



October 6, 2011

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

Comments on GASB Project Nos. 34-P and 34-E

Dear Director:

This letter is in response to GASB's commentary invitation on possible revisions to GASB Statements 25 and 27 as outlined in the Exposure Drafts (EDs). The Los Angeles County Employees Retirement Association (LACERA) appreciates the opportunity to provide our perspective on the possible changes to current pension accounting and financial reporting standards. We are deeply interested in this issue and are concerned about the impact these changes would have on the plan sponsors, our pension system, and ultimately, our plan members.

LACERA is proud of our 73-year history of service to our members and adherence to sound benefit and funding policy standards. LACERA operates as a cost-sharing multiple-employer defined benefit plan with over \$39 billion in assets as of June 30, 2011. LACERA provides retirement allowances and other benefits to the safety and general members employed by Los Angeles County (County), its affiliated Superior Court, and four outside districts. It is our mission to produce, protect, and provide the promised benefits to more than 156,000 members, including more than 55,000 retirees.

We believe the existing GASB Statements 25 and 27 reporting standards adequately inform users of LACERA's financial condition; meet GASB's goals related to accountability, inter-period equity, and decision usefulness of pension plan reporting; and provide reasonable transparency of LACERA's financial status.

The EDs contain a significant departure from current reporting measures. We have concerns about the impact these changes would have on our current practices. Our concerns follow.

- Delinking of Accounting and Funding

Today, nearly every government employer makes decisions on funding based upon the pension expense. The current standards are based on the employer's funding costs of providing pension benefits. They link the actuarial requirements to accounting disclosures stating how much the employer should contribute (the Annual Required

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Contribution), whether the employer responsibly made those contributions (Schedule of Employer Contributions), and if not, by how much (Net Pension Obligation). We are concerned about the impact of breaking the linkage between the calculation of the pension expense (employer's annual required contribution) and pension funding. It will likely confuse users about which is the "true cost" and diminish the financial statement's usefulness. It could have an unintended, negative effect on public attitudes about state and local government pension plans.

- Net Pension Liability on the Employers' Balance Sheet

We are concerned that the measure used for the Net Pension Liability may be extremely volatile. The asset value used in this calculation is the market value (rather than the actuarial value of assets), which is inconsistent with the GASB principle that governments are long-term entities. Using the asset value on a particular date rather than an average value will unnecessarily add wide fluctuations in the reported liability amount. The discount rate may be required to change from one period to the next based on long-term investment returns (which is currently undefined in the EDs). As a result, this will increase the volatility of the balance sheet liability. A better approach would be reporting the asset value on a smoothed basis since this would produce an amount that more accurately reflects the value of the plan's assets.

- Accounting for Cost-Sharing Plans

The proposed approach is extremely complex and would have costs that far outweigh the benefits. The EDs will require a substantial increase in the amount of actuarial work currently performed. The proposed accounting measurement standards are likely too volatile to be used in funding the pension plan. Thus, LACERA will likely engage the actuary not only to compute actuarial assets and liabilities to determine the annual required contribution but also to calculate the Net Pension Liability using different valuation methods for assets and liabilities.

- Expansion of Disclosure Information

The EDs necessitate replacing some of the current note disclosures and required supplementary information with data based on the new measures and additional disclosures showing trends and other information. We believe that in light of the recent downturn in the economy, the usefulness of the proposed 10-year historical trend requirement for policymakers in evaluating the plan on a go-forward basis appears to be impractical. Other key operational concerns include:

1. Financial Reporting Timeliness

The proposed EDs impact the timeliness of financial reporting. It will entail extensive resources and focused efforts in coordinating the communication between LACERA, the County, outside districts, LACERA's actuaries, and other professional service providers so that all are in sync and meeting their respective deliverables timely. As previously

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mentioned, actuarial work is considerably increased under the proposed standards. Thus, it would be illogical to assume the actuary's work would be completed earlier. The calculation of the Net Pension Liability and corresponding allocation of the employers' proportionate share of the Net Pension Liability will be time consuming for staff and each employer's reporting is delayed until that information is received from LACERA.

2. Increased Costs

Also, there are significant increased costs related to the implementation of the proposed EDs. As mentioned, the actuary's amount of work is expected to increase. Some of the suggested disclosure information requires data from LACERA's custodian bank for which the reporting infrastructure is currently non-existent. LACERA's financial auditor will also need to audit the Net Pension Liability calculations and new required supplementary information. Due to the increased scope of services required from our service providers, a potential corresponding increase in professional service costs specifically related to actuarial, investments, and audit services is likely to occur.

3. Implementation Timing

Finally, we are concerned with the proposed effective date in the EDs. Within a relatively short period of time, LACERA would be required to implement the standards of the proposed Statement No. 25 effective for fiscal year June 30, 2013. This means all configured reporting systems should be in place and ready to capture transactions on July 1, 2012. Implementation of these new standards increases work for the actuaries, auditors, and employers. It places a significant burden upon the plans, especially the cost-sharing defined benefit multiple-employer plans such as LACERA. Thus, it may be more reasonable for implementation to be deferred for at least one year.

As part of GASB's due process activities, it is conducting a field test of its proposed rules as set forth in the EDs. We believe it would be beneficial, practical, and prudent for GASB to extend the duration of the field tests currently underway before developing the final standards. We are interested in the field test results and hope the GASB will share them with all interested parties. We respectfully suggest GASB consider additional field testing and "re-exposing" these critical accounting and financial reporting issues.

Thank you for the opportunity to comment on this project. It is our hope that the GASB seriously considers the concerns we have raised regarding the EDs. Should you have any questions or need additional information regarding our comments, please feel free to contact me at bauten@lacera.com or (626) 564-6000 extension 3475.

Sincerely,

Beulah S. Auten

Beulah S. Auten
Chief Financial Officer