

Director of Research and Technical Activities
Governmental Accounting Standards Board
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Director,

Please accept these comments regarding the Proposed Statement of the Governmental Accounting Standards Board: Plain-Language Supplement for Pension Accounting and Financial Reporting. I am responding as a concerned taxpayer. I looked at our local CAFRA and decided that if it represents a typical governmental unit we are sitting on the edge of another crisis that future taxpayers will need to face and fund. Generally, these reporting requirements represent a huge improvement over current standards. My personal belief is that someone must also address funding of defined contribution pensions. Recognizing the pension liabilities will provide a huge awaking to anybody who examines governmental financial reports. Many governmental units, I predict, will report negative net assets.

Below I follow the questions in the exposure draft.

Recognizing the Net Pension Liability

1. *Do you agree or disagree with the GASB's proposal that governments recognize the net pension liability in their financial statement? Why or why not?*

I definitely agree. Pensions represent a form of compensation that needs recognition from current operations. If governmental units fail to fund the future obligations, the unfunded balance represents a liability that future administrations must pay.

2. *How would recognizing the net pension liability in the financial statements affect any or all of the following:*

a. *The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?*

Recognizing the pension liability allows one to make reasonable decisions about the liabilities of the governmental unit. Too often financial statement users fail to fully consult the important disclosures in the notes that accompany the financial statement and only examine the recorded liabilities, which in most cases reports only the debt.

b. *Your ability to assess a government's accountability?*

Recognizing the pension liability allows a financial statement user to examine the net assets to see if the governmental unit spent or promised to spend more than the inflow of resources.

c. *Your ability to assess interperiod equity?*

The additional expense recognition clearly allow users to see the expenses exceed revenues for the current period. The pension costs for the current period must be matched with the work period regardless of funding.

Measuring Total Pension Liability

3. *Do you agree or disagree with the GASB's proposals for how the total pension liability should be measured? Why or why not?*

I support adding the ad hoc COLAs to the pension liability calculation. The primary reason I like the proposed changes is that they make it more difficult to give away benefits today that will remain off the balance sheet and be paid by future taxpayers. I also support the notion of using a debt rate to discount the future estimated cash flow for those governmental units who underfund their pension plans. I think, however, a governmental unit should use *their* borrowing rate for unfunded plans. Finally, I support the

entry age normal approach to allocating the present value of the pension. I'm more concerned, however, that governmental units use the same approach to enhance comparability.

4. *How would these proposals affect any or all of the following:*
- a. *The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?*
 - b. *Your ability to assess a government's accountability?*
 - c. *Your ability to assess interperiod equity?*

Measuring Pension Expense

5. *Do you agree or disagree with the GASB's proposals regarding when the factors that affect pension expense should be incorporated into the expense calculation? Why or why not?*

I disagree with the expense recognition. All of the items should be included in the pension expense. If the expense recognition is not tied to funding, why not report the most accurate information you know about the expense and liability. In one sense, what do governmental units expect when they award defined benefit pensions that contain so many estimates? The hard reality of the truth hurts, but that does not suggest reporting should smooth the economic reality. I'm very concerned of shifting costs forward to future taxpayers who will perceive no value in making payments to retirees.

6. *How would those proposal affect any of all of the following:*
- a. *The usefulness of the information to the analyses you perform, the work you do, or the decisions you make?*

With this reporting I can assess the financial health of the governmental unit currently and cumulatively.

- b. *Your ability to assess a government's accountability?*

Showing the full expense and liability provides a much more accurate view of the assets and liabilities of the governmental unit.

- c. *Your ability to assess interperiod equity?*

Reporting the full expense clearly shows how well the governmental unit operates with its resources.

Cost-Sharing Plans

No additional comments.

Notes and RSI

No additional comments.

Special Funding Situations

No additional comments.

No Defined Contribution Pensions

I see little accounting controversy with defined contributions. As soon as the governmental unit pays the contribution, its obligations are satisfied FOREVER.

Sincerely,

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