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October 12, 2011

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

Dear Mr. Bean,

Thank you for inviting interested parties to comment on the Exposure Draft document (ED) of the GASB Post Employment Benefit Project. The Public Employees Committee (PEC) represents the economic, social, and professional interests of thousands of public employees in public sector unions in the City and County of San Francisco, in the state of California. Members of PEC unions are participants in public employer-sponsored defined benefit pension plans. We are dedicated to the long-term stewardship and sustainability of the resources entrusted to the City and County of San Francisco, where our members proudly serve as public servants and deliver high-quality services in our community. As such, we have a vital interest in the rules governing how pension benefits are financed and reported to the public, as they have a direct impact on our members and the public services they provide.

Although there are dozens of issues desiring discussion, we have limited our focus to four areas:

1. Separation of accounting from funding
2. Placing the Net Pension Liability on the balance sheet
3. Need for longer amortization periods
4. Is now the time to change?

**Separation of accounting from funding:**

As has been stated by others, “the ARC has been the gold standard of what should be funded into the pension.” While the Annual Required Contribution (ARC) may have its flaws, it provides some rationale for good funding practices. The Exposure Draft document (ED) expense rules are not

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viable funding rules. We recognize that (1) paragraph 42 of the Government Accounting Standards Board (GASB) 27 ED requires some supplementary information if an actuarially calculated employer contribution is available and (2) your blended discount rate method will encourage funding. However, these two provisions are not enough.

We understand the intent of GASB is that the proposed standard relates solely to accounting and financial reporting, not funding. However, the reality is that funding will be affected since the sole enforceable<sup>1</sup> funding standard would be eliminated. Therefore, we ask GASB to consider making changes to further encourage proper funding.

### **Placing the Net Pension Liability on the balance sheet**

We have grave concerns over the use of the balance sheet approach taken in the ED. While we believe that employers are almost always obligated to cover any unfunded liability, there are at least two factors being ignored:

1. The result is a non-level expense. The expense can even be negative while the plan has an unfunded liability. A more level type of expense (which would rarely be negative) would be more appropriate.
2. When unfunded liabilities increase materially (as they recently have), the reaction of stakeholders is not simply to raise employer contributions, but to make other changes such as raising employee contributions or providing lower benefits for new hires.

For these reasons, we think a contribution based approach to the balance sheet is more appropriate (e.g., NPO would only show up if there is a shortfall in the contribution). If there was no shortfall in the contribution, there would be nothing on the balance sheet, even if there was an unfunded liability.

### **Need for longer amortization periods**

The ED does not contain true amortization periods, but rather just short recognition periods. In practice we understand these recognition periods would extend from 1 to 7 years under the ED. A seven year period may be appropriate for the corporate world where you want to protect employees (and the PBGC) from employer bankruptcy. However, this is largely inappropriate in the governmental world where bankruptcies are rare and level budgeting is more important. Longer amortization periods should be used in almost all circumstances.

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<sup>1</sup> By enforceable we mean the requirement to book a NPO if the plan funding does not equal the ARC and the negative reaction that comes with having a NPO.

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**Is now the time to change?**

We read the August 11, 2011 comment letter to GASB from Congressmen Connolly and Towns and noted with interest their comment: “While changing accounting standards as you have proposed would be destructive, counterproductive, and unjustified during any economic circumstances, it would be particularly damaging now.” We agree with this statement, and add that employers are already using the ED as an excuse to break contractual promises and place promises to bond holders ahead of promises to employees and retirees.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Bob Muscat', is positioned below the word 'Sincerely,'.

Bob Muscat,  
Chair  
Public Employees Committee