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Plain Language Supplement
Project 34E

Director of Research and Technical Activities

Comments By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,
Thank you for the opportunity to critique this Plain Language Supplement.
Details follow.

Background
A trust may be in place to accumulate or manage assets for the payment of pension benefits when they come due. Costs should be recorded as earned by employees. **The Net Pension Liability is equal to the difference between pension obligations and the value of assets contained in the pension plan.**

Questions
(1) Is the recognition of a net pension liability proper?
(2) How does the recognition of the net pension liability affect the usefulness of information to the analyses, the work done or decisions made?
(2b) ... affect the ability to assess the government account
(2c) ... the ability to assess interperiod equity

Steps on pp. 4
1. Projections as to benefits paid
2. Discount projected benefits paid to actuarial present value
3. Attribute the present value of the projected benefit paid to the employee past and future years

Factors
How many employees receive benefits?
How long do employees work for the government for benefits?
Review salary determination and growth.
What is the life expectancy of employees after retirement? pp. 4
COLAS are based on the employer past actions and future expectations and granting COLAS. p.5

When the plan assets relate to current employees, retirees and are sufficient to make projected benefit payments for those individuals, the government discounts the projected benefit payments using a long term expected rate. The level dollar amount(s) divides the benefits liability equally over a select number of years. The level percentage method computes the payments to equal a constant percentage of projected payroll over time. pp. 6

GASB would like to utilize the Entry Age Normal Method and do so as a level percentage of payroll.
GASB proposes to report a Net Pension Liability based on its proportion of the collective Net Pension Liabilities of all parties . pp. 10
Extensive footnote disclosures are required.

Generally, I concur.

Critique:
The Net Pension Liability is equal to the difference between pension obligations and the value of assets contained in the pension plan.

The Net Pension Liability can fluctuate considerably during recessions because the plan assets are subject to market gyrations, the VIX index is not always stable and investors may act less predictably. Actions of controlling interests are magnified over ever increasing blocks of stocks due to automatic market triggers like stop losses. The dangers of uncovered positions are clear and present. The need for increasing margin requirements may be ever present.

Accordingly, municipalities, states and the federal govenment may be required to make more significant contributions, along with workers, in order to maintain a constant level of benefits in anticipation of downward movements and valuations in investment portfolios.

Each of the factors will be subject to change. Employees working for benefits may change in number due to government hiring freezes to normalize the budget without raising taxes in a recessionary cycle. The length of time employees work is also subject to the vagaries of recessionary cycles or slower growth in the economy. Salary growth slows during a recession.

Life expectancy after retirement has been on the increase due to better sanitation, nutrition, more effective medications and physical fitness initiatives. COLAS are related to the rate of inflation . Price levels have been on the increase- particularly for commodities. The global population has been on the rise in many places including the United States. The USA population in 1960 was 180MM.

Today, the population is approaching 320MM. Increases in the population mean that unemployment totals increase proportionately in a recessionary environment. The baby boom generation is about to retire en masse. Resultingly, the unemployment rate may decline in response to a need for replacement workers due to retirements . New workers may be hired due to projected world population increases and the incremental demand for goods/services in the BRIC and other markets.