



October 12, 2011

Director of Research and Technical Activities Project No. 34 Governmental Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

To Whom It May Concern:

I write on behalf of the approximately 875,000 Service Employees International Union (SEIU) members, participating in and depending on state and local pension plans. These public pension plans are the mechanisms by which members can earn a decent standard of living in retirement. Thus, SEIU has a strong interest in maintaining a sustainable, well-functioning public pension system and transparency in public finance. In June 2011, the Governmental Accounting Standards Board (GASB) issued two Exposure Drafts. The two Exposure Drafts were

- 1. Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans and
- 2. Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, Accounting for Pensions by State and Local Governmental Employers.

In response to the public's opportunity of participating in GASB's process regarding these Exposure Drafts, we bring three recommendations to your attention.

Recommendation 1 - Asset Valuation

The first recommendation is for GASB to use smoothed actuarial asset values in lieu of market asset values for defining Plan Net Positions. For consistency, two limits could bound the asset valuation methodologies' parameters:

- a) the first would limit the smoothing period to five years or less and
- b) the second would constrain the actuarial value within a corridor that is neither greater than 120% nor less than 80% of the market value.

Still, this proposal will incorporate the guidance from the Exposure Drafts with respect to the determination of beginning and ending year market values. Specifically, payables and receivables will adjust market values as the Exposure Drafts currently prescribe. 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, as highlighted in the following paragraph.

MARY KAY HENRY International President

ELISEO MEDINA International Secretary-Treasurer

> MITCH ACKERMAN Executive Vice President

> KIRK ADAMS **Executive Vice President**

> GERRY HUDSON **Executive Vice President**

> EILEEN KIRLIN **Executive Vice President**

> DAVE REGAN **Executive Vice President**

> TOM WOODRUFF **Executive Vice President**

SERVICE EMPLOYEES INTERNATIONAL UNION CTW. CLC

1800 Massachusetts Ave NW Washington, D.C. 20036

> 202.730.7000 TDD: 202.730.7481 www.SEIU.org

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The valuation of assets within a set of parameters improves **transparency** by precluding any discretionary, unregulated methodology. Further, those opting to smooth will effectively mitigate the effect inherent with market values at a single point in time. A standardized schedule showing the calculation could illustrate how the market values are transformed into smoothed values. The valuation of assets within a set of parameters enhances the **usefulness** of the data for decision makers and thereby maximizes the incidence of sound decisions. Those opting to employ the methodology will show any stakeholder a more credible picture of their finances. This asset methodology assists financial statement users to assess both **accountability** and **inter-period equity**. Neither a sponsor nor a particular year will earn (or suffer) from a market windfall (or crash) on a given day. Market values rather than actuarial values will cause volatility to blur not clarify the picture of a pension fund's or plan sponsor's finances.

Recommendation 2 - Implementation Date

The second recommendation is to align the implementation date so that it is fixed for all plans irrespective of individual circumstances. We propose that 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.

Recommendation 3 – Allocation of Cost

The third recommendation is to eliminate a cost sharing plan's balance sheet and expense item allocation among multiple sponsors. There will be imprecision with allocating based on future contributions or with any estimation technique short of a full valuation. Particularly, the rule proposed in the Exposure Drafts may cause confusion and gaming of the calculations. For example, employers with a relatively large inactive liability may not get their fair share with allocations based on contributions. Additionally, allocating liability based on contribution figures would allow a sponsor to alter financials by changing its contribution policy. Lastly, any parsing of these plans' liability and cost among multiple sponsors compromises the very nature of the plans' pooling and sharing of risk.

In summary, our recommendations are:

- Permit an asset smoothing methodology within a range of parameters,
- Set a uniform implementation date of periods beginning after June 15, 2014 to allow more time for any affected party to adapt and react to the changes, and
- Do not prescribe the allocation of fund liability and expense among multiple sponsors in a cost sharing plan.

Thank you for the opportunity to comment on the exposure drafts for GASB statements 25 and 27. We are committed to working together to improve pension plan transparency and the usefulness of the accounting standards.

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Eileen Kirlin, EVP

Service Employees International Union