

1. Do you agree or disagree with the GASB's proposal that governments recognize the net pension liability in their financial statements? Why do you agree or disagree?

Merritt strongly agrees with the GASB's proposal that governments should recognize the net pension liability in their financial statements. Our reasoning behind this stems from the simple fact of what the GASB's definition of a liability is. GASB has described that to mean, "A present obligation to sacrifice resources that a government has little or no discretion to avoid." While Merritt understands the fact that pensions "earned" today will not be paid until some point in the future, those obligations are still a burden on the resources of the government that will someday have to be met and we believe that not recognizing those amounts on the balance sheet could be confusing to many general users of financial statements. In addition, Merritt views a government's net pension liability in almost the same manner that we view debt. Obviously, there are clear distinctions between the two (as a local government has no control over repayment dates on debt but may have some leeway on contributing to pension systems) but the underlying essence of the transactions (obtaining a current benefit in exchange for a future sacrifice) is essentially the same. Therefore, providing information regarding debt on the financial statements and not the net pension liability seems illogical and almost misleading.

2. How would recognizing the net pension liability in the financial statements affect any or all of the following:

a. The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?

The most useful aspect of providing a net pension liability on the financial statements is the fact that our clients and eventual users of this information, which are largely municipal bond analysts, investors, traders, and investment bankers, will no longer have to dig through the notes to find this amount. Under current guidelines governmental employers are able to hide large unfunded pension liabilities in the Notes, thereby making it difficult for an average user to easily identify these obligations. In addition, while the initial reporting of unfunded pension liabilities on the financial statements may shock some users, in the long run it will help users better analyze how well (or poorly) a government is setting aside assets to help meet those obligations.

b. Your ability to assess a government's accountability?

See above.

c. *Your ability to assess interperiod equity?*

The users of our database will have a cleaner, more consistent presentation of trends related to the pensions and government's overall liabilities.

3. *Do you agree or disagree with the GASB's proposals for how the total pension liability should be measured? Why do you agree or disagree?*

Merritt agrees with the changes that the GASB is proposing for how the total pension liability should be measured. We agree to these changes for one main reason and that is because the new guidelines will help bring a sense of consistency to pension information provided in a government's audited financial statements. While Merritt doesn't have strong stances on all of the proposed changes GASB is recommending, we are strongly in agreement with only allowing one type of methodology for allocating present value of benefit payments. This is due to the fact that one of Merritt's main goals is to standardize financial data from municipal governments in a way that let's one compare one entity to another. Under current GASB guidelines, this task is often difficult for pension information as entities have the ability to choose between six different methods for attributing the present value of benefit payments. By restricting the methods of attributing present value to only one, Merritt users can be confident that when we are comparing the net pension liability of two differing entities we are truly comparing "apples to apples".

4. *How would those proposals affect any or all of the following:*

a. *The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?*

See above.

b. *Your ability to assess a government's accountability?*

It should be more apparent to apply appropriate overall debt and liability ratios to the numbers. Particularly in an effort to better determine the appropriate party's adequacy of resources needed to fund a government's formal commitments.

c. Your ability to assess interperiod equity?

N/A

5. Do you agree or disagree with the GASB's proposals regarding when the factors that affect pension expense should be incorporated into the expense calculation? Why do you agree or disagree?

Again, Merritt agrees with the proposals the GASB has put forward in regards to when factors that affect pension expense should be incorporated in the expense calculation. Our agreement in this manner does not stem from the specific measures the GASB is proposing, but rather the fact that the GASB is proposing guidelines to ensure that pension expense is calculated in the same manner from employer to employer. As long as the pension expense is calculated in this way and Merritt can confidently compare one employer's pension expense against another's we view this proposal as a positive thing.

6. How would those proposals affect any or all of the following:

a. The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?

We believe that additional inputs which serve to clarify potential expense burdens along with the assumptions used to arrive at present and future pension costs - are critical to analysis and make the data more meaningful, especially on a comparative basis.

b. Your ability to assess a government's accountability?

See above.

c. Your ability to assess interperiod equity?

Consistent time series information is critical to analysis.

7. Do you agree or disagree with the GASB's proposals that governments in cost-sharing multiple-employer plans report a liability equal to their long-term proportionate share of the collective net pension liability? Why do you agree or disagree?

Of all the changes being proposed by the GASB, this is by far the most important to Merritt. We say this because the lack of disclosure (in regards to a net pension liability) for governments that participate in cost sharing multiple employer plans has been a significant problem for us when trying to compare two different governments (especially if one participates in a cost sharing multiple employer plan and the other participates in a single or agent plan). This is due specifically to the fact that under current GASB guidelines employers (i.e. governments) participating in cost sharing multiple employer plans are not required to report a net pension liability. Therefore, for governmental entities participating in such plans, Merritt was unable to provide some key financial ratios (such as net direct debt plus unfunded pension liability per capita) solely because of the fact that these entities participated in cost sharing plans and not in single or agent plans.

Merritt realizes that some may disagree with this proposal as one of the benefits of participating in a cost-sharing multiple employer plans is the benefit of pooling, or sharing, the financial risk of providing retirement benefits. Others may think that by participating in this type of pension plan an employer essentially transfers the obligation of the individual employer to the pension plan or sponsor. In addition, one could argue that since the employers have little or no control over the terms of the benefits of the plan or the amount of required contributions that they should not be required to show a net pension liability for these types of plans. However, Merritt wholeheartedly agrees with the GASB's assertion that the existence of, participation in and payment of contributions to a cost sharing plan in and of itself does not transfer the entire pension obligation created through the employment exchange. Employers in cost sharing plans have a continuing obligation to financially support these plans if past contributions and earning on those contributions are not sufficient to satisfy the benefit obligation. Essentially, without each individual employer's contributions to the plan, the pension system would not have the means to meet its retirement obligations. In essence, even though the structure of a cost sharing pension plan is different from a single or agent plan, the fundamental nature of an employer's obligation is the same regardless. By requiring employers who participate in cost sharing plans to report this net pension liability, Merritt feels users will be better suited to analyze and compare two different entities and their ultimate obligations to any type of pension plan.

8. How would recognition of a proportionate net pension liability affect any or all of the following:

a. The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?

We frequently have and receive questions about the consistency of the pension liabilities. The current system is confusing to analysts and their ability to assess the current burden that an expense has on its resources. Appropriate comparative analysis is currently hindered by inconsistency of presentations.

b. Your ability to assess a government's accountability?

See above

c. Your ability to assess interperiod equity?

We believe that time series comparative analysis will be improved.

9. Do you agree or disagree with the GASB's proposals regarding note disclosures and RSI? Why do you agree or disagree?

Merritt also agrees with the GASB's proposals regarding note disclosures and RSI. Merritt agrees with these proposals as we view any additional information or schedules that enhance a general user's knowledge about pension related expenses, liabilities, and methodologies as a good thing. However, Merritt strongly agrees with the GASB's proposal to present detailed information about the discount rate and a sensitivity analysis that shows the effect on the net pension liability of a 1 percentage point increase and a 1 percentage point decrease in the discount rate. Even though Merritt doesn't currently analyze the discount rate in great depth, we feel that these schedules are very valuable to our clients, as the discount rate has such a dramatic effect on the measurement of the net pension liability.

10. How would these disclosures and RSI affect any or all of the following:

a. The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?

Again, we believe that additional inputs which serve to clarify potential expense burdens along with the assumptions used to arrive at present and future pension costs - are critical to analysis and make the data more meaningful, especially on a comparative basis.

b. *Your ability to assess a government's accountability?*

When there is a lack of clarity in the assumptions used to calculate liabilities, we believe that bottom line debt and liability calculations may misrepresent the true burden of pensions on taxpayers and thus have consequences for credit quality evaluations in the longer term.

c. *Your ability to assess interperiod equity?*

N/A

11. *Do you agree or disagree with the GASB's proposals regarding special funding situations? Why do you agree or disagree?*

Merritt also concurs with the GASB on its proposed guidelines with how to handle special funding situations. Specifically, we believe that under unconditional special funding situations, requiring a non-employer who is responsible for contributing to another's pension plan to report its proportionate share of that employer's net pension liability, deferred outflows and inflows, and pension expense in its own financial statements logical and necessary as they are **legally** responsible for that obligation. We firmly agree with this as, under such agreements, the employer is not legally responsible for these amounts and having them report them within their pension liability, deferred outflows and inflows, and pension expense would be misleading to users who want to know where the ultimate obligation lies. In addition, we fully support the requirement that both the employer and non-employer in an unconditional special funding situation report note disclosures and RSI schedules that reflect their respective responsibilities under the funding situation. These schedules are necessary to show how much dependence an employer has on the non-employer contributor and also to show how large of an obligation that a non-employer has to another entity's pension plan.

12. *How would these proposals affect any or all of the following:*

a. *The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?*

See Above.

b. Your ability to assess a government's accountability?

See Above.

c. Your ability to assess interperiod equity?

N/A

13. Do you agree or disagree with the GASB's proposals regarding governments participating in defined contribution pension plans? Why do you agree or disagree?

Merritt agrees that the current requirements for defined contributions plans are satisfactory for reporting purposes at this time.

14. How would these proposals affect any or all of the following:

a. The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?

N/A

b. Your ability to assess a government's accountability?

N/A

c. Your ability to assess interperiod equity?

N/A