

GRS PERSPECTIVES

From the Chief Actuary

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GRS's Chief Actuary



As Chief Actuary, Mr. David T. Kausch monitors the firm's adherence to established actuarial standards, provides oversight and interpretations for the firm's actuarial methodologies, and serves as a GRS spokesperson for the company's perspectives and positions on actuarial issues.

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GRS Testimony Related to GASB's Exposure Drafts on Pension Accounting

By David T. Kausch, FSA, EA, MAAA, FCA

On October 20, 2011, the Governmental Accounting Standards Board (GASB) held hearings in Chicago to obtain comments on its Exposure Drafts (EDs) regarding proposed changes to pension accounting and financial reporting standards for state and local governments.

The GASB accepted our request to provide testimony, which I provided on behalf of Gabriel, Roeder, Smith & Company (GRS). The GASB proposals mark a significant departure from the current standards. GRS has found various merits to the new standards. However, we also have concerns about the impact of the new standards on public pension plan funding, the usefulness and clarity of financial statements under the proposed standards, and some practical difficulties involved in implementing some of the proposed changes. The following is a summary of my testimony.

Long-Term Nature of Governments and the Employment Exchange

GRS supports the GASB's principles related to the long-term nature of governments and the career-long nature of the exchange between employers and employees. However, a primary concern is that the GASB's changes to pension accounting standards overall would not reflect these principles. Moreover, the GASB's current measure of pension expense (based on the annual required contribution) would better reflect the long-term costs of pension benefits.

Implementation of the New Standards

In the event the GASB implements the EDs, it would be useful to extend the effective dates at least another year, given the complexity of the new regulations and their fundamental impact on how pensions are measured. Moreover, it seems impractical to implement the changes as adjustments to prior periods, therefore we suggested that the proposed changes only apply to future periods.

Simplifying the Proposed Calculations

GRS also offered various recommendations, many of which were intended to simplify the proposed calculations. Some, but not all, of our recommendations are summarized below.

Net Pension Liability (NPL): With regard to determining the employer's NPL, it appears that the GASB's proposed process for determining the discount rate used to calculate the liability is complicated and time consuming. Also under certain circumstances, there is a high likelihood that the projected benefits would be covered by the projected resources, making the complicated calculation unnecessary.

Recommendation: We recommend that the GASB provide safe harbors for certain cases where it is clear no shortfall will occur. This will maintain the intent of the proposed standards, and at the same time, simplify the calculations and reduce the administrative costs of preparing the disclosures.

Pension Expense (PE): With regard to determining an employer's pension expense, the GASB's proposed period for amortizing certain actuarial gains and losses would be the liability weighted average remaining service life of active employees.

Recommendation: GRS indicated that the exact approach to this calculation was unclear and could result in inappropriately short amortization periods. Therefore, our recommendation was that the GASB allow the average remaining service life to be calculated as a simple average.

Cost-Sharing Employers: The GASB has proposed that a cost-sharing employer's net pension liability, pension expense, and deferred inflows/outflows should be a proportionate share of the plan's net pension liability, pension expense, and deferred inflows/outflows. Moreover, the employer's proportionate share should be measured as of the employer's fiscal year-end date. However, given that the fiscal year-end dates of employers in cost-sharing plans often do not coincide with the plan's fiscal year-end date, this proposed rule could require cost-sharing plans to value their assets on a monthly basis.

Recommendation: GRS explained that this could be extremely expensive for the cost-sharing plans and recommended using the plan's fiscal year-end date instead. We also recommended other ways to simplify the calculations for cost-sharing employers.

Full written comments are available at the GRS homepage at www.gabrielroeder.com.

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