August 29, 2013

David Bean
Director of Research
Governmental Accounting Standards Board
Projects Nos. 34-1E, 34-1P
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

Thank you for the opportunity to comment on the Governmental Accounting Standards Board (GASB) Exposure Drafts “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” and “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.”

We wholeheartedly agree that reflecting obligations from retirement benefit plans more completely and directly as liabilities in the financial statements is critical to the fair presentation the financial impact of these commitments on citizens and taxpayers. We believe the proposed changes would provide this much needed transparency.

Our fifth annual Financial State of the States study is evidence these changes are needed. We found for the 2013 fiscal year states have accumulated pension and OPEB liabilities totaling more than $1.1 trillion. Truth in Accounting researchers determined less than $200 billion of retirement liabilities are reported on state Statements of Net Position. More than $900 billion of these retirement liabilities are maintained off the Statements of Net Position.

We determined pension-related liabilities over $500 billion that do not appear on state Statements of Net Position. This means roughly 90% of the states’ unfunded pension liabilities are not reported on their Statements of Net Position. This study also found OPEB-related liabilities of about $400 billion that do not appear on state Statements of Net Position. This means that roughly three-fourths of the states’ OPEB liabilities are not reported on their Statements of Net Position.

Based upon this research we understand governments' unrestricted net position will correctly be diminished by very significant amounts. As an alternative to simply restating the prior net position for these enormous amounts, we recommend the recognition of an explicit extraordinary loss on the Statement of Activities. It could be titled “Loss Due to the Full
Recognition of OPEB Liabilities.” The loss would help clarify that this isn’t “just an accounting thing,” but an extraordinary item due to longstanding practices of pushing current expenses on to future taxpayers by the failure in funding these real obligations.

While we welcome the recognition of these liabilities, we question the use of deferrals. It is our understanding that investment gains and losses will run through the deferrals, insulating the reported net position from real market developments. We believe this practice would undermine the accuracy and relevance of reported results.

Page xii of the Exposure Draft the Board indicates:

"The requirements of this proposed Statement would improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and would enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense."

The unrestricted amount within the "Net Position" is a critical tool for financial report users evaluating accountability and interperiod equity. Deferrals help shield the reported unrestricted net position from real volatility. We live in a volatile world, and that truth should be recognized in the Statement of Net Position as well as the Statement of Activities on a continuing basis.

If the use of a deferral item among the assets must persist, we would recommend changing the title of “Deferred Outflows of Resources” to a less confusing and misleading name. The title could be one of the following: "Claims on Future Revenue," “Claims on Future Taxpayers," "Lien on Future Tax Revenue," or "Revenue Needed to Pay Prior Period Expenses."

Thank you for your work to bring greater transparency to state and local governments' financial reports. We look forward to testifying about these important issues.

Sincerely,

Sheilá A. Weinberg
Founder & CEO
Truth in Accounting