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Director of Research and Technical Activities, Project No. 34-E Governmental Accounting Standards Board 401 Merritt 7, PO Box 5116 Norwalk, CT 06856-5116

Thank you for providing the additional time to submit comments. I respectfully disagree with the proposal to recognize net pension liabilities in governmental financial statements, because calculating the net pension liability is largely based on the valuation of plan investments, and not on the valuation of the pension liability.

The change in market value of pension plan investments is often the single largest determinant of the net pension liability, and investment market values are subject to large, unpredictable fluctuations. This means the net pension liability is also subject to large, unpredictable fluctuations. Because of the significant variability in valuing plan investments from year to year, the net pension liability is often not a faithful representation of the true pension liability.

The largest change in the City of Largo's net pension liability is almost always related to the change in investment market values, and not to changes in the cost of benefits. Therefore, the City's net pension liability has often not reflected the City's true pension cost or liability.

For example, the City of Largo's net pension liability has varied over the last 20 years from a high of 123% of the AAL (a net pension "asset") to 62% of the AAL. The largest one year change in the City's net pension liability over the last 20 years was greater than 18%. These changes have been due mostly to the market value fluctuations of investments, not to changes in the pension liability.

If the City of Largo's net pension liability had been recorded over the past twenty years, the City's pension expense would have varied widely between years. In some years, the City would have even recorded a negative pension expense (pension "revenue"), due to large investment gains.

It could be argued that the best available net pension liability calculation should be used regardless of its susceptibility to variation; however, using an estimate that is subject to wide variations will greatly reduce the liability's credibility, as well as its usefulness. Net pension liabilities are similar to contingent liabilities, where the final liquidation value is often not probable up to the point of actual liquidation. If the net pension expense is not probable if being paid, it should not be recorded.

The methodology for calculating pension liabilities and expenses should be improved, and I agree with many of the proposals to revise the calculations; however, reporting the net pension liability in the financial statements would not be an improvement. Gross and net pension liabilities should continue to be disclosed in the notes, because this information is useful to financial statement users.

Sincerely,

Kim Adams

Kimball R. Adams, CPA Finance Director