

October 13, 2011

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

To the Director of Research and Technical Activities:

The Carnegie Public Library (East Liverpool, Ohio) is a participating employer in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multi-employer plan with approximately 3,700 employers. I am responding to the Governmental Accounting Standards Board (GASB) invitation to provide comments on its Exposure Draft, Accounting and Financial Reporting for Pensions and amendment of GASB Statement No. 27. This Exposure Draft addresses changes in the way participants in government sponsored pension plans account for and report pension assets and liabilities in their annual financial statements.

I appreciate the lengthy deliberative process undertaken by the GASB Board that culminated in the Exposure Drafts issued in June 2011, and understand the intent that the new financial reporting proposals are designed to standardize how participants in public pension plans disclose pension information in their financial statements. I appreciate your efforts to make financial reporting more transparent; however, I believe there are several challenges associated with implementing the proposed standards for multiple employer cost sharing plans. Though these proposed standards may work well with single employer and agent multi-employer plans, they appear to conflict with the purpose of pooling assets and liabilities in a cost sharing multi-employer plan, and with the state statutes that govern these plans.

As noted above, OPERS is a cost-sharing multi-employer plan in the State of Ohio. Employer participation in the plan is established by state statute that also dictates employer contribution rates and the benefits to be received by our employees. As an employer, the library has no control over the contribution rates assessed and we don't control the benefits offered or how they are calculated. Any changes to the existing contribution rates or benefit levels require action by the state legislature. Ultimately if there was a plan termination, default, or some other unlikely event, the state legislature would need to determine the final dispensation of any unfunded liability. Thus, the assignment of the liability is somewhat misleading given the structure within our state. This raises a question regarding the application of accounting standards that are not in accordance with state statute.

OPERS has the authority to request contribution and benefit changes for legislative consideration and action, positioning the pension system to be in control of these variables. We recommend that the net pension liability be reflected on the financial statements of the pension system where the assets for future pension benefits are also reported. We believe any allocation of the liability to the employer is arbitrary and misleading, and would suggest additional note disclosures of plan system information on the employers' financial statements. Just as private employers don't record their share of defined benefit Social Security or cost sharing net pension liabilities on their financial statements, we feel it is inappropriate for public employers to be subject to different accounting standards.

An estimated 70% of employees of public libraries are not lifelong employees of a library. Many of our employees come to us as second careers, either from the public or private sector. Yet, using this

“proportionate” share of net pension liability, public libraries will certainly be over reporting their liability. In fact, we believe that the nature of Ohio’s retirement systems establishes that the liability belongs to the retirement system, in our case Ohio Public Employees Retirement System, and not the individual public library employer.

We would urge GASB to provide clear and realistic implementation guidelines that specifically address a wide range of public employers; within public library employers in Ohio we have library systems with more than 600 employees and library systems with fewer than 5. We would also recommend that the pension expense be shown on a separate line so that auditors can easily distinguish this “proportional” liability from actual liabilities specific to the public library. We also believe that clear direction regarding audits of this liability would be useful.

While the proposed changes in accounting standards have broader applicability to single and agent employer systems, we do not believe they reflect the significant differences in the structure of multiple employer cost sharing plans such as OPERS. The changes recommended by the proposed accounting standards will result in reporting data that is too volatile to be used as a benchmark for employer performance. Prudent fiscal management at the local level can be obscured by the actions of larger participating employers, such as privatizing functions at the state level. Reporting of pension expense and liabilities that are not representative of the employer’s actual experience could lead to short-sighted decisions and ultimately lead to confusion and a lack of trust by the public. In addition, as the financial status of governmental entities changes, bond ratings – which impact the cost of debt service – could also be adversely affected. Additionally, we believe the proposed changes will lead to significant lags in the availability of information, dissemination of confusing information and significant additional costs.

I agree with GASB on the need for increased transparency and accountability for pension plans, employers and plan sponsors. However, I oppose the philosophical shift that eliminates the connection between the accounting requirements and the actual liability that employers have for funding of pension plans in accordance with state statutes.

I appreciate the opportunity to share with you our concerns.

Respectfully,

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