



CERF

COUNTY EMPLOYEES'
RETIREMENT FUND

Letter of Comment No. 47
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Director of Research and Technical Activities
Project No. E-34
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject: County Employees' Retirement Fund (CERF) Oral Comments at October 20, 2011, Hearing on Proposed Statement of the Governmental Accounting Standards Board: Pension Accounting and Financial Reporting

Ladies and Gentlemen:

Following is the text of oral comments we would like to make at the October 20, 2011, hearing in Chicago:

From CERF's Actuary, Fred Munzenmaier, F.S.A.

CERF provides a defined benefit pension plan for employees of all rural county governments in the State of Missouri. CERF covers approximately 11,000 active plan participants, 3,400 current retirees and survivors receiving benefits, and approximately 1,700 terminated employees with deferred vested benefits, nearly 16,100 in all. The plan does not cover the counties that house the large cities of St. Louis and Kansas City. The counties comprise a large group of "cost-sharing employers."

We have comments in the following two areas:

1. A specific comment on the concept of the "total pension liability" for a plan with CERF's statutory framework.
2. The effect that the new rules could have on our participating employers and their employees.

Section 50.1010 of the Missouri Revised Statutes reads in pertinent part as follows:

50.1010. There is hereby authorized a "County Employees' Retirement Fund" which shall be under the management of a board of directors described in section 50.1030. The board of directors shall be responsible for the administration and the investment of the funds of such county employees' retirement fund. If insufficient funds are generated to provide the benefits payable pursuant to the provisions of sections 50.1000 to 50.1200, the board shall apportion the benefits according to the funds available....

Most important, the liability for the benefits is limited to the existing plan assets. Thus, at any point in time, the true net pension liability of the plan as a whole and for any one of the 111 participating counties (i.e., employers) is nil.

We believe that the GASB should exempt any plan that is established under a statutory framework such as ours from the rules pertaining to the net pension liability. It would follow that such a plan should also be exempt from the proposed rules for determining pension expense.

If CERF complied with the Exposure Draft as of July 1, 2011, there would be an aggregate net pension liability of \$134.0 million. This would have to be allocated among the 111 participating employers.

The plan does not cover the counties that house the large cities of St. Louis and Kansas City. Thus, the "liability" would fall on entities that are rural in character. Some counties would have liabilities to the tune of \$millions. Stated in the vernacular, the counties would not know what hit them.

Further, the plan is not funded by direct tax revenues. Rather, the plan contributions come from:

- Assessor late fees
- Collector merchant license fees
- Collector delinquent fees
- Recorder document fees
- Employee contributions

These revenues are quite stable from year to year. We have carefully designed the plan benefits so that such benefits can be supported over time by these revenue sources. It might be compared to a multiemployer plan in the private sector where the benefits are fitted to the given cents per hour level of contributions. Of course the typical defined benefit plan that the Exposure Draft

envisions works in the opposite direction – the contributions are calculated to fit the given level of benefits.

As with the net pension liability, suddenly, out of nowhere the CERF employers will have a pension expense that they've never had before. The expense will be quite volatile and unnecessary given the statutory framework of the pension plan and the sources of its revenues.

From CERF Board Member Rosemary Gannaway, Callaway County Auditor

Of the 111 counties in CERF, 90 are 3rd classification counties which means their annual assessed valuations are under \$600 million dollars. This valuation is the basis for determining the amount of property taxes collected for county operations. Most counties rely heavily on property and sales taxes for normal operations. Only 11 of those 90 counties have assessed valuations between \$400M and \$599M, and several are less than \$100M. This equates to annual property taxes for their general operating funds of between \$200,000 and \$1,200,000 for the annual operating budget. Most of the counties are dealing with TOTAL budgets (all funds, both statutorily directed and general) of less than \$1M up to \$6M on both the revenue and expenditure sides. To force them to include a retirement liability of between \$200,000 and \$1,000,000 on their balance sheets would throw the documents so far into the red that they would never be in a position to borrow money, issue bonds, or make any financial plans currently or in the future, under any circumstances! This seems especially absurd considering they will never owe that money, even in the worst case scenario, because of the statutory stipulations.

A county previously issuing GAAP reporting could change to a modified-cash basis using the measurement criteria of “recognizing liabilities that are the result of a previous cash transaction” and therefore skirt the issue of pension liability. Of course, this would also apply to those currently on modified-cash basis. If the goal is to make financial information more useful to the public this would have the opposite effect by now providing less disclosure.

From CERF Boone County Board Member Kay Murray, Representing County Treasurers

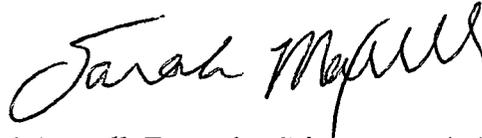
The GASB proposed exposure Draft Statement for State and Local governments regarding changes in financially booking (net pension expenses) will literally defeat County Employees' Retirement Fund for Missouri county employees. Employees, current and future retirees are depending on this retirement benefit to supplement Social Security in retirement.

There are approximately 100+ counties out of the 111 counties that if this ED statement is adopted will be wiped out financially. For example several Missouri counties are operating on revenues less than \$15M, with expenses over revenue collected. Thus adding \$1M plus to net liabilities simply is not feasible. Counties would be left with no choice but to cut services and

find a way to get out of CERF retirement. In layman terms why put an extra expense burden on already financially strapped county budgets that in many cases could lead to bankruptcy.

Please consider exempting local governments from the rule pertaining to net pension liability and proposed rules for determining pension expenses.

Respectfully submitted,

A handwritten signature in black ink that reads "Sarah Maxwell". The signature is written in a cursive, flowing style.

Sarah Maxwell, Executive Director, on behalf of
County Employees' Retirement Fund Board of Directors