February 12, 2016

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

Dear Director:

We are pleased to provide our response to the Exposure Draft of the Governmental Accounting Standards Board on Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73 (the ED). Overall, we strongly agree with the ED and applaud the Board and GASB project staff on their effort to clarify certain pension issues. In addition to a minor comment on the ED, we would also like to highlight a practice issue we see becoming more prevalent that, if left unaddressed, will likely result in inconsistent application in practice.

Minor Comment on ED

Paragraph 7 clarifies that a deviation, as that term is defined in the Actuarial Standards of Practice, from the guidance in the Actuarial Standards of Practice will not be considered to be in conformity with the requirements of Statement No. 67, No. 68, or No. 73. We recommend the Board consider defining “deviation” in the glossary to the new standard to help ensure a clear understanding and consistent application in practice.

Practice Issue for Future Consideration – Frozen Plans

We recommend the Board consider providing specific accounting guidance for frozen defined benefit pension plans. Specifically, we believe attributing benefits through all assumed exit ages is not appropriate for frozen plans and encourage the GASB to consider an amendment to the existing standards to attribute benefits through the plan freeze date.

Paragraph 46 of GASB Statement No. 67, Financial Reporting for Pension Plans, describes the attribution of the entry age actuarial cost method that is required for determining the total pension liability. Specifically, subparagraph (d) states that, “The service costs of all pensions should be attributed through all assumed exit ages, through retirement.” Paragraph 46(d) is silent on the treatment of frozen accrued benefits. If read literally and applied to a frozen plan, this would result in a significant gain (change in...
benefits) that would be recognized in full in the year the plan is frozen, and also result in the “re-recognition” of previously recognized expense in subsequent periods through assumed exit ages of active employees. This accounting results in the continued recognition of service cost after the plan is frozen. Our experience with frozen plans is that a successor plan is created (usually a defined contribution plan) to provide retirement benefits to employees. We believe that it is inappropriate to recognize pension costs (expense) for both a legacy (frozen) plan for which no future service is being credited to employees, as well as a pension cost for the successor plan. We also believe that since the amount of the frozen accrued benefits is entirely based on service rendered prior to the end of the fiscal year, the principle of the exchange transaction between the employer and employees would suggest that the obligation should be fully recognized when the plan is frozen.

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If you have any questions or need additional information about our comments, please contact Mr. Jeffrey Markert at 212-909-5306 or jmarkert@kpmg.com.

Sincerely,

KPMG LLP

KPMG LLP