October 11, 2011

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

Dear Sir or Madam:
The Michigan Government Finance Officers Association (MGFOA) has reviewed the two pension exposure drafts dated June 27, 2011, which amend GASB Statements Nos. 25 and 27. In general, we agree with the concepts and approaches set forth by the board in both exposure drafts. We believe that measuring the pension obligation as of the balance sheet date and reporting it in the statement of net position will significantly improve financial reporting. However, we do have a few concerns and areas that we feel need additional clarity.

Comments on exposure draft amending GASB Statement No. 27

1. The GASB emphasizes several times throughout the exposure draft that these proposed standards are meant for accounting and financial reporting, and do not necessarily have to be used for funding purposes. In the State of Michigan, governments are legally bound to contribute the actuarially required contribution into each of its pension systems. The revised criteria in the pension exposure drafts would certainly result in an ARC much higher than the one currently being calculated under today’s accounting standards. As a result, the actuary will need to have two numbers for reporting and funding disclosed in the valuation – one using the proposed GASB parameters, and a second one for funding purposes (with parameters similar to those used currently). The actuaries will also have to provide a projected number of the total pension liability, if the employer’s year end is different from the pension plan year end. This will increase the cost of complying with the proposed rules. We would like to see a lower-cost option for smaller governments. For instance, perhaps they could be allowed to use the current funding-based actuarial valuation, but would not report any deferrals of changes in the net pension liability (for smaller governments, these two changes might generally offset each other, and would certainly make the accounting simpler).

2. The disclosure requirements in the footnotes and required supplementary information found in this exposure draft are voluminous. In the exposure draft, such requirements are discussed in paragraphs 30-42 and take 7 pages just to explain. While we recognize the benefits of transparency, we also realize that the more information that is put into the financial statements, particularly in non-tabular format, the less a user is apt to read it, use it and understand it. We are quite concerned that the required footnote disclosures will be so voluminous that it will make it more difficult for the reader to obtain the necessary
information because it will be too difficult to find the important information and to focus on that.

We encourage the GASB to significantly reduce the required disclosures to the minimum necessary to put the pension obligation into context. We encourage you to rely on the RSI, in tabular format, to provide the additional information necessary. We believe the focus of the note disclosure should be on two things - the obligation and the funding ratio, which are the critical components to the pension exchange that most users find important.

3. Footnote 6 in both exposure drafts refers to the avoidance of unnecessary duplication of footnote disclosures when the pension trust fund is included in the employer financial statements. While we concur that the elimination of potentially duplicative information required of the plan and the employer is imperative, we'd like to see GASB bring back a consideration found in GASB 27 regarding reduced footnote disclosures as well as reduced RSI requirements when the employer reports the pension trust fund AND the plan issues a separate stand-alone report. We do recognize that the GASB has done this to some extent in paragraph 35 of the amendment to GASB Statement No 27, but we would like additional consideration made to reducing note disclosures in the employers financial statement that are duplicative of information otherwise provided in the plans' separately issued statements.

Comments on exposure draft amending GASB Statement No. 25

4. The exposure draft amending GASB Statement 25 addresses a requirement in paragraph 30 (b) (4) to disclose the actual annual time-weighted and money-weighted rates of return. We believe it would also be beneficial to include rolling 10 year weighted average return data.

These comments represent the consensus opinion of the MGFOA and have been approved by our Executive Board. Thank you for the opportunity to express our viewpoints on this matter.

Very truly yours,

[Signature]

Luke Huelskamp, President
Michigan Government Finance Officers Association