



**Government Finance Officers Association  
National Association of State Retirement Administrators  
National Conference on Public Employee Retirement Systems  
National Council on Teacher Retirement  
Public Pension Financial Forum**

February 10, 2016

Governmental Accounting Standards Board  
Director of Research and Technical Activities  
Project No. 34E  
By email: [director@gasb.org](mailto:director@gasb.org)

Dear Members of the GASB:

On behalf of our collective membership, we are writing in response to your request for comments on the Exposure Draft, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*, released December 7, 2015. We greatly appreciate GASB's willingness to address practice issues raised by stakeholders, including our membership, related to the implementation of these statements and we support the proposed amendments.

As we relayed in our May 27, 2015 letter (attached), serious operational, cost and feasibility concerns surround the definition of *covered payroll* as defined in Statements 67 and 68. We strongly concur with the Exposure Draft's proposed amendment that instead requires the presentation of covered payroll, which is the portion of compensation paid to active employees on which contributions to a pension plan are based, and ratios based on that measure. This is a marked improvement both with regard to an implementation and burden perspective, and also with regard to its decision-usefulness. We also agree with the Exposure Draft that it is appropriate to require retroactive application of the provisions of this Statement for all requirements pertaining to amendments of the presentation of payroll per Statements 67 and 68.

Also, considerable issues arose with some interpretations of how member contributions would be treated under the new standards, particularly those that were made under an Internal Revenue Code Section 414(h)(2) "pickup" arrangement. These employer-paid member contribution arrangements vary considerably throughout the country. Many are done through salary reduction arrangements withheld from employee pay. Others are

paid by the employer without salary reduction, often in lieu of a salary increase and as a result of collective bargaining. In the vast majority of cases, however, these contributions are pensionable compensation. Many are further held in notional accounts that are eligible to be refunded to the employee and they are subject to FICA taxation. In any of these cases, they are clearly a salary expense and should be accounted for as such.

We support the proposed amendment that would clarify that payments made by an employer to satisfy contribution requirements identified by terms of the pension plan as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. Further, if these amounts are included in pensionable compensation, no further disclosure should be required to account for these contributions as a salary expense.

In sum, we believe that the passage of these amendments will address the concerns and questions surrounding the affected Statements on these pension issues. We would also like to bring to GASB's attention the need for an additional statement to address similar practice issues on covered payroll and Internal Revenue Code Section 414(h)(2) "pickup" arrangements for other post employment benefit plans as outlined in GASB Statements 74 and 75. Again, we thank you for being attentive and responsive to stakeholder concerns.

Sincerely,

Jeff Esser, Government Finance Officers Association  
Dana Bilyeu, National Association of State Retirement Administrators  
Hank Kim, National Conference on Public Employee Retirement Systems  
Meredith Williams, National Council on Teacher Retirement  
Michele Nix, Public Pension Financial Forum

[Attachment](#)



May 27, 2015

David Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Dear Mr. Bean:

We are writing to encourage the GASB Board to consider adding a project to review GASB Statement No. 67 *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25* and GASB Statement No. 68 *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. We are extremely concerned about the definition of *covered-employee payroll* in the two statements. Respectfully, we ask the Board to consider issuing guidance which redefines *covered-employee payroll* using the definition for *covered payroll* in GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*. For reference, below are the definitions of *covered-employee payroll* and *covered payroll* from the glossaries of both statements:

GASB 67 Covered-Employee Payroll: The payroll of employees that are provided with pensions through the pension plan.

GASB 25 Covered Payroll: All elements included in compensation paid to active employees on which contributions to a pension plan are based. For example, if pension contributions are calculated on base pay including overtime, covered payroll includes overtime compensation.

Although we have recently been informed by GASB staff that *covered-employee payroll* refers to gross payroll rather than pensionable payroll, the illustrations in GASB Statement No. 67 and the related implementation guide do not suggest that there is any difference between *covered-employee payroll* and *covered payroll*. Illustration 2 in GASB 67 (page 68) references employer contributions, by statute, being paid as a percentage of *covered-employee payroll*. Illustration 3 in the implementation guide also references employer contributions, by statute, being paid as a percentage of *covered-employee payroll*. Furthermore, illustration 4 in the implementation guide references the determination of the actuarially determined contribution (ADC) rate based on *covered-employee payroll*. In reality, employer

contributions and the ADC are determined based on pensionable payroll, not on *covered-employee payroll*. Since the term “*covered-employee payroll*” appears to reference the pensionable payroll used to determine contribution amounts and the ADC, those of us in the public pension plan world did not realize that the GASB meant to change the definition of *covered payroll*. What may have appeared to be a modest change to some, is problematic both from an implementation perspective and from a decision usefulness perspective.

First, *covered-employee payroll* data is not available for most public pension plans. When P2F2 informally questioned our members at a recent monthly call, they found that only 10% of the plans represented are able to fulfill the requirement to disclose the newly defined *covered-employee payroll*. Most plans do not currently receive total employee payroll amounts from their affiliated employers. Adding this additional data element, solely for required supplementary information disclosures (RSI), will increase costs for both the plans and employers. Systems currently are not structured to accept and maintain a second payroll figure from the employer. Many plans are not sure of their employer’s ability to communicate this information efficiently. Additionally, some plans believe they do not have the legal authority to request this data from their affiliated employers.

For most plans, there has never been and never will be a need to have this information, other than to fulfill this new GASB requirement. The statutes governing a pension plan define pensionable payroll and that is what is needed to be maintained by the plan in order to calculate members’ benefits and contribution amounts. Plans will have to alter database systems, alter payroll processes, re-train, communicate, audit and maintain data that they have determined to be unnecessary to manage the pension plan. The affiliated employer, or in the case of the cost-sharing multiple-employer plan, potentially thousands of employers, would also have to alter their systems to provide the data to the plans.

The new standards have placed a tremendous burden on pension plans for providing data to employers. This burden was never addressed by the standards, only the requirement that the employers have access to data that they did not have the ability to produce. The standards have added significant resource and cost burdens to plans in perpetuity. The new definition of *covered-employee payroll* will add to this burden due to the required system changes discussed previously.

Second, we question what additional information *covered-employee payroll* provides users of the plan’s financial statements over pensionable payroll, and believe the new definition will be confusing for financial statement users. As an example, contributions as a percent of *covered-employee payroll* will vary each and every year in the Schedule of Employer Contributions, even if the contribution rates remain constant. Information will be reported that leads readers to conclude that employer

contributions to the plan as a percent of payroll differs from contribution rates set in statute or recommended by the plan's actuary.

Likewise, the Actuarially Determined Contribution (ADC), employer contribution and employee contribution amounts, benefit calculations and information found in a plan's actuarial section of their CAFR are all based on pensionable payroll (*covered payroll*), not *covered-employee payroll*, so readers will see one number for "*covered payroll*" and a different number for "*covered-employee payroll*" without an explanation of why the numbers are different. It seems illogical that a payroll amount that is unrelated to the calculation of the ADC or contribution amounts would be introduced and compared with values derived from pensionable payroll in the RSI schedules, rendering those schedules misleading and confusing.

From an operational standpoint, there is no reason for plans to collect *covered-employee payroll*, and it will be expensive to do so. Given the issues outlined above, we frankly do not see any benefit resulting from the additional costs.

The reality of the current situation is that plans did not have this information for their recently published or soon to be published financial statements. It is unclear as to the difficulty employers will have in compiling this data for their upcoming financial statements, but we believe many employers are still learning of the change in definition and it will add to their already heavy burden to implement the new pension statement.

We strongly urge the GASB to change the definition of *covered-employee payroll* for purposes of GASB Statement No. 67 and 68 back to pensionable payroll.

We are available to further discuss any of the issues presented in this commentary. Thank you for your consideration of this issue.

Sincerely,

Dave DeJonge, President, Public Pension Financial Forum (P2F2)  
Meredith Williams, Executive Director, National Council on Teacher Retirement  
Cindy Rougeou, President, National Association of State Retirement Administrators  
Bob Eichem, President, Government Finance Officers Association  
Mel Aaronson, President, National Conference on Public Employee Retirement Systems