

Technical Accounting Review Committee (TARC)
Illinois Government Finance Officers' Association (IGFOA)

October 14, 2011

Director of Research and Technical Activities
Project No. 34-E and 34-P
Accounting and Financial Reporting for Pension Plans & Pensions
Email: director@gasb.org

Dear Director:

This letter is the Illinois Government Finance Officers' Association's Technical Accounting Review Committee's response to the Exposure Drafts entitled Financial Reporting for Pension Plans (an amendment of GASB No. 25) and Accounting and Financial Reporting for Pensions (an amendment of GASB No. 27). The Technical Accounting Review Committee of the IGFOA previously responded to GASB's Invitation to Comment and the Preliminary Views on this critical issue. We appreciate the opportunity to participate in the response process.

This response will primarily focus on the Exposure Draft Accounting and Financial Reporting for Pensions (an amendment of GASB No. 27) with some closing remarks on Financial Reporting for Pension Plans (an amendment of GASB No. 25). This response reflects the views of those entities that administer single-employer and cost sharing plans within their local jurisdictions. The impact of these proposed changes is significant.

TARC monitors and comments on activities and rulings of the Governmental Accounting Standards Board (GASB) and educates the IGFOA membership on GASB standards. The IGFOA Technical Accounting Review Committee holds serious concerns about the implications in completely separating accounting and funding for pension plans as well as the considerable cost and effort that will greatly burden already financially-strapped governmental entities. However, with that said, the Committee does agree with most of the proposed changes. The Technical Accounting Review Committee respectfully requests clarification in several areas.

Accounting and Financial Reporting for Pension (an amendment of GASB No. 27) **Comments**

Paragraph 6: A footnote should be added that administrative costs and refunds are included in the qualified trust definition. In addition, this paragraph states that the employer contribution for single-employer and cost-sharing plans would be included in the calculation for compensated absences. The Committee requests additional clarification be offered to ascertain how this will be amended. GASB Statement 16. On Page 155 of this Exposure Draft, the reference to Compensated Absences reference needs clarification as to when would the additional accrual be required.

Paragraph 8: The Committee is in agreement with this paragraph.

Paragraphs 9 – 11: The Committee takes issue with how the component units are reported. For instance, municipal libraries would be considered cost sharing for reporting standards and then it further complicates matters with components with differing fiscal year-ends.

Paragraph 12: The Committee is very opposed to the conditional versus unconditional discussion. This will be a significant issue for school districts and community colleges. As TARC has previously commented, employers with a minimal required contribution (i.e., community colleges) will be required to disclose a very significant liability and therefore it is misleading that this is a required liability of the employer. In actuality (at least in Illinois), that liability is one of the State, and is not one of the employer. As we discussed in our response to the Preliminary Views, our question is: Does this criteria meet the definition of a liability?

Paragraph 16: TARC concurs with GASB in reporting the “net” pension liability and we do not repeat our previous concerns.

Paragraph 18: The Committee requests clarification as to what the roll forward procedure is specifically. Is this an actuarially determined number or an estimate made by the employer?

Paragraph 19: The Committee requests more guidance on multiple actuarial valuations, as this is not sufficient as it stands. While the proposed paragraph does state that the employer and the plan should agree on the actuarial assumptions, our issue is who takes precedence when determining which actuarial study to utilize? Will precedence be given to the employer or the plan?

The Committee is concerned that the estimate of the pension liability is greatly affected by the significant actuarial assumptions used in the calculation of that liability. We believe that without more specific guidance or restrictions on the actuarial assumptions utilized, the resulting liability is subject to manipulation on the part of the entity determining the assumptions and threatens the consistency and reliability of the resulting liability to be reported in the financial statements. Furthermore, it is typical in the State of Illinois to have multiple actuarial valuations available and therefore, we would look for guidance on the appropriate application of multiple actuarial studies in determining the pension liability.

Paragraph 20: The Committee agrees on how the automatic COLAs and ad hoc COLAs have an immediate effect and that future salary increases and service credits will be included in the calculation. We also agree in including them in the calculation of the liability as of the balance sheet date.

However, the Committee’s concern relates to the potential for spiking of benefits that are not formally documented but are done consistently in practice – how are these amounts captured in the liability?

The Committee asks to consider moving the footnote discussion of ad hoc COLA to the body of the statement.

Paragraph 21: The Committee is in agreement with this paragraph.

Paragraph 22: The Committee takes issue with projecting future employer contributions. What happens when employer contributions are not consistent year over year? Again, this is a concern when the thought is to divorce financial reporting from funding. We see this as a major issue for police and fire pension funds. Who will calculate these amounts? Will it be the actuary or the employer? The Committee strongly believes that this is a component of the actuarial process. GASB must offer a definition as to whom and how the future employer contributions should be calculated.

In addition, the Committee believes newly created funds should be allowed a delayed implementation of the blended rate (a ten-year period). During the initial ten-year period, the new fund would discount at the fund's investment rate of return.

Paragraphs 26 & 27: The Committee is in agreement with this paragraph.

Paragraph 28: The Committee is in agreement with each items (a)(1-5) with the exception of (a)(2) - where the discount rate being applied in the calculation would be counterintuitive for employers who are making contributions and are applying the higher discount rate.

In addition, the Committee believes that the smoothing of earnings seems inconsistent with not smoothing the asset values.

Paragraph 29: The Committee believes that this section should include a discussion of how the pension contributions expense from the Employer (specifically with regards to property taxes being levied). How is this recognized and recorded? Specifically, the Committee has a question on expenditure recognition in the General Fund vs. revenue recognition in the pension fund.

Paragraph 32: The Committee requests clarification for agent and cost-sharing plans. Is this disclosure going to be just the employers, some employees or all employees of the plan? Is it the employer only or the plan as a whole?

Paragraph 34: In 34(b) – the Committee asks “who is going to provide this and who is going to audit it?” In 34(e) – the Committee asks “who is going to provide this and who is going to audit it?” The Committee believes this information should be included in an entirely separate section apart from the Required Supplementary Information such as an Actuarial Information Section. The Committee's issue is with disclosures in which auditors are opining on projections and time weighted/money weighted rates of return, real rates of return, classes of investments, etc.

The Committee strongly suggests that the GASB consider adding a separate actuary/investment section that would be a more appropriate place for this supplementary information.

Financial Reporting for Pension Plans (an amendment of GASB No. 25)

Paragraph 38: The Committee has questions on the selection of assumptions – are they the same assumptions for plans (employer and plan). We have multiple plans. Whose actuarial report takes precedence? If agent multiple employer/cost sharing plan then should agent’s actuarial report should be used? If single employer plan then should the employer’s actuarial report be used?

Paragraphs 40 & 41: The Committee holds the same concerns as stated above in our response to the GASB 27 amendment.

Paragraph 45: Defined contribution plans – why would they not want the employer contribution rate included?

In closing, in regard to changes to cost-sharing employers, TARC believes the new standards will produce a significant measure of the pension liability on their balance sheets and have greater unpredictability.

We appreciate the opportunity to provide additional feedback and our comments. If you have questions or require further information, please contact me at (847) 870-9041 or gallagherm@cityrm.org.

Sincerely,

Melissa Gallagher, Chair, Technical Accounting Review Committee
Illinois Government Finance Officers Association