10/31/03

I am one of the faculty senate representatives from the Von Allmen School of Accountancy. There has been an uproar here in the accounting department over some wording in the following e-mail. I would like to pass on why:

The issue is that the following e-mail to all faculty and staff states "These changes are necessary because of the changed accounting guidelines...". This is an extremely misleading statement. The accounting treatment change DOES NOT change anything about the underlying unfunded liability. This unfunded liability was there before the university was required to account for it and will NOT change the amount one bit once the university actually recognizes it on the balance sheet. The wording the following message makes it sound like 'now that the university is required to write it down, it will not be able afford to pay out this money'. The amount of money that the university will have to pay out for retirement medical expenses is NOT affected at all by recognizing the liability (i.e. writing the number as a liability on the financial statements).

A short analogy: If I have told someone that I will pay them $100 for each of the next 5 years...but I do not write it down...do I owe them any more or any less if I do write it down ('recognize it on paper')? Can I then say "I can now not afford to pay you the $100 per year because I am now required to write it down."?

Health care costs are increasing. The university may decide that it can not afford to promise the same level of coverage after retirement that it has in the past. That would be a valid way of arguing this issue. However, it appears that the accounting change is being used as an 'scapegoat' for reducing retirement benefits. Are we trying to be this misleading?

Thanks for listening,
Sean A. Peffer
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