NFMA

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Subject: NFMA Comments on Proposed Changes to GASB Statements 25 and 27

Gentlemen:

On Oct. 17, 2011 the NFMA responded to proposed changes to GASB Statement 25 (No. 34-F) and GASB Statement 27 (No. 34-E) (collectively, the "Proposed Changes") relating to pension accounting and financial reporting. The purpose of this letter is to supplement earlier comments by setting forth our position regarding the importance of maintaining use of actuarial estimates in connection with pension accounting.

As end users of financial statements, the NFMA feels strongly that it is very important to retain the existing requirement that governmental entities present measurements of pension contributions that derive from actuarial estimates. In reviewing the adequacy of pension funding, analysts rely upon actuarial estimates to formulate an opinion regarding two key metrics: (i) calculation of annual required contributions (ARCs); and (ii) the actuarial adequacy of assets to meet the actuarial value of liabilities to determine funded ratio and the extent, if any, of unfunded actuarial liabilities. This information is critical to enable analysts to accurately gauge the ability and willingness of government entities to meet accruing pension liabilities.

Currently, some governmental units contribute to their pension funds based on a legislatively-determined formula instead of the actuarially calculated ARC. While a given government may or may not contribute 100% of its ARC to its pension plan in a given year, the ARC has served as a useful measure of what should be contributed to a plan each year in order to eventually achieve full funding of the plan in a given number of years.

Under the Proposed Changes, GASB is introducing a new measure – "actuarially calculated employer contribution" – to replace the use of ARC. Use of this new measure, by itself, does not pose a problem, but in the proposed accounting rules, GASB allows a government to present funding calculations based on *legislative* rather than *actuarial* formulas. This will result in a distinct loss of financial comparability among pension sponsors (e.g., state and local governments that fund pension plans). In addition, once sponsors realize that they have the option of providing only legislatively-determined calculations, they might choose to entirely avoid presenting actuarial calculations.

We request that the Board consider a new Project assessing the analytical value of retaining the existing requirement that governmental entities not have the option of presenting only legislatively-derived pension contributions in financial statements. Rather, any contributions calculated on such a basis should also be accompanied by actuarially-determined contributions. In re-examining the use of actuarial estimates, we also request that actuarial standards to be implemented under amendments to GASB Statements 25 and 27 be at least as rigorous and complete as those presently in force and effect.

Sincerely,

/s/

Greg Aikman
NFMA Chairman