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Submitted by e-mail to director@gasb.org

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Mr. David R. Bean
Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7
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Re: Exposure Draft—Accounting and Financial Reporting for Pensions
Amendment of GASB Statement No. 27

Dear Mr. Bean:

These comments in response to the Exposure Draft on the Accounting and Financial Reporting for Pensions, issued by the Government Accounting Standards Board ("GASB") on July 8, 2011, are submitted on behalf of the American Federation of Labor and Congress of Industrial Organizations ("AFL-CIO") and its 56 affiliated unions. The AFL-CIO, together with its community affiliate, Working America, represents more than 12 million workers across the country, including millions of workers in state and local governments, agencies and school districts. The overwhelming majority of these public sector members participates in defined benefit pension plans and thus has a strong interest in the funding of these plans and the reporting of these plans in their employers' financial statements.

The proposed standard in the Exposure Draft would separate how government employers account for pension obligations from the actual funding of those obligations which is a significant and potentially confusing change from current accounting standards. We are concerned that the introduction of two different numbers adds less, not more clarity, about the funded status of pension plans and could well undermine the usefulness of the information included in the financial statements, as well as provoke undue concern about the viability of these plans.

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Net Pension Liability

The Exposure Draft requires employers to use the market value of assets to determine the net pension liability. Because of the volatility of this measure, however, reports will be less reliable or decision-useful. We suggest that a smoothed value of assets be used instead to more accurately reflect the long-term nature of pension plans and their governmental sponsors.

Discount Rate

The total pension liability under the Exposure Draft would continue be calculated using the long-term expected rate of return on plan investments so long as projected plan assets, including future employer contributions, are sufficient to cover future benefit payments. For payments that would not be covered by projected plan assets, the calculation would be based on an index rate for high-quality 30-year, tax-exempt municipal bonds.

We appreciate that the proposed standard endorses the use of the long-term expected rate of return as the primary basis for valuing pension liabilities and rejects the market value of liability approach with its risk-free rate of return. As GASB correctly recognizes, the long-term rate of return is consistent with the long-term nature of government employers and the pension plans they sponsor.

We are, however, concerned about how the blended discount rate is determined. As described in the Exposure Draft, different discount rates are used to value future payments based on the projected date of plan asset exhaustion, an unlikely event. The proposed method gives unwarranted weight to the payments to be made after the projected exhaustion date as they are valued at a lower rate (the municipal bond index rate) for a longer period. To avoid this result, other methods for determining the blended rate should be considered. For example, the blended discount rate could be a simple weighted average of the long-term rate of return and the municipal bond index rate based on the sufficiency of projected plan assets to cover projected liabilities (determined using the long-term rate).

Pension Expense

Under the Exposure Draft, the recognition of changes in pension liability resulting from differences between expected and actual experience and changed assumptions depends upon whether the liability change relates to inactive employees (including retirees) or active employees. For inactive employees, experience differences and assumptions changes are recognized immediately in pension expense. For active employees, these same changes are treated as deferred outflows or inflows of resources and recognized in pension expense over the average expected remaining service life of the active employees.

The different recognition treatment for inactive and active employees adds unnecessary complexity without providing significant value. Moreover, the proposed treatment of actuarial assumption changes creates a disincentive to update assumptions if it would result in a

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significant increase in pension expense for the year in which the change is made. We suggest that the liability changes resulting from experience differences and changed assumptions be treated consistently for inactive and active employees and amortized. At a minimum, the changes related to modified assumptions should be amortized for both groups of employees so that appropriate adjustments in assumptions are not discouraged.

As described in the Exposure Draft, the method for determining the average expected remaining service life, is to be weighted "... to approximate the aggregate result that would be obtained if such changes in each active employee's total pension liability were recognized separately over that employee's expected remaining service life." Exposure Draft ¶ 28a(4)(b). It is our view that the proposed weighting adds to the complexity of the calculation, but does not provide significant additional information. We recommend that the average remaining service life be measured as a simple average without any weighting.

Cost-Sharing Multiple-Employer Plans

The Exposure Draft proposes to allocate the net pension liability, pension expense, deferred inflows of resources and deferred outflows of resources of cost-sharing multiple-employer plans among the employers participating in each plan. This approach means that contributing employers would show a financial statement liability that may not accurately reflect their legal obligation to the plan. In addition, basing the proposed allocation method on each employer's projected long-term contribution has the potential to shift liabilities from one employer to another if there are changes in contribution levels. We suggest that GASB maintain its current standard with respect to employers contributing to cost-sharing multiple-employer plans and only require the reporting of contractually required contributions.

If GASB maintains the proposed reporting of a participating employer's proportionate share of the collective liabilities of a cost-sharing multiple employer plan, we recommend that the information reported be determined as of the end of the most recent reporting year for the plan instead of the end of the employer's reporting period. Participating employers will have different reporting periods, and requiring reporting as of the end of each employer's period would result in multiple calculations and additional actuarial and asset valuations. Using the employers' reporting periods could also lead to confusion as the proportionate share of participating employers would be based on different collective liability and expense calculations, making it more difficult to compare among employers contributing to the same plan and reconcile employer and plan reports. Moreover, it is not clear that the benefit of requiring employer-specific calculations is worth the additional expense.

Effective Dates

The proposed changes in the accounting and reporting for pensions are complicated, and governmental employers and policymakers will require time to understand and evaluate their impact when the final statement is issued. It will also be important for governments to have sufficient time to consider the changes before developing budgets for the year that the standard

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becomes effective. In addition, the separation of the accounting and reporting from the funding of pension plans reflected in the Exposure Draft will create a communication challenge for employers and plans, and time will be needed to explain the differences to policymakers, participants and the public.

In light of the significance of the changes, we recommend that the effective dates be extended for at least one additional year. Further, in order to assist employers and plans in efforts to explain the new accounting standards, GASB should make clear that the accounting measures in the final standard are not intended to be the basis for funding pension plans.

We appreciate the opportunity to submit these comments on the Exposure Draft, and we hope they are useful to the Board as it develops the final standard on Accounting and Financial Reporting for Pensions.

Sincerely,

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