Letter of Comment No. 413
File Reference: 34-E
Date Received: 10/14/11

GRANDVIEW HEIGHTS PUBLIC LIBRARY

October 13, 2011

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

To the Director of Research and Technical Activities:

My name is Terri McKeown and I am the Fiscal Officer for the Grandview Heights Public Library in Columbus, Ohio. The Grandview Library (48 employees) is a participating employer in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multi-employer plan with approximately 3,700 employers. I am responding to the Governmental Accounting Standards Board (GASB) invitation to provide comments on its Exposure Draft, Accounting and Financial Reporting for Pensions and amendment of GASB Statement No. 27. This Exposure Draft addresses changes in the way participants in government sponsored pension plans account for and report pension assets and liabilities in their annual financial statements.

I appreciate your efforts to make financial reporting more transparent; however, I believe there are several challenges associated with implementing the proposed standards for multiple employer cost sharing plans. Though these proposed standards may work well with single employer and agent multi-employer plans, they appear to conflict with the purpose of pooling assets and liabilities in a cost sharing multi-employer plan, and with the state statutes that govern these plans.

Structure of pension plan per state statute. As noted above, OPERS is a cost-sharing multi-employer plan in the State of Ohio. Employer participation in the plan is established by state statute that also dictates employer contribution rates and the benefits to be received by our employees. As an employer, we have no control over the contribution rates assessed and we don't control the benefits offered or how they are calculated. Any changes to the existing contribution rates or benefit levels require action by the state legislature. Ultimately if there was a plan termination, default, or some other unlikely event, the state legislature would need to determine the final dispensation of any unfunded liability. Thus, the assignment of the liability is somewhat misleading given the structure within our state. This raises a question regarding the application of accounting standards that are not in accordance with state statute.

OPERS has the authority to request contribution and benefit changes for legislative consideration and action, positioning the pension system to be in control of these variables. I recommend that the net pension liability be reflected on the financial statements of the pension system where the assets for future pension benefits are also reported. Just as private employers don't record their share of defined benefit Social Security or cost sharing net pension liabilities on their financial statements, I feel it is inappropriate for public employers to be subject to different accounting standards.

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Audit of proportionate share of the net pension liability and pension expense. I understand OPERS will provide the Grandview Library with our proportionate share of the net pension liability and pension expense. I also understand the calculation will be performed with the help of actuaries and include certain roll-forward calculations to derive balances as of our fiscal year end. These liabilities can represent significant items on employer financial statements, **particularly those of small employers.** With 3,700 participating employers, how will employers validate the proportionate share calculated, and how will the auditors of these 3,700 employers obtain audit evidence to issue an opinion on these financial statements? As a Fiscal Officer for a small employer, I am very concerned that the liability, if allocated, would not be reliable and would result in significant expense, especially relative to the small audit budget available to us as an employer.

Fiscal planning and budgeting. The current practice of reporting pension expense based on the statutorily required employer contributions allows our Library to establish accurate, balanced budgets with limited volatility. In general, employer budgets are established for the upcoming year well in advance of the end of the current year. With the expected volatility of the new pension expense, it will be difficult to establish our annual budgets accurately.

While the proposed changes in accounting standards have broader applicability to single and agent employer systems, I do not believe they reflect the significant differences in the structure of multiple employer cost sharing plans such as OPERS. The changes recommended by the proposed accounting standards will result in reporting data that is too volatile to be used as a benchmark for employer performance. Prudent fiscal management at the local level can be obscured by the actions of larger participating employers, such as privatizing functions at the state level.

I agree with GASB on the need for increased transparency and accountability for pension plans, employers and plan sponsors. However, I oppose the philosophical shift that eliminates the connection between the accounting requirements and the actual liability that employers have for funding of pension plans in accordance with state statutes.

Respectfully,

Terri J. McKeown

Terri J. McKeown
Fiscal Officer
Grandview Heights Public Library