Letter of Comment No. 193
File Reference: 34-E
Date Received: 10/12/11

TO: Director of Research and Technical Activities, Project No. E-34

FROM: Richard Lewis, Executive Director, Ohio School Boards Association

Kirk Hamilton, Executive Director, Buckeye Association of School Administrators

David Varda, Executive Director, Ohio Association of School Business Officials

DATE: October 11, 2011

RE: **GOVERNMENT ACCOUNTING STANDARDS BOARD EXPOSURE DRAFT ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS (AN AMENDMENT OF GASB STATEMENT NO. 27)**

We wish to offer our collective response to the Government Accounting Standards Board proposed changes in the practice of accounting and financial reporting for public pensions, as described in the exposure draft issued on June 27, 2011. We represent the boards of education, superintendents and school business officials of the 719 public school districts in the State of Ohio.

Our comments are directed to the impact of the proposed changes in reporting for the two separate public pension plans that serve the employees of our districts. These two systems are the Ohio School Employees Retirement System (SERS) and the State Teachers Retirement System of Ohio (STRS). Both systems are cost-sharing, multiple-employer public pension plans. SERS is a defined benefits plan, while STRS also offers their participants a choice among a defined benefits plan, a defined contribution plan, or a hybrid version of the two.

Both SERS and STRS are instrumentalities of the State of Ohio, which establishes operating parameters for the systems and which monitors the financial condition of all five public pension systems in Ohio through the Ohio Retirement Study Council (ORSC). By state law, all public school employees must be contributing members of either SERS or STRS. SERS serves the classified, non-instructional staff, while STRS serves the licensed instructional and administrative personnel. A separate board that includes both elected and appointed officials governs each system. Comprehensive financial reports are filed annually by the systems and the ORSC monitors all assets, liabilities and expenditures on an on-going basis.

We disagree with several assumptions that drive the proposed changes. The disagreements are as follows:

1. The Employer Obligation for Pension Benefits

SERS and STRS are designed as cost-sharing, multi-employer plans, in which the employer participants collectively share the risks and benefits associated with operating a public pension system. The GASB proposal to now allocate pension liability to the 719 public school employers is contrary to the statutory design and operation of SERS and STRS. Under the statutory provisions that create and guide the retirement systems, the responsibility for future payments is assigned to the pension trust fund. It is not appropriate for GASB to now use accounting standards to force accounting and financial reporting on an employer-by-employer basis.

Under Ohio law, employers are required to provide their share of contributions to the funds, but they have little, if any control over pension benefits, investment of plan assets, or level of required contributions. In our view, the pension plans for our employees have been statutorily and collectively assigned to an independent third party. Our only obligation is to make the statutorily required contributions to the plans, not to assume any responsibility for the benefits.

2. Value of the Proportionate Share of the Net Pension Liability

The value of calculating and reporting each employer's proportionate share of the net pension liabilities is questionable and will not provide useful information for public pension policy discussions. It is the aggregate financial information of the systems that is most meaningful for public disclosure and discussion, not the proportionate share on an employer-by-employer basis. The latter can be misleading, due to the continuing changes in district level payrolls based on changing financial conditions that have nothing to do with the pension systems. These can include loss of state or local funding, changes stemming from collective bargaining agreements, declining or growing pupil enrollment, and elimination or outsourcing of programs.

Public school employers have no effective or direct means to address the liability that would appear on their financial balance sheets. They have no ability to adjust benefit or plan design changes.

The proposed calculation methodology is limited to a single point-in-time measurement that will be subject to many factors outside the control of the employer, such as investment decisions, volatility of market returns, assumed rates of return, etc. The generation of such reports may directly impact many aspects of local school district operations, including bond ratings. The attribution of pension liabilities that are the responsibility of the pension plans and not those of the employer will be misleading to citizens in general and to the current and future creditors of the employer. The employers will be reporting a liability that they did not accrue, for which they cannot control, and which they cannot pay down.

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We appreciate the opportunity to comment on the proposed changes and would encourage you to reconsider the proposed allocation of net pension liabilities to employers in pension plans such as those offered in Ohio. If you have questions, please contact us.