Letter of Comment No. 160
File Reference: 34-E
Date Received: 10/12/11

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October 7, 2011

Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
407 Merritt 7
Norwalk, CT 06856-5116

Dear Sir:

The United Federation of Teachers, Local 2 of the American Federation of Teachers represents 160,000 in-service and retired members that are members of the Teachers' Retirement System of the City of New York (TRSCNY), the New York City Employees' Retirement System, and the Board of Education Retirement System of the City of New York. These are multiple employer cost-sharing retirement systems for pedagogic and non-pedagogic employees of the New York City Department of Education, City University of New York, and 12 individual Charter Schools.

We have reviewed the Exposure Draft (ED) of a Proposed Statement of the Governmental Accounting Standards Board (GASB). This ED deals with Accounting and Financial Reporting for Pensions and is an amendment of GASB statement No. 27. We are submitting the following written comments:

Comment 1- We note that, pursuant to paragraphs 22-25, the discount rate for accounting and financial reporting purposes is to be the long-term expected rate of return on plan investments for plans whose current and expected future plan net assets are projected to be sufficient to make benefit payments. We support this position. We have never believed that Financial Economics is an appropriate basis for evaluating public sector pension plans.

Comment 2- Subparagraph C of paragraph 42 continues the practice of disclosing the difference between (a) an employer's annual pension cost derived from the annual required contribution of the employer (the ARC), and (b) the amounts the employer actually has contributed to the pension plan in relation to the ARC to date. We support this position. We believe that it is important to be able to demonstrate that a plan has been funded responsibly over a ten-year period.

Comment 3- Subparagraph A of paragraph 28 specifies that changes of assumptions regarding the expected future behavior of economic and demographic factors affecting measurement of the total pension liability with respect to retired employees are to be recognized as pension expense immediately in the period of the change. The Actuary for the retirement systems is in the process of preparing revised actuarial assumptions for valuing the systems' liabilities. It is expected that these revised assumptions will include both increased life expectancies and a decrease in the discount rate. We are concerned that, if the assumptions are revised, as we believe they will be, and the proposal in the aforementioned subparagraph is implemented, the pension expense will be in the range of 160% to 200% of the ARC. We are all aware that there is a segment of the public that wrongly attributes a large portion of the economic problems of the U.S. to overly generous public employee pensions. If the City of New York is required to report that, even though the ARC for the TRSCNY is $2.5 billion, the pension expense is anywhere from $4 billion to $4.5 billion, this could set off an unnecessary cycle of hostile comments from people who do not have any understanding of sound pension funding practice. We understand the desire to expense increases resulting from changes in plan terms in this manner. However, we strongly but respectfully ask GASB to re-examine extending this concept to experience losses and changes in assumptions.

Comment 4- Paragraphs 44-71 of the ED deal with the reporting requirements of cost-sharing employers. Our pension plans are cost-sharing, multiple-employer plans and we disagree with the call for all employers, some of which are single charter schools with few employees, to generate the necessary data. The ED states that each employer in a cost-sharing plan is responsible for its fair share of the overall unfunded liability. Yet for the individual employers, our plan functions as a group insurance plan. Any shortfall will typically be funded through action by all participating employers and employees. Therefore, we believe that participating employers should only report their contractually required contributions to our plan and the plan should continue to report the overall unfunded liability.

It is important that your statement clearly highlights that the new GASB accounting and reporting standards are not meant to be funding standards. Actuaries and accountants look at plan revenues and expenses differently.

Finally the timetable in paragraph 107 for the implementation of the ED is unrealistic. The retirement systems our members belong to and their employers will have to generate a large quantity of data that is not currently available. We believe that it would be more appropriate to defer the recommendation of an effective date for implementing these standards until the actuaries who work with public plans can further develop guidance regarding funding policies for such plans. This guidance is important given that GASB will be eliminating the ARC as the basis for these new accounting and reporting standards.

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Thank you for the opportunity to submit these comments. We sincerely hope you will consider them as you develop a final accounting and reporting standard that is both fair and reliable for all stakeholders involved.

Sincerely,

Michael Mulgrew
President