August 29th, 2014

Director of Research and Technical Activities
Governmental Accounting Standards Board
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Re: Project No. 34-1NTP

I wish to congratulate the GASB in addressing this increasingly important topic in a timely manner.

The reporting of DFBs and DCPs in an improved manner is commendable after the recent reneging by employers on their obligations to employees to pay prior agreed pension contributions. Any effort to protect the public interest is praiseworthy. The time for ending the dubious deferrals of unfunded pension obligations is now.

I have pleasure in submitting the following comments on the above exposure draft.

At the outset I will disclose my intention to bifurcate the financial reporting for OPEBs into the obligations of the reporting governmental institution and the expectations of the employees of such institution.

While the report is that of governmental institution the present and former employees of that body have a deep interest in these deferred benefits and the annual accruals, obligation estimates and the ability of the employer to meet the obligations as spelt out in a service contract etc.

My suggestions/comments are as follows:

Para. 22. An employer that does not have a special funding situation should recognize a liability for the total pension liability. The total pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service…

Comment:

The aggregation is positive but underlying the proposal is the implicit continuation of amassing the unfunded benefit obligation. The recent past has seen loyal trusting employees be deprived of pension expectancies as some employers defaulted on this obligation, i.e. they failed to put the cash in.
As standard setters and followers we should address this possible scenario from recurring as it makes a farce of actuarial calculations etc and brings disrepute on accounting as a whole, particularly the accounting for pensions.

I suggest that the notes to the accounts (supplementary information) should clearly identify the growth in unfunded pension obligations and also alert readers to the increasing risk for the entity and the employees in the event of a default.

A risk meter comparing, for a five year period, the assessed risk for unfunded obligations may be worthy of your consideration.

Para 63. Expense also should be recognized in the current reporting period for costs incurred by the governmental nonemployer contributing entity related to the administration of pensions. The measurement period for these costs should be the same as the measurement period applied to changes in the collective total pension liability for purposes of determining collective pension expense in conformity with paragraph 60.

Comment:

I recommend continued accrual of expense recognition but, as referred to above, I would also suggest that the scales are out of balance if funding of pension obligations is not addressed.

The detail, minutia, of accounting for expense, should not take primacy over serving the public (employee) interests.

Sincerely

// AWBurrowes

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