Letter of Comment No. 31
File Reference: 34-P
Date Received: 9/30/11

Iowa Department of Administrative Services
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Governor Terry E. Branstad
Lt. Governor Kim Reynolds
Mike Carroll, Director

September 30, 2011

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

RE: GASB Exposure Draft– *Financial Reporting for Pension Plans an amendment of GASB Statement No. 25*.

Dear Mr. Bean:

We appreciate the opportunity to respond to the GASB's Exposure Draft (ED) *Financial Reporting for Pension Plan, an amendment of GASB Statement No. 25*.

We have the following general comments on both proposed amendments. While some comments are related to the amendments to Statement 27, they warrant inclusion, as the pension plans will be responsible for a significant portion of those requirements in addition to the amendments proposed for Statement 25.

First, we are concerned how the pension amendments will impact the *timeliness* of financial reporting. For several years there has been movement for governments to provide faster financial reporting; however, the proposed standards are a major impediment to faster reporting. Actuarial work is substantially increased under these proposed standards, so it would be illogical to assume their work would be completed earlier. This is a major concern as it is approximately three months after year-end before the actuarial reports are currently available. It is especially troublesome for cost-sharing defined benefit multiple-employer plans. The calculation of the proportionate share of net pension liability will be time consuming for the plans and each employer's reporting is delayed until that information is received from the plans.

Second, there are *significant increased costs* related to the implementation of these changes. The accounting measurement standards are likely too volatile to be used in funding the pension plans; therefore, the plans will likely engage actuaries to compute actuarial assets and liabilities to determine the required annual contribution AND to calculate a net pension liability using different valuation methods for assets and liabilities. This is will require at least twice the amount of actuarial work currently performed.

For cost-sharing multiple employers, there will be the additional expense of calculating the proportionate share of net pension liability across 2400 employers. Employers that have fiscal year ends other than the plans will have to engage actuaries to undertake an additional actuarial valuation calculation as well as an asset valuation. Overall, substantial staff resources and actuarial resources will be required to implement funding standards and the proposed GASB standards. Alternatives could be for GASB to allow (1) estimates for assets and liabilities where the plan must roll forward or back net pension liability for employers reporting on a fiscal year end that differs from the pension plan or (2) not require roll forward or back of liabilities or assets and allow the use of employer's proportionate share of the plan's fiscal year end audited numbers.

Third, we are concerned with the proposed effective date for both documents. Implementation of these standards significantly increases work for actuaries and employers and places a significant burden upon the plans; especially the cost-sharing defined benefit multiple-employer plans. Also, it would be beneficial, practical and prudent to analyze the results of the pilot programs currently underway before providing final comments to GASB. Given these items, we would like the implementation deferred for at least one year.

Also, we have the following general concerns, requests for expanded guidance or suggested alternatives.

- Deferred inflows of resources and deferred outflows of resources are not illustrated in either document. This is a significant change on the face of the statements and we would like to see expanded illustrations that include these items, as well as other statement illustrations in both EDs.
- The ED allows amortization of liability due to changes in actuarial assumptions and actuarial gains or losses related to active employees. The amortization period is determined by a <u>weighted</u> average of the remaining service lives of active members. A better determination would be an amortization period matching the plan's <u>average</u> working lifetime calculation. This calculation is produced in the plan's actuarial valuation and would reduce the level of effort and expense. We also urge this same amortization period be applied for benefit changes that would affect active employees, rather than the ED's directive for immediate recognition.
- Allowing governments some flexibility regarding the measurement date for the total pension liability, plan net position and net pension liability would help ease the time crunch. Unfortunately, we do not have good suggestions on how that might work because all of the components (net pension liability, deferred outflows and deferred inflows of resources) are tethered together so tightly. Could the actuarial valuation for the preceding year be used as the base and then utilize some type of simplified standardized roll forward procedure to expedite measurement?
- Although accounting principles typically do not permit netting assets and liabilities, it would make sense to net the deferred outflows and deferred inflows of resources for the component related to the differences between actual and projected earnings. The employer would need to keep the detail so balances are amortized into pension expense over 5 years, but it makes sense to net the unamortized portions of these balances for presentation on the statement of net position.
- We request further guidance on when information included in separately issued plan audited financial statements can be referenced rather than repeated in the employer notes to the financial statements.
- The timing for comment for the pension amendments was challenging from a preparers position. The complexity of the subject paired with the volume of printed material to review during the fiscal year-end timeframe was very burdensome. It would be greatly appreciated if future response deadlines took this into consideration.

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In addition, we have comments specific to the ED proposing amendments to Statement 25.

- The requirement to disclose the effects on current-period net pension liability recognized by the employer(s) of a 1-percent increase and 1-percent decrease in the discount rate could be a beneficial way to illustrate the effect the investment return assumption has on the pension liability. However, we are concerned that could be outweighed by potential misinterpretations of this information. Pension investment return assumptions are created with a long-term approach in mind. Given volatility traditionally associated with annual returns, financial statement users could draw incorrect conclusions about the pension liability if annual returns are compared with the long-term return assumption.
- Additional guidance on update procedures to roll forward amounts to the end of the plan's reporting period would be beneficial for comparability between financial statements.
- We request clarification on whether the 10-year schedules of the employer(s) must disclose information for all employers combined or detailed by each employer. For example, in a cost-sharing plan where there are multiple "employers," please clarify if it is the intent of the Board for the plan to disclose this information for each employer or if the information can be disclosed on a combined plan level.
- 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 this ED would not change the amounts presented on the pension plan's financial statements since it 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.

We must be confident that liabilities are a reliable measurement of the actual obligation and is not subject to excessive fluctuations that would mislead both statement users and decision makers. The proposed amendments do not necessarily instill this confidence.

If you have questions or need additional information regarding this response, please do not hesitate to contact Lisa Dooly at (515) 281-4098.

Sincerely,

Calvin McKelvogue

Calvin McKelvogue, Chief Operating Officer
State Accounting Enterprise
Iowa Department of Administrative Services
Office: (515) 281-4877
Fax: (515) 281-5255
calvin.mckelvogue@iowa.gov