

September 29, 2014

David R. Bean, CPA
Director of Research and Technical Activities
GASB
401 Merritt 7
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Re: May 28, 2014 Exposure Draft of a Proposed Statement of the Governmental Accounting Standards Board, *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 [the Non-Trust ED]* [Project No. 34-1NTP]

Dear Mr. Bean:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to speak on behalf of local and regional firms and represent those firms' interests on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC appreciated the opportunity to discuss its comments on the Non-Trust ED with the GASB Chair and staff at the GASB/TIC Liaison Meeting on September 17, 2014. TIC is now providing the following written comments for your consideration.

GENERAL COMMENTS

The scope of this ED would include all pension plans that are not administered through trusts that meet the criteria specified in paragraph 4 (Non-Trust Plans). Therefore, the scope of the ED will include relatively minor, simple plans, as well as very large, complex plans. TIC believes the proposed requirements are relevant and appropriate for the large Non-Trust plans.

However, TIC is unable to support the measurement and disclosure requirements in the Non-Trust ED for simple pension plans because TIC believes the proposed requirements are excessive and unnecessary. TIC recommends that simplified measurement and disclosure requirements be adopted in the final standard to accommodate the cost constraints faced by all simple pension plans, including those that are administered by trusts. TIC is therefore requesting modifications to GASB Statements 67, *Financial*

Reporting for Pension Plans, and 68, *Accounting and Financial Reporting for Pensions*, as well as the Non-Trust ED.

TIC is also requesting some additional definitions and clarifications for the final standard.

SPECIFIC COMMENTS

Simplifications Requested for Simple Plans

The provisions of the ED are largely drawn from GASB Statements 67 and 68, including the note disclosure requirements and required supplementary information. TIC agrees that large plans should have the same accounting and financial reporting requirements irrespective of whether the plan is administered through a trust. However, TIC members are not aware of any substantial plans that would meet the scope of the ED. All of the substantial plans in TIC's constituency include pension trusts and therefore are accounted for in accordance with GASB Statements 67 and 68. TIC understands that substantial, Non-Trust Plans exist and that the Non-Trust ED will provide useful guidance for them. However, this ED will not be appropriate for the simple pension plans that are very common in some states.

TIC was surprised that additional considerations for the simple, Non-Trust Plans were not included in this ED. TIC had anticipated that Non-Trust Plans had been excluded from the scope of GASB Statements 67 and 68 so that the Board could address the unique financial accounting and reporting issues faced by the smaller plans that are not administered by trusts, as discussed in paragraph 167 of GASB Statement 68:

The Board believes that there potentially are additional considerations with regard to measurement of liabilities for pensions that are not provided through a pension plan administered through a trust that meets the criteria. In addition, the Board understands that pensions provided in that manner tend to be supplemental benefits or benefits provided to relatively small groups of employees and generally would be a minor portion of the total obligations for pensions.

These are simple plans that are frequently found in school districts or voluntary fire relief associations in certain states. As mentioned in paragraph 167 of GASB Statement 68, they are often considered "supplemental" plans (e.g., a supplemental pension plan for school district administrators that was set up as an early retirement incentive). The plans typically average 20-40 participants, and the benefits are usually a fixed dollar amount for each year of service. (For example, one plan pays out a maximum of \$3,000 for each year of a participant's service.) Most are lump-sum payouts, but some are paid out over a short period of time (e.g., three years). (This type of payout is in sharp contrast to a traditional pension arrangement where benefit payments are made until the participant dies.) Simple plans may or may not be closed to new participants, but, even if the plan is open to new participants, the number of total participants does not grow significantly given the relatively short payout period and limited number of participants. As a general rule, these plans are material to the government's government-wide and proprietary fund

financial statements but they are far from substantial (i.e., minor) compared to other plans that the government may sponsor or in which it may participate.

TIC believes a simplified approach to recognition, measurement and disclosure should be available for simple, Non-Trust Plans. The proposed requirements to obtain an actuarial valuation, to provide required supplemental information and to provide the same detailed disclosures found in substantial plans would be excessive, unnecessary and very costly given the size and nature of these plans and would not yield sufficiently better information for financial statement users. An actuarial valuation for one of these plans could easily cost up to \$5,000 and would have to be funded by the cities or other municipalities sponsoring the plans. For example, a city government could easily incur \$2,000-\$5,000 for an actuarial valuation even though the city's annual contribution to the plan may be only \$7,000 annually. This outcome would be extremely onerous and unworkable for the government.

TIC therefore requests that the Board consider a simplified approach to provide relief from the requirements in the proposal for these plans. TIC fully supports recognizing a liability for the pension obligation. Today, most of these plans use an Excel spreadsheet to calculate pension liabilities by multiplying the participants' years of service by the benefit amount. The liability is recognized in the government-wide financial statements and the proprietary fund(s), often at a discounted present value. The notes to the financial statements discuss the nature of the plan and eligible participants. TIC believes this approach would provide sufficient, relevant information for financial statement users and minimize costs for the governmental entities that sponsor simple, Non-Trust Plans.

In developing its simplified approach for simple pension plans, TIC looked to GASB Statement 16, *Accounting for Compensated Absences*, as precedent. TIC believes the obligations related to simple pension plans have similar characteristics to those of compensated absences. Many of the benefit provisions surrounding sick pay and other compensated absences are either similar to or, in some cases, more complex than the features of many simple pension plans. The liabilities associated with simple pension plans and compensated absences are attributable to services already rendered. TIC therefore believes that the measurement provisions of GASB Statement 16 would be relevant to simple plans and should be adopted in lieu of a requirement for an actuarial valuation. TIC also recommends a reduction in disclosure requirements as discussed above, which would be consistent with a simplified measurement approach.

TIC also noted that the Board is also considering certain amendments to GASB Statements 67 and 68 as part of this ED. The above amendments that TIC is proposing for the simple Non-Trust plans would be equally applicable to simple pension plans that are administered through trusts and recommends that they be considered as part of the re-deliberation process for this ED.

One TIC member has seen over 700 such plans for voluntary fire relief associations alone. Each plan is administered by a trust and has an average of only 28 participants. A fixed dollar amount is accrued for each year of service. The benefits are funded by the cities or

other municipalities that sponsor the plans, and the cost of an actuarial valuation, if required, would be borne by the sponsoring municipality.

TIC therefore recommends that GASB Statements 67 and 68 be amended to provide simplified measurement and disclosure principles for simple pension plans that are administered by a trust. The existence or nonexistence of a trust should not trigger a difference in the measurement of the pension obligation.

TIC understands that the Board would prefer to adopt one common financial reporting model for all postemployment benefit plans. However, TIC believes that simplifications are warranted and necessary for simple pension plans when the costs of compliance exceed the benefits to be derived.

Readability Issues

Despite its shorter length, the Non-Trust ED has the same readability issues as the GASB ED, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (the OPEB Employer ED). The document is cumbersome and confusing to follow in part because cross-referencing among requirements is over-used. TIC believes preparers will prefer a format that includes all requirements and guidance for each plan type in one place. Most governments have only one or two plan types and would be using only certain portions of the final standard. Extensive cross referencing across plan types adds to the complexity of the document and should be avoided.

At a minimum, TIC recommends a requirements matrix to facilitate navigation within the ED, especially for the disclosure requirements. For example, GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, Appendix D, Illustration 1 (P50.902), includes a grid that summarized the note disclosures and required supplemental information for employer reporting. This should be adapted as necessary, for this ED.

Clarifications Requested

Measurement Date Definition TIC noted that the term “measurement date” was not defined in the ED. The determination of a measurement date is a critical step in the recognition and measurement of a pension liability, and the Board should not assume that its meaning is universally understood by its constituents. The specific measurement dates selected by individual governments can vary, but the process of selecting the date should be consistent among governments.

Paragraph 22 of the ED offers a partial explanation of the measurement date, as follows:

The total pension liability should be measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period.

The explanation is incomplete because it defines the earliest parameter for the measurement date without also providing a true definition of what the date represents and how it would be identified. Such guidance is critical to understanding why one government would select a measurement date as of the end of the prior fiscal year v. a measurement date as of six months prior to the end of the current year.

Without a consistent definition, governments will question whether they are defining it correctly in the context of this proposed standard, which could present difficulties in determining the appropriate measurement period. TIC believes the definition is too important not to be included in the glossary and encourages the Board to provide a formal definition in the final standard to mitigate potential diversity in practice.

Definition of “a Substantial Proportion of the Collective Total Pension Liability”

Paragraph 66 states:

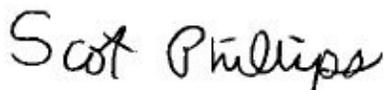
*The information identified in paragraphs 67–69 should be disclosed, and information required in paragraphs 70 and 71 should be presented as required supplementary information, for benefits provided through each defined benefit pension plan for which the governmental nonemployer contributing entity recognizes **a substantial proportion of the collective total pension liability.***

The meaning of “substantial” in this context is unclear. Illustration 3 on page 154 of the Employer ED assumes, for purposes of the example, that the State’s proportionate share of the net OPEB liability is 80%. Paragraph C1 (Illustration 3) on page 137 captions this disclosure as a “Substantial Proportion of Collective Net OPEB Liability.” The illustration appears to equate “substantial” with 80% or higher (i.e., “significant”). TIC believes this interpretation may not be what the Board intended.

TIC recommends that the Board clarify the meaning of the term in the OPEB Employer and Non-Trust EDs either by providing a definition of the term or by providing application guidance so that the term is not misunderstood. Use of the term without additional guidance as to how it should be applied will result in diversity in practice among governments.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Scot Phillips, Chair
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees