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Director of Research and Technical Activities Project No. 34-P Governmental Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Dear Mr. Bean:

This letter is the Colorado Office of the State Controller's response to the Exposure Draft document titled <u>Financial Reporting for Pension Plans an amendment of GASB Statement No. 25</u>. Thank you for the opportunity to participate in this important due process.

The State of Colorado, a primary government as defined in GASB 14 (as amended), does not operate a pension plan that meets the criteria enumerated in this Exposure Draft. However, given the interdependence between this Exposure Draft and the related Exposure Draft titled Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27, we believe it is important for us to comment on the provisions of the pension plan Exposure Draft. Because of the similarity between the two Exposure Drafts, we may provide the same comments in more than one letter.

We have serious reservations about the Board's contention that funding for government pension plans can be separated from employer's financial accounting and reporting for such plans. Those concerns are more appropriately addressed in response to the related Exposure Draft. However, in general we believe that the Exposure Draft correctly applies the developments from Concept Statements No. 3 and No. 4. The proposed standards together will result in increased accountability for the current and cumulative prior period effects of the employment exchange implicit in providing governmental pensions.

Notwithstanding the COSC's general agreement with the proposed standard we have the following concerns and requests for clarification that we ask the Board to address.

• In the summary on page vi and in paragraph 15 the document references the presentation of deferred inflows and deferred outflows of resources in the Statement of Net Position. Illustrations No. 3 (which is intended to align with Illustrations 2 in the related statement and shows the reconciliation of deferred items) does not show deferred inflows or deferred outflows of resources. It is unclear whether that is a function of the specific conditions of the sample statements or whether there is no

condition under which a pension plan would report deferred inflows or deferred outflows because the Board has not identified a circumstance in which deferred inflows and deferred outflows apply to fiduciary fund financial statements (deferral of fair value changes in an effective hedging derivative investment may be applicable). The Board may be able to clarify this matter by stating that although the pension plan does not report pension related deferred items in its financial statements, the pension plan must identify for the employer the differences between expected and actual economic and demographic assumptions (shown in Paragraph 32.a.(4)) and the differences between projected and actual investment returns (this appears not to be required in the pension plan notes or RSI by the Exposure Draft) for the employer's reporting of pension expense and reconciliation of deferred inflows and deferred outflows.

- Regarding paragraph 8, it would increase readability if the standard for measurement of plan type (that is, the count of employers) stood alone in paragraph 8, and the third and fourth sentence of paragraph 8 were presented as paragraph 9 showing the requirements for a single employer. The current paragraph 9, showing the requirements for more than a single employer would be renumbered as paragraph 10. Alpha lettering of the two resulting paragraphs might also help in establishing the relationship between the applicable count criteria and the application to single versus multiple employer plans.
- Regarding paragraphs 30 through 34. As noted above, there does not appear to be
 disclosure in the pension plan notes or RSI of the difference between expected and
 actual investment returns, which the employer needs to calculate current period
 pension expense and to document the changes in deferred items. Employers should
 be able to rely on the published financial statements of the plan to gather the
 information necessary to present the required disclosures of the related statement.
- In paragraph 33 and the related basis for conclusion paragraphs 91-95, the Board explains why it believes aggregate information is not relevant for agent plans notes and RSI. We agree that aggregate level information is not relevant for agent plans, but neither this document nor the related Exposure Draft explain how individual employers participating in an agent plan will acquire the needed information for their Pension Expense, Net Pension Liability, Notes and RSI disclosures. This condition implies that agent plan employers will not be able to rely on the plan's financial statements for the needed information. If the Board's intention is that plans are required to provide the information, through means other than published financial statements, necessary for employers to comply with the related standard that assumption should be made clear in the final standards.
- We believe clarification is needed for item d. in paragraph 44, which states, "The service costs of all pensions should be attributed through all assumed exit ages, through retirement". This text implies there is more than one assumed exit age. Item a. in paragraph 44 requires that attribution of present value of projected benefit payments be made on a plan-member-by-plan-member basis. If there is only one expected exit age per individual, the language in item d. is not compatible with the language in item a. If item d. is intended to address the probability weighing for various exit dates used in actuarial valuations, that assumption should be explained or made clear in the standard.
- Paragraph 48 requires that changes necessary to comply with the proposed standard be shown as prior period adjustments on the Statement of Changes in Net Position.
 It was our understanding that the requirements of the Exposure Draft would not change the amounts presented on the pension plan's financial statements since the Exposure Draft does not require the plan to recognize the Total Pension Liability or

any pension related deferred items. If there is no effect on the financial statements because all changes are in the Notes and RSI disclosures, it seems inappropriate to include the prior period adjustment language.

- On page 18 in the Glossary, the word "employee" appears to be misspelled in the term "Covered-emplyee payroll"
- On page 45 in Illustration C, the Prepaid Expense item should not be indented because it is at the same level in the Statement of Plan Net Position as Cash, Receivables and Investments.
- On page 45 in Illustration C, the Liability item titled "Due *from* broker for investments" should be "Due *to* broker for investments".
- On page 50 in Illustration 3 the note on Net Pension Liability of the County contains the following sentence, "In each period of the projection, County contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected County contributions for current plan members." We could not understand this sentence in the context of the Exposure Draft requirements, and we believe the Board should determine whether it effectively demonstrates a requirement from the Exposure Draft.

Thank you for the opportunity to participate in this important due process.

Sincerely,

David J. McDermott, CPA Colorado State Controller

David J. M. Demott