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PROJECT 34 TASKFORCE MEMBER

October 14, 2011

Mr. David R. Bean
Director of Research and Technical Activities
Project No. 34 E
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

I am writing to you in response to the recent Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. My thoughts and comments on the various proposals follow:

1. I endorse the concept of recording a liability on an employer's government-wide financial statements for the net pension liability. I agree that, for accounting and financial reporting purposes, an employer is primarily responsible for defined pension benefits in excess of the available plan net assets. The employer has the obligation to employees to provide pension benefits by virtue of the employment exchange. I agree that the unfunded portion of a sole or agent employer's pension obligation, net pension liability, meets the definition of a liability.

This will be a sizable liability for many employers. Net assets could be a lot lower than under current standards on the Statement of Net Assets and Statement of Activities, maybe even a negative balance. Volatility in the net pension liability from year to year and in pension expense allocated to the various functions in the statement of activities could be significant, even with a five year recognition window for gains and losses on investments. This may potentially be compounded if subsequent OPEB guidance follows suit with the pension statements. Perhaps the impact of the net pension liability and expense on these statements could be discussed in the MDA and this discussion encouraged in the statement subsequently issued.

2. As indicated in paragraph 151, the net pension liability could have a debit balance, albeit not a common situation. Some guidance as to how to report this, e.g. as an asset, is encouraged and can be superseded if necessary when a final determination on appropriate classification is made.
3. I agree that the discount rate for accounting and financial reporting purposes should be a single rate that produces a present value of total projected benefit payments equivalent to that obtained by using the long-term expected rate of return on plan investments to the

extent that plan net assets are available; otherwise, a high-quality municipal bond index rate for those payments that are projected to be made beyond the point should be used.

I think the municipal bond index rate should be capped so that it does not exceed the long-term expected rate of return on plan investments since this would tend to contradict the long-term expected rate of return, and perhaps inappropriately decrease the pension liability.

4. I agree with the use of a single method, entry age normal along with level percentage of payroll amortization, of allocating the present value of benefit payments to specific years since it is representative of how pension benefits are earned. Also, there would be more comparability amongst governments if only one method was allowed for financial reporting.
5. I agree with the more immediate recognition of factors that affect pension expense into the pension expense calculation to more accurately reflect changes in plan terms, assumptions, economic and demographic factors, etc.
6. I agree that each employer in a cost-sharing plan is primarily responsible for its proportionate share of the collective unfunded pension obligation; therefore each participating employer should recognize its estimated proportionate share of the collective net pension liability. The net pension liability should be determined in the same manner for cost-sharing employers collectively as they are for sole or agent employers individually because the financial effects of pensions are substantively similar.
7. I agree that a comprehensive measurement (an actuarial valuation for accounting and financial reporting purposes) should be made at least biennially, as of that date not more than 24 months prior to an employer's fiscal year-end. If the comprehensive measurement is not made as the employer's fiscal year-end, the most recent comprehensive measurement should be updated to that date. Professional judgment should be applied to determine the procedures necessary to reflect the effects of significant changes from the most recent comprehensive measurement date to the employer's fiscal year-end. Determination of the procedures needed in the particular facts and circumstances should include consideration of whether a new comprehensive measurement should be made. This proposal would provide for more up-to-date information about the size of a government's unfunded pension obligation, a significant obligation for many governments. Comparability across governments should be improved as well.

If you have any questions regarding the comments above, please contact me at (203) 271-6617, or e-mail: jjaskot@cheshirect.org.

Sincerely yours,

James J. Jaskot,
Project 34 Taskforce Member