



March 16, 2012

Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7, PO Box 5116  
Norwalk, CT 06856-5116

Re: Project No. 13-3

Dear Members of the GASB:

The Texas Municipal Retirement System (TMRS or the Plan) is pleased to have the opportunity to respond to the Governmental Accounting Standards Board's (GASB) Project No. 13-3, Preliminary Views (PV) document on "Economic Condition Reporting: Financial Projections".

TMRS is a statewide agent multiple-employer retirement system created by the Texas Legislature in 1947 to provide retirement, disability, and death benefits to employees of participating municipalities in the State of Texas. The TMRS Act places the general administration and management of the System with a 6-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas.

TMRS administers a nontraditional, joint contributory, hybrid ("cash balance") defined benefit plan for over 840 participating employers covering over 101,000 members and 39,000 retirees and beneficiaries. Each employer participating in TMRS is financially responsible for the benefits of its own members, retirees and beneficiaries.

## **GENERAL COMMENTS**

TMRS recognizes that decision makers require information with which to assess a government's fiscal sustainability and that long-term financial projections are an important financial tool. However, we do not believe that the presentation of projections and economic conditions affecting sustainability, as proposed in this PV, belong in the Comprehensive Annual Financial Report (CAFR) as Required Supplementary Information (RSI).

Most notably, we do not believe that the projections proposed by the PV meet the criteria for inclusion as RSI as stated by GASB Statement of Concepts 3, paragraph 44 (excerpt provided below):

*RSI may include explanations of recognized amounts, analysis of known facts or conditions, or other information essential for placing the basic financial statements and notes to basic financial statements in context. However, RSI does not include (a) subjective assessments of the effects of reported information on the reporting unit's future financial position, (b) predictions about the effects of*

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*future events on future financial position, or (c) information unrelated to the financial statements.*

The CAFR is considered a document that contains historical financial information, with limited subjectivity. Including forward-looking financial information in the CAFR would significantly change the perspective of the CAFR and could likely cause confusion to unsophisticated users; many users may not fully understand the cautionary language included with projections and incorrectly rely on those projections as facts or could have false expectations about the future performance of the government. Projecting inflows and outflows over a long period of time requires use of subjective economic assumptions, and those assumptions become less reliable the further into the future they are made.

Projections can be of great value to elected officials, financial managers and citizens and are often included and used in the budgetary process. Forecasts and projections are used as part of a financial planning process, not a financial reporting process. Government financial statements are prepared to be an accurate and reliable presentation of the results of operations and financial position; forward-looking projections are not accurate or reliable and we believe they should not be included in a government's audited financial report. If GASB continues with this proposed approach, we believe these projections should be reported in a more appropriate section of the CAFR, such as the statistical section; we do not believe they should be included as RSI within the Financial Section of the CAFR.

TMRS is also in disagreement with the GASB's PV as it relates to fiduciary funds, such as pension plans. Pension plans are designed, structured, and funded based upon a long-term outlook, reflecting a time-horizon covering an employee's career plus a period of receipt of retirement benefits, a span of time that could be 50 to 75 years. Sustainability for pension plans can be evaluated by monitoring the long-term actuarial measures based on the funding method of the plan (funded status, progress on the ARC, amortization based on the known contribution approach). Cash flows are not a relevant measure of fiscal sustainability of a pension plan. Instead, the purpose of a pension plan trust fund is to accumulate sufficient resources to pay benefits when due, and therefore more appropriately assessed by the funded status of a plan. In addition, the primary cash flows of a pension plan trust fund are most likely investment-related; such cash flows would be difficult, if not impossible, to predict. For these reasons, we strongly believe that fiduciary plans should be excluded from the scope of any standards resulting from this PV.

## **CONCLUSION**

TMRS understands and appreciates the GASB's view of the need for entities to review and provide projections as part of its ongoing assessment of fiscal sustainability. However, as stated above, we do not believe that these projections should be presented as RSI in the Financial Section of a CAFR. We have concerns that this proposed approach could lead to confusion among financial statement users, possibly increase audit fees, significantly extend the time necessary for entities to issue their financial reports and add additional administrative costs – all without adding significant, reliable information.

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Finally, if the GASB continues with this approach, we strongly believe fiduciary funds, such as pension plan trusts, should be excluded from the scope of any proposed standards.

We appreciate the opportunity to comment on this project. Should you have any additional questions regarding these comments, please feel free to contact our organization.

Sincerely,

A handwritten signature in cursive script that reads "David Gavia".

David Gavia  
Executive Director

cc: TMRS Board of Trustees