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shifting of liabilities from one employer to another from year to year due to reallocation (change in proportion) which would affect the reliability, consistency, and comparability (and therefore the relevance) of pension information presented by cost-sharing employers.

We strongly recommend the Board establish a separate project to evaluate the potential reliability and methodology of allocating the collective pension amounts to participating employers. As an interim measure until further evaluation can be performed, the Board should remove the allocation requirement in the current proposed standard and require employers to provide additional quantitative and qualitative disclosures about their participation in a cost-sharing plans including the collective pension amounts of the plan and the employer's portion of contractually required contributions.

OTHER COMMENTS AND RECOMMENDATIONS

Use Time-Weighted Return as Sole Measure to Communicate Investment Performance

While we agree with the Board's goal of improving comparability of investment performance among governments, we believe that requiring pension plans to disclose both a time-weighted rate return of return and a money-weighted rate of return will result in unnecessary cost and will potentially confuse the users in their evaluation of the plan's investment performance.

In accordance with the Global Investment Performance Standards, we believe the more relevant measure of performance for a pension plan is the time-weighted rate of return. This rate allows for the evaluation of investment management between any two time periods without regard to the total amount invested at any time during that time period. The measure is independent of the total amount invested because a pension plan normally does not control the inflow and outflow of money.

Information Not Available for Timely Disclosure of Investment Returns in Accordance with ED

Currently, most pension plans use the fair value of private equity and real estate limited partnerships from the prior quarter (adjusted for cash transactions) to calculate the investment return. The need to use a three-month lag is based upon the significant delay in financial reporting by the investment managers. This lag has been consistently used to evaluate performance by pension plans without any significant compromise in the decision usefulness of the investment return information. Accordingly, we strongly recommend GASB allow for the continued use of the prior quarter fair value information for private equity and real estate limited partnerships (adjusted for cash transactions) to calculate the investment return.

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Effective Date Needs to Be Extended

We previously recommended the Board defer requiring the application of the accounting and financial reporting outlined in the Employer ED for employers participating in cost-sharing plans. Additionally, we believe most plans and governments who participate in multiple-employer plans will need additional time to prepare for implementation. In the case of CalSTRS, the accounting changes proposed in the Statements will significantly change our business model and the nature of the relationships with the employers. We will need to complete significant work before being able to provide essential information to participating employers preparing financial statements. Accordingly, we recommend the effective date for multiple-employer plans be extended to periods beginning after June 15, 2014. This date will give preparers sufficient time to work towards the implementation of these comprehensive standards. Having an option for early implementation would permit those preparers that are ready to implement early, to do so.

Blended Discount Rate Should Use a Taxable Municipal Bond Index

We agree that a blended discount rate considering a long-term rate of return on plan assets and a high quality municipal bond index rate reflect both the long-term investment strategy of pensions as well as the eventual need to borrow funds to pay pension benefits after net assets have been fully depleted. However, we recommend the Board require the usage of a taxable municipal bond index in the discount rate calculation. We believe using a taxable municipal bond index in the discount rate calculation provides a more appropriate liability-based rate. This is due to the fact that pension bonds usually cannot be issued at a tax-exempt rate.

Thank you for your consideration of our views on this issue.

Sincerely,

Robin Madsen
Chief Financial Officer