

GRS INSIGHT

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The GASB's Preliminary Views on Pension Accounting and Financial Reporting by Employers

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In This Issue

The GASB's Preliminary Views document presents proposed changes in pension accounting and financial reporting standards for state and local governmental employers.

The proposed changes may play a significant role in shaping state and local government pensions and other postemployment benefits for decades.

The GASB is requesting comments on the Preliminary Views by September 17, 2010, and will hold public hearings in October. It is important for stakeholders to review the proposed changes, consider their impact, and provide comments.

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On June 16, 2010, the Governmental Accounting Standards Board (GASB) issued its Preliminary Views (PV)² on proposed changes to accounting and financial reporting standards for state and local government employers that sponsor defined benefit (DB) pension plans.³ The PV is an intermediate step in the GASB's Postemployment Benefits (PEB) project to review the standards and reflects the GASB's expectation of significant discussion related to the proposed changes. The GASB's changes would apply only within the context of accounting and financial reporting and would not necessarily affect the actuarial calculations used to determine funding requirements.⁴ It is also important to note that the GASB considers its proposed changes tentative until the final statement is issued.

Last year, the GASB issued an Invitation to Comment (ITC) on possible changes to the pension accounting standards adopted in 1994. In the ITC, the GASB discussed two alternative approaches that the standards might follow. The first reflected the current approach, applying measures based on the actuarial methods and assumptions used to fund the promised benefits. The second reflected an approach favored by some financial economists, using measures based on a hypothetical value at which the pension liability might trade in financial markets. In the PV, the GASB proposes a middle approach which combines some elements of both.

Most of the PV relates to accounting and reporting standards for employers participating in sole-employer or agent multiple-employer pension plans. Essentially, these employers are solely responsible for the pensions promised to their plan members. However, the PV also proposes changes related to employers in cost-sharing multiple employer plans, which are plans that spread benefit costs among multiple employers. The GASB's proposed changes for cost-sharing employers are discussed on page 6 of this article.

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² The PV is officially titled: "Preliminary Views, Pension Accounting and Financial Reporting by Employers," and is available on the GASB's web site (www.gasb.org).

³ Accounting and reporting standards for defined contribution (DC) benefits are not included in the PV and are not expected to change as a result of the GASB's PEB project.

⁴ Standards for actuarial valuations are established by the Actuarial Standards Board.

The GASB's Objectives

The underlying goal of the GASB's PEB project is to review and consider changes to current accounting and reporting standards related to postemployment benefits. Initially, the GASB chose to review the pension standards that apply to governmental employers. Later, they expect to extend their discussion to accounting and reporting standards for pension plans and, after that, to accounting and reporting for other postemployment benefits (OPEBs), including retiree health care benefits.

Essentially, the GASB uses three criteria to evaluate accounting and reporting approaches: (1) accountability; (2) decision-usefulness; and (3) interperiod equity. Accountability is considered the primary objective of governmental accounting and financial reporting, and stems from the duty of public officials to provide constituents with an accurate accounting of financial transactions.

Decision-usefulness reflects the extent to which financial reports provide users with the information they need to make informed decisions. Governmental report users represent a broad range of stakeholders, including: citizens/taxpayers, legislative and oversight bodies, creditors, employees, retirement plan members, plan trustees, and others. Decisions related to pensions include: (1) determining the size of pension benefits offered to employees; (2) evaluating the cost of benefit changes; (3) determining the contributions necessary to fund the benefits; (4) determining the plan's funded status and progress; (5) assessing the employer's overall economic condition and creditworthiness; and (6) allocating plan assets for investment purposes.

Interperiod equity relates to the goal of allocating the costs of current services to current taxpayers and avoiding the shifting of costs to future taxpayers. In the PV, the GASB recognizes that governments are long-term entities and that measuring pension costs as a level percentage of payroll is a reasonable approach for achieving interperiod equity over the long-term.

Current Pension Accounting and Reporting Standards for Governmental Employers

Before discussing the PV in detail, it may be useful to briefly review the current pension accounting and reporting standards for governmental employers, as presented in GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

Generally speaking, accounting and reporting standards establish how financial items are defined and measured (e.g., what constitutes an "expense" or a "liability") and where

the items are presented in the government's annual financial report (e.g., in the basic financial statements, notes to the financial statements, or other sections of the financial report).

Under current standards, pension accounting measures are closely related to pension funding measures. Generally, the employer's "pension expense" for accounting purposes is the "annual pension cost" (APC) necessary to fund the plan, and both are determined using the same actuarial methods and assumptions.

The APC consists of the employer's "annual required contribution" (ARC), plus certain adjustments if the employer has contributed more or less than the ARC over time. The ARC, in turn, is the actuarially determined cost of the benefits allocated to the current year (the "normal cost" or "service cost") plus the amortization of any overfunded or underfunded actuarial accrued liabilities.

The current standards also place certain constraints on the actuarial methods and assumptions that are used for accounting and reporting purposes, which include:

- Using one of six acceptable actuarial cost methods to determine pension costs and liabilities. For the most part, these methods include projection of salary and certain other factors in determining the normal cost of benefits.⁵
- Using the long-term expected rate of investment return to project future investment earnings as well as to discount the present value of benefits.
- Limiting the period for amortizing the unfunded actuarial liability and actuarial gains and losses to a maximum of 30 years.
- Allowing the actuarial value of assets to reflect investment gains and losses that are averaged over time to smooth the impact of investment volatility on funded levels and contribution rates.

Under current standards, a sole or agent employer's balance sheet liability for pensions is the "net pension obligation" (NPO). It is calculated as the accumulated difference between the employer's annual pension cost and the employer's actual contributions to the plan over time. For cost-sharing employers, the balance sheet pension liability is the accumulated difference between the employer's contractually required contributions to the plan and the employer's actual contributions.

⁵The six actuarial cost methods are entry age, frozen entry age, attained age, frozen attained age, projected unit credit, and aggregate. A seventh method, the unit credit cost method, is only acceptable for plans in which accumulated benefits are not affected by future salary levels, since this method does not include projections of either salary or service.

The current standards also require employers to disclose information about pension benefits in the notes to the financial statements and other sections of the employer's financial report. Generally, these disclosures include, but are not limited to: a description of the plan; annual required contributions; and actual contributions. In addition, employers in sole and agent multiple-employer plans must also disclose: the actuarial value of plan assets; actuarial accrued liability; unfunded actuarial accrued liability; funded status; and related actuarial methods and assumptions.

Issue 1 – An Employer's Obligation to Its Employees for Defined Benefit Pensions

In the PV, the GASB presents its views through the discussion of six issues that underlie pension accounting and reporting. The first issue relates to the nature of the employer's responsibility for defined benefit (DB) pensions and addresses how an employer's obligation for pension benefits arises.

As presented in the PV, the GASB believes: (1) the employer's obligation for DB pension benefits is created as a result of the employment exchange (i.e., the exchange of employee services for employer compensation); and (2) the employer remains primarily responsible for the unfunded portion of the pension obligation.

The GASB's belief that the employer's obligation for DB pension benefits is created by the employment exchange dates back at least 20 years. In 1990, the GASB's Exposure Draft for Statement No. 27 stated:

"The provision of services by an entity's employees in exchange for the right to receive compensation is a transaction that affects the entity's resources and should be recognized in each accounting period when the exchange occurs, regardless of when the compensation is paid. ... Pension benefits are part of the total compensation earned by employees for their services ..."⁶

Moreover, the GASB believes this obligation meets the criteria of an accounting obligation under GASB Concepts Statement No. 4, in that it is "a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action."⁷ The GASB also considered whether an employer is relieved of this obligation when it creates a legally separate pension plan (and trust) to accumulate assets and pay benefits. The GASB agreed that the pension plan is primarily responsible for paying benefits to the extent the plan has assets. However, they also agreed that the employer remains responsible for any unfunded benefit payments.

⁶ GASB Statement No. 27 Exposure Draft, paragraphs 18 and 19.

⁷ GASB Concepts Statement No. 4, paragraph 18.

Issue 2 – Liability Recognition by a Sole or Agent Employer

The second issue addressed in the PV is whether the pension obligation should be considered a liability for financial statement purposes. To do so, it must meet the GASB's conceptual definition of a "liability" and be "sufficiently reliable" for inclusion in the financial statements. The GASB draws a distinction between items that are "recognized" in financial statements and items that are "disclosed" in the notes to the financial statements or in supplementary information. The distinction places a higher standard on items recognized in the financial statements since they are more prominently displayed.

The GASB's deliberations take place within the context of its financial reporting concepts, presented in its Concepts Statements. Liabilities are defined in Concepts Statement No. 4 as "present obligations to sacrifice resources that the government has little or no discretion to avoid."⁸ The GASB has come to believe that the unfunded portion of the pension obligation meets the definition of liability for the employer.

However under current pension accounting standards, the unfunded pension obligation is not included in the financial statements. This is because, during the GASB's deliberations related to Statement No. 27, the unfunded obligation was considered inherently uncertain since it is based on assumptions about the future.⁹ Over the intervening years, however, the GASB has issued new Concepts Statements, under which the GASB has come to believe the unfunded pension obligation is sufficiently reliable for recognition in the financial statements.

As discussed in the PV, an item may be considered reliable if it is "free from bias, faithfully represents what it purports to represent, is comprehensive, and is not misleading" but that this "does not imply precision or certainty." While agreeing that the unfunded pension obligation is subject to inherent uncertainty, the GASB noted that similar uncertainties are already incorporated in the financial statements, such as uncertainties related to the fair value of investments, depreciation, solid waste closure costs, and pollution remediation. Consequently, the GASB proposes that a measure of the sole or agent employer's unfunded pension obligation should be included in the employer's financial statements. The GASB refers to this measure as the "net pension liability" (NPL), which is discussed in the next section.

The GASB also rejected using the net pension obligation (NPO) on the grounds that it implies the employer's pension obligation has been transferred to the pension plan. The

⁸ GASB Concepts Statement No. 4, paragraph 17.

⁹ GASB Statement No. 27, paragraph 69.

GASB saw this as inconsistent with its view that the employer remains primarily responsible for the pension obligation to the extent the plan does not have sufficient assets.

Comment: The GASB's rejection of the NPO and acceptance of the net pension liability for recognition in the basic financial statements is a major change to the pension accounting and reporting standards for sole and agent employers.

Issue 3 – Measurement of the Net Pension Liability (NPL) by a Sole or Agent Employer

The third issue relates to how the employer's net pension liability should be determined for accounting and reporting purposes. Generally, total pension liabilities are determined using the following steps: (1) projecting benefits as a series of cash flows to be paid in the future; (2) discounting the cash flows to their present value using an appropriate discount rate; and (3) allocating the present value to past and future periods of service. The unfunded liability is calculated by subtracting available assets from the total pension liability to determine the unfunded portion.

Under current GASB standards, projected benefits typically include the value of future salary, service, and automatic COLAs, but not ad hoc COLAs. The present value of the cash flows is determined using a discount rate that reflects long-term expected investment returns. The actuarial accrued liability is determined by allocating the present values to past and future periods of service using one of six actuarial methods (with the entry age cost method used most frequently). And the unfunded liability is determined by subtracting the actuarial value of plan assets (typically using a smoothed value of assets) from the actuarial accrued liability.

However, to determine the new net pension liability for accounting and reporting purposes, the GASB proposes using somewhat different factors:

Projected Benefits. In measuring the net pension liability, the GASB proposes that projected future benefits include:

- Automatic COLAs;
- Ad hoc COLAs, to the extent they are not substantively different from automatic COLAs;
- Projected future salary increases; and
- Projected future service credits.

With the exception of ad hoc COLAs, the actuarial valuations of most public plans currently include the above benefits. Therefore, these projections alone would likely have a minimal effect on calculated liabilities for most plans. However, for plans that consistently offer ad hoc COLAs, this change could cause the value of the ad hoc COLA to be included in the liability.

Blended Discount Rate. The GASB believes the discount rate should be based on a blended rate of expected investment returns and high-quality municipal bond yields. As explained in the PV, the GASB sees the total pension liability as derived from two different benefit payment streams.

The first stream consists of benefit payments that are projected to be paid from current plan assets and expected future assets (e.g., future investment earnings, employer and employee contributions).¹⁰ For this stream, the GASB believes that the long-term expected investment return is the appropriate discount rate, since the investment earnings will likely reduce future employer contributions needed to fund the benefits.

The second stream consists of benefit payments for which no current or projected future plan assets are expected to be available. For this stream, the GASB believes that the projected benefit payments should be discounted using a rate that reflects the yield on an index of high-quality municipal bonds.

As proposed, the two rates would be blended into a single equivalent rate; however, it would not be a weighted average of the two rates. Instead, it would be the rate that produces the same present value of future benefits as derived by applying the two different discount rates to the two expected benefit streams. Note that this approach does not necessarily mean that a plan with an unfunded liability would have to use the blended rate.

Comment: To the extent current and projected future assets are not available to fund projected benefits, using a municipal bond rate could result in net pension liabilities that are greater than the unfunded accrued liabilities calculated for funding purposes. This could create confusion among financial report users about which is the "true" liability and what actions should be taken to fund the benefits.

Attribution to Past and Future Periods. While recognizing that state and local government employers have the right to select the actuarial cost method used to fund pension benefits, the GASB believes using a single actuarial cost method is preferable for accounting purposes. It argues this would eliminate an unnecessary source of variation in financial reporting and would consequently improve comparability and reduce the complexity of financial reporting.

In the PV, the GASB proposes using the entry age normal actuarial cost method as the single method. This actuarial cost method is typically applied in a way that attributes service costs to periods as a level percentage of projected payroll. The GASB believes using the entry age actuarial cost method

¹⁰ Future employer contributions would be projected based on the plan's stated contribution policy and recent pattern of contributions.

is more representative of the way it views the employment relationship – that is, as an ongoing series of exchanges over an employee’s career.

Plan Net Assets. As noted earlier in this article, the net pension liability is obtained by subtracting available assets from the total pension liability. The GASB proposes that the fair (market) value of plan net assets be used, which consists largely of plan investments.

Comment: Since investment returns fluctuate widely over time, changes in plan net assets will likely add volatility to the measure of net pension liabilities.

Issue 4 – Attribution of Changes in the Net Pension Liability to Financial Reporting Periods by a Sole or Agent Employer

Given that the GASB proposes using the net pension liability as the pension liability for financial statement purposes, any increase in the net pension liability would be considered a “consumption” of net assets and any decrease would be considered an “acquisition” of net assets under GASB Concepts Statement No. 4.

In determining what constitutes the pension expense in this context, the GASB must determine what portions of the pension-related consumption (or acquisition) are applicable to the current reporting period and what portions are applicable to future reporting periods. If the consumption (acquisition) is related to the current period, it is considered a current outflow (inflow) of resources and is recognized in the pension expense for the current period. If it is related to a future period, it is considered a deferred outflow (inflow) and is recognized in a future period (or periods).

In considering this issue, the GASB grouped the various types of pension-related consumptions (acquisitions) into categories related to: service costs, interest, actuarial gains/losses, changes in actuarial assumptions, changes in benefits, and investment gains/losses.

Service Costs. The service cost (also referred to as the “normal cost”) reflects the pension cost of employee services during the current period. As discussed in the PV, the GASB is proposing that the service cost be measured using the entry age normal actuarial cost method and that the service cost be included in the pension expense for the current period.

Comment: The entry age actuarial cost method is currently used to measure the pension service cost for about three-quarters of state and local government employers.¹¹ However, for the approximately one-

quarter that apply other actuarial methods, use of the entry age method would result in a different measure of service cost than that used to fund benefits.

Interest on the Total Pension Liability. Interest on the beginning total pension liability would be recognized as an expense. Presumably, the interest would be calculated using the blended discount rate discussed above.

Actuarial Gains and Losses, Changes in Actuarial Assumptions and Benefits. Determining the total pension liability depends on a variety of economic and demographic assumptions. These assumptions may be different from the plan’s actual experience and, therefore, lead to differences between the expected total pension liability and the actual total pension liability from year to year. To the extent these differences change the total pension liability related to past service, they would need to be recognized. The same is true for changes in assumptions and benefits.

The GASB considered whether changes in the total pension liability due to changes in plan experience (i.e., actuarial gains and losses), assumptions, or benefits should be recognized in the pension expense immediately, or gradually amortized with a portion recognized immediately and the balance deferred for recognition in future periods. As discussed in the PV, the GASB believes that immediately recognizing all of the changes would not be consistent with its view that pensions are part of the career-long employment exchange between employer and employee.

Instead, the GASB proposes amortizing these changes over the average expected remaining service lives of active employees, weighted to approximate individual amortizations. However, to the extent the changes apply to vested inactive members (including retirees and beneficiaries), all such changes would be recognized immediately.

Comment: For accounting and reporting purposes, this change would effectively reduce the amortization period for these actuarial gains/losses from a maximum of 30 years to about 10 to 20 years (or less), depending on the demographic characteristics of the covered employees. The reduction in the amortization period, in turn, would likely lead to a higher and more volatile measure of the pension expense.

Differences Between Actual Earnings on Plan Net Assets and Expected Earnings. As with changes in assumptions and benefits, the GASB considered recognizing changes in plan assets immediately, but rejected it on the grounds that the differences between actual and projected investment earnings tend to offset each other over time. The GASB concluded that immediately recognizing such differences would reduce the usefulness of the pension liability and expense measures.

¹¹ Project update on the Pension Accounting and Research project, Issue 5, Paper 5, Johnson et al, dated November 30, 2007.

Instead, the GASB proposes to defer recognition of these differences to the extent they are small relative to the value of assets. Specifically, the GASB proposes to defer recognition of the differences between actual investment earnings and long-term expected investment earnings to the extent they remain within a 15% corridor around the fair value of plan net assets. However, when the cumulative difference between actual and expected investment earnings falls outside of the corridor, the excess portion would be recognized immediately.

Comment: This means that unusual events, such as sharp market declines or increases, could be recognized immediately, possibly increasing the volatility of the pension expense.

Other Changes in Plan Net Assets. The GASB believes other changes in plan net assets (e.g., due to employer and employee contributions, plan administrative expenses, etc.) should be recognized in the pension expense when they occur.

Issue 5 – Recognition by a Cost-Sharing Employer

So far, this article has focused on pension accounting and reporting for employers in sole and agent plans (i.e., employers that are solely responsible for funding the benefits of their members). However, the GASB has also proposed changes for employers in cost-sharing multiple-employer plans. Cost-sharing plans share the pension funding costs and risks across participating employers. Key differences between cost-sharing plans and sole or agent plans include:

- Cost-sharing plans pool liabilities, assets, and risks across all participating employers. As a result, the liabilities and assets are not directly attributable to any single employer.
- Employer contributions to cost-sharing plans are generally allocated on an equal basis across all participating employers (reflecting the pooling concept) and are often determined by statute with payments contractually required.

Under current GASB pension standards, cost-sharing employers recognize their contractually required contribution as their pension expense, regardless of whether it reflects their actuarially required contribution. In addition, a cost-sharing employer's pension liability is measured as the difference between its contractually required contribution and actual contribution.

However, as discussed in the PV, the GASB believes that the employment exchange creates an obligation for the employer to provide the benefits, regardless of whether the plan is a sole, agent, or cost-sharing plan. While the GASB recognizes this obligation is shared among employers in a cost-sharing plan, it still believes that for cost-sharing employers the economic

exchange is essentially the same, and they still have the primary responsibility for the unfunded obligation.

Consequently, the GASB proposes that for accounting and financial reporting purposes, the cost-sharing plan's collective net pension liability and pension expense should be determined using the same methods and assumptions as used to determine the net pension liability and pension expense for sole and agent employers.

In addition, the GASB believes each cost-sharing employer should recognize a proportionate share of the plan's collective net pension liability, expense, and deferred outflows (inflows) in the cost-sharing employer's financial statements. While the GASB has yet to decide how to measure the employer's proportionate share, the PV suggests using the employer's proportionate share of the total contractually required contributions to the plan.

However, the GASB also recognizes that an employer's proportionate share may vary from year to year due to changes in employment, salary levels, retirement patterns, and other factors. This leads to the need for employers to recognize changes in their proportionate share and make related adjustments.

Comment: Cost-sharing employers would show a new net pension liability and pension expense on their financial statements. Both would be significantly larger and more volatile than the current measures.¹²

Issue 6 – Frequency and Timing of Measurements

The final issue relates to when and how often employers should measure their net pension liability and pension expense. In general, the GASB believes these measurements should be as of the employer's fiscal year-end date, consistent with the other financial statement measurements. However, the GASB also recognizes that annual valuations may not necessarily be cost beneficial. To balance these competing goals, the GASB proposes:

- The total pension liability for accounting and financial reporting purposes should be measured at least every other year by means of an actuarial valuation. The "as of" date for the actuarial valuation should not be more than 24 months before the employer's fiscal year-end date.

(continued on page 8)

¹² Under current standards, cost-sharing employers are not required to report a liability on their balance sheet if they are current with their contractually required contributions.

Summary of Current GASB Pension Standards for Governmental Employers Compared with Proposed Changes Presented in the GASB's Preliminary Views			
For Employers in Sole-Employer and Agent Multiple-Employer Plans			
	Current Standards	Preliminary Views	Implications
Pension Liability Recognized in the Employer's Financial Statements (Balance Sheet)	Net Pension Obligation (NPO) - measured as the cumulative difference between the employer's annual required contributions and actual contributions.	Net Pension Liability (NPL) - measured as the difference between the total pension liability (using the actuarial accrued liability under the entry age normal cost method and blended discount rate) and the fair (market) value of assets, with both determined as of the employer's fiscal year-end date.	Including the NPL on the employer's balance sheet is a major change. The balance sheet would no longer present the cumulative underfunding in relation to the actuarially determined contributions. The NPL would likely be more volatile than the unfunded accrued liability currently reported in the notes to the employer's financial statements.
Pension Expense Recognized in the Employer's Financial Statements (Income Statement)	Annual Pension Cost (APC) - measured as the employer's "annual required contribution" (ARC) adjusted for interest on the NPO. In addition, the ARC is measured as the normal cost (i.e., "service cost") plus amortization of the unfunded actuarial accrued liability over a maximum of 30 years.	Pension Expense (PE) - measured as (i) the current period service cost (using the entry age cost method and blended discount rate), plus: (ii) interest on the NPL, plus (iii) amortization of liability gains/losses, changes in assumptions, and benefit changes over the remaining service lives of active members (and immediate recognition of changes in the liability for inactive and retired members), plus (iv) immediate recognition of any cumulative difference between actual and expected investment earnings outside a 15% corridor around the fair value of plan net assets.	The new measure of pension expense would be completely disconnected from the actuarial measure of contributions needed to fund the benefits. Amortizing liability gain/losses over remaining service lives would effectively reduce their amortization period from a maximum of 30 years to about 10 to 20 years (or less), depending on the demographic characteristics of the covered employees. The methods for recognizing asset and liability gains/losses in the pension expense would likely increase the measure of the pension expense and add volatility.
Allowed Actuarial Cost Methods	Entry age, Attained age, Projected unit credit, Aggregate, Frozen entry age, Frozen attained age.	Entry age - with allocation of service costs as a level percentage of payroll over the employees' expected service.	Approximately one-quarter of state and local governments do not use the entry age cost method for funding purposes.
Discount Rate	Long-term expected rate of investment return.	Blended rate: long-term expected rate of return to the extent current and expected future assets are sufficient to pay projected benefits; otherwise the yield on an index of high-quality municipal bonds.	A blended discount rate using municipal bond yields is new. While employers in well-funded plans could continue using the long-term expected return, others may need to use the blended rate.
Liability Gains/Losses - Amortization Period	Maximum of 30 years.	Weighted-average remaining service life of individual active members. Immediate recognition of changes for vested inactive members (including retirees).	The amortization of non-investment gains/losses would be over a much shorter period than is currently used.
Investment Gains/Losses - Amortization Period	Maximum of 30 years.	Deferred recognition of cumulative difference between actual and expected investment earnings within a 15% corridor of the fair value of assets. Immediate recognition of any portion outside the corridor.	The method for recognizing investment gains/losses in the pension expense is new and would likely add volatility to the measure.
Asset Valuation Method	Market value or smoothed market value.	Fair (market) value of plan net assets.	Use of the fair (market) value would likely add volatility to the net pension liability and pension expense.
For Employers in Cost-Sharing Multiple-Employer Plans			
Pension Liability	Pension Liability - measured as the difference between the employer's contractually required contribution and the actual contribution.	Pension Liability - measured as the employer's proportionate share of the cost-sharing plan's collective net pension liability.	Cost-sharing employers would show a new and significantly larger and more volatile measure of the pension liability on their balance sheet.
Pension Expense	Contractually Required Contribution - measured as the employer's contractual contribution to the cost-sharing plan.	Pension Expense - measured as the employer's proportionate share of the cost-sharing plan's pension expense.	Cost-sharing employers' new pension expense would likely be larger and more volatile than their contractually required contributions.

- If the actuarial valuation of the total pension liability is not made as of the employer's fiscal year-end date, it should be updated to that date. The update should include all significant changes made since the valuation as determined by professional judgment.

As under current standards, the GASB would continue to allow biennial valuations in order to relieve employers from the cost of annual valuations. If the underlying economic and demographic conditions are stable enough for the biennial valuation to be reliable, the GASB would allow the valuation to be updated to reflect changes as of the employer's fiscal year-end date. However, if significant changes have occurred since the last valuation date, a new valuation would be necessary.

Conclusion

The changes proposed in the GASB's PV constitute a significant departure from current pension accounting and financial reporting standards for state and local governmental employers. These changes could play a significant role in changing future accounting and reporting standards for other postemployment benefits. The GASB produced the PV specifically to inform stakeholders of the proposed changes and to request comments. Consequently, it is important for stakeholders to review the proposed changes, consider their impact, and provide comments. Written comments are due to the GASB by September 17, 2010, and public hearings are scheduled for October in Dallas, San Francisco, and New York.

The GASB's PV and a plain-language supplement can be found on the GASB's web site (www.gasb.org).

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