



National Association of State Auditors, Comptrollers and Treasurers

September 30, 2011

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Mr. David Bean
Director of Research
Governmental Accounting Standards Board
401 Merritt 7
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we appreciate the opportunity to respond to the Governmental Accounting Standards Board's Exposure Draft (ED), *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25.

In general we believe that the ED correctly applies the developments from Concept Statements No. 3 and No. 4. This proposed statement together with the proposed statement *Accounting and Financial Reporting for Pensions*, will result in increased accountability for the current and cumulative prior period effects of the employment exchange implicit in providing governmental pensions. However, we do have the following comments and concerns we believe the board should consider as it finalizes this statement.

Paragraph 8

To increase readability it would be helpful if the standard for measurement of plan type (that is, the count of employers) stood alone in paragraph 8, and the third and fourth sentence of paragraph 8 were presented as paragraph 9 showing the requirements for a single employer. The current paragraph 9, showing the requirements for more than a single employer would be renumbered as paragraph 10. Alpha lettering of the two resulting paragraphs might also help in establishing the relationship between the applicable count criteria and the application to single versus multiple employer plans.

Paragraph 14

In the summary on page vi and in paragraph 14 the document references the presentation of deferred inflows and deferred outflows of resources in the Statement of Net Position. Illustration 3 does not show deferred inflows or deferred outflows of resources. We believe Illustration 3 is intended to align with Illustration 2 in the related statement showing the reconciliation of deferred items. It is unclear whether the absence of deferred items in Illustration 3 is a function of the specific conditions of the sample statements or whether there is no condition under which a pension plan's financial statements would report deferred inflows or deferred outflows. It may be the Board has not identified a circumstance in which deferred inflows and deferred outflows apply to fiduciary fund financial statements; although we believe deferral of fair value changes in an effective hedging derivative investment should be applicable to trust fund reporting. The Board may be able to avoid confusing readers by stating that the pension plan does not report pension related deferred items in its financial statements, but it must identify for the participating employers the differences between expected and actual economic and demographic assumptions (required by paragraph 32.a.(4)) and the differences between projected and actual investment returns (currently not required in the pension plan notes or RSI). Employer's need the deferral information for the calculation and reporting of pension expense and for the reconciliation of deferred inflows and deferred outflows.

Paragraph 31.b.(1)(e)

This paragraph requires that the effects on the current-period net pension liability recognized by the employer(s) of a 1-percent increase and 1-percent decrease in the discount rate be disclosed. We agree that such a disclosure will be a beneficial way to illustrate the effect the investment return assumption has on the pension liability. However, we are concerned that such benefits could be outweighed by potential misinterpretations of this information. Pension investment return assumptions are created with a long-term approach in mind. Given the volatility in annual pension returns, we believe readers of financial statements may compare the long-term return assumption with the recent annual returns and develop inaccurate conclusions about the pension liability. Therefore, to avoid any potential confusion, we suggest a disclosure be added to this note informing readers that the employer's discount rate has a long-term focus and directing readers to a location where long-term rates of return can be found.

Paragraph 31.c

This paragraph mentions the use of update procedures to roll forward amounts to the end of the plan's reporting period. Please describe what the update procedures would involve. Lack of direction could impair the comparability of financial statements across governments.

Paragraph 32

The second sentence says "as of the plan's most recent fiscal year-end at the end of the plan's reporting period." This is confusing. We recommend this be reworded as "measured at the end of the plan's reporting period" or "as of the plan's most recent fiscal year-end."

Paragraph 32 a. and b.

These paragraphs require similar information regarding the pension liability. We believe the Board should consider combining the two into one schedule to avoid duplicate work. The first three items in b. are required in a. By adding the last three items in b. to a., one less schedule would be required.

Paragraph 32 a.-d.

We believe the Board should include additional explanation to clarify whether the 10-year schedules of the employer(s) must disclose information for all employers combined or detailed by each employer. For example, in a cost-sharing plan where there are multiple "employers," please clarify if it is the intent of the Board for the plan to disclose this information for each employer or if the information can be disclosed on a combined plan level.

Paragraph 37

This paragraph requires the actuarial valuation as of the end of the reporting period or using update procedures to that date. Requiring the valuation or the update at year-end could seriously hamper the production of timely financial statements and will be very costly for the plan's administrator.

Paragraph 44

Please provide clarification for item d. which states, "The service costs of all pensions should be attributed through all assumed exit ages, through retirement." This text implies there is more than one assumed exit age. Item a. in paragraph 44 requires that attribution of present value of projected benefit payments be made on a plan member-by-plan member basis. If there is only one expected exit age per individual, the language in item d. is not compatible with the language in item a. If item d. is intended to address the probability weighing for various exit dates used in actuarial valuations, that assumption should be explained or made clear in the standard.

Paragraph 47

We suggest that the Board make the effective date of this statement the same for all plans. We recommend the standard be revised so it is effective for financial statement periods beginning after June 15, 2013. We believe all plans need sufficient time to coordinate and provide information to their participating employer(s).

Paragraph 48

This paragraph requires that changes necessary to comply with the proposed standard be shown as prior period adjustments on the Statement of Changes in Net Position. It was our understanding that the requirements of the ED would not change the amounts presented on the pension plan's financial statements since the ED does not require the plan to recognize the total pension liability or any pension related deferred items. If there is no effect on the financial statements because all changes are in the notes and RSI disclosures, it seems inappropriate to include the prior period adjustment language.

Paragraph 50 (Glossary)

Page 18: The word "employee" appears to be misspelled in the term "Covered-employee payroll."

Paragraph 101 (Illustrations)

- Page 45 (Illustration 3): The Prepaid items should not be indented because it is at the same level in the Statement of Plan Net Position as Cash, Receivables and Investments.
- Page 45 (Illustration C): The Liability item titled "Due **from** broker for investments" should be "Due **to** broker for investments."
- Page 50 (Illustration 3): The note on Net Pension Liability of the County contains the following sentence, "In each period of the projection, County contributions are assumed to first be applied to the service cost of all members, with any remaining amount included in projected County contributions for current plan members." We have difficulty understanding this sentence in the context of the ED requirements, and we believe the Board should determine whether it effectively demonstrates a requirement from the ED.

General Comment

Our members have increasingly expressed concerns about complexity in the accounting and reporting standards. Many of the sentences in this document are very long and complex, encompassing five or more lines of text. Please consider breaking up these sentences into shorter, more readable thoughts. The use of bullets or numbered indentations might help to break up these long sentences. The first example is paragraph 30.a.(5) in which the second sentence takes up over five lines. Consider placing a period after the second instance of "benefit provisions." Start the new sentence with the word "Include." See also paragraphs 30.b.(4), 94, 95, 98 and 100.

We appreciate the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Kim O'Ryan of NASACT at (859) 276-1147 or me at (334) 242-9200.

Sincerely,



Ronald L. Jones
NASACT President