



Missouri State Employees' Retirement System

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When attempting to reevaluate a subject as complex as public pension plan accounting and reporting, it is easy to get bogged down in the minutia and lose sight of the big picture. Evidence of the extensive detail involved is more than adequately reinforced by the sheer volume of the ITC. With that in mind, I will attempt to keep my comments at a fairly high philosophical level.

From the perspective of society as a whole, much of the direction in which we head can flow from an answer to the following question:

Is there merit to maintaining an employer sponsored financial arrangement that will keep former employees off of the welfare rolls once they are no longer able to be active members of the workforce because of advancing age or disability?

If the answer to that is “no,” the accounting problem is easily solved – just terminate all such arrangements. However, I think most would agree that such arrangements do have merit, not to mention the collateral benefit potential of attracting and retaining the talent an employer needs and then facilitating their orderly and systematic flow out of the workforce. Assuming the answer to the question is “yes,” there is not much doubt that the most effective and efficient means for accomplishing that objective is a traditional defined benefit plan.

In order for a DB plan to be sustainable, it must possess at least the following characteristics:

- The benefit level cannot be too high (or too low).
- The current cost (ARC) cannot be too high.
- The period to period ARC cannot be too volatile.
- The plan in place must provide reasonable assurance of benefit security.

For sustainability, this is a package deal – you can’t pick and choose from among those you like and ignore those you don’t like. Given the thrust of the initiative of MVL proponents and the intensity with which they are pursuing their agenda, I have to conclude that their answer to my initial question would be no.

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There is not much question that a few people would become very wealthy through either investment product offerings that are alleged to limit volatility or the probable shift from DB to DC plans that would occur following adoption of MVL techniques for ARC determination and financial reporting. Accordingly, I expect those who stand to benefit to be very vocal and that appears to be happening.

To be clear, I don't think the accounting for and reporting on an economic activity should be driven by the desire for a representation that is either predetermined or unsupportable. On the other hand, I feel very strongly that the viability of long standing proven programs should not be thwarted by the mislabeling and mischaracterization of an economic activity that would, I fear, come to fruition if the GASB were to embrace the concepts being advocated by the MVL proponents.

Enclosed are materials that address some of these issues in more detail.

As an aside, there has been clear historic recognition of the fact that a point in time snapshot of the financial position of a public employee retirement system may not be all that revealing with respect to financial condition. The display of supplemental going concern trend data has long been required in PERS accounting and reporting, from the initial GFOA PERS CAFR guidelines to NCGA Statement 6 to GASB Statement 5 to GASB Statements 25 and 27. I believe that such trend data continues to be an important reporting and disclosure component for facilitating the assessment of plan financial condition by all users. I assume you have seen the Gabriel, Roeder, Smith & Company paper titled *Actuarial Methods and Public Pension Funding Objectives: An Empirical Examination*. My point in mentioning it is that I think it makes a persuasive case for why both point in time and historic data based on MVL methodology is virtually useless in assessing plan financial position or condition.