a normal cost deficit. The percentage is adjusted up to 0.25% per year to reflect the contributions required to fund the unfunded obligation or the normal cost deficit. However, the transfer may not exceed 1.505% of creditable compensation from the immediately preceding calendar year. The normal cost deficit is the difference between the normal cost rate and the member and employer contributions, which equal 16.25% of creditable compensation.

The substance of this funding requirement is that employers are responsible for a fixed rate of covered payroll which is intended to cover service for the current period. The plan sponsor (State) is substantively responsible for the "remainder" of the contributions. We believe that in these types of situations, the obligation of the plan sponsor rises to the definition of a liability as presented in Concepts Statement No. 4, *Elements of Financial Statements*. As the mandated primary obligor, the plan sponsor, not the employers, has a present obligation to sacrifice resources with little or no discretion to avoid.

We also believe there are other cost-sharing plans that have unique funding situations. Application of the guidance for special funding situations in the Employer ED could result in presentations that are not representationally faithful if the criterion for recording a liability is based solely on whether there is an unconditional special funding situation (i.e. legal responsibility of the nonemployer contributing entity to contribute is unconditional). Allowing those nonemployer entities to not disclose their commitment would have the potential for widespread misinterpretation.

We recommend the Board perform additional research on the various funding requirements of cost-sharing plans and reconsider the guidance provided for special funding situations. At a minimum, we urge the Board to provide guidance that results in full recognition of a liability by a nonemployer government in situations where the nonemployer government is the primary legal obligor for the payment of benefits.

Allocation of Collective Pension Amounts May Not Be Reliably Measurable

We have significant concerns about whether the employer's share of the collective unfunded pension obligation is measurable with sufficient reliability for recognition in the financial statements. Under Concepts Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*, items that are elements of financial statements must be measurable with sufficient reliability to be recognized in financial statements. Concepts Statement No. 1, *Objectives of Financial Reporting*, states that to be reliable, "the information presented should be verifiable and free from bias and should faithfully represent what it purports to represent."

We believe all potential allocation methods, including projected contributions, covered payroll, and required contractual amounts, have conceptual flaws that have the potential for significant

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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