

October 14, 2011

Director of Research and Technical Activities
Governmental Accounting Standards Board
Subject: Project No. 34-E

Dear Board and Staff:

Colorado PERA staff is pleased to have the opportunity to respond to the Government Accounting Standards Board (GASB) Project No. 34-E, Exposure Draft (ED) document on *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. The views shared in this comment letter are those of the staff of Colorado PERA and do not represent the views of the Board of Trustees of Colorado PERA, which has not taken a position on the ED.

PERA was formed in 1931 and administers five cost-sharing multiple-employer defined benefit plans, two cost-sharing multiple employer defined benefit other postemployment benefit plans, three multiple employer defined contribution plans, and a private purpose trust fund. Colorado PERA's five defined benefit plans include over 500 employer reporting units with over 200,000 active members, 177,000 inactive members and 94,000 retiree members. We believe we have been a leader in providing financial transparency. A copy of our Comprehensive Annual Financial Report is available at <http://www.copera.org/pdf/5/5-20-06.pdf>.

We believe that GASB has taken an overly complex and costly approach to accounting and financial reporting for pensions by employers, which places an onerous burden on the pension plans. Additionally, we are very concerned that the Annual Required Contribution (ARC), will no longer be considered the annual pension expense of a cost-sharing multiple employer pension plan. We believe the ARC is the most meaningful benchmark in assessing the sustainability and accountability of a pension plan.

We will highlight additional areas of concern and then offer several alternatives to reduce the complexity and cost of the ED while still providing useful information to the users of the employers' financial statements.

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Issues with Current Exposure Draft

Availability of Data – Colorado PERA has approximately 500 employer reporting agencies and these agencies are set up to facilitate the processing of data, but do not capture the data at a level necessary for financial reporting.

Examples:

One reporting agency remits demographic data and contributions for their primary city government and a discrete component unit which provides power and light for the city. No breakdown is available for these two separate financial reporting units which happen to have two different year-ends.

One reporting agency remits demographic data and contributions for the primary school district government and nine different discrete component units which are separate charter schools. Again, no breakdown is available for the 10 unique financial reporting units.

As a cost-sharing defined benefit plan that pools risks and costs across the whole plan and has been in operation for 80 years, we have not needed to capture data based on an ever-changing set of financial reporting and accounting rules. If GASB continues to require allocation back to the financial reporting unit, we strongly urge GASB to consider a simplified method of allocation based on the year-end of the plan.

Classes of Employees - One of the more troublesome disclosure requirements for Colorado PERA is the reporting of classes of employees by active, inactive, and retired status. Classes of employees are captured at the plan level which may not be the appropriate classes at the employer level. Colorado PERA has five separate trusts funds that allow portability across all plans in the system. A member can be designated as active in the system and valued as such in the actuarial valuation, but could be considered inactive at a particular employer. A retiree of one plan could have worked (or currently be working) for an employer who participates in another plan (assets are transferred from one plan to another at retirement). We strongly urge GASB to reconsider this requirement and allow the employer to report their current active employee count only. This active count could be used to compare to the collective active employee count and is the most relevant information for a cost-sharing multiple employer plan. Information to provide counts for inactive and retired employees at the employer's financial

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reporting unit is not available and could not be gathered for employees who worked many years ago.

Reporting at Employer Year-End – Colorado PERA works with over 500 employer reporting agencies and we are in the process of surveying those employers to learn and understand more about their financial reporting. Given the current GASB Statement No. 27 rules, we are able to support their financial reporting needs by providing simple standardized disclosure templates which they can use in their annual reports.

The requirement to provide data at the employers' year-ends is an undue burden on our plan staff and will add significant administrative, custodial, and actuarial costs. Not only do the proposals require additional actuarial and auditing work at the plan, but eventually, the employer's may hire their own actuary. Multiple actuaries and auditors may result in disagreements, or simply, inconsistencies, which, in turn may undermine public trust.

The proposed requirements are burdensome enough on an annual basis, let alone providing them multiple times throughout the year. This change will require significant modifications to our processes to allow for multiple "year-end" closes to match the year-ends of each of our employers. These closes are necessary to provide monthly asset valuations, support actuarial roll-forwards, and to assess whether any significant changes have occurred in the disclosures of the plans as they relate to our assets. All of this additional work is to support an inherently inexact estimate which has been measured and audited within the previous year.

Currently, under GASB Statement No. 27, the information required for the employer's financial statements is automatically produced during the typical annual actuarial valuation. Due to the minimal additional work required, the pension plan currently bears the costs related to disclosure. However, due to the burdens mentioned above, if the ED is adopted as proposed, we would have serious concerns about whether or not the plan can legally incur these additional and significant costs to assist in the preparation of the employer's financial statements since the requirements of the ED do not enhance the plan, nor directly benefit the members. Ultimately, if the additional costs associated with the ED are paid from trust moneys, we are concerned that IRS qualification issues will come into question.

Additionally, we are very concerned that the collective plan level reporting throughout Colorado will not be consistent, as it will be reported multiple times

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during the year to match the employer's year-end. For all of these reasons, we strongly urge GASB to base all accounting and financial reporting of pensions by employers on the year-end of the plan.

Special Funding Situations (SFS) – Colorado PERA does not believe it is aware of all of the special funding arrangements between governments in Colorado and will not be able to provide the information necessary to report these pensions as prescribed in the proposed rules. The one example of which we are aware would lead to a very complicated allocation across multiple organizations and we question the value of the exercise.

Example:

District Attorneys for the counties in Colorado are paid a portion of their salary and benefits by the State. A District Attorney may cover a region that includes multiple counties and these counties pay the remainder of the salary and benefits of the District Attorney based on the population of the county. The total salary and benefits are forwarded to Colorado PERA by one employer reporting agency and we are unaware of the exact specific allocations of the costs among all of the non-employer groups.

We find the rules for SFS overly complex and difficult, if not impossible to follow, and urge GASB to reconsider and simplify the approach taken on SFS.

Plan Assumptions and Factors – The ED states that the employers **should** use the assumptions and factors of the plan. We believe it is critical that the employers be **required** to use the assumptions and factors of the plan. We believe this will allow for the most comparability between employers, reduce the work that would be necessary by the employers' auditors, and reduce the total cost of implementing the standard.

Complexity of Pension Expense Calculation – We believe the proposed standards are overly complex and give the perception of accuracy to a number that is inherently inexact. If the pension expense is displayed on the financial statements, we believe GASB should consider a simplified method for allocating the collective pension expense that could be done by the employer and would not require application of the complex amortization methods detailed in the proposal. Specifically, we believe it is necessary to eliminate the amortization of (1) the accounting for a change in employer proportion and (2) the difference between

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actual employer contributions and the employer's proportionate share of collective employer contributions.

Allocation Factor – The “projected long term contribution effort” has not been defined. We anticipate great difficulty in attempting to derive it for our 500 employer reporting agencies. We are concerned whether we can provide a sufficiently reliable NPL calculation to our employers. Also, we are concerned whether the number can be verified and agreed upon by the employer and their auditor.

Additionally, we question whether the allocations of the NPL and pension expense would be considered sufficiently reliable for smaller employers no matter how the allocation is calculated. Approximately 50% of our total reporting agencies of Colorado PERA have fewer than 50 employees and approximately 30% of our total reporting agencies have fewer than 25 employees. We believe the allocation of the NPL and pension expense to these smaller employers will be most susceptible to error and volatility due to the small member populations.

Termination Liabilities – One of the five defined benefit plans within the Colorado PERA system allows an employer to disaffiliate from the plan and a termination liability is calculated to set the cost of disaffiliation. We are concerned that the allocated NPL generally will be misinterpreted as the termination liability.

ACEC versus ARC – We are pleased that GASB has included the concept of the actuarially calculated employer contribution (ACEC); however it is not required and is not defined. We believe it is important for the users to determine if the employer is contributing in such a manner that allows the plan to become fully funded in a reasonable timeframe and that the ACEC is consistent and comparable among plans throughout the country. We urge GASB to retain the use of the ARC and include it in the RSI of the plan and the employer. Additionally, we believe the disclosure of the net pension obligation (NPO) at the collective level is necessary and valuable information for the financial statement users.

Single Employer Definition – The definition of a single employer with discrete component units seems to conflict with the Implementation Guide Q&A 9.34.3. If an allocation is necessary to the discrete component units, it would appear that it is a cost-sharing multiple employer plan. We believe that one of our current cost-sharing multiple employer plans will be considered a single employer with over 20 discrete component units. If we are required to allocate the liability and expenses in the same manner as a cost-sharing multiple employer plan we do not

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understand why we simply would not consider it a cost-sharing multiple-employer plan.

Timeliness – As identified under the GASB conceptual framework, **timeliness** is one of the six qualitative characteristics that financial information is expected to possess if it is to communicate effectively. Furthermore, in an article from the Summer 2011 Journal of Government Financial Management by GASB Board Chairman Robert H. Attmore titled “The Importance of Timely Government Financial Reporting”, Mr. Attmore states “Given the state of the art in government financial reporting, few would disagree that annual financial statements prepared in conformity with GAAP within three to six months of the close of the fiscal year are timely.” Considering the significance of timeliness in relationship to financial reporting and the complex reporting requirements proposed in the ED, we are extremely concerned about our ability to provide timely data to our employers and if the data provided will be considered reliable and verifiable by the financial auditors of the employer. Due to the extensive time delays in receiving private equity financial reporting and completing the actuarial valuation, it takes Colorado PERA five and one-half months to issue its CAFR. We do not see an approach to short cut this timeline and are concerned that we will cause a delay in the issuance of all our employers’ financial statements, including employers with the same year-end as the plan.

Audit Concerns – Under the current proposal, for employers that do not share our year-end, we are very concerned 1) whether the data we provide the employer is verifiable, 2) whether additional plan-level audit procedures will be necessary and 3) what cost will be associated with the anticipated additional audit procedures.

Employers – Based on communication with our employers and their auditors, we believe that they are not fully aware of the implications of the proposed ED. Based on our interactions with other cost-sharing and agent employer plans, our concern is further augmented in that most administrative staff believe employers and their auditors throughout the country also are not aware of the implications of the ED and that GASB will not receive responses representative of this important constituency. We believe that GASB should re-expose this ED to allow more time for employers and their auditors to become educated on the issues and involved in the commentary process. In addition, we feel that more time should be allowed so that more employers can be involved in future field tests.

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Alternative Approaches

Small Employers – We suggest that GASB consider a modified GASB Statement No. 27 approach to handle small employers in plans such as Colorado PERA. We do not believe that any pension plan can provide a sufficiently reliable NPL for these types of employers. We suggest that the employer display prominently on the financial statements a contingent pension liability and refer the user to a note disclosure in the financial statements. The note would include all of the elements of the current disclosure, but would also include information on the collective NPL, collective NPL plus or minus 1%, collective covered payroll, funded ratio, collective contributions, collective NPO, employer payroll, employer contributions, future statutory contribution rates, and the ARC. We believe this would give users information to assess future contribution levels, but not burden the employer with voluminous disclosures and RSI as required in the proposed standard.

Simplified Allocation Method and Disclosures – Practicably, using the plan year-end, an employer should be able to take the plan's annual financial report and find all of the information necessary to allocate the NPL and pension expense for their own financial reports. If this were the case, plan administrators would not need to capture data at the financial reporting unit level, but only at the collective level. This scenario also would avoid the onerous task and responsibility of the dissemination of information to the various employers. A simplified approach using covered payroll or employer contributions for the plan's fiscal year could allow for such an allocation. The projected long-term contribution effort approach taken by GASB may have theoretic appeal; however the calculation is not practical. Additionally, reproducing the disclosures of the plan seems unnecessary when they are available in the plan's financial report. We urge GASB to allow for a simplified allocation method and allow the employers to refer their users to the disclosures contained in the plan's annual report.

In closing, we strongly urge GASB to reconsider the extremely costly and complex rules contained in the ED. In addition, we urge GASB to re-expose the ED and to expand field testing to include more employers. We appreciate the opportunity to respond to this ED and we are available to further discuss any of the issues presented in this commentary.

Sincerely,

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Meredith Williams, Executive Director