Letter of Comment No. 64
File Reference: 34-E
Date Received: 10/3/11

Iowa Department of Administrative Services
Government's Partner in Achieving Results
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Mike Carroll, Director

September 30, 2011

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

**RE: GASB Exposure Draft Plain- *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*.**

Dear Mr. Bean:

We appreciate the opportunity to respond to the GASB's Exposure Draft (ED) *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*.

As stated previously in our response to the GASB's Invitation to Comment (ITC), Pension Accounting and Financial Reporting, and GASB's Preliminary Views (PV), Pension Accounting and Financial Reporting by Employers, we prefer the net pension obligation (NPO) approach instead of the net pension liability (NPL) approach. We still believe that funding for government pension plans cannot be completely separated from employer's accounting and reporting for such plans. Given this, our comments address the proposed amendments of the ED.

First, we are concerned how these 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.

Our Auditor of State's Office is also concerned how these amendments will affect *timeliness* and has expressed concerns on the impact on their local government audits. It is their belief that the Office of Management and Budget and others desire reduced deadline to issue audits. They audit a significant number of counties, school districts and city governments which could all have reporting delays as they participate in the State's cost-sharing defined benefit multiple-employer plan. All of these entities have the same June 30 year end which will greatly impact the timeliness of all local government audits, including those for which Single Audits are required.

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.

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

- The ED appears to strive for a level of precision in the allocation of the proportionate share of the net pension liability that is on the verge of accounting similar to agency multiple employer plans. This ignores the intent that a cost-sharing plan pools the assets and the liabilities. There is no allocation of differing liability experiences (gains or losses). Cost-sharing plans compute one plan-wide pension liability experience. The ED departs from this cost-sharing principle without any clear guidance as to measuring proportionate net pension liability costs among multiple employers. A suggestion would be to use covered payroll of participating employers as a simple and cost-effective way to allocate the net pension liability in a cost-sharing plan. It would be interesting to observe the difference in the pilot project results obtained by substituting covered payroll for long-term contribution effort as the allocation base.
- 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 weighted average of the remaining service lives of active members. A better determination would be an amortization period matching the plan's average 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.
- Both documents discuss avoiding unnecessary duplication. 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 analysis of projected cash flows, to calculate the point of depletion and determining the portion of payments to be discounted at each rate is cumbersome and involves assumptions that create subjectivity. More guidance in this area would be helpful.
- Will reporting a pension liability in entities/funds that currently have bonds payable pose any issues with bonding requirements or compliance? Will these changes impact governments' ability to issue debt or issue affordable debt?
- These proposals would impact a government's ability to provide services in multiple ways. The government itself will have reduced resources available for services with the additional liability AND entities which provide resources to the government may also have less. For example, our State Lottery is under our cost-sharing multiple employer defined benefit plan so they will have a share of the net pension liability, thus reducing the amount they will be able to transfer to the State.
- 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.
- The inclusion/exclusion of projected ad hoc COLAs and other ad hoc postemployment benefit changes, to the extent that they are considered to be substantively automatic, in the projected benefit payments has a significant impact on the projected future benefits and the related pension liability. We request additional guidance or definition to ensure consistency between financial statements.
- Additional guidance on the calculation of "average expected remaining service life" would promote consistency and comparability of pension information among plans.
- It would be helpful if the Board would describe methodologies for attributing the employer's proportionate share of the collective net pension liability, collective pension expense, and the related collective deferred outflows of resources and collective deferred inflows of resources to multiple reporting units for an entity that has multiple reporting units.

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Additional disclosures for pensions and related liabilities maybe helpful to statement users, however we are not convinced that recognizing a liability on the employers' financial statements is appropriate at this time. We must always 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.

From a practical standpoint, measuring the liability in a manner so removed from the actual budgeting and funding process, will create a disconnect for policymakers, and undermine support of public pension plans, which are already under pressure in the current economic environment. Coupled with the recent downturn in the economy, and the related impact on public pensions, this requirement will simply lead policymakers to grow more frustrated with GASB standards.

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

Sincerely,

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