Letter of Comment No. 21
File Reference: 34-E
Date Received: 9/20/11

The City of New York
Office of Management and Budget
75 Park Place, New York, NY 10007-2146

Mark Page
Director

September 14, 2011

Mr. David R. Bean
Director of Research and Technical Activities
Re: Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

I am writing on behalf of the New York City (the "City" or "NYC") Office of Management & Budget ("OMB") with regard to the GASB's Exposure Draft document entitled *Accounting and Financial Reporting for Pensions* (the "ED"). While the City's financial reporting is not within the purview of OMB, the expense and capital budgets of the City, which we administer, are constrained by generally accepted accounting principles defining governmental fund revenues and expenditures (for the determination of budget balance) and capitalization of assets (for eligibility of projects to be funded with bond proceeds), respectively. Therefore, we actively follow the activities of the Board and, when appropriate, comment on its due process documents.

As discussed in our July 30, 2009 and September 23, 2010 letters to you in which we offered comments on your Invitation to Comment ("ITC") and Preliminary Views ("PV") documents, respectively, we continue to support an approach fundamentally in accordance with the funding-based measurement of obligations currently in use in accordance with GASB 27. We believe that the first priority in pension reporting should be to clearly indicate whether a government is responsibly and systematically contributing to its pension plans, such that its obligations are funded approximately over the working lives of employees without irrationally burdening or benefiting taxpayers based on short-term variations in investment returns or other temporary conditions. However, the ED, much like the PV, moves away from a funding based approach toward a "point-in-time" estimated measure of a net pension liability (asset). We believe this is an insufficiently reliable measure for inclusion in a government's statement of net assets and introduces volatility based on market value swings which will obscure the effects of a government's contributions on the financial statements– be those contributions responsible or otherwise.

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While we recognize the divergent objectives of budgeting and financial reporting, we do firmly believe that in a government environment the linkage between the two is significant, and should not be undervalued in the financial reporting standards-setting process. Enacted budgets represent legal mandates for many governmental entities, and also the culmination of the democratic process with regard to how scarce public resources are allocated. Clearly, as governments use a wide variety of bases for legal budgets, it is important for financial reporting to provide some uniformity to facilitate users' understandings of, for example, resources consumed in provision of governmental services during a specified period.

Therefore, we understand the GASB's goal of meaningfully measuring all personal services costs of a period, including pensions and other post-employment benefits. However, we strongly disagree with two related assumptions inherent in the ED. First, we disagree that a point-in-time measure of pension liabilities (assets) is a meaningful and reliable measure. The truly astounding number of assumptions and projections required to arrive at such a measure means that even small sensitivities of individual assumptions compound to make a single measure of very low utility in our opinion, except as it is used as part of a regularly recalibrated, and ultimately "self correcting," annual actuarial funding calculation. For essentially the same reasons, we disagree that a measure of the change in that "point-in-time" pension liability – even with some deferrals of selected components of the change as proposed in the ED – is a good measure of a period cost for pensions. We continue to believe that an actuarially calculated annual required contribution, based on an acceptable actuarial measurement approach and regularly monitored assumptions is the best available proxy for the burden current period taxpayers should be bearing for current services.

The ED does propose to require (for single-employer and agent multiple-employer plans or for an employer's proportion of a cost sharing multiple-employer plan) – in RSI – a ten-year schedule related to contributions, if an actuarially calculated employer contribution is determined. However, we believe that disclosure will be "too little, too late" in that it will not be required of all plans and is relegated to RSI while the highly variable and, in our opinion, questionably-reliable, measure of net pension liability (asset) will be on the face of the government's financial statement.

We thank you for the opportunity to comment on the PV. If you have any questions about our response, or wish to discuss this further, please feel free to contact me or Michele Mark Levine of my staff.

Yours truly,

Mark Page