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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

October 12, 2011

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

Dear Mr. Bean:

We have read the Governmental Accounting Standards Board's (Board) Exposure Draft (ED) of a proposed statement titled *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and generally agree with its provisions. Most importantly, we concur with the Board on the basic concept that pensions are one component of exchange transactions between a government employer and its employees and that an employer incurs an obligation to the employee as services are rendered. Therefore, under the Board's current Concept Statements, it is appropriate to recognize a liability for this obligation when insufficient assets are set aside to satisfy this obligation. The ED also improves financial reporting by addressing the principle of interperiod equity, so that governments recognize an obligation in the current period for payments they must make in the future. The proposed standards would also improve financial reporting by requiring entities to disclose the assumptions made in calculating the total pension liability.

We do, however, have the following concerns that we hope you will consider when drafting the final standard.

We are not supportive of the provisions which would require a primary government and its component units to account for and report their participation in a single-employer or agent pension plan as if they were cost-sharing employers as provided in paragraph 15 of the ED. This would result in a component unit recognizing a portion of the net pension position on their financial statements. As stated in paragraph 9 of that ED, the Board considered a primary government and its component units as one employer when determining what type of pension plan the employer participated in. We agree with this concept and suggest that it be applied when reporting the associated net pension position. Rather than trying to assign an asset or liability to a component unit, the primary government should report the entire asset or liability at the entity wide level of reporting. Just as we would not expect a net pension position to be allocated between funds within the government, we would not expect this treatment with component units. It would not be cost beneficial or practical for the primary government to assign a small portion of the overall net pension position to each component unit.

Mr. David R. Bean  
Page 2 of 2  
October 12, 2011

Component units in Michigan have a declining number of defined benefit employees due to the closing of the state employees' defined benefit pension plan in 1997. Any assigned asset or liability would likely be small, if not immaterial, to the overall activities of the component unit. In addition, component units can be administratively organized within a state department (such as a finance authority within the Department of Treasury) and can be administered or supported by employees of that department, making any such allocation difficult, if not misleading. Also, since Michigan's defined benefit plan is closed, once a person retires from an agency, the pension plan administrator has not sought additional funding from that agency to make up for actuarial shortfalls in the performance of the pension plan. If this practice continues, once the last active employee retires, any future funds necessary for the plan to remain solvent would very likely come directly from the General Fund.

The State of Michigan currently has three retirement plans that are closed to new members, therefore we request that the disclosure required in paragraph 70 regarding the net pension liability as a percentage of covered employee payroll be waived once a plan is closed to new employees. As the number of covered employees in the plan decreases each year, decreasing the employee payroll amounts over time, this percentage rises and misinforms the user regarding the true magnitude of the net pension liability and should not be used as a basis for comparison with other plans.

We encourage the Board to simplify the effective date requirements by having a single effective date. We suggest the new standard be applicable for periods beginning after June 15, 2013, with earlier application encouraged.

We appreciate the opportunity to provide feedback on this exposure draft. If you have any questions regarding our comments, please contact me or Craig M. Murray, C.P.A., Director of Professional Practice.

AUDITOR GENERAL

Via e-mail