Letter of Comment No. 253
File Reference: 34-E
Date Received: 10/14/11

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Thomas K. Lee, Executive Director

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Project No. 34-E
Governmental Accounting Standards Board (GASB)
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October 14, 2011

RE: Exposure Draft on Accounting and Financial Reporting for Pensions

Dear Mr. Bean:

The New York State Teachers' Retirement System (NYSTRS) is pleased to present our comments on the two GASB Exposure Drafts entitled *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*, and *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25*. We commend the GASB on their hard work in this area.

Discount Rate Calculation

With respect to the calculation of the discount rate, Illustration 1, page 111, it is not clear how one is to project future contributions in the case of a plan with an actuarially-determined employer contribution rate that changes annually in accordance with an actuarial valuation. In the illustration provided, the employer contribution rate is a fixed percentage. It would appear one would need to project the results of future actuarial valuations (approximately one hundred years' worth – until the last current beneficiary has died). This one piece would be a very large exercise in and of itself, and would require projected future plan asset values. Projected plan asset values themselves are one of the goals of the entire exercise, meaning there is circularity here in that they are an ingredient in the process, and also then a final product of the exercise. It would be very helpful if GASB could provide an additional example for plans with an annual actuarially-determined contribution rate.

We also suggest that GASB consider adding a safe-harbor, such that plans that are funded in accordance with an actuarial funding method, and have a history of receiving the actuarially-determined contributions, be permitted to use the long-term expected rate of return as their discount rate throughout.

Cost-Sharing Multiple-Employer Disclosures

As proposed in the Exposure Draft for cost-sharing multiple-employer systems, measures of an employer's Net Pension Liability (NPL), Pension Expense (PE), and Deferred Outflows/Inflows (DO/I), would be based on the employer's proportionate share of the plan's collective NPL, PE, and DO/I. The calculation of the plan's NPL, PE, and DO/I would be done as of the plan's fiscal year-end date, and the employer's proportionate share of the plan's NPL, PE, and DO/I would be determined as of the employer's fiscal year-end date.

Using the employer's fiscal year-end date to determine their reported amounts (NPL, PE, DO/I) presents significant problems and expense for the following reasons:

1. Retirement System investment portfolios often include significant holdings in real estate and private equity, both of which are difficult and time-consuming to value. Obtaining bona fide market values of all real estate and private equity holdings as of each, or even many, different months-end during a single year would likely be impossible for most Retirement Systems.
2. Employers will look to the Retirement System for the calculation of the reported amounts. Cost-sharing plans may have employers with many different fiscal year-end dates. This will be time consuming, expensive to prepare, and the information will not be available for employers on a timely basis.
3. If GASB requires the amounts reported to be "rolled forward" to each employer's respective year-end, those amounts will not have been subjected to the pension plan's annual audit. Issues with the employer's auditors (opinion) may arise due to the "rolled forward" proportionate share being determined based upon unaudited amounts, which in many cases will be material with respect to the employer's financial statements.
4. In times of extreme volatility in the stock market, the fair value of the plan's assets may vary significantly, which would impact the proportionate shares of each employer. Comparability among employers may be lost by using different year-end dates for amounts reported.

We suggest that GASB consider relaxing this requirement and instead allow all reported amounts and disclosures to be based on the fiscal year-end of the plan, regardless of the fiscal year-end of the particular employer. This would streamline the annual calculation process and provide reasonable amounts and disclosures. The employer's financial statements could include note disclosures indicating that the amounts reported are as of the plan's year-end.

Cost-Sharing Employers – Calculation of Employer's Proportionate Share

With regard to calculating the cost-sharing employers' proportionate shares, the Exposure Drafts require the shares to be based on each employer's "projected contribution effort" compared with the collective contribution effort of all employers in the cost sharing plan.
We recommend that the GASB consider simplifying the calculation of proportionate share. One solution would be to use the average of each employer's historical covered payroll.

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Reporting Versus Funding

While we understand that GASB does not mean to dictate or even exert any influence on actual plan funding, we are concerned that many users will interpret the pension expense as the "appropriate" or "best" funding amount, similar to the way many have come to consider the ARC from the current standards. If this amount happens to be less than the actuarially-determined amount to be funded in a given year, state budgeters will gravitate toward this lower number as a less-expensive alternative. If the amount is greater, the media will suggest the plan is not being properly funded. We request that GASB embark on a campaign to make very clear that these statements are not at all intended to be recommendations regarding plan funding, and that reasonable and appropriate funding methods could produce much different results.

Effective Dates

We respectfully request that GASB delay the effective date of the Statements. There is a significant amount of additional work required, and even one additional year would be very helpful.

Thank you for the opportunity to provide our comments on the Exposure Drafts.

Sincerely,

Richard A. Young, ASA, EA, MAAA, FCA
Actuary

Allison M. Quinn, CPA
Manager of Finance

cc: T. Lee