



**Jim Reardon, Commissioner**  
**Department of Finance & Management**  
Pavilion Office Building  
109 State Street  
Montpelier, VT 05609-0201  
(phone) 802-828-2376

**Beth Pearce, State Treasurer**  
**Office of the Treasurer**  
Pavilion Office Building  
109 State Street  
Montpelier, VT 05609  
(phone) 802-828-6451

October 14, 2011

David Bean  
Director of Research  
Governmental Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

Dear Mr. Bean:

We appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* (Project No. 34-E).

The State of Vermont, through the State Treasurer and the individual retirement systems' Board of Trustees, administers three defined benefit pension plans and two defined contribution plans. The Vermont State Employees' Retirement System is a single employer-public employee defined benefit plan that covers substantially all general State employees, the Vermont Municipal Employees' Retirement System is a cost-sharing, multiple-employer public employees' retirement system for municipal employees, and the State Teachers' Retirement System is a public employee defined benefit retirement system with a special funding situation, that covers school teachers and administrators. The Vermont State Defined Contribution Plan and the Vermont Municipal Employees' Defined Contribution Plan are optional defined contribution pension plans for a small number of State and municipal employees, respectively.

While the Treasurer serves on the three retirement boards and is a signatory on this letter, the views expressed are those of the signatories as individuals and do not reflect official comments from the Retirement Boards.

We concur with the Board's view that pensions as a form of compensation must be looked at from a long-term perspective; however, we disagree with the Board's conclusion that reporting the net pension liability (NPL) in the financial statements instead of the net pension obligation (NPO) that is currently reported provides better information to readers. While serious obligations, pension obligations do not, in our view, rise to the definition of a hard liability such as bonded debt. Keeping in mind the long-term perspective of pension arrangements, we are of the opinion that readers are better served by presenting pension obligations based on how adequately a plan sponsor has funded the plans, with additional disclosures about overall liabilities being presented in the notes to financial statements and required supplementary information, as is the current practice. Having said that, we do believe that the Board's effort to

David Bean  
October 14, 2011  
Page 2

improve comparability and consistency is a necessary and helpful step. We concur that the required use for financial reporting purposes of the most predominantly used method, the entry age normal actuarial cost method, is appropriate. The proposed level-percentage-of-payroll basis is appropriate as it most accurately assigns costs over the period of the employee's service.

An area of concern for us is the definition of the net pension liability as the difference between a retirement system's accrued liability and the market value of its assets. We recommend that the net pension liability incorporate smoothing instead of market value where retirement systems have adopted such methods of deferred recognition of investment gains and losses to prevent over-reaction to short-term volatility in the investment market and reduce volatility in the budget process. A corridor of 15 to 20% could be used to reflect significant or other-than-transitory differences. The exposure drafts do include smoothing over a five-year period in the calculation of expense. If the recommended inclusion of smoothing at the NPL level were adopted, there should be a corresponding revision to the definition of pension expense.

We concur with the inclusion of both automatic and ad hoc postemployment benefit changes and the use of a single attribution method for all plans. These changes will provide improved comparability between plans. We also concur with the use of a blended discount rate in those situations where plan net position is not projected to be sufficient to pay pensions. However, we do have concerns over some of the specifics of the proposals, and would offer comments that we believe the Board should consider as it finalizes this statement.

### **Discount Rate**

We have some concerns over the use of a tax-exempt, high-quality municipal bond index rate for calculating projected benefit payments to the extent that plan net position is not expected to be sufficient to pay pensions. We feel that these rates will be subject to considerable volatility over the near term, and, in the event that the calculation of pension liabilities is changed to NPO from NPL, that this volatility will produce significant fluctuations in the amount of net pension liability that governments will report from year to year. Both the long-term investment rate of return for invested assets and the rate for the non-funded portion should incorporate a "long-term view" similar to current OPEB guidance that requires the use of a long-term expected value of a short-term rate.

### **Cost-sharing Plans**

We have a number of issues with the proposals for reporting by employers who are members of cost-sharing plans. The cost-sharing plans administered by municipalities require that employers and employees make contributions at a rate that has been determined to provide funding of future benefits. These plans are characterized by a pooling or sharing of both plan assets and employers' obligations to provide pensions.

While we understand the intent of allocating these liabilities to the participating employers, we have concerns about the calculations of each member's proportionate share based on the ratio of that employer's projected long-term contribution effort to the total of all projected employer

David Bean  
October 14, 2011  
Page 3

contributions. The methodologies included in the exposure draft appear to be unnecessarily complex, creating additional efforts and costs to the employers that outweigh the benefits. We urge that the calculations be simplified to use the expected contribution effort for each employer based on the actuarially calculated employer contributions for the reporting period. Most participating members are small municipalities or school districts with limited finance staff resources.

Member employers of the Vermont Municipal Employees' Retirement System do not all have the same fiscal year-end as the plan itself. Most of the smaller participating communities still operate on a calendar-year fiscal year, and must issue their financial reports within two months of the end of the year. Where a plan's valuation is not conducted as of the end of a participating employer's reporting period, the exposure draft requires measurement of the pension liability for the employer to be based on update procedures to roll forward amounts from the most recent actuarial valuation. We believe this would place an unnecessary burden on these plans and might prevent these municipalities from issuing their financial reports in a timely manner. We would encourage the Board to permit the use of unadjusted results of a valuation made within six months of the end of a cost-sharing employer's reporting period.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please do not hesitate to contact us.

Sincerely,



Elizabeth Pearce  
Treasurer



James B. Reardon  
Commissioner of Finance & Management