



STATE OF WISCONSIN

Legislative Audit Bureau

Letter of Comment No. 36

File Reference: 34-E

Date Received: 9/27/11

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Joe Chrisman
Interim State Auditor

September 26, 2011

Director of Research and Technical Activities (Project No. 34-E)
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, Connecticut 06856-5116

Dear Director of Research and Technical Activities:

Thank you for the opportunity to comment on the Governmental Accounting Standards Board's (GASB's) exposure draft on the Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27 (Project No. 34-E).

Overall, the State of Wisconsin Legislative Audit Bureau agrees with the intent of the exposure draft and believes the change from a funding-based approach to an accounting-based approach is the correct direction to take. We also believe GASB has appropriately weighed and considered the various positions in the industry regarding the discount rate and has chosen a position that appropriately takes into account the nature of government. However, we do have reservations about the effect the new standards will have on the ability of and cost to public pension plans and employers to obtain all of the required actuarial information in a timely matter, at least initially. Similarly, we also anticipate a significant increase in auditing effort. Hopefully, the value of the additional information about public pension plans and pension obligations will outweigh the added costs of meeting the new requirements in the proposed standard.

In addition to sharing our general comments on the exposure draft, we also offer several detailed concerns and observations we noted as part of our review of the exposure draft.

- Paragraph 49 allows the use of update procedures to roll forward certain amounts from previous actuarial valuations. To help promote comparability and consistency among public pension plans and governments, we suggest that GASB consider providing additional guidance or examples of what reasonable update procedures would entail.
- Paragraph 67e requires that the effects on the current-period net pension liability recognized by the employer of a 1-percent increase and 1-percent decrease in the discount rate be disclosed. We agree that such a disclosure will be a beneficial way to illustrate the effect the investment return assumption has on the pension liability. However, we are concerned that such benefits could be outweighed by potential misinterpretations of this information. Pension investment return assumptions are created with a long-term approach in mind. Given the volatility in annual pension returns, we believe readers of financial statements may compare the long-term return assumption with the recent annual returns and develop inaccurate conclusions about the pension liability. Therefore, to avoid any potential confusion, we suggest a disclosure be added to this note informing readers that the employer's discount rate has a long-term focus and directing readers to a location where long-term rates of return can be found.

Director of Research and Technical Activities (Project No. 34-E)

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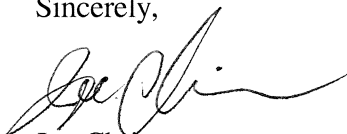
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- Paragraph 68 states that if an employer provides information about how to obtain the plan's financial report because it includes disclosures about the plan's basic financial statements, the employer may refer to the plan report for these disclosures. We are confused as to what disclosures this statement is referring. For instance, are the disclosures referred to in the plan's financial report only those related to information about the net pension liability or do they include information about the benefits. We suggest that the Board clarify whether this statement applies only to the disclosures required in paragraph 68 or whether it applies to all of the note disclosures in paragraphs 63 through 69.
- The last sentence in paragraph 71 states that "the amounts reported for prior years should not be restated." We are confused as to what amounts this statement is referring and suggest that the Board clarify the statement. For example, is the Board indicating that prior years' amounts included in the required schedules should not be changed for changes in benefit provisions or assumptions or for the discovery of new or better information that makes amounts disclosed in previous years' publications incorrect or misleading?
- Paragraph 109 requires that the information in the ten-year schedules be presented if available. Based on comments from the Board, it appears that the Board's intention is that information be presented prospectively. We suggest that the Board use similar language as in paragraph 49 of the Exposure Draft on Financial Reporting for Pension Plans to prescribe how employers should present this information in the year of transition and subsequent years until ten years of information measured in accordance with the Statement is available.
- In paragraph 110, the definition of automatic COLAS and other postemployment benefit changes states that they include "those for which the amounts are determined by reference to a specific factor (such as the earnings experience of the plan)." Further, paragraph 166 notes that automatic postemployment benefit increases include "gain sharing features." We suggest the Board provide additional guidance and/or illustrations on how these plan earnings and gain sharing features should be considered when projecting benefits.

In addition to our concerns and observations stated above, we suggest that the Board make the effective date of this statement the same for all types of employers. We suggest the standard be revised so it is effective for financial statement periods beginning after June 15, 2013. We believe different effective dates for different employers may be confusing to readers and are unnecessary.

We appreciate the opportunity to provide our comments. If you have any questions or require further information regarding this response, please contact Diann Allsen at (608) 266-2818.

Sincerely,



Joe Chrisman
Interim State Auditor

JC/DA/bm