

**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**  
**Comments by Karen Carraher, Executive Director and**  
**Charlene Powell, Assistant Director, Financial Reporting**  
**October 13, 2011**

**I. Overview of System:**

- Multiple Employer Cost Sharing Plan
- Multiple Member Divisions
- Pension Plan Structure
- State Statutes

**II. Concerns with the Exposure Draft**

**A. Comments on Proportionate Share of Pension Liability and Expense:**

- Multiple Employer Cost Sharing Systems
  - More like insurance
  - Combined costs cannot be later separated with reliable accuracy
  - Information can be misleading
  - Plan is akin to Social Security and in Ohio is a replacement for Social Security for public employees.
- Ohio statutes hold employers liable for only the contribution rates established by the legislature in statute
  - In the unlikely event of a plan termination or default, the state legislature would determine the final dispensation of any unfunded liability
  - Allocation process creates potential conflict between accounting standards and state statute
- Allocation will result in disproportionate shares of pension expense and liability being allocated to small general government employers (< 10 employees) with a stable workforce
  - All employers share in liabilities arising from workforce downsizing, dissolution of a governmental entity, and/or privatization of government functions
  - All employers share in the liabilities of public safety and law enforcement employers with enhanced benefits
- Allocated pension cost and liability are not reflective of actual employer experience, limiting the usefulness of this information to local government financial statement users and decision makers.

- Pension benefits are based on a member's collective service in all OPERS covered employers – we believe it is theoretically incorrect to treat cost sharing multiple employer systems as if they are simply agent multi-employer plans

#### **B. Comments on Reporting at Employer Fiscal Year End:**

- OPERS processes are designed around an annual reporting cycle:
  - Valuation of alternative investments such as private equity and real estate cannot realistically be done on a monthly basis
  - Employer contribution accruals: employer reporting and pay structures vary (weekly, biweekly, monthly, quarterly, and annually) making contribution accruals on a monthly basis subjective
  - Allocation of administrative expenses across all pension plans is performed at year end only
  - Inconsistent approaches to investment expenses reduces usefulness of comparison
- Proposed standards are complex and extremely costly to implement
  - OPERS does not currently collect employer data at a level required to fulfill the requirements of the Exposure Draft
  - Significant information technology changes will be necessary, requiring additional implementation costs and time
  - Significant actuarial costs and administrative staff expenses will be incurred in support of the roll-forward procedures
- Audit concerns – Variability of data based on multiple employer year ends will require audit procedures to satisfy the needs of state and local government employers. This could potentially involve a SSAE 16 audit of the allocation of pension expense and liability on a monthly basis, resulting in significant audit fees.
- Timeliness – Delays inherent in the valuation of alternative investment and the need to perform year end close procedures performed on a monthly basis will not permit OPERS to provide participating employers with the required disclosures in time to meet their annual / fiscal year-end financial reporting deadlines.

#### **C. Complexity / Other Concerns**

- Classes of covered employers – OPERS offers three pension plans, a defined benefit, defined contribution, and a hybrid plan that members may “switch” between during their employment career. The definition of active, inactive, and retired members varies when viewing members at the plan level.
- Projections of long term contribution effort for 3,700 employers would be difficult, and is problematic given the ability of members to change plans and the ability of employers to privatize functions.

- Actuarial Issues – Through the field test process, OPERS has identified a number of questions / issues regarding actuarial values.
- Discount Rate – it is not clear if this rate is calculated at the plan’s fiscal year end or recalculated at each employer year end.
- Hybrid Plans – The OPERS hybrid plan is a legal entity in total, however the exposure draft is unclear on how the defined benefit and defined contribution components of this plan are to be reported. In addition, expenses associated with administration of the plan belong to the plan as a whole, and cannot be realistically allocated to the defined benefit and defined contribution components.
- Defined Contribution plans – Members can elect to annuitize their defined contribution accounts as a defined benefit, however this election is known only at retirement. Projection of future defined benefit pension expense is problematic, and would result in employers sharing in defined benefit liabilities accruing to defined contribution plan members.
- Plan Administrator’s portion of the pension expense and net pension liability – The administrative expenses of OPERS as the plan administrator are an expense of the pension trust. However OPERS is also a participating employer in the pension system. The allocation of pension expense and net pension liability to OPERS as a participating employer, and by extension back to the pension trust, does not make sense. Further guidance is needed on this issue in the final standard.
- Field Test – Due to time constraints and ambiguities in the Exposure Drafts, OPERS was not able to conduct a comprehensive field test. A simplified approach was adopted, which included only one pension plan using values already determined for the 12/31/10 CAFR. No testing of year end close procedures performed on a monthly basis, valuation of investment assets or rollforward procedures were included in the test. Accordingly, the estimated impact and projected costs are likely to be grossly understated.

### **III. Recommendations**

- 1) The aggregate pension expense and liability could be shown on the face of the financial statements of the pension system with potential note disclosures in the financial statements of the participating employers.
- 2) If the standards are not amended to permit the reporting of the aggregate pension liability on the financial statements of the pension system, we recommend that at a minimum, the procedures requiring the roll-forward of pension expense and liability to the employer year end be amended to report this information at the fiscal year end of

the pension system only. We believe very little benefit is gained by the roll-forward procedures compared to the cost involved in fulfilling this requirement.

- 3) The complexity and implementation concerns associated with the proposed standards are significant, and will require an implementation period of more than one year. We recommend that the proposed standards be fully vetted for multiple employer cost sharing plans and the proposed effective date be delayed to permit implementation of the necessary systems and procedures.



---

## Ohio Public Employees Retirement System

---

October 14, 2011

Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

RE: Project No.34-E Pension Accounting and Financial Reporting

Dear Board and Staff:

The Ohio Public Employees Retirement System is pleased to have the opportunity to respond to the Governmental Accounting Standards Board (GASB) Exposure Draft (ED) document on "Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27".

### **Overview of OPERS**

The Ohio Public Employees Retirement System (OPERS or the System) is a multiple employer cost sharing system that includes members in all facets of public employment. Employees of 3,700 employers are categorized into one of four divisions based on the functions performed: state or local government, public safety, and law enforcement.

Each of these four divisions has different contribution rates, retirement eligibility rules, and pension benefit formulas, which are defined in Ohio state statutes. However the benefits of these divisions are funded out of a single trust specific to the plan the member elects. A change to these contribution rates and / or benefit rules requires legislative action. Employers do not have control over the pension benefits their employees will receive or the contribution rates they and their employees are required to pay to fund these benefits. In addition, employers do not have the authority to "opt out" of participation in the OPERS provided benefits.

OPERS provides pension benefits through three pension plans:

- A pure defined benefit plan in which employee and employer contributions are used to provide a formula benefit on retirement,
- A pure defined contribution plan in which the employee and employer contributions are deposited into a member's individual account and the investment of these funds is managed by the member, and
- A hybrid plan in which employee contributions are deposited to a defined contribution account and the employer contributions are used to fund a (reduced) defined formula benefit.

The future retirement benefits of a member in the defined benefit plans are based on the member's career service credit across multiple employers. Based on OPERS membership, the average member has service with multiple employers. In addition, members with service in other retirement systems may retire under OPERS if their OPERS covered service represents the largest component of their career. In these cases, OPERS receives the contributions paid to the other Ohio retirement systems plus interest, however the value is not actuarially neutral compared to the benefits to be received.

Members have the option to change plans during their career, however defined benefit account balances cannot be transferred to a defined contribution plan. Defined contribution account balances can be used to purchase the corresponding service credit in a defined benefit plan. In addition, members have the option of using their defined contribution accounts to purchase a defined benefit annuity at retirement. This election is known only at retirement.

In the unlikely event of a plan termination or default, the state legislature would determine the final dispensation of any unfunded liability.

### **Concerns with the Exposure Draft**

- **Comments on Proportionate Share of Pension Liability and Expense**

#### Multiple Employer Cost Sharing Systems vs. Agent / Single Employer Systems

We understand that the GASB has given considerable thought to the application of the proposed standards to agent and single employer plans, and in these instances the standards will result in an appropriate recognition of a liability under the control of the employer.

The same is not true of multiple employer cost sharing plans which function more like an insurance contract. In exchange for the payment of contribution rates as set in statute, members of the participating employers are guaranteed a formula benefit upon retirement. The cost of these future retirement benefits is pooled, much like the risk pool of an insurance company, and cannot be separated with reliable accuracy to reflect the actual experience of a given employer.

The allocation of the aggregate liability to participating employers will result in pension expense and net pension liability values that lead users to believe in a greater level of accuracy and dependability than truly exists. Additionally, these values will be extremely difficult to explain and potentially misleading to users of the employers' financial statements. Because the participating employers have no control over either the contribution rates or pension benefits, we question the extent to which these disclosures depict a faithful representation of the effects of the employers' governmental activities, or how the disclosures support the needs of decision makers.

Multiple employer cost sharing plans are akin to Social Security where the payment of employee and employer contributions purchases a social security annuity; and in Ohio, OPERS is a replacement for Social Security for public employees.

#### State Statutes

Ohio statutes hold employers liable for only the contribution rates established by the legislature in statute. In the unlikely event of a plan termination or default, the state legislature would determine the final dispensation of any unfunded liability. OPERS, not the participating employers, is required to report to the legislature on contribution rate and benefit changes for legislative consideration and action, positioning the pension system to be in control of these variables. The assignment of the liability to employers can be misleading given the structure within Ohio, and raises a question regarding the application of accounting standards that are not in accordance with state statutes.

Implementation of the proposed standards will also be a costly undertaking by OPERS through additional audit and actuarial services, as well as internal staff resources in communicating the required disclosures to participating employers. References have been made by the GASB that these costs could be billed to the employers. However, state statutes do not permit OPERS to bill employers for amounts other than the contribution rates established in statute. Case law related to the pension systems has also ruled that the Ohio retirement systems have no authority beyond







expense of the pension trust. However, as a participating employer, OPERS would also share in the pension expense and net pension liability of the System. The allocation of pension expense and net pension liability to OPERS as a participating employer, and by extension back to the pension trust as the administrator, is confusing. Further guidance is needed on this issue.

### Field Test

Due to time constraints and ambiguities in the Exposure Drafts, OPERS was not able to conduct a comprehensive field test. A simplified approach was adopted that included only one pension plan (the pure defined benefit plan) using values already determined and reported in the December 31, 2010 CAFR. No testing of year end close procedures to be performed on a monthly basis, valuation of investment assets, or roll-forward procedures were included in the test. Accordingly, the estimated impact and projected costs are likely to be grossly understated.

Feedback received from employers participating in the field test with OPERS raised additional questions regarding the allocation of pension expense and net pension liability to enterprise and proprietary funds. The Exposure Draft includes this requirement but does not provide a recommended practice. OPERS is not in a position to advise our employers regarding this additional allocation.

We strongly encourage the need for a full field test including a field test involving users of the financial statements to determine the extent to which the proposed standards meet their needs. The full field test should include consideration of the cost to implement compared to the intended benefits of the proposed disclosures.

### **Recommendations**

While we understand the intent of the new reporting requirements in the GASB Exposure Drafts, we would like to offer the following recommendations as the Exposure Drafts relate to multiple employer cost sharing plans:

- 1) Report the aggregate pension expense and net pension liability on the face of the financial statements of the pension System, with potential note disclosures in the financial statements of the participating employers. This approach places the pension liability with the entity that has the most influence over employer contribution rates and pension benefits, consistent with state statutes.
- 2) If it is ultimately deemed essential to provide readers with a perspective on an estimated allocation of the pension liability to employers, a simplified disclosure might be to note in the employers' disclosures the total system liability and the percentage of employees or contribution value (based on total payroll) for that employer relative to the total. Readers can estimate a sense of the employer's relative participation in the aggregate liability without the detailed disclosures that infer more credence than actually exists.
- 3) If the standards are not amended to permit the reporting of the aggregate pension liability on the financial statements of the pension System, we recommend that at a minimum, the procedures requiring the roll-forward of pension expense and pension liability to the employer year end be amended to report this information at the fiscal year end of the pension System only. We believe very little benefit is gained by the roll-forward process compared to the cost involved in fulfilling this requirement.
- 4) The complexity and implementation concerns associated with the proposed standards are significant, and will require an implementation period of more than one year. We recommend that the proposed standards be fully vetted for multiple employer cost sharing plans, and the proposed effective date be delayed to permit implementation of the necessary information technology systems and procedures.

- 5) Finally, we strongly urge the GASB to evaluate the decision usefulness of the proposal as it relates to cost sharing systems, relative to the significant additional costs that will be incurred to implement and the ongoing cost of compliance.

We appreciate the opportunity to comment on the Exposure Drafts, and the opportunity to testify at the October 13, 2011 hearing. Questions may be directed to Karen Carraher, Executive Director at 614-222-0011, or to Charlene Powell, Assistant Director – Financial Reporting at 614-225-8998.

Sincerely,



Karen Carraher, CPA  
Executive Director, OPERS