pension+dispute&cd=1&hl=en&ct=clnk&gl=us&client=safari&source=www.google.com.

xii From Oxford Dictionary Online: http://oxforddictionaries.com/definition/standard.

xiii From Oxford Dictionary Online: <a href="http://oxforddictionaries.com/definition/comparable?region=us">http://oxforddictionaries.com/definition/comparable?region=us</a>.

xiv British Standards Institution (BSI), "Improving the efficiency of public procurement: The role of standards," BSI,

http://www.bsigroup.com/upload/Standards%20%26%20Publications/Government/Publications/BSIProcurement.pdf. According to the world's oldest national standards organization, the *British Standards Institution*, clarity and precision are required here because, "Standards are designed to set out clear and unambiguous provisions and performance objectives..."

xv The "flexibility" of the current GASB standards has provided cover for pension cost deferral strategies and facilitated the shorting of current period pension contributions. These financially destructive practices have been then touted as "GASB compliant" even as they violated the concept of interperiod equity pursuant to GASB's own Concept Statement No. 1. The proposed amendments do more of the same. xvi Net Pension Liability = Total Pension Liability = Plan Net Position.

xvii The following is just one more example of the many ambiguous sentences contained in the proposed amendments:

"If significant changes have occurred that indicate that the disclosures included in the plan's financial report generally do not reflect the facts and circumstances at the end of the employer's reporting period, the employer should disclose information about the substance and magnitude of the changes." (From Exposure Draft related to Statement No. 27, page 11)

What is a "significant" change? In addition, what determines whether the report "generally" does not reflect the change?

xviii Governmental Accounting Standards Series, "Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27, Project No. 34-E," GASB, June 27, 2011, p ix,

http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11 75822728998&blobheader=application%2Fpdf. "The share of collective net pension liability recognized by an individual employer would be based on its expected long-term contribution effort to the plan."

xix Governmental Accounting Standards Series, "Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27, Project No. 34-E," GASB, June 27, 2011, p 6,

http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11 <u>75822728998&blobheader=application%2Fpdf.</u> "Considerations that might be relevant in determining whether such changes are substantively automatic include the historical pattern..."

xx In addition, the interchangeable nature of the words "retired" and "inactive" remains confusing. In some portions of the Exposure Drafts, the word "inactive" is used to also represent "retired" employees while in other places it appears to be a separate class from "retired" employees.

xxi The Governmental Accounting Standards Board, "The User's Perspective: Looking Back at Ten Years of Pension Reporting," GASB, 12/2008,

http://www.gasb.org/cs/ContentServer?c=GASBContent C&pagename=GASB%2FGASBContent C%2FUsersArticlePage&cid=1176156731562.

xxii The Governmental Accounting Standards Board, "The User's Perspective: Looking Back at Ten Years of Pension Reporting," GASB, 12/2008,

 $\underline{http://www.gasb.org/cs/ContentServer?c=GASBContent\_C\&pagename=GASB\%2FGASBContent\_C\%2F}\\ \underline{UsersArticlePage\&cid=1176156731562}.$ 

xxiii Curiously, now that ARCs across the nation are about to skyrocket from 20 years of deferred pension costs/debt and corresponding NPOs will likely escalate in rapid fashion, the GASB is proposing the essential elimination of these metrics.

xxv Governmental Accounting Standards Series, "Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27, Project No. 34-E," June 27, 2011, p 18,

http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11 75822728998&blobheader=application%2Fpdf. "For this purpose, projected plan net position should incorporate, based on current contribution policies and practices, all employer contributions (including on-behalf contributions from nonemployer contributing entities, if any) intended to fund benefits of current and former employees and all contributions from current employees."

xxvi Using a discount rate that is based on the expected assumed rate of return from a portfolio comprised of fixed income, equities, real estate, hedge funds and other alternative asset classes makes no allowance for the impact of expected losses which are the natural companion of investment approaches seeking aggressive returns. Worse, it suggests increased portfolio risk will improve the funded status of the plan.

Accounting Standards Series, "Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27, Project No. 34-E," June 27, 2011, p 18,

http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11 75822728998&blobheader=application%2Fpdf. "Considerations that might be relevant in determining whether such changes are substantively automatic include the historical pattern of granting the changes, the consistency in the amounts of the changes or in the amounts of the changes relative to a defined cost-of-living or inflation index, and whether there is evidence to conclude that changes might not continue to be granted in the future despite what might otherwise be a pattern that would indicate such changes are substantively automatic."

xxviii COLAs often comprise a material portion of a government's pension liability. The GASB addresses this important issue with passing text found in a footnote. Furthermore, there is no mention of how to report other ad hoc benefits including, but not limited to, 13<sup>th</sup> Checks, STAR COLAs, etc.

xxix Governmental Accounting Standards Series, "Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27, Project No. 34-E," June 27, 2011, p 67,

http://www.gasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=11 75822728998&blobheader=application%2Fpdf. "With regard to the age of base data (for example, mortality tables) on which mortality assumptions are based, the Board notes that the selection of any assumptions, including those related to mortality, necessarily requires the application of judgment of those with expertise in the field and that a requirement to use only tables developed on data after a defined date may not be consistent with facts and circumstances that occur in practice."

Standards Board: Plain-Language Supplement Proposed Statement of the Governmental Accounting Standards Board: Plain-Language Supplement for Pension Accounting and Financial Reporting," the GASB defines the "net pension liability" as being "equal to the difference between the total pension liability and the value of assets set aside in a pension plan to pay benefits to current employees, retirees and their beneficiaries." However, that is not the definition provided in the "Governmental Accounting Standards Series, Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27, Project No. 34-E," dated June 27, 2011, page 5, which states that a "net pension liability" is "equal to its total pension liability, net of the amount of plan net position restricted for pensions (plan net position)." While "plan net position" is not a defined term contained in the glossary of either Exposure Draft, it certainly does not have the same meaning to a citizen user as the "value of assets set aside in a pension plan."

xxxi In my prior comment letter, my concern that the GASB's prior standards had led to the loss of intergenerational equity implies that a later generation should not have to pay for a previous generation's consumption of services. In fact, in the GASB's Concept Statement #1, the concern is even more narrowly drawn to focus on "interperiod equity," intended to bring even greater clarity and more resistance to service cost backloading. And, appropriately so.

xxxii Governmental Accounting Standards Board (GASB), Summary of Concepts Statement No. 1 Objectives in Financial Reporting (Issued 5/87),

xxiv The Net Pension Liability does not provide enough information for users of financial statements to assess the financial condition or credit worthiness of a government.

 $\underline{http://www.gasb.org/cs/ContentServer?c=Pronouncement\_C\&pagename=GASB\%2FPronouncement\_C\%2}\\FGASBSummaryPage\&cid=1176156708049:$ 

"The Board believes that financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Public accountability is based on the belief that the taxpayer has a "right to know," a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives. Use of financial reporting by citizens and legislative and oversight officials to assess accountability is pervasive and is implied in the uses noted above. The Board also believes that financial reporting should provide information to assist users in assessing interperiod equity by showing whether current-year revenues are sufficient to pay for current-year services or whether future taxpayers will be required to assume burdens for services previously provided."