

GASB
Proposed GASB Amendment 27 for Pensions
Director of Research and Technical Activities
Project 34E

Regarding: Project 34E on GASB Amendment 27 on Pensions
By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,

I thank you for the opportunity to critique this amendment. Generally, I concur with the amendment. A detailed critique follows:

Background and Critique

(1) The amendment addresses single and agent employers as to liability recognition for the net pension liability in financial statements using economic resource measurements. The focus is on the accrual basis of accounting. Actuarial valuations are required every 2 years.

(2) The projected benefit payment is discounted to the present value. The Entry Age Normal Actuarial Cost Method is employed. Significant assumptions may be made to compute the total pension liability. pp. viii

(3) Supplemental information of single and agent employers is required for changes in the net pension liability. More robust disclosure of assumptions allows for a better assessment of reasonableness of the pension measurement. pp. xii

(4) Total pension liability is the portion of actuarial present value of the projected benefit payment attributed to past periods of employee service. Assumptions in conformity with actuarial practice standards should include COLAS. pp. 6

(5) The discount rate is the single rate which reflects the long term expected rate of return on pension plan investments expected to be used to finance payments of pensions. #53/pp.18 and 59b/p. 20

(6) The municipal bond interest rate may be subject to interest rate fluctuations. pp. 23

(7) There is an extensive Glossary of definitions p. 42-48. COLAS exist for inflation. pp. 44

(8) The long term rate of return on investments may be impacted by recessionary cycles. pp. 112

9) There should be a schedule of changes in net pension liability. pp. 139

Critique

(1) The focus on accrual basis accounting is correct. The requirement for an actuarial valuation every 2 years is robust due to projected population increases, periodic instability in markets, changes in life expectancy and other evolving dimensions of the global economy.

(2) and (3) Some basic assumptions must be made to compute the total pension liability. These assumptions include the "Ongoing Concern" aspect of the business/entity as a viable entity. Stability of the global markets is another important assumption. Incremental population changes are in the direction of a 9 billion world population by mid-century. All of these events are part of the mix in projecting an accurate pension liability which will survive the test of time.

(4) The inclusion of COLAS in actuarial practice standards is congruent with increments in cost due to inflation although deflationary periods may be possible. Worker overtime rates may increase costs incrementally just prior to retirement. Pension costs should be normalized to take into account overtime

rate variances and assumptions about the total hours worked in the years just prior to retirement. Statistical smoothing alone may not suffice because losses are just pushed into the later years. At some point, incremental worker or employer contributions may be required to forestall the possibility of bankruptcy and reorganization of the municipality or government entity.

(5) and (8) The long term expected rate of return on pension plan investments may be impacted by temporary periods of instability in global markets, as well as changes in how entities operate and compete.

Technologically, computing costs have decreased . Functionality and computing power have increased. Data storage costs have decreased with improvements in storage technologies. To some extent, computing has taken over functions which were previously labor intensive.