

**From:** Michelle Doran  
**Sent:** Friday, October 14, 2011 1:31 PM  
**To:** Director - GASB  
**Subject:** GASB's Exposure Drafts (ED)

Dear Mr. Bean:

We thank GASB for providing this opportunity to provide our comments for your consideration on the GASB's Exposure Drafts (ED) related to Pension Accounting and Financial Reporting for state and local governments.

The Michigan Association of Public Employee Retirement Systems is recognized as the principal educational, legislative forum for trustees, plan administrators, and other retirement and financial professionals in the State of Michigan. MAPERS was established to provide educational training and legislative updates to trustees of Public Employee Retirement Systems within the State of Michigan. MAPERS employs the service of a full-time professional lobbyist (Capitol Services, Inc.) to monitor legislation that may affect the more than 670,000 members and retirees of public pension plans in the State of Michigan.

Article IX § 24 of the Michigan Constitution provides that "Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities." Public Employee Retirement Systems in the State of Michigan have doggedly followed this edict for decades. Actuarial valuations are performed annually. These valuations are performed based on long term assumptions developed by our actuaries by following actuarial standards of practice. Similarly, various smoothing techniques are used to limit contribution requirement volatility and to promote intergenerational equity. These assumption and methods are reviewed periodically and are revised after thoughtful consideration by trustees. The contributions developed are based on a contribution for normal cost plus a payment for unfunded actuarial accrued liability as suggested by Article IX § 24. Plan sponsors follow the funding recommendations that are contained in the actuarial valuation reports by routinely contributing the recommended contributions. As a result of this rigorous process, these systems are among the best funded in the Country.

We understand that the objectives of GASB Statements 25 and 27 include:

- Accountability— provide accurate accounting to hold public officials accountable
- Decision-usefulness—provide information which allows decision makers to make informed decisions
- Interperiod equity—provide information which allocates current costs to current taxpayers

MAPERS supports these goals and recognizes them as appropriate for public employee retirement system accounting. We believe that GASB 25 and 27 in its current form meets the above-mentioned objectives. As recognized in the ED, governments and governmental plans are long-term entities. GASB has consistently supported measures of pension costs that spread the normal costs over employees' careers as a level percentage of payroll. We believe this long-term perspective is appropriate for governments, and that spreading pension costs over employees' careers helps support interperiod equity.

That being said, we believe that the GASB's ED do not meet the objectives of Statements 25 and 27. We offer the following considerations in response to the ED.

### Consideration One

We believe that the current accounting measure of the Net Pension Obligation (NPO) is sufficient for holding public officials accountable. The NPO, by disclosing the accumulated difference between the actuarially recommended contributions and the contributions actually made, provides a clear measure of whether employers are making their actuarially required contributions. The GASB's proposed change under the ED replaces the NPO with the net pension liability. The net pension liability is similar to the unfunded actuarial accrued liability but much more unstable because of the discount rate used and the use of the market value of assets instead of an actuarial value of assets. The use of a net pension liability will make it difficult, if not impossible, to determine if the public officials are making the full actuarially determined contributions. We respectfully request that GASB give consideration to maintaining the current NPO disclosure.

### Consideration Two

The ED replaces the annual required contribution (ARC) with a new concept called the pension expense (PE). We believe that the ARC is a much better measure of the long term cost of the plan than the pension expense. The PE is a measure of the change in the net pension liability. Given the volatility of the net pension liability, the PE will prove to be a very volatile measure, and unsuitable for determining the long-term cost of the benefits of the employer. We respectfully request that GASB give consideration to maintaining the current ARC disclosure.

### Consideration Three

GASB 25 and 27 currently allows for the use of long term rates of return for determination of the unfunded actuarial accrued liability and annual required contribution, consistent with actuarial standards of practice. GASB's proposed change under the ED would replace the long term rate of return with a blend of the long term rate of return and municipal bond yields that change each year. Use of a blended rate would result in pension liability and expense measures that are more unstable than that provided under the current Statements by introducing unnecessary volatility into the net pension liability. This is inconsistent with the long-term nature of governments and could result in measures of the net pension liability and pension expense that do not support interperiod equity. Sharp changes in municipal bond yields will result in large difficult to explain differences between expense figures and the actual cost of funding the benefits. We respectfully request that GASB give consideration to continue allowing for the use of long term rates of return for the determination of unfunded actuarial accrued liability and annual required contributions.

If the GASB does adopt the blended rate noted above, we request that the GASB consider the following. The disclosure requirements concerning the computation of the discount rate mandate the provision of considerable detail. The degree of detail required may not be burdensome for a relatively large public retirement system, but they may be for a relatively small one, and we urge the GASB to consider a simplified disclosure requirement for smaller systems. Further, we encourage the GASB to set standards for municipal bond rate indices to be used in discount rate calculations in lieu of requiring disclosure of reasons why a particular municipal bond index rate was chosen for this purpose. We respectfully request that the GASB give consideration to a simpler disclosure requirement for the discount rate.

### Consideration Four

GASB 25 and 27 currently allows for amortization of unfunded actuarial accrued liability as a level percent of pay for periods up to 30 years. GASB's proposed change under the ED would reduce the

maximum period to the weighted average future lifetime of the group. Certain changes in assumptions and plan amendments, such as retirement incentives, would require immediate recognition in the change in liability and extensive volatility in financial reporting. Use of shorter amortization period will result in unstable pension expense and net pension liability. This volatility could result in the delay of prudent decisions to amend plans or assumptions. We respectfully request that GASB give consideration to continue allowing for 30-year amortization.

#### Consideration Five

GASB 25 and 27 currently allows for asset smoothing. As noted in Consideration 1 above, the net pension liability under the ED uses a market value of assets. Use of a market value of assets is contradictory to the long-term nature of public sector retirement systems. Many public sector retirements systems use asset smoothing to recognize the differences between actual market returns and the assumed rate of return over a period of years. Whether the net pension liability concept is adopted or not, volatility in that measure could be alleviated by asset smoothing. We respectfully request that GASB give consideration to continue allowing for asset smoothing.

#### Consideration Six

The proposed ED requires public sector plans to calculate two sets of numbers; one to satisfy the GASB requirements and one to determine funding requirements. Multiple calculations will lead to confusion and selective use. Decision-making will be impaired as a result. We respectfully request that GASB give consideration to maintaining the current long-term funding based disclosures.

Please note that we have not provided comments on cost-sharing employers and plans. MAPERS membership does not include cost-sharing plans and as a result we have chosen to not comment on this aspect of the ED.

Thank you for the opportunity to provide comments to these exposures drafts. We appreciate the consideration you will give our views. MAPERS is committed to a responsible funding policy that achieves benefit security for its members. Please feel free to contact us if you have any questions regarding our comments.

Sincerely,



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