



STATE OF WISCONSIN

Legislative Audit Bureau

Letter of Comment No. 14
File Reference: 34-P
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-P)
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 Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25 (Project No. 34-P).

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 costs 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.

- Since the liabilities to which GASB is referring in paragraph 20 are not the same as the net pension liability discussed in the exposure draft beginning with paragraph 35, we suggest that the Board explicitly state this. We also suggest that the Board state that the total liability presented on the Statement of Plan Net Position is not a sum of the all of the employers' liabilities.
- Paragraph 31b(1)(e) requires that the effects on the current-period net pension liability recognized by the employer(s) 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.

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- Paragraph 37 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 89 concludes that “this Statement does not include a requirement related to the calculation or disclosure of information about funding-based measures of funded status” based on the premise that it is not within the scope of GASB “to establish standards with regard to the employer’s method of financing the benefit it has obligated itself to provide.” We agree that it is not within GASB’s scope to dictate financing/funding decisions, but believe this information may be useful to readers of a public plan’s statements. We believe there may be confusion about the status of public pension plans because of differences between the accounting-based approach for financial reporting and the approach for funding the plans. We suggest the Board consider requiring additional disclosures on the funded status based on funding-based measures and explanation of how it differs from the status of the plan using the accounting-based approach.

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 plans. We suggest the standard be revised so it is effective for financial statement periods beginning after June 15, 2013. We believe that different effective dates for different plans 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