



UTAH RETIREMENT SYSTEMS

540 East 200 South
Salt Lake City, UT 84102-2099

ROBERT V. NEWMAN-EXECUTIVE DIRECTOR

Letter of Comment No. 233
File Reference: 34-E
Date Received: 10/14/11

FINANCE DEPARTMENT
(801) 366-7457
(800) 365-8772
Fax (801) 328-7457

October 13, 2011

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

The Utah Retirement Systems (URS) appreciates the opportunity to comment on the Governmental Accountings Standards Board's Exposure Drafts (ED) regarding Financial Reporting for Pension Plans and Accounting and Financial Reporting for Pension. URS is responsible for administering defined benefit plans and defined contribution plans for the benefit of State, local governmental and public educational employees in the State of Utah. URS is comprised of seven defined benefit systems. The Public Employees Noncontributory Retirement System, Public Employees Contributory System Retirement System, Firefighters Retirement System and the Tier 2 Hybrid Retirement System, are multiple employer cost sharing public employee retirement systems; the Public Safety Retirement System is a mix of agent and cost sharing, multiple employer employee retirement systems, and the Judges Retirement System and the Utah Governors and Legislators Retirement Plan are single employer service employee retirement systems. URS has 450 participating employers with multiple year ends. URS also administers five defined contribution plans.

There are a number of things in the ED document that we agree with and believe will help improve pension disclosures, but there are some things that we believe will dramatically complicate pension disclosures and could cause confusion for the government's governing directors, auditors and its citizens. We agree with the financial statements, notes and required supplemental disclosures that the Systems will be required to make. (Do we want to list the major things we agree with?)

URS would like to address some of our concerns relating to the ED.

Roll forward and Reporting of Net Pension Liability (NPL)

URS has a concern with having governments, with a year end that is different than the Systems, reporting a roll forward of the Net Pension Liability (NPL) to the date of the governments year end. Rolling forward the NPL will be very time consuming and expensive for the System and could be very confusing for the government.

We agree in principle with having cost-sharing employers disclose their proportionate share of the NPL. We do not agree with having governments with a different year end than the Systems report an unaudited "roll forward" of NPL and pension expense.

Concerns:

- How will government directors and citizens respond when the NPL is larger than the current fund balance?
- Will the auditors of governments with a different year end than the System (especially small cost sharing governments) be comfortable presenting a large unaudited NPL on their statement of net assets?
- Because of the potential size of the NPL, will the government's independent auditors be expected to independently value the unaudited rolled forward values provided by the System?
- Do the local CPA firms that audit our governments currently have the expertise or resources to independently value the investments or the pension liability?
- If the governments independent auditors would be expected to value the assets and pension liability, is the increased cost and complexity worth the disclosure?
- What will happen if a government or its auditor want to "see" investments (i.e. hedge funds) where the system cannot provide the detail (System relies on third party administrator and year end audited financial statements)?
- What will happen if a government or its auditor has a disagreement with the actuarial assumptions or asset value used by the System?
- URS currently has nearly 30% of its investments in asset classes that are not listed on national exchanges or for which quoted market prices are not available. These investments include limited partnerships, absolute return strategies, and investments in real estate. URS management uses alternative sources of information including audited financial statements, unaudited interim reports, and independent appraisals to determine the fair value of investments. The timing to provide an adequate value for these investments can take up to three months (or more).

To provide updated pension disclosures to governments, URS will need to perform the same additional work procedures multiple times per year to provide updated asset values for assets where no quoted market prices are available, and this will greatly increase the workload and costs while drastically reducing the timeliness of current pension disclosures for governments. URS believes that the auditor of the participating governments will want to have audited numbers for the NPL and Pension Expense based upon the government's plan year end. This will require additional audit fees and workloads. URS is not sure that the benefit of rolling forward the NPL to government's year end and the timeliness to achieve it is worth the increase cost and workload.

Recommendation:

We believe that if you would allow governments to be able to rely on the Systems audited pension information (unless a significant subsequent event occurred) governments would not have to incur additional audit expense. We believe this would be much more cost effective and more desirable than presenting unaudited information or requiring each participating government with a yearend different than the System having to independently verify the pension disclosures, or requiring the Systems to have multiple yearly audits.

Proportionate Share Calculation

Based on our understanding of the exposure draft it will almost require an actuarial study for each participating employer in a cost sharing plan.

Concerns:

- If cost sharing governments pension expense is going to be based on their “proportionate share” (based on the government’s long term contributions for active employees relative to the total long term contributions of all governments in the plan) why wouldn’t we want the actuary to calculate (and have them pay) a separate contribution rate for each cost sharing employer?
- Will the cost sharing governments with a lower proportionate share want a lower contribution rate to more accurately reflect their actual pension expense, making the other government’s contribution rate higher?
- This would dramatically increase the Systems record keeping and actuarial costs.

Recommendation:

We believe that it would be more appropriate and easier to understand, for cost sharing plans to base pension disclosures on current year salary.

Actuarially Required Contribution (ARC)

We still believe that the most important disclosure a government should make is “what was the ARC, and how much of the ARC did the government pay”. If the ARC is consistently paid, the System will get funded. We do not believe that there should be a complete disconnect between the funding and financial reporting.

Recommendation:

In the example for Systems reporting (page 52) “Schedule of Changes in The Employer’s Net Pension liability”, if we were to break out current service cost into service cost paid, service

costs unpaid and a total current service cost, we would be able to see if governments are paying the ARC.

Pension Expense

URS disagrees with the Pension Expense calculation as outlined in the exposure draft. For simplicity and ease of understanding, the change in the Net Asset entry (Net Pension Liability) should equal pension expense. URS does not agree with deferring certain changes to future years or reporting period.

Concerns:

- Because most governments primary concern or expertise is not going to be pension disclosures, will governments be able to adequately explain to the governing directors, auditors or its citizens why there is a difference between what the System showed as increase (decrease) from operations and the change in the System total NPL and what the governments actually reports as pension expense including the concept of deferred inflows/outflows and why the ARC is an even different number?

We have always believed that one of our most important responsibilities was to try to make reporting as clear as possible, so our members and employers could understand what and why we were reporting.

Recommendation:

We believe it would be simpler to understand, audit, and explain if governments were to disclose their portions of the NPL and its pension expense, if it was based on the Systems "Schedule of Changes in the Employer's Net Pension Liability" and the government's proportionate share (based on current covered payroll). It would show users the changes in assets and the changes in NPL. The change in NPL could then be the government's pension expense number. It would be easy for governments to explain and a lot simpler to report.

New Government Employers

Concern:

- With the complexity of the proposed pension disclosures for defined benefit plans, will new governments want to join a defined benefit plan or will they opt for a defined contribution plan?

URS appreciates the opportunity to respond and GASB's consideration of our views on this issue.

Sincerely

Handwritten signature of Robert K. Kellersberger in black ink, featuring a stylized 'R' and 'K' followed by a horizontal line.

Robert K. Kellersberger CGFM
Finance Director

Handwritten signature of Robert V. Newman in black ink, featuring a stylized 'R' and 'V' followed by a horizontal line.

Robert V. Newman CPA
Executive Director

cc: Utah Retirement Board