



AMERICAN ACADEMY of ACTUARIES

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February 12, 2016

David R. Bean
Director of Research and Technical Activities
Project No. 34E
Governmental Accounting Standards Board (GASB)
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
director@GASB.org

Re: Exposure Draft on *Pension Issues—an amendment of GASB Statements No. 67, No. 68 and No. 73*

Dear Mr. Bean:

The American Academy of Actuaries¹ Public Plans Subcommittee appreciates the opportunity to submit comments on the Exposure Draft on *Pension Issues—an amendment of GASB Statements No. 67, No. 68 and No. 73*. We recognize and appreciate GASB's willingness to consider changes to make the implementation of the standards easier. Our comments cover all three areas of the proposed changes.

Presentation of Payroll-Related Measures in Required Supplementary Information

We understand that plans have had issues collecting the data for total payroll as currently defined and that pensionable payroll is more readily available. We believe that the payroll-related measures in Required Supplementary Information (e.g., contributions/payroll or NPL/payroll) are important. While including items like overtime pay (which might not be used to determine a member's pension) could add some theoretical value, we agree that the additional value does not warrant the additional cost. For this reason we support the change to use pensionable payroll.

While GASB may need to provide more guidance for some plan-specific situations, there is one common design—the Deferred Retirement Option Program (DROP) design—where we believe GASB should consider adding more clarity. Currently, whether or not plans include payroll for members in DROP as part of the total payroll for all active members is not consistent between plans and ease of data collection is part of the issue. Some plans with DROP features include DROP member payroll while others do not.

¹ The American Academy of Actuaries is an 18,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

The wording of the proposed standard defines covered payroll as: “compensation paid to active employees on which contributions to a pension plan are based.” This definition will continue to result in some plans with DROP features including DROP payroll while others do not include DROP payroll, depending on whether employee or employer contribution rates are applied to DROP payroll. In terms of employer contributions, some plans fund a normal cost for DROP members and some do not, which creates the same application issue under the proposed standard.

The percentage of the payroll for DROP members can be high. It would not be unusual to see 25 percent or more of payroll in a firefighter plan being for DROP members, making this a material consideration.

We suggest that GASB consider how to balance the desire to show useful relative value information with the ease of data collection. We believe including DROP payroll would create better comparability. For example, two plans with the same contributions and same total payroll, one of which has a DROP, should not show two different GASB ratios. In situations where contribution rates do not apply to DROP payroll, there still may be extra data collection needed to allow for this comparability.

Selection of Assumptions

We support the concept that use of the “deviation” clause in the actuarial standards of practice (ASOPs) when selecting assumptions used to determine the total pension liability would generally not be in conformity with the requirements of the GASB Statements.

We understand that this issue may have arisen from an Aug. 29, 2014, letter from the Academy² to GASB in which the American Academy of Actuaries’ Joint Committee on Retiree Health suggested that the “actuarial assumptions and methods be in conformity or accordance ‘with *the guidance contained in the applicable Actuarial Standards of Practice* issued by the Actuarial Standards Board.’ ”

The language in the ASOP may not anticipate a certain situation and the actuary may need to deviate from the written language. (This is not the same as the actuary simply disagreeing with the ASOP, which is the problem we believe GASB is trying to address.) This is an area that GASB may need to monitor to determine whether exceptions need to be made.

Classification of Employer-Paid Member Contributions

We generally agree with GASB’s treatment of employer-paid member contributions. However, there is one situation, while not common, that GASB should consider. Some plans are structured such that the employer-paid member contribution is not included in

² <http://www.actuary.org/content/joint-committee-retiree-health-sends-comment-letter-gasb-regarding-exposure-draft>

the pay used to determine a member's pension. When contributions do not count as pay for benefit purposes, it is difficult to differentiate these contributions from any other employer contributions. While we are not aware of such a case, in the extreme, a plan could theoretically define all contributions as employer-paid member contributions. We generally favor treating these as employee contributions, but in the extreme case, an exception must be made. This is particularly true when, in the same plan, some employers elect this treatment while others elect to count the contributions toward benefits. Alternatively, we would support limiting the treatment of amounts as member contributions to only those amounts included in pay for benefit purposes.

We appreciate the opportunity to submit comments on this exposure draft. If you have any questions or need further information, please contact Matthew Mulling, pension policy analyst (mulling@actuary.org; 202-223-8196).

Sincerely,

A handwritten signature in black ink, appearing to read 'T. Lowman', with a long horizontal flourish extending to the right.

Thomas Lowman, MAAA, FSA, FCA, EA
Chairperson, Public Plans Subcommittee
American Academy of Actuaries