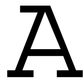

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July 29, 2009

Director of Research and Technical Activities
Project No. 34
Governmental Accounting Standards Board (GASB)
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Dear Members of the Board:

Thank you for the opportunity to respond to your Invitation to Comment, entitled Pension Accounting and Financial Reporting. In preparing this response we noted a couple of areas which are relevant to the topics being examined in the invitation to comment that were not explicitly addressed by the questions but, that should be discussed.

The California Public Employees' Retirement System (CalPERS is the nation's largest public pension fund with net assets of over $180 billion. CalPERS provides retirement and Health benefit services to more than 1.6 million people and 2,619 school and public employers. Led by a 13-member Board of Administration, CalPERS membership consists of over 1.1 million active and inactive members and approximately 477,000 retirees, beneficiaries, and survivors from State, school and public agencies.

Disclosure of Risk

The California Public Employees Retirement System (CalPERS) is currently strengthening our measurement and disclosure of risk. We feel it is an important area which should be addressed in almost all of our communications. In the context of financial reporting, it is appropriate to enhance risk disclosures. One area of risk that could use better disclosure is the risk of changes to future employer contribution rates. This could be done through sensitivity analysis or other means.

While we feel that more needs to be done in this area, we still need to determine the most appropriate way in which to enhance such disclosures. We encourage the GASB to solicit the thoughts of the public sector retirement community and their constituencies about the need for additional risk disclosure and the most appropriate and useful means of doing so.

Including information in the Comprehensive Annual Financial Report (CAFR) versus inclusion in the Annual Actuarial Valuation Report

There appears to be no recognition, in the Invitation to Comment, that the CAFR is not the only document available to the public with financial information about public pension plans. At CalPERS, an annual actuarial valuation report is prepared for every plan every year and is provided to the employer. This report is available to the public. We believe this practice is almost universal among public retirement systems.

The actuarial valuation is a particularly important because it is a forward-looking document that can be available prior to the time that discussions of possible benefits enhancements take place. This information may then be used to make more informed decisions. Financial accounting also provides useful information about past events which are useful for discussion of possible benefits enhancements, and the information is primarily historical. We believe that the actuarial valuation reports play a key role in the process by which employers incur obligations to employees through benefit enhancements. We further discuss the role of actuarial valuation reports in our response to Question 9.

In considering the necessity to make changes to the financial reporting of public pension plans and their sponsoring employers, it is important to consider this alternate source of financial information and which document is the most appropriate place for including any additional disclosures.

Responses of the California Public Employers Retirement System (CalPERS) to the Questions Posed

Question 1

To best achieve the financial reporting objectives of accountability and decision usefulness, including the assessment of Interperiod equity, which of the following *processes related to pensions* do you believe governmental accounting and financial reporting should *provide information about*, and why?

a. The process by which an employer incurs an obligation to employees for defined pension benefits earned by them.
b. The process by which an employer finances its projected future cash outflows for defined pension benefits.
c. Both processes.

Response to Question 1

In responding to this question, we have interpreted the phrase “the process by which an employer incurs an obligation to employees for defined pension benefits earned by them” as implying the measurement of actuarial liabilities and normal costs by an actuarial cost method related to the accrued benefit obligation (ABO), projected benefit obligation (PBO), vested benefit obligation (VBO) or a variant thereof (as those terms were used under FASB accounting standards). For convenience, we have referred to this option as using an “accrual basis” in our answer below. We have interpreted the phrase “the process by which an employer finances its projected future cash outflows

for defined pension benefits" as implying the measurement of actuarial liabilities and normal costs by the actuarial cost method currently used in the funding of the benefits. We refer to this option as using a "funding basis" in the discussion below.

Given these interpretations, CalPERS response is Option "B" with some additional elements. Financial reporting on a funding basis (i.e. one that provides information about the process by which projected future benefit cash outflows for defined pension benefits are financed) best achieves the objectives of accountability and decision usefulness. Included in this would be the disclosure of the employer's share of the unfunded actuarial accrued liability on the funding basis. If a spread gain method is being used for funding purposes, then additional disclosures along the lines currently required by GASB statement 50 would also be appropriate.

Focusing financial reporting on the process by which the plans are financed (funding basis) has a number of very positive benefits:

1. Attention is focused where it is most needed. The greatest current issue in public sector pensions is those employers who are not making the annual required contributions as recommended by the actuary. The plans of these employers are the least funded plans. The current accounting requirements focus attention on exactly this area and do an excellent job of focusing attention on the area where the worst problems exist and hence the current requirements are very decision useful. If accounting standards change to focus on the benefit accrual process, the linkage between funding and accounting will inevitably be broken and less attention will be paid to the most decision useful pieces of information – what contributions are currently required and whether or not the employer is making those contributions.

   In addition to being decision useful, focusing attention on where it is most needed obviously enhances accountability.

2. Interperiod equity is essentially the question of whether or not each generation of taxpayers is paying the "right" portion of the total cost of the plan. Generally, a funding based approach will allocate a much more level (as a percent of pay) portion of the cost to each year of an employee's career than would an accrual based approach. An accrual based approach would generally allocate a higher portion of the cost to years later in the employee's career. In the public sector, the employer has no ability to reduce other forms of compensation late in the employee's career to offset the higher costs that an accrual based approach would attribute to those late career years. Thus an accrual based approach will generally result in undercharging total compensation costs early in the employee's career and overcharging total compensation costs late in an employee's career.

3. For a number of reasons, focusing the accounting on the process by which benefits are accrued will result in more complex standards than would be the case if the accounting were focused on the process of by which the plans are

financed (see discussion below under the heading "Complexity"). One powerful factor resulting in this simplicity is that, to fulfill their fiduciary duty, the trustees of public pension systems must take into account the complexity in the underlying plan (including any linkages between benefit accruals and the financing of the plan) in order to ensure adequate funding of the plan. Focusing the accounting on the process of financing the plan permits the accounting standards to "piggy-back" on the solutions already developed for the financing of the plan.

There are also a number of drawbacks to focusing financial reporting on the process by which the benefits are accrued (accrual basis):

1. One of the arguments in favor of focusing the accounting on the process by which benefits are accrued is that it provides better information about the cost of the benefits being accrued in each year and that information can be used in salary negotiations. However, since an accrual basis generally results in higher costs late in an employee's career it would imply that the government should be paying a class of employees that is composed of older workers less than another class of employee's that perform similar jobs but is composed of younger workers. An accounting standard that may unfairly bias classes of employees is not a decision useful standard.

2. The objectives of accountability and decision usefulness are best met with a simple rather than a complex set of accounting rules. Further, we are concerned that a complex set of rules will impact employer behavior in ways that are unrelated to the underlying reality of the situation.

   For the following reasons, an accounting standard based on the accrual of benefits rather will be more complex than one focused on the financing of the plan:

   a. Obligations Linked to Financing: Most pensions in the public sector have some cost-sharing by the members with the employer. As such, the employer's obligation to sacrifice future resources is related to both the benefits that are accrued and the method that those costs are shared between the employer and the members. While the cost-sharing between the employer and the members is usually only with respect to current service accruals, that is not always the case. An explicit cost-sharing arrangement that covers past service costs means that the process by which the plan is financed has affected (reduced) the employer's obligation to sacrifice future resources and this sacrifice cannot properly be quantified without recognizing the process by which an employer finances the plan.

It should be possible to come up with a benefit accrual based methodology that appropriately reflects the cost-sharing provisions that already exist; however, it would result in substantial additional complexity.

b. Variety and Complexity of Public Plans: In addition to cost-sharing arrangements, many systems also have some self-adjusting mechanisms that cause a feedback loop between benefits and financing. Again it should be possible to extend a benefit focused approach to cover both cost-sharing and self-adjustment mechanisms but this would result in significant additional complexity.

c. Accrual Patterns not Defined/Benefits not Accrued over time: Any method that focuses on the process by which an employer incurs an obligation for benefits must deal with benefits where the accrual pattern is not defined and with benefits which do not accrue over time. An example of the former would be a pension that is defined as x% after 20 years and attainment of age 70. Focusing on when the benefit is incurred would lead one to allocate the whole cost of the benefit to the later of the year in which the member attains 20 year of service or the year in which the member reaches age 70. This result would be a gross violation of Interperiod equity.

   An example of a benefit that does not accrue over time would be an industrial disability retirement benefit that pays 50% of current compensation to a safety member if disabled in the line of duty. A method that focuses on the process by which the benefit was incurred would either assign all of the costs of this benefit to the first year of employment or the year in which the member became disabled – either of which would be a violation of Interperiod equity.

For all of the above reasons, focusing the accounting on the process by which an employer finances its projected future cash outflows for defined pension benefits rather than the process by which an employer incurs an obligation to employees for defined pension benefits would result in greater accountability, decision usefulness and intergenerational equity.

Why not focus on both processes? While there may be some marginal utility in disclosing additional information about the plans on some sort of accrual basis, this additional utility is more than offset by the confusion that such information would generate.

Question 2

What obligations of a sole or agent employer associated with pensions meet the definition of a liability in Concepts Statement No. 4, Elements of Financial Statements, and why?

a. A measure of the cumulative difference between (1) amounts expensed, based on annual required contributions of the employer to the pension plan pursuant to a program of funding pension benefits developed within established parameters, and (2) the amounts the employer actually has contributed to the plan.

b. A measure of the employer's unfunded accrued benefit obligation to employees at the financial report date related to the employment agreement governing the exchange of employee services for salaries and benefits.

c. Other. (Please identify the obligation that you believe best meets the liability definition.)

Response to Question 2

In theory, for most public plans, a measure of the employer's share of the unfunded actuarial accrued liability best meets the definition of a liability in Concepts Statement No. 4 (Option "B"). However, there are a number of practical considerations which mean that a measure of the cumulative difference between amounts expensed and amounts contributed is the more appropriate value to disclose as a liability on the employer's balance sheet (Option "A").

We addressed a number of these considerations in our response to Question 1. However, we would like to emphasize a couple of points:

One of the problems with using a measure of the unfunded accrued pension obligation as the employer's liability is the issue of what the employer's portion is. In the private sector, contributory plans are very rare; in the public sector, they are very common. Many public sector plans have some cost-sharing between employer and employees built into the plan or into their collective bargaining agreements. While these cost-sharing arrangements usually relate to future service accruals, that is not always the case; occasionally they apply to past service accruals. Thus, one cannot assume that the entire unfunded accrued pension obligation is an *employer* liability. Rather the unfunded accrued pension obligation is divided between employers and members.

As a practical matter, cost-sharing provisions have to be taken into account in the actuary's funding recommendation. If the financial reporting is based on the actuary's funding recommendation (as is currently the case) cost-sharing provisions are handled appropriately and painlessly.

Another problem is the variety of accrual patterns or lack of an acknowledged accrual pattern. To change the liability recorded on the balance sheet from the current Net Pension Obligation to a measure based on the employer's share of the unfunded accrued benefit obligation would require that the accounting standards specify the treatment of benefits that do not accrue or for which the accrual pattern is not specified.

There is a problem if the standards are too specific regarding how the accrual of benefits are done, in that, they may result in an allocation that is contrary to the terms of the plan or the intent of the parties to the plan. In effect, a high degree of specificity in the standards could override the terms of the plan and result in an inappropriate recognition. However, if the standards are too generic and you do not have the fiduciary constraints imposed by linking accounting to funding, there will be a lot of latitude in the accounting with consequent lack of accountability. It is probably not possible to achieve meaningful level of specificity without sacrificing both fidelity and simplicity.

Question 3

Which of the following expense recognition patterns is more consistent with the concept, in paragraph 27 of Concepts Statement 4, that applicability to a reporting period or periods for purposes of expense recognition in government-wide, proprietary fund, and fiduciary fund financial statements should be determined based on the notion of Interperiod equity, and why?

a. Recognition of the effects of transactions and other events that affect the unfunded accrued benefit obligation as they occur each year.
b. Deferred recognition (deferral and amortization) of some or all components of pension cost other than normal cost over a number of future years determined by an employer or by plan trustees within accounting parameters.

Response to Question 3

Deferred recognition (deferral and amortization) of some or all components of pension cost other than normal cost over a number of future years determined by an employer or by plan trustees within accounting parameters is the appropriate expense recognition pattern for fiduciary fund financial statements (Option "B").

Generally, when a Government entity improves a plan, it anticipates benefiting from the improvement for a number of years. To recognize the effects of the transactions immediately without creating an offsetting asset would charge the taxpayers in the year of improvement with the full cost of the improvement while future generations of taxpayers would reap some of the benefits that were anticipated. This would be a violation of the principle of intergenerational equity.

While actuarial gains and losses are generally related to events that occur in a particular year, it would seem inappropriate and unnecessary to apply these changes to a single year. Furthermore, the year in which these changes are recognized is almost certainly not the same year (due to the time it takes to prepare the actuarial valuations) in which the events occurred. Applying these costs (or reductions in costs) to the year after the year in which the valuation was prepared would be inequitable to that year's taxpayers.

Actuarial assumption changes do not relate to events that occurred in a particular year – other than the decision to change the assumption. Applying the whole increase or

decrease in the liability to a single year could have significant adverse side effects. For example, it could encourage actuaries to make assumption changes that reduce liabilities all at once but phase in assumptions that increase the liability.

Additionally, recognition of the effects of transactions and other events that affect the unfunded accrued benefit obligation as they occur each year could result in inconsistencies between participating employers and the pension fund in which they participate by virtue of different measurement focuses and bases of accounting.

Question 4

Should the projection of pension benefits include or exclude the following projected future changes? Why?

a. Automatic cost-of-living adjustments (COLAs).
b. Projected future ad hoc COLAs, in circumstances in which ad hoc COLAs are substantively a part of the employment agreement, as demonstrated by an employer's pattern of practice.
c. Projected future salary increases.
d. Projected future service credits.

Response to Question 4

a. Automatic cost-of-living adjustments (COLAs) should be included in the projection of future benefits. These adjustments are part of the plan and hence the employment contract and are not at the discretion or under the control of the employer.

b. Projected future ad hoc COLAs should be included in the projection of future benefits in circumstances in which ad hoc COLAs are substantially a part of the employment agreement, as demonstrated by an employer's pattern of practice. While these adjustments are not an explicit part of the plan, they may be deemed to be part of the employment contract. It is likely that they are not discretionary in that the employer will likely incur some additional costs if it were to cease providing such adjustments unilaterally and without cause. To the extent that the ad hoc COLAs are not substantively part of the employment contract, they should not be included in the projection of benefits.

c. Projected future salary increases should be included in the projection of benefits. Over the time periods involved in the accrual of pension benefits, employers do not have the ability to not provide their employees with salary increases that offset wage inflation. If employers did have that ability, they would have taken advantage of it to reduce the drain on resources due to the higher salaries that result from the increases. While employers may have the ability to deviate from the wage market for a few years, to deviate for periods of decades would be a recipe for disaster. Any employer that did not provide

salary increases to offset wage inflation would incur substantial additional costs due to the loss of all staff employable elsewhere.

Since employers effectively do not have the ability to control salary increases, this should be treated like other assumptions that are beyond the employer's control and included in the projection of benefits.

Some actuaries have made the point that the employer always has the ability to cease future salary increases by terminating the employment of their employees and hence feel that salary increases are under the employer's control, even for the long term. While this argument may have some merit in the private sector, it does not work in the public arena. Employers are unable to control pension costs in this manner because they would be subject to legal action.

d. Projected future service credits should be included in the projection of benefits with respect to the vesting of benefits. Future service should be included in the calculation of the actuarial accrued liability and normal cost to the extent provided for in the actuarial cost method used for funding the benefits.

Question 5

What should be the basis for determining the discount rate used for discounting projected pension benefits to their present value for accounting purposes? Why?

a. The estimated long-term investment yield for the plan.
b. A risk-free rate (or a yield curve of risk-free rates applied to cash flows of different maturities).
c. The employer's borrowing rate.
d. An average return on high-quality municipal bonds.
e. Other.

Response to Question 5

The most appropriate basis for determining the discount rate for discounting projected pension benefits to their present value for accounting purposes is the discount rate used in the funding valuation. This would normally be the estimated long-term investment yield for the plan (Option "A" – with a qualification).

The primary reason for this position is our belief that the accounting for public pensions should reflect the funding as was discussed previously.

In recent years, at CalPERS, the discount rate used has not changed even though (because of changes to the asset mix) the expected long-term investment yield has increased slightly. Thus, we have developed a small implicit margin for conservatism in the discount rate. In order to maintain the linkage between funding and accounting, the funding valuation discount rate should be used even if it includes a margin for conservatism (although we would support requiring the use of the estimated long-term

investment yield for the plan in situations where the funding valuation has a negative margin for conservatism).

An additional reason for using the estimated long-term investment yield relates to the definition of liability in Concepts Statement No. 4. As defined in that Statement, a liability is a present obligation to sacrifice future resources. One way of looking at the difference between discounting at the expected rate of return and the risk-free rate of return is that the resulting difference is a measure of the cost of defeasing the risk of future contribution rate changes. However, the employer is not obligated to defease this risk; it is not a current obligation. If the employer elects to invest in a diversified portfolio, future contributions could increase or decrease. If investment returns are less than anticipated, there will be a **future** obligation to sacrifice future resources.

Question 6

If, after due process, the accounting measurement approach adopted by the Board for pensions were to be one of those discussed in Chapter 4 that includes the amortization of some components of pension cost for purposes of recognition of an employer's pension expense:

a. Which actuarial cost method or methods should be permitted for accounting and financial reporting purposes to determine an employer's pension obligation and expense? Why?
b. What should be the maximum amortization period or periods permitted for accounting and financial reporting purposes to determine an employer's pension obligation and expense? Why?
c. Should different maximum amortization periods be set for different types of changes to the unfunded accrued benefit obligation? Why or why not?
d. If you answered yes to question 6c, what should be the maximum amortization period for benefit changes applied retroactively to past periods of service that were not substantively a part of the employment agreements that established the compensation for services in those periods or were not previously included in the projection of pension benefits? What should be the maximum amortization period for actuarial gains and losses? Why?
e. Which amortization method or methods should be permitted for accounting and financial reporting purposes to determine an employer's pension obligation and expense? Why?
f. What method or methods of determining the actuarial value of plan assets should be permitted for accounting and financial reporting purposes to determine an employer's pension obligation and expense? Why?

Response to Question 6

a. For consistency between the accounting and the funding, the best actuarial cost method for accounting and financial reporting is the method used in the actuarial funding valuation. However, reasonable restrictions on the range of methods to enhance the comparability of financial results between plans would

be acceptable. As stated previously, the Entry Age Normal cost method produces the best results as to Interperiod equity and should be included in the allowable methods if it is felt necessary to restrict the range of methods available.

b. We are comfortable with the current maximum amortization period (30 years) and, in our circumstances, no change is needed or warranted. We also believe that prudent management of public pension systems may result in relatively long amortizations of surplus. Restricting amortization periods to shorter periods that are currently provided may act against the prudent funding of public plans. For example, at CalPERS we currently amortize surplus over 30 years but benefit improvements or assumption changes are amortized over 20 years (for completeness, we will mention that actuarial gains and losses are amortized over 30 years). Amortizing surplus over 30 years is good practice and should be encouraged by the accounting standards.

c. As discussed in our response to question 6(b), different amortization periods are appropriate for different types of changes to the unfunded accrued benefit obligation and indeed for amortizations of surplus versus unfunded accrued benefit obligations. Good funding policy frequently demands different amortization periods for different bases and that, where possible, accounting for public pensions should reflect the funding.

However, these differences need to take into account the circumstances of the particular plan including the details of the particular funding regime adopted. Accordingly, it would be most appropriate for accounting standards to apply broad limits on amortizations where it is felt necessary to encourage a narrowing of the range of current practice. Of course, any attempt to encourage the narrowing of the range of practice could backfire and result in a de-linking of accounting and funding. A result that would be undesirable and contrary to the public interest. We therefore urge caution in this area but not necessarily inaction.

d. There is no need to change the current maximum amortization period. However, if it is deemed appropriate to do so, we feel that employers should be able to amortize gains and losses over longer periods than changes in liabilities due to benefit improvements and/or changes in assumptions and methods. The reason that we feel this way is that, with unbiased assumptions, gains and losses will tend to offset each other over time. There can be no expectation that the change in liabilities due to benefit improvements or assumption changes will be offset by future changes in assumptions so a shorter period may be more appropriate

e. Amortizations both as a level percentage of pay and as a level dollar amount are appropriate in some (different) circumstances and both should be permitted. We currently use both open (or rolling) and closed (or fixed) amortizations and believe that both are appropriate.

f. As previously stated, consistency in funding and accounting is an important goal. As such, for the purpose of determining the pension expense, the asset valuation method used in the funding valuation should be used.

For information reported in the supplemental schedules, either the same asset valuation method used in the funding valuation or the market value should be used.

Question 7

Does the relationship between a cost-sharing employer and the cost-sharing multiple-employer plan in which it participates differ enough in economic substance from the relationship that a sole or agent employer has with the plan in which it participates to support different requirements with regard to liability and expense recognition? Which of the following views best represents your view, and why?

a. The relationship does differ in economic substance, and current measurement, recognition, and disclosure requirements appropriately account for the pension cost and obligation of an employer in a cost-sharing plan.
b. The relationship does differ in economic substance, and current measurement and recognition requirements are appropriate; however, additional disclosures by cost-sharing employers are needed.
c. The relationship does not differ in economic substance; a cost-sharing employer has a long-term pension obligation based on the employment exchange and should measure and recognize its obligation and expense in a manner similar to that for sole and agent employers.

Response to Question 7

The relationship between a cost-sharing employer and the cost-sharing multiple employer plan in which it participates can (and usually does) differ in economic substance sufficiently from the relationship of a sole or agent employer to the plan in which it participates to warrant different accounting treatment. The current disclosure requirements appropriately account for the pension cost and obligation of an employer in a typical cost-sharing plan (Option “C”). However, not all cost-sharing arrangements are the same and some may have differences that justify additional disclosures. At CalPERS, we have put in place some risk sharing pools that have stronger commitments on the part of the employers to fund any funding shortfalls than are typical of most cost-sharing multiple employer plans. If additional disclosures are needed, then these CalPERS risk-sharing pools are likely to be one of the areas where they are needed.

We would be pleased to work with GASB staff to examine this area further and see if there is an efficient and effective way to provide better and more complete financial disclosures for the employers who participate in these risk-sharing pools.

Question 8

Which of the following should a pension plan report as its liability in regard to pension benefits, and why?

a. A liability for benefits currently due and payable
b. The accrued benefit obligation, however measured.

Response to Question 8

A liability for benefits currently due and payable is the appropriate approach for reporting a liability in the Statement of Net Assets in regards to pension benefits. (Option “A”)

There are three possible scenarios as to the reporting of liabilities – both those that are currently due and payable and the accrued benefit obligation.

First, the pension system could report a liability for benefits currently due and payable on the balance sheet and report the accrued benefit obligation in the footnotes. With this presentation, the difference between the assets and liabilities of the system is the assets available to pay benefits and this amount can be compared to the actuarial accrued liability disclosed in the footnotes.

Second, the pension system could report a liability for the accrued benefit obligation, however measured, and not report an additional asset representing the employers’ and members’ obligation to make contributions in respect of the difference between the actuarial accrued liability and the assets available to pay benefits.

Third, the pension system could report a liability for the accrued benefit obligation, however measured, but also report an additional asset representing the employers’ and members’ obligation to make contributions in respect of the difference between the actuarial accrued liability and the assets available to pay benefits.

While the third scenario may be the purest presentation in theory, we are concerned that it would leave the impression that systems such as CalPERS are 100% funded at all times (since the assets would always equal the liability)[1]. The additional purity does not add any value to the readers of the financial statements.

The second scenario is similar to the presentation shown in actuarial valuation reports where the net assets available to pay benefits are compared with the actuarial accrued liability and determine the future funding requirement. Our concern with this approach is that there could be confusion between the other liabilities shown on the balance sheet and the actuarial accrued liabilities. In addition, under this presentation, the reader of the financial statements would not be shown the net assets available to pay benefits but would instead be shown the gross assets. A possible variation of this scenario would

[1] This would not be true of systems where the future contributions were set in statute but would be true in systems where the employer is obligated to contribute the amount recommended by the actuary.

be to show the gross assets, the liabilities for benefits currently due and payable (and other assets), the net assets available to pay future benefits and the actuarial accrued liabilities. This would be an acceptable method of presentation but not an improvement over the reporting described under first scenario above.

Question 9

Should a presentation of changes in the unfunded accrued benefit obligation be a required part of general purpose financial reporting? Why or why not?

a. If yes, which financial report(s) should contain that presentation: the employers, the plans, or both? Why?
b. If yes, should the presentation be a basic financial statement, a note to the basic financial statements, or required supplementary information? Why?

Response to Question 9

Information about the changes in the unfunded actuarial liability is important information for the sponsor of the plan as well as others. However, the annual financial statements are not the best place to present that information.

One of the main reasons for including information about the changes in the unfunded accrued benefit obligation is related to making the costs of benefit improvements public. While this is obviously necessary for good public policy, the timing of the information is wrong. The most decision useful time to make this information public is prior to the decision to adopt the benefit improvement. In California, public entities must make the cost of benefit improvements public prior to adopting the improvements – the decision useful time to have the information.

There is still some usefulness to having the information available after the fact.

To that end, CalPERS includes information about the changes in the unfunded accrued liability in every annual actuarial valuation report[2] prepared and sent to the sponsoring employer. These reports are public records and are covered by the Public Records Act (GC Section 6251) and are available to every member of the public under the terms of that act. In an effort to enhance the availability of this information, CalPERS is currently working to make this information available on our web-site. We expect this to happen concurrently with the implementation of a new computer system in early 2010.

Given this information is already available to employers and the public, it is not necessary to include this information in the general purpose financial reporting. As the annual actuarial valuation report contains much additional information about the plan, including: the actuarial assumptions and methods, the plan membership as well as any changes or significant events that happened after the valuation date but prior to the report date, we feel readers who wish additional information about changes in the

[2] CalPERS prepares an annual actuarial valuation report every year for every plan of every employer that participates in the system.

unfunded actuarial liability would be better served by reviewing the actuarial valuation report rather than the general purpose financial statements.

This type of information is actuarial in nature and is best understood in a holistic presentation of actuarial matters rather than summarized in general purpose financial statements. The information is also more useful when presented at the plan level. Important trends can be observed at a plan specific level but could/would be lost if consolidated at the employer or retirement system level.

Finally, the current requirement to include notes to the required schedules of funding progress and employer contributions when a significant change has occurred addresses the matter adequately. Perhaps the best solution would be a requirement to include a reconciliation or a reference to publicly available documents containing the information.

In closing, CalPERS appreciates this opportunity to communicate with GASB regarding our thoughts on issues important to governments and retirees.

Sincerely,

STEPHEN W. KESSLER
Deputy Executive Officer, Operations

cc: CalPERS Board of Administration
Anne Stausboll, CEO, CalPERS

bcc: Peter Mixon, General Counsel
Ron Seeling, AESB
Larry Jensen, ASB
Alan Milligan, ACTO
Russell Fong, FCSD
Dave Cornejo, FCSD
FCSD Chron
ASB Chron