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David R. Bean
Director of Research and Technical Activities
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Project Nos. 34-E and 34-P

Dear Mr. Bean:

We are pleased to comment on the Governmental Accounting Standards Board (GASB) Exposure Drafts (EDs), *Accounting and Financial Reporting for Pensions as amendment of GASB Statements No. 27 (Employer)* and *Financial Reporting for Pension Plans (Plan)*. In our response to the Invitation to Comment we previously communicated our support for the GASB's efforts to reexamine its current pension accounting and financial reporting standards and the Board's view that an employer is primarily responsible for the portion of its benefit obligation to employees in excess of the plan net assets available for pension benefits. We continue to support the Board's view and efforts. However, we have some concerns with the statements as proposed which are described below.

Significant Concerns

As written, the Statements would only apply to pensions provided through pension plans administered through trusts or equivalent arrangements. We understand the Board intends to address pension arrangements outside of a trust at a future date, but we do not believe the Board should wait.

We believe the proposed allocation method for cost-sharing multiple employer plans is unduly complex. Any method will have flaws, but we propose that an allocation based on the ratio of covered payroll determined as of the plan's year-end for participating employers reporting for the subsequent 11 months would be more cost beneficial.

We believe the frequency of actuarial valuations should be annual. However, we propose the timing be dependent on the type of plan. We suggest that single-employer plans be measured as of the reporting date of the plan and of the employer, and that multiple-employer plans be measured as of the plan's year-end and within employer's fiscal year.

To promote consistency in the valuation of the pension liability, we support the Board's decision to specify the use of a single method. However, we continue to prefer the projected unit credit method because of its intent to measure the accrual of pension benefits.

We believe the Board's discount rate proposal to be overly complex. We are specifically concerned about the consideration of future funding and earned credits and basing any part of the rate on the rate of tax-exempt municipal bonds (we prefer use of the long-term return on operating funds or a settlement rate).

McGladrey & Pullen's Comment Letter regarding Project Nos. 34-E and 34-P

We believe the accounting treatment proposed for unconditional special funding situations is flawed. We believe the underlying exchange transaction occurs between the employer and the employee and thus, the entire liability should be recognized by the employer. Any special funding arrangement should be evaluated through GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The full net pension liability and related deferred outflows of resources and deferred inflows of resources should remain with the employer. The employer may record a receivable or revenue for applicable funding.

To cost effectively address the proposed requirements of these statements, it will be necessary for a high degree of coordination between the plan, employers, actuaries and auditors. Much of the information employers need to record net pension liability and plan net position resides with the plan. Employers will need to work with their plans to obtain reliable data which the employer can substantiate through audit and attestation reports such as Reporting on Controls Relevant to Internal Control over Financial Reporting (SOC 1/SSAE 16) and actuarial reports.

Without coordination, a number of preparer and audit issues related to employer reporting will result. Our more significant concerns include:

No mechanism is in place to facilitate the exchange of each employer's share of net position in agent multiple-employer plans. The plan has control over all of the elements and information making up net position. One significant issue is how each employer will obtain sufficient, reliable information to record their shares of net position as of its year end.

Each employer's share of net position in cost-sharing multiple-employer plans will be based on an allocation method. We have significant concerns as to how the participating employers will obtain sufficient, reliable information on which to base their reporting of their proportionate share of net position as of their year end.

Actuarial valuations for the total pension liability are done for the specific employer, not for the plan as a whole, the plan would have to provide actuarial information to the employer participating in an agent multiple-employer plans as of the employer's year-end. The employer and employer auditor would need to verify the actuarial information in some fashion (e.g., test census data or obtain a report on internal controls by the plan regarding actuarial information).

The requirement to report total pension liability for a participant in a cost-sharing multiple-employer plan are similar to the agent multiple-employer plan. The difference is that the actuarial valuation is done for the plan as a whole and then allocated to each participating employer based on a specified allocation method. Thus, similar to our observations above, the plan would have to provide actuarial information for the plan as a whole to the employer as of the employer's year-end.

We do not support the proposed tiered effective date and recommend the effective date be periods beginning after June 15, 2013.

Given the significance of the proposed changes to pension accounting and reporting, we encourage the Board to address accounting and reporting for other post retirement employment benefits (OPEB) as quickly as possible to avoid a dissociation of accounting for two similar transactions.

We would be pleased to respond to any questions the Board or its staff may have about the preceding comments. Please direct any questions to Brian Schebler, our National Director of Public Sector Services, at 340-715-6421.

Sincerely,



McGladrey & Pullen, LLP