



BOBBY JINDAL  
GOVERNOR

PAUL W. RAINWATER  
COMMISSIONER OF ADMINISTRATION

**State of Louisiana**  
Division of Administration  
**Office of Statewide Reporting and Accounting Policy**

September 30, 2011

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

Re: Exposure Draft, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement 27*

To Whom It May Concern:

We want to thank you for the opportunity to express our views on this Exposure Draft (ED). We support the GASB in its efforts to revisit current practices for pensions but we also have questions and concerns that are noted below.

We concur that the state is responsible for the unfunded pension obligations of our state's sole and agent pension plans. We concur that the projected effects of the factors included in the ED for the pension liability calculation by a sole or agent employer are reasonable, and that governments are required to report pension liabilities and expenses as proposed in this ED. We also agree that deferral of short-term investment gains and losses are essential because of the long-term nature of the pension plan investment strategy.

While the intent of GASB is that the proposed standard relates solely to accounting and financial reporting and does not address the issue of funding, the reality is that funding will be affected.

The obligation attached to a pension benefit is incurred with the employment exchange and creates a present obligation. Once the present obligation has been created based on service, governments have little or no discretion to not pay the benefits earned. Also, *not* recording the government's net pension liability as employees provide services shifts those costs to future generations. Therefore, the unfunded portion of the employer's obligation is a liability that should be reflected as such in the government's financial statements.

In Louisiana, we believe employers have a legal responsibility to fund this liability only after the rates are officially increased by the Legislature. Accounting for this liability at the employer level will cause an additional problem with the reporting of Proprietary funds in the

Director of Research and Technical Activities  
September 26, 2011  
Page 2

governmental reporting framework. Proprietary funds are already having to report an OPEB related liability, which we feel is misleading for a government using a “pay as you go” method of funding. Eventually, these funds will either have to fund this OPEB liability by charging customers a higher rate, or they will end up with a negative fund balance. Reporting the pension liability in these business type activity funds as well will further exacerbate this problem. We believe that both of these particular liabilities should only be displayed at the government-wide level, in the same manner as currently required for governmental funds. We would appreciate clarification of this issue.

We disagree with using different actuarial cost methods for funding and accounting and financial reporting. We foresee a lack of consistency giving rise to questions as to which amounts are right. We feel that the method chosen should be based on the professional judgment of the decision makers in consultation with the plan actuary in order to reflect the unique nature of the plan. We are not certain the net pension liability is measurable with sufficient reliability because of the investment market volatility. The actuarial valuations that would measure the unfunded obligation must be based on historical trends that have been well developed. If the unfunded liability is due primarily to short-term fluctuations in the market value of assets, we question the usefulness of reporting it on the financial statement.

If the nature of ad hoc COLAs follows that of automatic COLAs or if ad hoc COLAs are routinely approved, we can concur that they should be included in the projection of pension benefit payments. However, in any given year, local, national and international economic conditions affect when or even if ad hoc COLAs are allowed. An exception should therefore be provided and conditions outlined that would allow exclusion of these items from the projection of pension benefit payments. One possible option would be to allow discretionary exclusion of the amounts but require footnote disclosure of the scheduled/potential COLA impact with explanation of the conditions that make it probable the COLA will not be approved. Approval of ad hoc COLAs in Louisiana requires the recommendation of the plan trustees and legislative approval only if the funding is available from accumulated investment returns above an established minimum; consequently, COLAs seldom occur. Use of this type ad hoc COLA is difficult to predict and would be practically impossible to project.

Current standards do not require incorporation of ad hoc COLAs and ad hoc postemployment benefit changes into projection—this will increase projected future benefits for some plans thereby increasing total pension liability.

In Louisiana, we have legislation that requires contribution rate adjustments if we encounter a significant market down turn. Historically, market conditions have created short-term fluctuations in our pension plan's unfunded liability; however, we question the usefulness of reporting a pension liability on the financial statements due to these short-term fluctuations when our pension plans are well-managed long-term entities. The yearly fluctuations have little effect on our long-term pension liability. The net actuarial rate of return assumed in the valuation is 8.25%. If the actual experience differs from the projected plan experience, the gain or loss is

Director of Research and Technical Activities  
September 26, 2011  
Page 3

then amortized over a 30 year period as a level dollar payment. What factors does the GASB consider necessary to determine long term rates?

We believe this will create unnecessary volatility in the financial statements. Currently, pension expense is calculated using the employer's actuarially determined annual required contribution (ARC) as adjusted for the cumulative effects of prior over-/under- funding. The GASB is proposing that pension expense incorporate all changes related to retired/inactive members, which is the current practice in Louisiana. Amounts for changes in the difference between assumed and actual economic and demographic factors and the changes in assumptions regarding economic and demographic factors related to active employees would be deferred and amortized. Use of a single methodology for measuring pension expense and pension obligations would promote consistency and comparability; however, such a requirement would result in Louisiana's two major plans using one method for accounting and financial reporting purposes and another method for funding purposes. Using different calculation methods will cause greater confusion among document users (i.e., Legislative bodies, interested parties, the press, etc.) as to the true pension liability.

We disagree with the Board's proposed treatment of the effects on the net pension liability of projected earnings on plan investments including recording earnings on plan investments below or above the projected earnings as deferred outflows/inflows. We are also unclear about the Board's rationale for the distinction between the treatment of actuarial gains and losses and investment earnings. If management's actions were not the direct cause of the change, gains or losses should be amortized over a specified time such as a 10 to 15 year closed period. Alternatively, if direct management action caused the change; the expenses should be recognized as they occur in the government-wide statement of activities.

These recognition criteria are consistent with the approach of matching cost over the life of the services received by employees. . Our state pension plan actuaries are already incorporating most of these items in their calculations. The effects of changes to (1) differences between expected and actual results of economic and demographic factors (2) changes in assumptions regarding those factors, and (3) changes in plan terms should be recognized in the pension liability for active employees over their remaining service period. Changes relating to prior service of retired/inactive employees should be recognized when the change occurs since there are no future periods of service over which to expense these changes. Changes relating to future service and the effects of these changes should be recognized over the periods in which the employee remains active. We agree with the proposed amortization method. We agree that deferral of short-term investment gains and losses are essential because of the long-term nature of the pension plan investment. We are concerned that market volatility will not be adequately addressed by the proposed method.

We do not agree with the Board's decision to require a specific actuarial cost method for reporting by employers/governments that potentially would be different from the method used by the plan(s). Although the cost to have actuaries apply two cost methods may be relatively small,

Director of Research and Technical Activities  
September 26, 2011  
Page 4

we believe the confusion created by having plans report different actuarial cost methods from the employers/governments would outweigh the possible benefits.

We have concerns that the collective unfunded obligation can be reliably measured. We realize that the unfunded obligation is a present obligation to sacrifice resources that the government/ employer has little or no discretion to avoid; however, we believe that each participant in a CSME plan should not be required to record a proportionate share of the unfunded pension obligation in their individual financial statements. We question reporting unfunded liabilities on the financial statements when the liabilities are created by short-term fluctuations in market conditions. We are extremely concerned about which government entity should report these unfunded liabilities and need a clear direction from the GASB. Current practice in the Louisiana State CAFR is to recognize this obligation in the note disclosures for CSME plans; the detail needed for inclusion in the government-wide financial statements is not available. Provision of the breakdown necessary for each employer would be onerous and would not justify the cost or effort involved. We believe this liability should not be recognized by each individual participant's financial statements.

By participating in a cost-sharing plan, each employer/government has agreed to share in the financial risks of the plan and in any unfunded pension liability. The Teachers' Retirement System of Louisiana (TRSLA) is composed of state and non-state employees most of whom are employed by school boards, charter schools and state universities. To identify the individual amounts for each participating employer would be onerous and require access to data that will not be available to each individual employer/government. We feel that for those employers constitutionally required to make actuarially determined contributions to the plan to ensure the plan is fully funded from year to year, any temporary underfunding of the plan will be remedied in the short-term and would not require or constitute a liability of the participating employers on their financial statement.

The phrase "long-term contribution effort" needs to be defined by the GASB.

All additional requirements and replacement schedules specified in the ED related to note disclosures and RSI seem logical. Currently, we are not aware of any special funding situations from the state perspective affecting the four statewide pension plans and do not offer any comments. At present, the only defined contribution plan we report in the State's CAFR is the plan established for employees of the Louisiana Lottery Corporation, which we currently disclose in our pension note. As a result, we have no comments regarding defined contribution plans.

It appears the GASB is taking a short-term view of pension expenses in the public sector when investments are long-term. Public pension plans are "going concerns" that do not default or go out of business. Making the changes as proposed would cause gratuitous volatility in financial reporting. It could also impose economic hardship on employers/governments during a time when many are facing economic austerity measures unheard of in decades. The proposed rules

Director of Research and Technical Activities  
September 26, 2011  
Page 5

will likely exacerbate these economic difficulties, especially the smallest governments participating in cost-sharing statewide retirement programs.

Again, thank you for the opportunity to express our opinion.

Sincerely,

Afranie Adomako, CPA  
Director

.