



September 23, 2014

Mr. David R. Bean  
Director of Research and Technical Activities  
Project No. 34-1NTP  
Governmental Accounting Standards Board  
401 Merritt 7  
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Norwalk, CT 06856-5116

Dear Mr. Bean:

The American Institute of Certified Public Accountants (AICPA) has reviewed the Governmental Accounting Standards Board (GASB) Exposure Draft (ED), *Accounting and Financial Reporting for Pensions and Financial Reporting for Pension Plans That Are Not Administered through Trusts that Meet Specified Criteria, and Amendments to Certain Provisions of GASB Statements 67 and 68*, and is pleased to offer its comments. Consistent with our responses to the previous pension due process documents, we continue to fully support the Board's efforts to reexamine its pension accounting and financial reporting and are pleased that the remaining guidance related to pensions not administered through trusts (non-trust pension plans) has been addressed by this project.

We support the overall tenets of the ED and its alignment to the accounting in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as some of the departures of this ED from that standard due to the lack of trust arrangements (for example, discount rate based solely on the municipal bond rate). However, we also have a number of significant concerns that we believe should be addressed prior to issuance of a final Statement that are addressed in the following section of this letter titled, "Significant Concerns." Additional concerns and related recommendations appear in the section below titled, "Other Comments and Recommendations." The final section of this letter titled, "Editorial Comments," includes areas we noted which could use clarification or editorial revision.

Finally, we have previously raised a number of concerns related to the other pension due process documents that we believe continue to be relevant to this ED. Rather than repeat those comments in this letter, we have included new comments (in the "Significant Concerns" section below) on areas where we now have new perspective to add based on our experience with the implementation of GASB Statement No. 68. Other concerns that we continue to carry forward from our previous comment letter on the pension due process documents are summarized in Appendix A, "Relevant Comments from Previous Due Process Responses." As many of the conclusions reached related to this ED are based on the discussion and requirements in GASB Statement No. 68, we have linked some of our comments to the Basis for Conclusions in GASB Statement No. 68.

## **SIGNIFICANT CONCERNS**

***Measurement of Net Pension Liability for Employers Participating in Non-Trust Pensions Plans Should be as of Employer's Year-End.*** We disagree with the proposed measurement date for the net pension liability for employers that participate in non-trust pension plans. We believe it should be based on a measurement as of the employer's year end. While we agree with the Board's concession on measurement date as discussed in paragraphs 188-193 in the Basis for Conclusions in GASB Statement No. 68, we see no reason to provide this practical concession for employers that participate in non-trust pension plans. Our rationale is based on the fact there are no qualifying plan assets to audit in such non-trust pension plans. The practical concession described in the Basis for Conclusions in GASB Statement No. 68 only makes sense when the plan needs to be audited in order to provide information to the participating employers, but this is not the case for non-trust pension plans.

***Guidance for Allocation of Pension Amounts to Proprietary Funds Needed.*** Similar to our response on the ED for GASB Statement No. 68, we continue to recommend the final Statement include guidance on potential allocation methods of pension elements to proprietary funds (e.g., percentage of actual contributions of each fund) when it is determined that such liabilities are expected to be paid from proprietary and fiduciary funds. We understand the Board has intentionally chosen not to include guidance on the allocation of pension elements to proprietary funds. However, based on our experience with the implementation of GASB Statement No. 68 thus far, we believe this lack of guidance is perpetuating significant diversity in practice and, more specifically, in the allocation of pension amounts by employer governments. Additionally, it is unclear whether deferred outflows of resources and deferred inflows of resources should be determined for (reported in) proprietary funds, including changes in proportion. Due to the complexity of potential allocation methods for pension elements, additional guidance would promote consistency in practice in terms of how such allocations are made. Accordingly, we recommend the Board include guidance that pension amounts (including net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources) should be allocated to proprietary funds based on the amount of contributions made or expected to be made in proportion to those for the primary government as a whole, consistent with the cost-sharing allocation methodology described in paragraph 48 of GASB Statement No. 68. We also recommend changes in proportion for a proprietary fund be deferred and recognized similar to other changes in proportion for the government as described in paragraph 54 of GASB Statement No. 68.

***Inconsistent Special Funding Criteria for Employers Participating in Non-Trust Pension Plans.*** We understand that in developing the criteria for special funding situations for employers participating in non-trust pension plans, the Board made accommodations from the definition of special funding situation in GASB Statement No. 68. Specifically, under GASB Statement No. 68, which does not include non-trust pension plans, a nonemployer contributing entity must be legally required to be make contributions *directly to the plan* to qualify as a special funding situation. However, the ED states that for employers participating in non-trust pension plans, the nonemployer entity must be legally

responsible for making benefit payments *to the employee of another entity as the pensions come due, whether directly or through the use of nonemployer contributing entity assets* held by others for the purpose of providing pensions. This non-trust modification to include payments other than those directly to a plan is a major departure from GASB Statement No. 68. We strongly recommend that since the Board has been so prescriptive in GASB Statement No. 68 regarding the direct contribution to the plan, the final Statement should not permit special funding situations for employers participating in non-trust pension plans.

***Administrative Costs Related to Pensions Provided Through Non-Trust Pension Plans Should Not be Deferred.*** We disagree with the Board's proposed employer accounting for administrative costs for pensions provided through non-trust pension plans (see paragraph 32 of the ED). As discussed in our comment titled, "Measurement of Net Pension Liability for Employers Participating in Non-Trust Pension Plans Should be as of Employer's Year End," we believe the liability for pensions provided through non-trust pension plans should be measured as of the employer's year end. However, if the Board does not agree with that comment and moves forward with the "practical concession" approach, we recommend the administrative costs incurred after the measurement date should not be deferred because they represent period costs that are indistinguishable from other administrative expenses of a government. Instead, we believe it is more conceptually sound to expense these costs as incurred as such treatment would better reflect interperiod equity. While we understand that payments for pension benefits after the measurement date would have to be deferred because these costs relate to the measurement of the total pension liability, the timing of recognizing administrative costs will not impact the measurement of the total pension liability. Another consideration for not deferring administrative costs is that they are difficult to separately identify, and usually are relatively small in relation to pension benefit payments.

***Presentation of Actuarially Determined Contributions as Required Supplementary Information for Employers Participating in Non-Trust Pension Plans Not Relevant.*** Paragraph 42.c of the ED requires that if an actuarially determined contribution is calculated, the employer include, as required supplementary information (RSI), a 10-year schedule with various elements. We believe this schedule is not relevant for an employer participating in a non-trust pension plan because there are no contributions to a plan (i.e., a trust). In such a non-trust situation, the payment of pension benefits is on a pay-as-you-go basis. Therefore, an actuarially determined contribution is not relevant and has no clear and demonstrable relationship to information in the financial statements. We recommend the Board eliminate the requirement to present this schedule as RSI.

## **OTHER COMMENTS AND RECOMMENDATIONS**

***Stand-Alone Guidance in Paragraph 44 Requires Clarification.*** Paragraph 44 of the ED addresses the accounting and financial reporting for pensions in stand-alone financial statements of primary governments and component units that provide pensions through the same defined benefit pension plan. We strongly recommend this paragraph be restructured in the final Statement as the guidance is very difficult and overly burdensome

to understand. We have a number of suggestions regarding this paragraph that we have attached as Appendix B to this letter titled, "Suggestions to Improve Paragraph 44."

***Clearly Articulate There Are No Separately Issued Plan Financial Statements When Under the Scope of this Statement.*** The provisions in GASB Statement No. 67, *Financial Reporting for Pension Plans*, do not apply to non-trust pension plans that are in the scope of this ED. However, this concept is not clearly articulated in the ED. We suggest the Board more clearly address in the introduction of this Statement that the guidance in this Statement should be considered a continuation or extension of GASB Statement No. 68 and that, when under the scope of this Statement, there is no corollary to GASB Statement No. 67 (that is, there are no separately issued financial statements of the plan). Similarly, we suggest the Board add reciprocal guidance to GASB Statement No. 67, to indicate that for plans outside the scope of GASB Statement No. 67 to see the guidance in this final Statement.

## **EDITORIAL COMMENTS**

***Clarification of Scope.*** We recommend the Board limit the scope discussion in paragraph 5 of the ED to amendments of GASB Statement Nos. 67 and 68. We believe the reference in the first sentence to non-trust pension plans (which is the primary focus of the ED) is confusing and duplicative of the scope criteria in paragraph 4. Accordingly, we recommend the following revisions:

5. This Statement also ~~establishes requirements for defined benefit pension plans that are not administered through trusts that meet the criteria in paragraph 4~~ and amends certain provisions for pension plans that are within the scope of Statement 67 and for employers and governmental nonemployer contributing entities that are within the scope of Statement 68.

***Clarification to Table of Contents.*** Paragraph 11 discusses the applicable paragraphs for accounting and financial reporting for defined benefit pensions provided through non-trust pension plans and cites paragraphs 19-78 as the applicable guidance. We understand that insured benefits are defined as a type of defined benefit pension. Therefore, we suggest the table of contents be clarified by either creating a caption for paragraphs 19-78 to incorporate all defined benefit pension guidance or changing the caption of paragraphs 76-78 to "Defined Benefit Pensions: Insured Benefits."

***Eliminate Reference to Plan Reporting.*** Paragraph 10 of the ED defines "pensions" for the purposes of this Statement but also discusses what is not considered a pension. Consistent with our comment, "Clearly Articulate There Are No Separately Issued Plan Financial Statements When Under the Scope of this Statement," we suggest the following edits to the final sentence of paragraph 10 to eliminate the reference to plan reporting:

- Postemployment benefits other than retirement income that are provided separately from a pension plan and postemployment healthcare benefits should be accounted for and reported as other postemployment benefits (OPEB), ~~and the plans through which those benefits are provided should be accounted for and reported as OPEB plans.~~

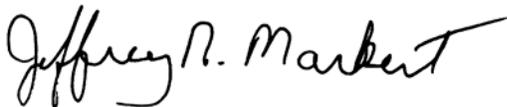
**Cross-Referencing Needed.** We suggest the final Statement include better cross-referencing to related guidance. For example, the accounting and reporting for special funding situations is in numerous places within the ED and not always cross-referenced. We recommend the Board insert cross-references for better linkage of topics throughout the final Statement. For instance, paragraph 53 of the ED which addresses support of nonemployer contributing entities not in a special funding situation should cross-reference to paragraph 30.c where it is also discussed.

**Potential for Misinterpretation of the Term "Other Information."** The captions for paragraphs 39-41 and 68-69 are titled "Other Information" which is also a term in the AICPA's *Professional Standards*. Other information as intended in the ED is to explain required elements to the notes to the financial statements. Whereas, other information as defined in AU-C section 720, *Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*) defines the term as, "Financial and nonfinancial information (other than the financial statement and the auditor's report thereon) that is included in a document contained in audited financial statements and the auditor's report thereon, excluding required supplementary information." Given the Board's intent is to have required note disclosures that are part of the basic financial statements; we suggest the Board add more description to the caption to alleviate the potential for misinterpretation.

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The AICPA appreciates the opportunity to comment on the ED. This comment letter was prepared by members of the AICPA's State and Local Government Expert Panel and was reviewed by representatives of the Financial Reporting Executive Committee who did not object to its issuance. Representatives of the AICPA would be pleased to discuss these comments with you at your convenience.

Sincerely,



Jeffrey N. Markert  
Chair  
AICPA State and Local Government  
Expert Panel



Mary M. Foelster  
Director  
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cc: State and Local Government Expert Panel  
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## **Appendix A: Relevant Comments from Previous Due Process Responses**

Appendix Page 1

The accounting and financial reporting for non-trust pension plans generally aligns to GASB Statement No. 68. We understand that the GASB is promoting consistency among standards where possible, but we have a number of concerns that were raised in our September 22, 2011, comment letter (AICPA pension letter) which are relevant to the proposals in this ED. We have briefly summarized the relevant concerns below and rather than reiterating our previous comments, have provided links to the comment caption in the AICPA pension letter for the Board's reference.

***Expense Changes in Proportion.*** We disagree with deferring and recognizing in future periods the net effect of a change in the proportion used to calculate the employer's share of the collective net pension liability and collective deferred outflows of resources and collective deferred inflows of resources related to pensions as described in paragraph 48 of the ED. We continue to recommend the Board revise the proposed treatment of the net effect of a change in proportion to expense any such change in the current period as further discussed in the AICPA pension letter titled, "Changes in Proportion of Cost-Sharing Multiple-Employer Plans Should be Expensed."

***Projected Unit Credit Actuarial Cost Method Best Measure.*** We continue to disagree with the Board's proposal to use the entry age normal actuarial cost method as a level percentage of projected pay and continue to support the use of the projected unit credit actuarial cost method for the same reasons discussed in the AICPA pension letter comment titled, "Projected Unit Credit Actuarial Cost Method Best Measure."

***Employer Accounting for Special Funding Situations Should be Gross.*** We still believe, despite the discussion in paragraphs B16-B17 in the Basis for Conclusions of this ED, the full net pension liability and related deferred outflows of resources and deferred inflows of resources should be reflected in the employer's financial statements. This issue was discussed in the AICPA pension letter comment titled, "Proposed Accounting for Unconditional Special Funding Situations Flawed."

## **Appendix B: Suggestions to Improve Paragraph 44**

### Appendix Page 2

In our comment titled, “Stand-Alone Guidance in Paragraph 44 Requires Clarification” we noted we had difficulty understanding aspects of paragraph 44. We understand that the intent of the guidance in paragraph 44 is to direct preparers of stand-alone financial statements to the guidance in paragraphs 55-65 and 67-69, along with the modifications provided later in the paragraph. We have the following related recommendations that the Board should consider in finalizing the Statement:

- The Board should clarify in the final Statement that the stand-alone government preparing the financial statements is not a nongovernmental contributing entity. Paragraph 44 indicates that each government is a governmental nonemployer contributing entity and uses the term throughout. We suggest providing guidance from the perspective of the stand-alone entity as follows, “From the perspective of the government preparing its stand-alone financial statements, the other governments (e.g., primary government and/or component units) would be considered governmental nonemployer contributing entities to the stand-alone government.” This type of clarification would help put into context the guidance in paragraphs 44.a.2.a and 44a.2.b.
- The Board should provide discussion in the final Statement as to why certain paragraphs were excluded within the referencing. The reference to apply paragraphs from other sections indicates paragraphs 55-65 and 67-69 but the ED did not provide a rationale as to why the guidance in paragraphs 66 and 70-71 were excluded. We suggest the Board explain why specific paragraphs of the “Governmental Nonemployer Contributing Entities” section have been excluded to assist in understanding.
- The Board should discuss in the final Statement why the requirements for special funding should not be followed for stand-alone entities in this reporting scenario. The last sentence of the first paragraph of paragraph 44 states, “For primary governments and component units that have special funding situations, the requirements of paragraphs 46-54 should *not* be applied.” We were confused by this because paragraphs 46-54 specifically address special funding situations. To assist in the understanding, we suggest that a discussion be added to the final Statement to explain that the guidance in 44 along with some of the note disclosures in paragraph 44 addresses special funding for stand-alone financial statements and eliminates the need to apply paragraphs 46-54.
- We also have an editorial suggestion regarding the referencing within paragraph 44. The first sentence of paragraph 44 ends with, “with the modifications noted in subparagraphs (a)-(c) below. We suggest this be changed to “subparagraphs a-c below.” Given the depth of guidance in 44, there are subparagraphs noted with parenthesis and because there are instances of (a), (b), and (c) in the list, the referencing as drafted could be confusing.