Letter of Comment No. 469
File Reference: 34-E
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VILLAGE OF MAGNOLIA
P.O. BOX 297, 328 N. MAIN ST.
MAGNOLIA OHIO 44643

(330) 866-2620

ROBERT LEACH
MAYOR
(330) 866-2084

LORRIE CLEVENGER
CLERK
(330) 866-2620

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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:

The Village of Magnolia (employer name) is a participating employer in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multi-employer plan with approximately 3,700 employers. We are 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.

We appreciate the lengthy deliberative process undertaken by the GASB Board that culminated in the Exposure Drafts issued in June 2011, and understand the intent that the new financial reporting proposals are designed to standardize how participants in public pension plans disclose pension information in their financial statements. We appreciate your efforts to make financial reporting more transparent; however, we 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.

1. **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. We 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. We believe any allocation of the liability to the employer is arbitrary and misleading, and would suggest additional note disclosures of plan system information on the employers' financial statements. Just as private employers don't record their share of defined benefit Social Security or cost sharing net pension liabilities on their financial statements, we feel it is inappropriate for public employers to be subject to different accounting standards.

2. **Audit of proportionate share of the net pension liability and pension expense**. We understand OPERS will provide us with our proportionate share of the net pension liability and pension expense. We 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? We are 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.

3. **Timely availability of proportionate share of net pension liability and pension expense**. We understand the calculation of the proportionate share of net pension liability and pension expense takes time and requires the involvement of specialists, such as actuaries. Employers with the same fiscal year end as OPERS typically can issue financial statements within a few months of year end. However with the additional work involved in calculating the proportionate shares of pension expense and net pension liability for 3,700 employers, there is likely to be a significant delay in obtaining these values from OPERS for inclusion in our employer financial statements. With the time lag involved in calculating our proportionate share, how will we be able issue our financial statements and other key financial reports as timely as we have done in the past?

4. **Fiscal planning and budgeting**. The current practice of reporting pension expense based on the statutorily required employer contributions allows our government 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.

The calculation of proportionate shares means that smaller governments with a stable workforce will share in the volatility of staffing changes by larger governments that are not representative of the employer's individual experience. Additionally, due to the structure, smaller governments will be subsidizing those employers with multiple divisions resulting in a disproportionately higher liability. The magnitude of the pension expense and net pension liability will not be known until

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after the end of the year, potentially putting employers in violation of balanced budget statutes. In addition, we believe that users of our financial statements will become confused when our contributions no longer match our annual pension expense and the pension expense is not reflective of our employee experience.

5. **Bond Rating.** Our government has always paid its pension contributions on time and managed its budgets in an effective manner, resulting in favorable bond ratings. Our proportionate share of the net pension liability is expected to be a significant number on our balance sheet, with the potential to transform us from reporting sound financial results to reporting poor results. The potential impact on our bond rating could significantly impact our operating expenses for costs and liabilities over which we have no control.

While the proposed changes in accounting standards have broader applicability to single and agent employer systems, we 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.

Reporting of pension expense and liabilities that are not representative of the employer's actual experience could lead to short-sighted decisions and ultimately lead to confusion and a lack of trust by the public. In addition, as the financial status of governmental entities changes, bond ratings – which impact the cost of debt service – could also be adversely affected. Additionally, we believe the proposed changes will lead to significant lags in the availability of information, dissemination of confusing information and significant additional costs.

We agree with GASB on the need for increased transparency and accountability for pension plans, employers and plan sponsors. However, we 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,

Janie Churyk, Clerk-Treas.
Village of Bagnolia