

Good afternoon members of the committee. My name is Marian Bailey, I am a member of SEIU1000 and have worked the State of California for over 12 years, the last 6 years as a Workers Compensation Consultant with the Department of Industrial Relation. I am 56 years old and have put off my retirement because I simply can't afford to retire on roughly \$1400.00 a month. I had hoped to retire at 55 and work part time but those opportunities for part time employment do not exist at this time. Now, I hope I can retire at 65 and perhaps then -there will be work for a 65 year old part time employee. I am here today to express by concerns regarding the new GASB proposals.

The practical result of the proposed changes would be 1) an increase in the cost of administration of public pension funds; 2) an increase in the volatility of reported data, 3) a diminishing of public confidence in public pension systems and 4) will further erode the perception of public employees.

The calculations required to arrive at net pension liability would increase administrative costs for pension plans in California by millions of dollars, as these new rules would require actuarial calculations, forcing cities and counties doing the reporting to either hire actuaries or pay CalPERS to do the calculations for them. Localities that fail to comply with the onerous new reporting requirements risk being unable to sell tax-exempt bonds if they are found to be noncompliant with GASB regulations.

Changes in accounting procedures such as those proposed by GASB have real world consequences, and the costs of those consequences should be weighed against the marginal benefits of converting to measuring expenditures by "net pension liability."

One of the proposed changes is that the "net pension liability" will be measured as the difference between the present value of projected benefits (total pension liability) and the market value of plan assets. This is an issue as market values fluctuate a great deal, while their actuarial value over a significant time period would be far less volatile. Market values vary daily and their measure at any particular cut off date will introduce an arbitrary factor into the measurement of a fund's financial status.

The changes proposed by GASB will produce a new set of figures by which pension funds may be evaluated. While these new figures will be calculated in order to comply with GASB's requirements and continue to be able to issue tax-free bonds, pension funds will have to continue to calculate abandoned criteria such as Annual Required Contribution in order to advise policymakers of their obligation to funding the plan. The result will be the appearance of keeping two sets of books, which will be used by the media to create the impression that pension funds are not transparent but are in worse shape then they are admitting. The perception of lack of transparency is, ironically, the opposite of the stated goal of GASB to produce standards that "lead to information in financial reports that improves transparency"

While GASB' efforts to assure that public pension funds are safeguarded by authentic and transparent accounting methods are important, changes with marginal benefits must be weighed against the real-world consequences of those changes.

SEIU 1000 would like to make a number of recommendations.

Incorporating smoothed asset values rather than market values would change the applicable line items of Pension Expense. Smoothing is simply an averaging technique that efficiently conveys historical

information into a single, unique number. This technique's inherent advantages allow the GASB to increase the likelihood of attaining its three goals.

Pension funds should not be evaluated by fluctuating daily values but by the long term values of their liabilities and assets. Pensions are long term entities and should only be evaluated by measures that incorporate a long-term perspective. Using projected values that smooth out short term variability over several years would provide a more accurate assessment of a pension fund's status. It should be possible to promulgate a method of smoothing the actuarial values of assets that produces consistent financial reporting of "the same plan net position in financial reports of employers and pension plans."ⁱ

In addition the employers' annual required contribution (ARC) is a better measure of long term cost than the new Pension Expense (PE).

The blended rate should use taxable municipal bond rates not tax free municipal bond rates when calculating the blended discount rate.

SEIU believes the new reporting rules take effect for periods beginning after June 15, 2014 for all plans. Many changes in reporting requirements for public pension plans will require time and effort to comprehend. With extra time, policymakers can improve their understanding of the changes and how they might translate them into developing budgets.

Do not prescribe the allocation of fund liability and expense among multiple sponsors in a cost sharing plan.

We urge GASB to re-examine the proposed changes to determine if the desired goals can be achieved in a way that imposes a smaller cost on pension plan participants and does not open pension plans up to claims of deception and unsustainability.

Thank you for the opportunity to comment.
