Letter of Comment No. 240
File Reference: 34-E
Date Received: 10/14/11

Service Employees International Union Local 1000
1808 14th Street
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October 14, 2011

Director of Research and Technical Activities
Governmental Accounting Standards Board (GASB)
401 Merritt 7
P.O. Box 5116
Norwalk CT 06856-5116

Re: Project No. 34-E

Dear Sir:

These comments are being submitted on behalf of SEIU Local 1000, a union representing 95,000 employees who work for the State of California and whose pension system is administered by CalPERS. After an extensive review of the regulatory changes proposed by GASB, we believe that several of these changes would impose a significant cost to pension systems such as CalPERS, while yielding no appreciable benefits. For this reason we believe that these proposals should not be adopted, or at the very least extensively revised before adoption.

The practical result of the proposed changes would be 1) an increase in the cost of administration of public pension funds; 2) an increase the volatility of reported data, and 3) a diminution of public confidence in public pension systems.

1) Under the proposed changes, fund expenditure is defined by the adjusted change in “net pension liability.” The calculations required to arrive at net pension liability would increase administrative costs for pension plans in California by millions of dollars, as these new rules would require actuarial calculations, forcing cities and counties doing the reporting to either hire actuaries or pay CalPERS to do the calculations for them. Localities that fail to comply with the onerous new reporting requirements risk being unable to sell tax-exempt bonds if they are found to be noncompliant with GASB regulations.

   The financial status of cities, counties, and other smaller governmental entities has been seriously eroded since the financial collapse of 2008-09. Imposing additional administrative costs could result in cities and counties having to cut vital services. Additionally, there is a cost in abandoning the current liability measure of Annual Required Contribution which informs policy makers in clear terms of the amount needed to maintain a fund’s solvency over its actuarial lifetime.

   Changes in accounting procedures such as those proposed by GASB have real world consequences, and the costs of those consequences should be weighed against the marginal benefits of converting to measuring expenditures by “net pension liability.”

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2) One of the proposed changes is that the aforementioned "net pension liability" will be measured as the difference between the present value of projected benefits (total pension liability) and the market value of plan assets. However, market values fluctuate a great deal, while their actuarial value over a significant time period would be far less volatile. Market values vary daily and their measure at any particular cut off date will introduce an arbitrary factor into the measurement of a fund's financial status.

   Pension funds should not be evaluated by fluctuating daily values but by the long term values of their liabilities and assets. Pensions are long term entities and should only be evaluated by measures that incorporate a long-term perspective. Using projected values that smooth out short term variability over several years would provide a more accurate assessment of a pension fund's status. It should be possible to promulgate a method of smoothing the actuarial values of assets that produces consistent financial reporting of "the same plan net position in financial reports of employers and pension plans."[i]

3) The changes proposed by GASB will produce a new set of figures by which pension funds may be evaluated. While these new figures will be calculated in order to comply with GASB's requirements and continue to be able to issue tax-free bonds, pension funds will have to continue to calculate abandoned criteria such as Annual Required Contribution in order to advise policymakers of their obligation to funding the plan. The result will be the appearance of keeping two sets of books, which will be used by the media to create the impression that pension funds are not transparent but are in worse shape than they are admitting. The perception of lack of transparency is, ironically, the opposite of the stated goal of GASB to produce standards that "lead to information in financial reports that improves transparency . . . ."[ii]

   At a time when pension funds are under a great deal of stress because of economic factors beyond their control, it is an unnecessary risk to create new accounting standards that will have the impact of making weak pension fund appear weaker, make sound funds appear unsound, and muddle what are currently clear-cut funding obligations.

Conclusion

- While GASB' efforts to assure that public pension funds are safeguarded by authentic and transparent accounting methods are important, changes with marginal benefits must be weighed against the real-world consequences of those changes.
- The proposed changes would
  - significantly increase the cost of compliance for financially strapped cities and counties;
  - introduce significant volatility into the measurement of a fund's status, making the measurement arbitrary and uninformative; and
  - produce analyses that will increase confusion over the viability of pension funds, while eliminating useful and understandable measures such as Annual Required Contribution.
- We urge GASB to re-examine the proposed changes to determine if the desired goals can be achieved in a way that imposes a smaller cost on pension plan participants and does not open pension plans up to claims of deception and unsustainability.

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Thank you for the opportunity to submit these comments.

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[i] Exposure Draft, Proposed Statement of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Pensions, as Amendment of GASB Statement No. 27, June 27, 2011, entry # 213, at 85.

[ii] Exposure Draft Supplement, Proposed Statement of the Governmental Accounting Standards Board: Plain-Language Supplement, Pension Accounting and Financial Reporting, June 27, 2011 at 1.