



October 11, 2011

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

Dear Director:

The Board of Trustees of the New Hampshire Retirement System (NHRS) submits the enclosed comments on the Government Accounting Standards Board Exposure Draft on Accounting and Financial Reporting for Pensions (an Amendment of GASB Statement No. 27). The NHRS is a multi-employer defined benefit pension system created by the New Hampshire Legislature for the exclusive benefit of public employees of the State of New Hampshire and its political subdivisions.

We urge your consideration of the comments to GASB Statement No. 27, amended as detailed in the attached statement.

Sincerely,



Lisa Shapiro, Ph.D.
Chair of the Board of Trustees
New Hampshire Retirement System

Comments on the Government Accounting Standards Board Exposure Draft on
Accounting and Financial Reporting for Pensions
(An Amendment of GASB Statement No. 27)

**Impact on the New Hampshire Retirement System and
Participating Employers**

The following comments are provided to the Government Accounting Standards Board in response to the proposed changes in the practice of accounting and financial reporting for public pensions, as described in the exposure draft issued June 27, 2011.

A. Background:

The New Hampshire Retirement System (NHRS) is a cost-sharing multiple-employer defined benefit pension plan, as that plan is defined in the exposure draft. The NHRS is comprised of 479 participating employers (as of June 30, 2010) including the State of New Hampshire and 4 related entities, 257 cities, towns, and related government entities, 12 counties and related entities, 167 school districts, and 38 school administrative units. The system is a component unit of the State of New Hampshire, issues a comprehensive annual financial report on a June 30 fiscal year end, and manages approximately \$5.89 billion of net assets available for benefits as of June 30, 2011 (unaudited).

By state law all full-time teachers, police and firefighters are required to participate in the NHRS. Most full-time local government employees (i.e. non-teacher, non-public safety employees) are required to participate in the system if their employer has elected to participate. The NHRS provides pension benefits to 25,845 retired members, 50,467 active members, 1,515 terminated/vested members, and 5,677 inactive plan members for a total of 83,504 participants (as of June 30, 2010).

B. Proposed Allocation of the Collective Net Pension Liability:

1. The GASB proposal is contrary to the statutory design of the NHRS.

The GASB proposes that each of the NHRS 479 participating employers report a liability equal to their long-term proportionate share of the collective net pension liability of the NHRS. This proposal is contrary to the statutory design of the NHRS.

The NHRS was created by the New Hampshire Legislature in 1967 in an effort to harmonize and coordinate a series of separate retirement systems covering different categories of public employees. From its inception 45 years ago, the NHRS is designed as a cost-sharing multiple-employer plan in which the employer participants *collectively* share the risks and benefits associated with operating a single public pension system. The GASB's proposal to now allocate pension liabilities to 479 employers is contrary to the statutory design and operation of the NHRS. It is inappropriate for the GASB, through accounting standards, to usurp the judgment and actions of the New Hampshire

Legislature by now forcing pension accounting and financial reporting on an employer-by-employer basis, akin to a multiple-employer agent plan. That is *not* what the New Hampshire Legislature created, nor what New Hampshire public employers agreed to at the time of initial participation in the NHRS. Had the New Hampshire Legislature intended for the NHRS to allocate each employer's share of the pension liabilities, it would have statutorily provided for such an allocation in the design and operation of the system.

2. Usefulness of the proportionate share of the net pension liability is questionable.

The usefulness of each employer's proportionate share of the net pension liabilities is highly questionable. Apportioning the net pension liability will not provide more useful information on which public pension policy discussions can be based. It is the *collective* financial information of the NHRS which is meaningful for public disclosure and debate on pension issues, not the proportionate share on an employer-by-employer basis. Since participation for most public employees is mandatory under state law, and since the New Hampshire Legislature is solely responsible for the plan design, and change thereto, employers have no means to address the liability that would appear on their balance sheet as the GASB proposes. Unlike liabilities resulting from such things as deferred road maintenance or accrued leave policies, individual local government employers:

- have no direct control over pension liabilities;
- cannot alter pension liabilities through benefit or other plan design changes, or by "paying down" their so-called share of the liability; and
- cannot terminate participation in the NHRS.

There are no pension policy decisions which can be made at the individual employer level to justify the inclusion of such a subjective and volatile liability on the employer's balance sheet.

Additionally, the GASB's proposal will mislead users of financial statements by presenting on the face of the balance sheet either a liability for which the governmental entity may not be fully exposed, or a liability which understates the exposure. Instead, the GASB should consider requiring further disclosures in the footnotes, such as the total liability, total payroll, and the governmental entities percentage of payroll, which would provide users with a frame of reference without a misleading accrual on the balance sheet.

3. The proposed allocation method is impractical.

The GASB proposes that the proportionate share of the net pension liability be a measure of the employer's projected long-term contribution effort to the pension plan as compared to the total of all projected contributions of the employers. This is impractical in reality, while it may sound good in theory.

Under paragraph 250, the GASB suggests that since the process of projecting long-term contribution efforts at the collective level is required to determine the discount rate, that may be a “starting point” for determining the allocation of the net pension liability to participating employers. However, requiring that the collective projection of contributions now be allocated to 479 employers will create both volatile and misleading results. Consider the old adage “the whole does not equal the sum of its parts”. While a new car may be bought for \$25,000, purchasing and assembling each part individually would result in a much more costly vehicle. The opposite may also be true: while a one-acre piece of property may only be worth \$10,000 in a town with a two-acre minimum building lot requirement, two abutting one-acre lots may collectively be worth \$75,000. The same is true with the proposal to allocate individual employer pension liabilities based on collective future contribution levels. A cost-sharing multiple-employer plan such as the NHRS is not designed, nor operated in a manner to account for past and future contributions and benefits on an employer-by-employer basis. Attempting to do so based on any allocation methodology will overstate and/or understate the liabilities reported by each individual employer, and will not provide useful information for public disclosure.

C. Accounting and Financial Reporting Methodology Separate From Funding Methodology:

The GASB proposes to separate the accounting and financial reporting methodology from the funding methodology. The reasoning for this proposed separation is not entirely clear. What is clear, however, is the fact that the major issues surrounding public pension systems *are about the funding*. The accounting and financial reporting for public pension systems should provide clear, concise, and meaningful information on which public policy decisions regarding pension funding can be based. Since the liability is based on a funding methodology and multiple long-term assumptions, bifurcating the accounting from the funding is an impossible goal. It is somewhat naïve to believe that the administration, operation and oversight of public pension systems can best be served by requiring the issuance of two sets of numbers: one for accounting and financial reporting purposes and another for pension funding purposes.

Also, it should also be noted that in the past, accounting for and funding of pensions had been separated under GASB Statement 5, which led some plan sponsors to impose weaker actuarial funding methodologies. Recognizing the problems associated with separate accounting and funding methods that resulted from implementation of Statement 5, the GASB subsequently promulgated Statements 25, 26, and 27 to resolve those issues. Returning to the principles incorporated under Statement 5 would be ill-advised.

D. Alternative Proposals:

While disagreeing with the allocation of the collective net pension liability and the separation of the accounting and financial reporting from the funding, the following is offered for the GASB’s consideration in its goal to promulgate standards that improve the transparency, accountability and disclosure of meaningful pension information:

1. Alternative reporting requirements for small governments.

In Statement 45, the GASB provided an alternative methodology for small governments to determine their obligations for other post-employment benefits. Acknowledging that the cost to ascertain those obligations would outweigh the benefit provided to small governments, the GASB acted responsibly by providing an alternative methodology. The same should be true with pension accounting and financial reporting.

While the State of New Hampshire is the largest employer in the NHRS, accounting for approximately 23% of the membership (11,792), only two other employers have more than 1,000 members in the system. Nearly all other employers have less than 500 members in the NHRS, many with less than 100. From a financing standpoint, the same is also true: very few New Hampshire governments, other than the State and a few of the larger local governments, issue their own debt in the open market. The vast majority finance through the New Hampshire Municipal Bond Bank or through their local bank. Finally, more than half of the employers are on a December 31 fiscal year end compared with the NHRS June 30 year end, which under the GASB proposal, would require a separate valuation for many small government, or procedures to “roll forward” amounts from the NHRS valuation date.

As advocated in section B, the collective information about the NHRS is far more relevant to the general users of small government financial statements than the more detailed disclosures being proposed. A small government alternative that provides more detailed information *in the footnotes* (as suggested in B2 above) about the NHRS would seem to be a reasonable approach to meeting the GASB’s objectives without overwhelming those smaller governments desiring to present financial statements in accordance with GAAP.

2. Alternative allocation methodology.

While advocating against the allocation of each employer’s proportionate share of the collective net pension liability, should the GASB decide to maintain that position, a simpler allocation based on past contributions or as a percent of payroll would be a more reasonable, practical, and cost-effective approach.

Thank you for the opportunity to present these comments on the exposure draft for accounting and financial reporting for public pensions.