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Immediate Release

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American Academy of Actuaries' Pension Expert Comments on GASB Release

WASHINGTON – 18 June 2010 – The American Academy of Actuaries Senior Pension Fellow **Frank Todisco** provided several observations following his review of the Governmental Accounting Standards Board's (GASB) Preliminary Views on *Pension Accounting and Financial Reporting by Employers* released Wednesday.

Initial observations by Todisco:

- The GASB's "blended" discount rate approach appears to lean heavily towards its current methodology of using the expected return on plan assets, although additional clarification may be required. The GASB's approach has been, and remains, significantly different from that taken by the standard setters for the private sector (the Financial Accounting Standards Board and the International Accounting Standards Board), who prescribe a high quality bond-based discount rate. The appropriate discount rate (and, by extension, whether public and private sector plans should have different accounting) has been a key point of contention in the controversy surrounding public plan valuation.
- To promote comparability, the GASB release calls for the use of a single actuarial cost method for measuring the value of the obligation, eliminating the variety of choices that are currently available. The recommended method is already used by the vast majority of public sector plans, though here again the method differs from that prescribed for the private sector.
- The GASB calls for the unfunded obligation to be recognized on the employer's balance sheet. In contrast, under current standards the balance sheet reflects only a liability for any actuarially recommended contributions not made, which could be much smaller than the plan's unfunded obligation. The GASB's recommendation to recognize the entire unfunded obligation is, in concept, similar to what is currently required for the private sector in the U.S. – although the GASB would measure the value of the obligation differently, as noted above, and additional clarification is required on how the GASB intends to approach the valuation of plan assets.

- The Preliminary Views, in general, call for accelerating the expense recognition of the effects of plan amendments and certain actuarial gains and losses – using an average expected future service for current workers, and immediate expensing for changes in the value of obligations to retired workers. In contrast, the current standards allow amortization periods of up to 30 years. These recommended amortization periods would be more in line with approaches used for the private sector.

The American Academy of Actuaries Pension Practice Council responded to GASB's initial request for comments in August 2009. The response is available at: http://actuary.org/pdf/pension/gasb_aug09.pdf. The American Academy of Actuaries will continue to examine the Preliminary Views document in consideration of submitting formal comments.

For more information or to schedule an interview with Frank Todisco, please contact Andrew Simonelli, assistant director of communications for the American Academy of Actuaries, at 202.785.7872. For more information on the American Academy of Actuaries, please visit: www.actuary.org.

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