Letter of Comment No. 266
File Reference: 34-E
Date Received: 10/18/11

City of Austin
Police Retirement System

October 14, 2011

Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116

To: Director of Research and Technical Activities, Project No. 34-E

Response to the Exposure Draft of the Amendment of GASB Statement No. 25 and Amendment of GASB Statement No. 27

Introduction

The Austin Police Retirement System is one of three defined benefit plans (police, firefighters and other employees) covering employees of the City of Austin, Texas. As of December 31, 2010 the plan had assets of $493 million and covered 1,624 police officers and 564 pensioners. We are commenting on two issues.

Significant Additional Cost of Plan and Employer Compliance

There will be significant additional actuarial, accounting and administrative costs required to implement and maintain the revised GASB 25 and 27. Who will be responsible for the increased cost of employer compliance? Under the current GASB No. 27, the information required for the employer's financial statements can be easily determined from the actuarial valuation that is required and paid for by the plan. Consequently, most employers do not engage either the plan's actuary or a separate actuary to obtain required disclosure information, and the small cost of preparing the GASB 27 information is paid by the plan.

On the other hand, many of the new calculations required by the exposure drafts, including some of the more difficult to obtain market value of assets of certain asset classes, would now be needed solely for the employer's financial reporting (GASB 27) and are not otherwise needed for the operation of the plan. This could raise the legal question of whether the costs for such actuarial services can be paid out of the plan's assets, which in turn may raise IRS plan qualification issues. Furthermore, individual employers may not have access to the actuarial resources needed to provide such services, especially if there is reluctance to have the same actuary retained by both the employer and the plan. Finally, because the actuarial results would now be part of the audited financial statements (as opposed to part of the required supplemental information), the employer's financial auditor may feel the need for an independent actuarial review.

We are concerned with the introduction in the GASB exposure draft of multiple, redundant and potentially conflicting actuarial functions that would be required. We ask GASB to attempt, wherever possible, to have the details of employer pension expense calculations be as consistent as possible with the actuarial calculations already required by the plan. We ask you to discuss this with public plan actuaries in order to receive their suggestions on ways to simplify the changes in the exposure draft in order to improve transparency and lower costs to the plan and the employer.

Reduce the Annual Volatility of Net Pension Liability

The net pension liability (NPL) is the difference between two amounts. The first amount is the total pension liability (TPL). It is appropriately calculated as a long-term obligation and will be relatively stable from year to year. On the other hand, the second amount, which is the market value of assets (MVA), is subject to significant short-term volatility. The NPL will be volatile from year to year like the MVA and will not be relatively stable from year to year like the TPL.

Pension Office: 2520 S. IH-35, Ste. 100, Austin, TX 78704 512/416-7672 FAX 512/416-7138
Mailing Address: P.O. Box 41089, Austin, TX 78704
www.ausprs.org

Letter of Comment No. 266
File Reference: 34-E
Date Received: 10/18/11

The TPL will usually be the same as the plan's actuarial accrued liability (AAL). The plan's actuarial value of assets (AVA) will usually reflect a smoothing of the MVA over a period of time, which is often five years. The plan's unfunded actuarial accrued liability (UAAL) is the difference between the plan's AAL and AVA.

This difference between the employer's NPL and the plan's UAAL will cause the following problems:

1. The NPL, which will be shown on the employer's balance sheet, will be higher or lower than the plan's UAAL each year. This may cause confusion to users of the information.

2. The media may ask which number is the "correct" number and make the already difficult explanation of the financial condition of the plan more difficult.

We ask GASB to reconsider this issue and change the NPL to be calculated the same way that the plan's UAAL is calculated. This will be the result if the exposure draft is changed to require that the AVA be used instead of the MVA when calculating the NPL.

Sincerely,

Peter Morin
Chairman, Board of Trustees

Sampson K. Jordan
Chief Executive Officer