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Letter of Comment No. 121
File Reference: 34-E
Date Received: 10/11/11

# Testimony Regarding the GASB's Exposure Drafts on Pension Accounting and Financial Reporting, Project No. 34-E

**By David T. Kausch, Chief Actuary**
**Gabriel, Roeder, Smith & Company**

**Submitted October 8, 2011**

I would like to begin by thanking the GASB for providing interested parties with an opportunity to share their views on the proposed changes. I would also like to thank the GASB Board and project staff for their diligent deliberations regarding these complicated issues and in preparing the Exposure Drafts. Gabriel, Roeder, Smith & Company is an actuarial and benefit consulting firm that, for over 70 years, has specialized in work for state and local government benefit plans, including pension and OPEB plans. My prepared remarks reflect the views of many (but not necessarily all) of the professionals at GRS.

## Overall Response to the GASB's Exposure Drafts

Generally, we agree with the GASB's view of the long-term nature of governments and the career-long nature of the employment exchange. With the GASB, we believe this leads logically to a long-term cost-of-services perspective with regard to pension accounting and financial reporting for state and local governments. We support the GASB's selection of the entry age normal actuarial cost method, and agree that service costs should be determined as a level percent of payroll and discounted using a rate that reflects the expected long-term rate of investment return.

However, we are concerned that the GASB's Exposure Drafts overall will not reflect the long-term nature of governments or the career-long nature of the employment exchange. We believe the annual required contribution (ARC) better reflects employer contributions necessary to pay future benefits to employees over the long-term. Moreover, it reflects trends rather than short-term fluctuations and is better suited for budgeting. By contrast, the GASB's new measure of pension expense (PE) is based on the change in the net pension liability, adjusted to reflect the recognition of certain deferred inflows and outflows, and would not reflect necessary long-term contributions. However, if the GASB's Exposure Drafts are implemented, we offer the following recommendations:

## Recommendations Related to the Net Pension Liability

**1) Use a smoothed value of assets to determine the net pension liability.** As provided in ED 27, the net pension liability (NPL) is equal to the total pension liability (TPL), less plan net position (PNP). Plan net position essentially includes all assets held in trust to pay benefits as of the employer's fiscal year-end date, expressed at fair value. We recommend that the NPL be based on a smoothed value of assets, consistent with recent trends over a period of at least 5 years. As a result, it would better reflect a long-term measure.

**2) Substitute a taxable municipal bond for the tax-exempt municipal bond used in the discount rate calculation.** ED 27 requires the municipal bond rate for determining the blended discount rate to be an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa (or equivalent). However, we believe that if the blended discount rate is to be used, the municipal bond rate should be based on taxable municipal bonds. If a government covers its pension obligation by issuing debt, the rate it pays will be the taxable rate.

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In addition, there appears to be no publically available index of 30-year AA municipal bond rates. If the GASB is unwilling to provide the municipal bond rate, it should specify a rate whose history is publically available so that the rate can be determined as of the valuation date. One possible candidate would be the "State and local bonds" rate published in the U.S. Federal Reserve's Selected Interest Rates (series H.15).

**3) Include future employee contributions that exceed normal cost in the measure of projected plan net position for determining the discount rate.** ED 27 provides that the measure of projected plan net position for determining the discount rate should include all employer contributions intended to fund benefits of current and former employees and all contributions from current employees, but exclude "(a) employer contributions intended to fund the service costs of future employees or (b) the contributions of future employees." However, if future employees contribute more than the normal cost, excluding these contributions from the projected plan net position would not accurately reflect the future resources available to pay benefits, and would make the plan appear to run out of money even if it would not.

**4) Clarify the treatment of administrative expenses in determining the discount rate.** In Illustration 1 of ED 27, projected administrative expenses are subtracted in the process of determining plan net position. However, it is fairly common for actuaries to make adjustments for administrative expenses by reducing the expected return on assets, as allowed under Actuarial Standards of Practice. Given that Illustration 1 does not appear to support this approach, we request that the final statement allow the actuary to adopt any reasonable and consistent approach in dealing with administrative expenses. If the GASB ultimately decides that administrative expenses should be presented separately, we recommend that it also allow amounts that offset administrative expenses to be included in the contributions if supported by established contribution policy.

**5) Revise the disclosure of the long-term rate of return.** ED 27 would require a description of how the long-term rate of return was determined, including the best estimate of expected real rates of return for each major asset class. However, this requirement is inconsistent with Actuarial Standards of Practice. We suggest that the required description reflect the actual approach used to determine the expected return as required under Actuarial Standards of Practice without specifying one particular method.

**6) Provide safe harbor exemptions from the discount rate calculations in certain circumstances.** As described in ED 27, the process of determining the discount rate is complicated and time consuming. Moreover, there are certain circumstances where there is a very high likelihood that the projected benefits will be covered by the projected plan net position. In these situations, we recommend that the GASB provide safe harbors for the discount rate calculations in order to reduce the costs of meeting the standards. We would be happy to work with the GASB further on this issue.

**7) Allow the discount rate sensitivity analysis to be determined using the plan's duration.** ED 27 requires the effects of a 1-percentage point increase and decrease in the discount rate on the NPL to be disclosed in the employer's financial report. However, it is unclear from the Exposure Draft whether the discount rate sensitivity analysis can be estimated using the plan's duration. To reduce the costs of this measurement, we recommend that the GASB allow the sensitivity analysis to be based on the plan's duration.

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## Recommendations Related to the Pension Expense

**1) Defer and recognize changes to active member benefits over the active members' average remaining service life.** As provided in ED 27, a change in the pension liability due to a change in active members' benefits should be recognized immediately in an employer's pension expense. However, when employers make changes to the benefits of active employees, they do so for economic reasons, including: retaining current employees, attracting new employees, and improving employee motivation – all of which benefit the employer in future periods. Consequently, rather than immediately recognizing the changes in the pension expense, we believe changes to active member benefits should be deferred and recognized in the pension expense over the active members' average remaining service life.

**2) Clarify that active members' average remaining service life may be measured as a simple average.** As provided in ED 27, the active expected remaining service lives of active employees should be measured with a weighting that approximates the aggregate result that would occur if each active employee's total pension liability were recognized separately over that employee's expected remaining service life. Although not said explicitly in the Exposure Draft, we interpret this to mean that the active members' average remaining service life should be weighted by the active members' liabilities. We believe this would impose inappropriately short amortization periods. Therefore, we recommend the GASB clarify that average remaining service life may be measured using a simple average.

**3) Defer and recognize changes in the TPL due to changes in actuarial assumptions or experience gains/losses for inactive employees (including retirees) over the inactive employees' remaining lifetimes.** To the extent that changes in the TPL are due to changes in actuarial assumptions or experience gain/losses for inactive employees (including retirees), paragraph 28 of ED 27 calls for immediate recognition of the changes in the total pension liability. However, the change applies to retirees who will likely continue living for years and possibly decades. Consequently, we believe immediate recognition is unreasonable. We recommend that such changes be deferred and recognized over the inactive members' remaining lifetimes.

## Recommendations Related to Cost-Sharing Employers and Plans

**1) Use the plan's fiscal year-end date to determine the employers' net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources.** As provided in ED 27, a cost-sharing employer's proportionate share of the plan's net pension liability, pension expense, and deferred inflows of resources and deferred outflows of resources are to be determined as of the employer's fiscal year-end date. Given that the fiscal year-end dates of employers in cost-sharing plans may not (and often do not) coincide with the plan's fiscal year-end date, paragraph 58 would potentially require cost-sharing plans to value their assets on a monthly basis. This could be extremely expensive for the cost-sharing plans, especially if they hold assets that are not publically traded. Therefore, we recommend the plan's fiscal year-end date be used instead.

**2) Simplify the calculation for allocating the cost-sharing plans collective net pension liability, pension expense, and deferred outflows and inflows to participating employers.** As provided in ED 27, the effect of a change in a cost-sharing employer's proportionate share should be recognized

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as a deferred outflow of resources (or deferred inflow of resources), with a portion included in the cost-sharing employer's pension expense. Similarly, differences between the cost-sharing employer's actual contributions to the cost sharing plan and the employer's proportionate share would also be deferred and recognized in the cost-sharing employer's pension expense. However, requiring cost-sharing employers to apply this approach would be costly and confusing. It would be better to take a simplified approach and have all deferrals done at the plan level.

We also believe the proportionate share should be allocated as contributions are allocated in the current year. If contributions are based on payroll, the employer's proportionate share should be based on the ratio of employer's payroll to collective payroll.

## Recommendations Related to Plan Disclosures

**1) Use a simplified approach in determining the money-weighted rate of return.** As provided in ED 25, state and local government pension plans would report their annual actual time-weighted rate of return and money-weighted rate of return in the notes to the financial statements. While time-weighted and money-weighted returns can differ, we do not believe, except in the rarest of cases, these would be materially different when measured over a one-year period.

ED 25 also proposes 10-year disclosures of time-weighted and money weighted rates of return in required supplementary information. However, while time-weighted and money-weighted returns may be different over longer periods, it is not possible to determine the 10-year money-weighted returns from the one-year money-weighted returns. Therefore, we recommend these requirements be revised to simply require showing a 10-year history of returns, using any reasonable basis. Moreover, in determining the money-weighted rate of return, we recommend using a simplified approach that calculates the return on an annual basis, using mid-year simple interest.

## Recommendations Related to Effective Dates and Implementation

**1) Extend the effective dates another year.** The proposed standards would become effective for periods beginning after June 15, 2012 for large, single employers, and periods beginning after June 15, 2013 for everyone else. However, the GASB's new rules are extremely complicated and represent a fundamental change in how pensions are measured. In addition, many of the details have not been worked out, especially for cost-sharing plans. Consequently, we recommend the effective dates for all employers and plans be extended for at least another year.

**2) Rather than require retroactive implementation to the extent practical, just start at zero.** Transition to the new standards would be implemented as adjustments to prior periods and the financial statements for those periods would be restated. However, the EDs also provide that, if it is not practical to determine the deferred inflows and deferred outflows, beginning balances for the deferred inflows and outflows should not be reported. As a practical matter, it is likely that only deferred inflows and deferred outflows related to plan assets could be determined. Consequently, rather than spend time doing half of the implementation, it would be better just to start at zero.

In conclusion, we would again like to thank the GASB for the opportunity to respond to the Exposure Drafts. We hope our comments will be useful in the Board's deliberations.

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October 14, 2011

Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
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Re: The GASB's Exposure Drafts on Pension Accounting and Financial Reporting

Dear Mr. Bean:

We are writing on behalf of Gabriel, Roeder, Smith & Company (GRS) to respond to the GASB's Exposure Drafts on pension accounting and financial reporting. GRS is an actuarial and benefit consulting firm that, for over 70 years, has specialized in the benefit plans of state and local governments, including pension and OPEB plans. As such, we have extensive knowledge and experience with public-sector pensions and their evolution over time. Most of our comments pertain to *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (referred to as "ED 27"). However, we have a few comments regarding *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (referred to as "ED 25").

We would like to begin by thanking the GASB for providing individuals and organizations with the opportunity to share their views on the proposed changes. We also thank the GASB's Board and project staff for their diligent deliberations regarding these complicated issues. We agree with the GASB's view of the long-term nature of governments and the career-long nature of the employment exchange. With the GASB, we believe this leads logically to a long-term cost-of-services perspective with regard to pension accounting and financial reporting for state and local governments. We also support the GASB's selection of the entry age normal actuarial cost method, and agree that service costs should be determined as a level percent of payroll and discounted using a rate that reflects the expected long-term rate of investment return.

As stated in paragraph 126 of ED 27, the GASB recognizes one of the distinguishing features of governments is their longevity. The Exposure Draft goes on to say that, given this, accounting and financial reporting information is not used to determine whether a government will continue to exist, but rather to evaluate a government's allocation of resources, determine the costs of services, and provide a longer term view of operations that focuses on "trends in operations, rather than on short-term fluctuations." In addition, as stated in paragraph 127 of ED 27, the GASB views the underlying obligation to provide pension benefits as arising from an exchange between the employer and employee that "should be viewed in the context of an ongoing, career-long relationship." It follows that the GASB's financial accounting and reporting measures should reflect the employer's long-term cost of pension benefits.

However, within this context, we believe the employer's current annual required contribution (ARC) is a better measure of this long-term cost than the new measure of pension expense (PE). The ARC reflects the employer contributions necessary to pay future benefits to employees over the long-term. By contrast, the PE is based on the change in the net pension liability, adjusted to reflect the recognition of certain deferred inflows and outflows. The ARC and the PE are very different measures and could move in opposite directions depending on the circumstances. Moreover, the PE would not be a useful measure of necessary long-term contributions. In addition, the ARC better reflects a focus on trends rather than on short-term fluctuations. Consequently, it is a more stable measure and better suited for budgeting purposes.

We recognize the GASB is concerned that the unfunded accrued liability may currently be amortized in the ARC over too long a period. However, the Board could easily address this by adjusting the ARC parameters provided in the current Statements. Doing so would be straightforward and would not necessitate the dramatic change in perspective required by the Exposure Drafts.

Consequently, we ask that the GASB reconsider its decisions and return to a pension accounting and reporting framework that continues to link pension accounting with pension funding. However, if the GASB's new approach is to be implemented, we offer the following recommendations:

## Recommendations Related to the Net Pension Liability

**1) Use a smoothed value of assets to determine the net pension liability.**

As provided in paragraph 16 of ED 27, the net pension liability (NPL) is equal to the total pension liability (TPL) less plan net position (PNP). Plan net position essentially includes all assets held in trust to pay benefits as of the employer's fiscal year-end date, expressed at fair (market) value. However, since the market value of assets changes daily, at times by significant amounts, reporting it as of a given day is inconsistent with the GASB's principle that governments are long-term entities and that pension measures should reflect long-term trends rather than short-term fluctuations. We recommend that the PNP be based on a smoothed value of assets, consistent with recent trends over a period of at least 5 years. As a result, the NPL would better reflect a long-term measure.

**2) Substitute a taxable municipal bond for the tax-exempt municipal bond used in the discount rate calculation.**

Paragraph 24 of ED 27 requires the municipal bond rate for determining the TPL blended discount rate to be an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa (or equivalent). However, we believe that if the blended discount rate is to be used, the municipal bond rate should be based on taxable municipal bonds. If a government covers its pension obligation by issuing debt, the rate it pays will be the taxable rate.

If the GASB decides to continue using the tax-exempt municipal bond rate, there is a practical problem in that there appears to be no publically available index of 30-year AA municipal bond rates. Therefore, we recommend that the GASB provide the rate. Doing so would address the problem of availability and also enhance the comparability of results.

If the GASB is unable to provide the municipal bond rate, it should specify a rate whose history is publically available so that the rate can be determined as of the valuation date. One possible candidate would be the "State and local bonds" rate published in the U.S. Federal Reserve's Selected Interest Rates (weekly series H.15). This is a tax-exempt index rate based on general obligation bonds of at least investment grade credit quality with 20 years to maturity, developed by the Bond Buyer.

**3) Include all contributions that exceed the service costs of future employees in the measure of projected plan net position for determining the discount rate.**

Paragraph 23 of ED 27 provides that the measure of projected plan net position for the purpose of determining the discount rate should include all employer contributions intended to fund benefits of current and former employees and all contributions from current employees, but exclude "(a) employer contributions intended to fund the service costs of future employees or (b) the contributions of future employees." However, if combined employer and future employee contributions are greater than the service costs of future employees, excluding future employee contributions from the projected plan net position would not accurately reflect the future resources available to pay benefits, and could make the plan appear to run out of money even if it would not. Consequently, for the purpose of determining the discount rate, we recommend rephrasing paragraph 23 to include total contributions from all sources except those intended to fund the service costs of future employees.

**4) Clarify the treatment of administrative expenses when calculating plan net position for determining the discount rate.**

In ED 27, Illustration 1 – Calculation of Discount Rate, Table 2 shows that projected administrative expenses are to be subtracted when calculating plan net plan position for determining the discount rate. However, it is fairly common for actuaries to make adjustments for administrative expenses by reducing the expected return on assets, as allowed under Actuarial Standards of Practice. Given that Illustration 1 does not appear to support this approach, we request that the final statement allow the actuary to adopt any reasonable and consistent approach in dealing with administrative expenses. If the GASB ultimately decides that administrative expenses should be presented separately, we recommend that it also allow amounts that offset administrative expenses to be included in the contributions.

**5) Revise the disclosure of the long-term return to be consistent with Actuarial Standards of Practice.**

In disclosing information about the long-term expected rate of return for plan investments, paragraph 34 of ED 27 would require a description of how the long-term rate of return was determined, including the best estimate of expected real rates of return for each major asset class. However, this requirement is inconsistent with Actuarial Standards of Practice (ASOP). The building block method under ASOP No. 27 calls for a best estimate range of real returns for each major asset class, a best estimate range for inflation, and a combined best estimate range for the long-term rate of return. The actuarial assumed long-term rate of return is then selected from within the best estimate range. This process may result in a different rate than the process proposed in the Exposure Draft. We suggest that the required description reflect the actual approach used to determine the expected return as required under Actuarial Standards of Practice without specifying one particular method. It is important to note that ASOP No. 27 is currently undergoing revision.

**6) Provide safe harbor exemptions from the discount rate calculations in certain circumstances.**

The process of determining the discount rate described in ED 27 is complicated and time consuming. Moreover, there are certain circumstances where there is a very high likelihood that the projected benefits will be covered by the projected plan net position. In these situations, we recommend that the GASB provide safe harbors for the discount rate calculations in order to reduce the costs of meeting the standards. For example, employers could be exempted from calculating the blended discount rate if either:

1. The employer's contribution policy is on an actuarial basis with
    a. a closed, level percent of payroll amortization over a period of 30 years or less, and
    b. the employer has a history of making the full actuarial contribution, and
    c. the plan is open to new entrants; or
2. Plan assets at market value exceed the actuarial accrued liability at the valuation date and the employer has a history of contributing on an actuarial basis.

We recognize that there may be other safe harbors as well. Moreover, a safe harbor for closed plans would likely be more complicated and restrictive, requiring additional study and discussion. Nevertheless, we believe such safe harbors are consistent with the GASB's objectives and would provide some relief for employers. We would be happy to work with the GASB further on this issue.

**7) Allow the discount rate sensitivity analysis to be determined using the plan's duration.**

Paragraph 34.e of ED 27 requires the effects of a 1-percentage point increase and decrease in the discount rate on the NPL to be disclosed in the employer's financial report. However, it is unclear from the Exposure Draft whether the discount rate sensitivity analysis can be estimated using the plan's duration. To reduce the costs of this measurement, we recommend that the GASB allow the sensitivity analysis to be estimated using the plan's duration.

## Recommendations Related to the Pension Expense

**8) Defer and recognize changes to active member benefits over the active members' average remaining service life.**

As provided in paragraph 28 of ED 27, a change in the pension liability due to a change in active members' benefits would be recognized immediately in the employer's pension expense. However, when employers make changes to the benefits of active employees, they do so for economic reasons, including: (1) retaining current employees; (2) attracting new employees, and (3) improving employee motivation – all of which benefit the employer in future periods. Moreover, a key GASB principle is that the employer/employee exchange represents a career-long relationship. Consequently, rather than immediately recognizing the benefit change in the pension expense, we suggest that changes in active member benefits be deferred and recognized in the pension expense over the active members' average remaining service life.

**9) Clarify that active members' average remaining service life may be measured as a simple average.**

As provided in paragraph 28 of ED 27, the average expected remaining service life of active employees should be measured with a weighting that approximates the aggregate result that would occur if each active employee's total pension liability were recognized separately over that employee's expected remaining service life. Although not said explicitly in the Exposure Draft, we interpret this to mean that the active members' average remaining service life be weighted by the active members' liabilities. However, if a liability-weighted average is used, average remaining service life would likely fall below 10 years for general employees and possibly below 5 years for public safety employees. We believe this would impose inappropriately short amortization periods. Therefore, we recommend the GASB clarify that average remaining service life may be measured using a simple average.

**10) Defer and recognize changes in the TPL due to changes in actuarial assumptions or experience gains/losses for inactive employees (including retirees) over the inactive employees' average expected remaining lifetime.**

To the extent changes in the TPL are due to changes in actuarial assumptions or experience gains/losses for inactive employees (including retirees), paragraph 28 of ED 27 calls for immediate recognition of the changes in the total pension liability. For example, if the mortality table is changed to reflect extended longevity, the resulting increase in the pension liability for retirees would have to be recognized immediately in the pension expense. However, the change applies to retirees who will likely continue living for years and possibly decades. Consequently, we believe immediate recognition is unreasonable. We recommend that such changes be deferred and recognized over the inactive members' average expected remaining lifetime.

## Recommendations Related to Cost-Sharing Employers and Plans

**11) Use the plan's fiscal year-end date to determine the cost-sharing employers' net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources.**

Under paragraph 46 of ED 27, a cost-sharing employer's proportionate share of the plan's net pension liability, pension expense, and deferred inflows of resources and deferred outflows of resources are to be determined as of the employer's fiscal year-end date. Measures of the total pension liability may be rolled-forward for this purpose. However, under paragraph 58 of ED 27, the plan net position must be measured as of the end of each employer's reporting period.

Given that the fiscal year-end date of employers in cost-sharing plans may not (and often does not) coincide with the plan's fiscal year-end date, paragraph 58 would potentially require cost-sharing plans to value their assets on a monthly basis. This could be extremely expensive for the cost-sharing plans, especially if they hold assets that are not publically traded. In addition, for assets that are not publically traded, it is highly likely that a significant portion of the asset values would have to be estimated. Consequently, we believe use of the employer's fiscal-year end dates would be extremely costly and would not proportionately enhance the accuracy of the measures. Therefore, we recommend the plan's fiscal year-end date be used instead.

**12) Simplify the calculation for allocating a cost-sharing plan's collective net pension liability, pension expense, and deferred outflows and inflows to participating employers.**

As provided in paragraph 60 of ED 27, the effect of a change in a cost-sharing employer's proportionate share should be recognized as a deferred outflow of resources (or deferred inflow of resources), with a portion included in the cost-sharing employer's pension expense. Similarly, under paragraph 61 of ED 27, differences between the cost-sharing employer's actual contributions to the cost sharing plan and the employer's proportionate share would also be deferred and recognized in the cost-sharing employer's pension expense. In both cases the amounts would be recognized over the average remaining service life of active employees.

However, requiring cost-sharing employers to apply this approach would be costly and confusing. We believe it would be better to take a simplified approach and have all deferrals done at the plan level. As a result, cost-sharing employers would simply recognize their proportionate share of plan's NPL, PE, and DO/I each year.

We also believe the proportionate share should be allocated as contributions are allocated in the current year. If contributions are based on payroll, the employer's proportionate share should be based on the ratio of the employer's payroll to the collective payroll of the cost-sharing plan.

## Recommendations Related to Plan Disclosures

**13) Use a simplified approach in determining the money-weighted rate of return.**

As provided under paragraph 30.b(4) of ED 25, state and local government pension plans would be required to report their actual annual time-weighted rate of return and money-weighted rate of return in the notes to the financial statements. While it is true that time-weighted and money-weighted returns can differ, we do not believe, except in the rarest of cases, these would be materially different when measured over a one-year period.

Under paragraph 32.d of ED 25, the GASB also proposes 10-year disclosures of time-weighted and money-weighted rates of return in required supplementary information. However, while time-weighted and money-weighted returns may be different over longer periods, it is not possible to determine the 10-year money-weighted returns from the one-year money-weighted returns. Moreover, the data needed to calculate these returns may not be readily available. Therefore, we recommend these requirements be revised to simply require showing a 10-year history of returns, using any reasonable basis. Moreover, in determining the money-weighted rate of return, we recommend using a simplified approach that calculates the return on an annual basis, using mid-year simple interest.

## Recommendations Related to Effective Dates and Implementation

**14) Extend the effective dates another year.**

As provided in paragraph 107 of ED 27, the requirements of the Exposure Drafts would become effective for periods beginning after June 15, 2012 for large, single employers with plan net positions of $1 billion or more, and for periods beginning after June 15, 2013 for everyone else. However, the GASB's new rules are extremely complicated and represent a fundamental change in how pensions are measured. Moreover, many state and local government decision-makers have been focused on the economy and their budgets, and have not had time to review the new rules. In addition, many of the details have yet to be worked out, especially for cost-sharing multiple-employer plans. Consequently, we recommend that the effective dates for all employers and plans be extended for at least another year.

**15) Rather than require retroactive implementation to the extent practical, just start at zero.**

Under paragraph 108 of ED 27, the transition to the new standards should be implemented as adjustments to prior periods and the financial statements presented for those periods should be restated. However, the Exposure Draft also provides that, if it is not practical to determine the amounts of deferred inflows and deferred outflows, beginning balances for the deferred inflows and outflows should not be reported.

As a practical matter, it is likely that only deferred inflows and deferred outflows related to plan assets could be determined. Consequently, rather than spending time doing half of the implementation, it would be better just to start at zero. Even if it is practical to determine asset values for calculating the pension expense that reflect amounts deferred for periods before implementation, it is not clear doing so makes any sense in the absence of adjusting prior expenses, which we believe no one would do.

In conclusion, we would again like to thank the GASB for the opportunity to respond to the Exposure Drafts. We hope our comments will be useful in the Board's deliberations.

Sincerely,

David T Kausch

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