Letter of Comment No. 32
File Reference: 34-P
Date Received: 10/14/11

THE SEGAL COMPANY
101 North Wacker Drive Suite 500 Chicago, IL 60606-1724
T 312.984.8500 F 312.984.8590 www.segalco.com

October 13, 2011

Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

RE: Project No. 34-P Exposure Draft on *Pension Accounting and Financial Reporting by Employers*

Dear Director:

Consistent with Segal's earlier comments on the "Preliminary Views" for proposed changes to Governmental Accounting Standards Board (GASB) Statements 25 and 27, our comments on the recent Exposure Drafts begin with our concern that including the Net Pension Liability (NPL) directly on the employer's balance sheet will, at best, lead to confusion and at worst, lead to decreased emphasis in plan funding. This would result from the greater opportunity for plan sponsors to avoid accountability for the long term consequences of not contributing an adequate annual required contribution (ARC), as that underfunding would no longer be highlighted on the employer's balance sheet in the Net Pension Obligation (NPO).

However, given that for accounting reasons the GASB believes including the NPL on the balance sheet is appropriate, we offer the following critiques and suggestions that we believe will strengthen the proposed statement revisions. These modifications focus on providing the users of the financial statements with adequate information for comparability among plan sponsors while balancing this advantage with the level of effort and cost to the plan sponsor. The following items each present a concern followed by a suggested modification.

1. For cost sharing plans (and others as applicable), it may not be feasible to value plan assets at each employer's fiscal year end (FYE). Particularly for cost sharing plans, due to the pooled nature of plan assets, revaluing plan assets for each entity's FYE will result in added expense with little additional value to the employer's financial statement.

   Modification: Allow all employers to use the asset value at the plan's FYE with a roll forward to the employer's FYE. This is consistent with the method for projecting plan liabilities to the appropriate FYE.

Letter of Comment No. 32
File Reference: 34-P
Date Received: 10/14/11

2. For plans receiving contributions according to an actuarially determined funding policy, the projection of assets and benefits to depletion date is unnecessary and often impractical.

   Modification: Allow plans that receive contributions pursuant to an actuarially determined funding policy to certify to the adequacy of such policy without having the added expense of performing a projection of assets and benefits that are used only for this purpose.

3. The balance sheet NPL should be based on assets after deferred inflows and outflows (i.e., smoothed actuarial value of assets [AVA] using GASB's five year method). At a minimum, the asset deferrals should be shown in the financial statement disclosures in a schedule that is adjacent to the MVA based NPL so that it is easier to see the NPL based upon AVA.

   Modification: Change the balance sheet NPL to be based on the smoothed assets. This will be more consistent with the employer's long-term obligation and so will better relate to the Exposure Draft's goal of providing decision useful information.

4. The amortization period for active liability changes (other than plan amendments) should be the simple, unweighted average remaining service. At a minimum, clarify that weighting should be by each member's liability and not by each member's change in liability due to gain/loss or assumption change. However, note that any such weighted average will be much shorter than the financial statement user will expect it to be.

   Modification: We recommend that the average remaining service should not be weighted by liabilities. Instead, it should be set equal to the average remaining service period of active employees expected to receive benefits under the plan. This number is readily available currently, avoids unnecessary additional expense, and conforms to the general understanding of what "average future service" would be.

5. Since by their nature, DB plans are inherently pooled liability mechanisms, gains and/or losses should be categorized as "active" or "retired/inactive" based on the beginning of the period source and amortized accordingly. Any other process will lead to confusion and additional expense.

   Modification: Clarify that gain/loss can be separated between active and retired/inactive by isolating retired/inactive gain or loss for prior year retirees/inactives and deeming the other gain/loss to be for actives. In particular, any gain or loss at (due to) retirement would be part of active gain or loss.

Letter of Comment No. 32
File Reference: 34-P
Date Received: 10/14/11

6. The following is a partial list of the more substantial new calculations that will be needed solely for GASB. These calculations are not currently performed, have no other purpose, and will lead to additional costs:

    a. Project assets to depletion date in order to calculate the blended discount rate.

    b. Perform actuarial valuations under the long term discount rate, the blended discount rate, 1% above the blended discount rate, and 1% below the blended discount rate.

    c. For cost sharing employers, determine the NPL as of each employer's fiscal year end.

    d. For cost sharing employers, allocate NPL and expense for each employer, a complex calculation.

    e. Separately determine the gain/loss by active and retired/inactive components.

    f. Determine the liability weighted average remaining service (average future working lifetime), a calculation that valuation software does not currently handle.

    Modification: As noted earlier in this letter, these calculations add significant expense and confusion to the process. The first item should not be required for systems whose funding policies allow certification that plan assets will not be depleted until all benefits are paid. The remaining items can better be developed using existing procedures and so should be eliminated.

7. Utilize a high-quality municipal bond index for determining the applicable discount rate.

    Modification: Our research reveals that no single "municipal bond index" has been identified as a standard market measure. GASB should identify those indices that will meet the reporting requirement.

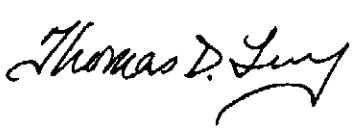
8. The implementation schedule does not provide adequate time for public employers and public plans to comply. The level of change, the data collection requirements, the computer systems revisions, etc. will require more time to integrate into the valuation process.

    Modification: The implementation should be delayed one year following the issuance of the Final Statement. Moreover, GASB should identify specific requirements that could be phased in over a longer period, possibly based on the size of the plan.

Letter of Comment No. 32
File Reference: 34-P
Date Received: 10/14/11

Major concerns about the Exposure Draft will be presented to GASB from the professional organizations of actuaries who value public pension costs and liabilities. Segal resources were significantly instrumental in the development of those comments. This submission highlights key issues and we direct you to the public actuary comments for in-depth discussions and suggested modifications. We encourage GASB to consider carefully the comments and recommendations of these public sector actuarial groups. We are available to discuss any of our suggestions with you.

Sincerely yours,



Thomas D. Levy, FSA, MAAA, FCA, EA, FCIA
Senior Vice President, Chief Actuary, Toronto

Kim Nicholl, FSA, FCA, MAAA, EA
Senior Vice President, Consulting Actuary,
National Public Sector Retirement Practice Leader,
Chicago