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*Advocacy. Service. Innovation.*

September 7, 2011

Director of Research and Technical Activities  
Project Nos. 34-E & 34-P  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Dear GASB Members:

The Municipal Association of South Carolina was formed in 1939 and exists solely to serve the state's 269 cities and towns. The Association offers services, programs and tools to give the municipal officials and staff the knowledge, experience and tools to enable efficient operations of municipal governments. The Association provides educational and accounting support for our members, and has provided numerous training opportunities on many recent GASB Standards.

I appreciate the opportunity to provide the Board comments on the two Exposure Drafts related to Accounting and Financial Reporting for Pensions and Pension Plans. My staff and I have reviewed the proposed changes and would like to provide some feedback on how the changes will impact our cities and towns that participate in the South Carolina Retirement Systems (SCRS), the state sponsored cost-sharing multiple employer pension plan.

### **Recognition of the Net Pension Liability**

One of the biggest concerns of the Association is the impact on the audited financial statements of participating employers in SCRS. The requirement to recognize the Net Pension Liability on the audited financial statements will have a tremendous impact on the Net Position of each employer and will result in most of our cities and towns appearing insolvent.

While we understand the Board does not consider "the lack of ability to control the benefit terms or the manner in which defined benefit pension plans are financed" to negate the requirement to record a portion of the Net Pension Liability, this provision essentially forces an unfunded mandate on our cities and towns. The cities and towns have no legal authority to change their level of contributions into the SCRS, whereas participants in a single-employer or agent multiple-employer trust would have the benefit of advance funding or changing their benefit provisions to avoid large fluctuations in their Net Position. Specifically, the approach as outlined by GASB fails to take into account the specific statutory provisions of the SCRS cost-sharing plans which, as a matter of law, specifically define the extent of an employer's legal liability.

### **Determining the Employer's Proportionate Share of the Net Pension Liability**

Of additional concern to the Association is the allocation method proposed by GASB to allocate the proportionate share of the Net Pension Liability. The Board stipulates that "the proportion used to calculate the employer's share of the collective totals should be a measure of the employer's projected long-term contribution effort to the pension plan as compared to the total of all projected contributions of the employers." This methodology unfairly allocates a share of the Net Pension Liability to new members in SCRS, as well as "younger" organizations whose participating employees have relatively few years of earned service in SCRS.

### **Audit Costs**

Most of our cities and towns have experienced increased audit costs over the last several years. Audit costs began to rise with the implementation of GASB Statement No. 34 and have steadily increased due to new governmental auditing standards as well as additional GASB pronouncements such as Statement No. 45. Cities and towns in South Carolina are much like governments around the country; they have had numerous staffing reductions as well as reductions in federal, state and local support due to the great recession and its lingering effects. The additional audit testing requirements of the proposed standards will likely result in moderate to significant increases in audit costs.

While we recognize that many of the proposed changes will be implemented in the final statement, we strongly urge the Board to consider the statutory provisions associated with cost-sharing plans and what legal liability a participating employer has when participating in SCRS. We also ask the Board to reconsider the allocation method of the Net Pension Liability to allocate the liability based on historical past data rather than allocations based on the employer's projected long-term contribution effort. Finally, we ask the Board to provide sufficient time for both the SCRS and participating employers to implement the proposed standards.

The SCRS will no doubt bear a significant burden of developing this information for its cost-sharing participants; they will need sufficient time, staffing and funding to provide this information to more than 800 participating employers in their program. The cities and towns will also need time to educate their stakeholders, including elected officials, management and citizens on the requirements of the proposed standards. I respectfully request that at least two additional years (beyond the current June 15, 2013 date) be provided for implementation.

Thank you for your time and consideration.

Sincerely,



Miriam O. Hair  
Executive Director