September 26, 2011

Director of Research and Technical Activities
Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

Dear Director:

The American Federation of Teachers (AFT) is submitting comments in response to the Governmental Accounting Standards Board (GASB) June 27, 2011 invitation to comment on your Exposure Draft (ED) to amend Statement No. 25, Accounting for Pension Plans and Statement No. 27, Accounting for Governmental Employers.

The AFT was founded in 1916 to represent the economic, social and professional interests of classroom teachers. We are an affiliated international union of the AFL-CIO. Today, the AFT has more than 3,000 local affiliates nationwide, 52 state affiliates, and more than 1.5 million members. Five divisions within the organization represent the broad spectrum of the AFT's membership: teachers, paraprofessionals and school-related personnel; local, state and federal employees; higher education faculty and staff; and nurses and other healthcare professionals. In addition, our union represents more than 170,000 retiree members. Virtually all of our members are covered by public employer-sponsored defined benefit pension plans, and therefore have a vital interest in the rules governing the manner in which pension benefits are financed and reported to the public.

We realize that the changes under consideration would not directly affect the actuarial calculations used to determine the employer's contributions to fund the plan or measure the actuarial accrued liabilities. However, the changes proposed in the ED would completely separate pension accounting expense from the pension funding expense and create two competing sets of cost numbers for policy maker consideration. At the minimum this will cause confusion, and at the maximum could lead to bad decisions, including potentially misguided calls for the termination of the defined benefit pension plan. At the very least, GASB should change the term "net pension liability" to "net residual pension obligation" to indicate to users that this expense is only required after the pension plan exhausts its assets.

We also disagree with the call for school districts who participate in state-wide cost-sharing multiple-employer plans to report a part of the unfunded liability on their financial statements. The ED asserts that each school district in a cost-sharing plan is responsible for its fair share of the overall unfunded liability. Yet for individual school
districts, the state-wide pension plan functions as a group insurance plan. Any shortfall is typically satisfied through collective action by all participating employers, employees and the state. Therefore, school districts should only report their contractually required contribution to the state-wide plan and the pension plan should continue to report the overall unfunded liability.

The implementation schedule should be delayed and then phased in for several reasons:

1.) This standard setting process is taking place at the same time our economy recovers from one of the largest market downturns and recessions in recent memory. States and local government plan sponsors have seen their budgets severely eroded by the drop in tax revenue. Implementing new standards during a recession and volatile recovery will distort the reported pension liability and may lead some sponsors to incorrectly conclude they must terminate their defined benefit pension plan.

2.) Employers and plans need time to understand the impact of the new calculations and determine their cost of compliance.

3.) Employers and plans will need time to determine how to explain the differences between the accounting cost and funding cost to policy makers, plan participants, and the public.

4.) Small school districts may not have the revenues or staff expertise to deal with the accounting and reporting changes by 2014.

Finally, we urge you to clearly highlight that these new GASB accounting and reporting standards are not meant to be funding standards. Actuaries look at pension plan revenues and expenses differently than accountants and these differences should be noted. Alternatively, we suggest you delay implementation of these standards until the actuaries who work with public plans can further develop guidance regarding funding policies for public plans. Such guidance is important given that GASB will be eliminating the annual required contribution (ARC) as the basis for these new accounting and reporting standards.

Thank you for the opportunity to submit comments on this important matter. We trust that you will consider our comments and develop a final accounting and reporting standard that is fair and reliable for plans, employers, participants, and the public.

Sincerely,

[Signature]

Randi Weingarten
President

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