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State of Arkansas

Department of Finance and Administration

Exposure Drafts of the Government Accounting Standards Board:

Pension Accounting and Financial Reporting by Employers

And

Financial Reporting by Pension Plans

Response by the State of Arkansas Department of Finance and Administration, Office of Accounting

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To the Director of Research and Technical Activities

RE: Projects 34-E and 34-P

We appreciate the opportunity to present our comments on the exposure drafts of the Governmental Accounting Standards Board. Pension accounting and reporting is a significant issue in governmental accounting. Any changes must be considered with sufficient input from constituents.

In general, we support retention of most of the current standards for pension accounting and reporting by employers. The information presented in the financial statements provides sufficient and relevant information for users. However, we will provide our views on the proposals presented in the document.

We agree that net pension liability meets the definition of a liability as expounded in Concepts Statement 4. We do have concerns, though, with the measurement methods used to calculate net pension liability and the related pension expense.

Measurement date for employers participating in cost-sharing plans

For cost-sharing defined benefit pension plans, we are concerned about the using the employer's period-end date as the measurement date for net pension liability. While this measurement date is conceptually correct, there are practical problems to consider when the employer's period-end date is different from the period-end date of the plan. In order to make a proper measurement of net pension liability, the plan will need to calculate plan net position as of each participating employer's period-end date. Also, plan net position will need to be calculated according to generally accepted accounting principles. If there are several dates on which plan net position, as well as related items such as proportionate share, must be calculated, the plan could incur significant costs to produce the measurements for participating employers.

Employers will be dependent on the cost-sharing plan's administration to provide the necessary information for its financial reports. In many cases, employers do not have sufficient influence over the plan to ensure compliance. If the plan is less than capable of producing the required information when needed, the employer will be unable to produce financial reports on a timely basis or may not be able to produce a reasonably accurate measurement of net pension liability. If the government participates in several defined benefit plans, it becomes more likely that the employer will not be able to produce basic financial statements on a timely basis.

Deferred Inflow of Resources and Deferred Outflow of Resources

The exposure draft requires several items used to measure the current pension expense/expenditure and the net pension liability to be reported as a deferred inflow of resources or a deferred outflow of resources for differences between actual and expected experience and changes in assumptions. This will probably result in the government having to track numerous deferred inflows of resources and deferred outflows of resources over time. If the government participates in two or more defined benefit pension plans, then the number is multiplied which could result in the government having to track 100 or more different items of deferred inflows of resources and deferred outflows of resources related to pensions. This could impact the ability of the government to produce basic financial statements on a timely basis.

The number of items to track could be reduced by having the differences between actual and expected experience reported fully in the reporting period with none of the differences being deferred.

Since what was once estimated has now been rendered actual, the full effect of the difference should be recognized in the reporting period in which the actual results occur. In the same manner, the difference between actual and expected returns on investment of plan investments should be reported in full in the year the actual results are achieved.