

**National Conference of State Legislatures
National Association of Counties
U.S. Conference of Mayors
National League of Cities
National Association of State Treasurers
National Association of State Auditors, Comptrollers and Treasurers
International City/County Management Association
American Federation of State, County and Municipal Employees
Service Employees International Union
American Federation of Teachers
National Education Association
Fraternal Order of Police
International Association of Fire Fighters
National Association of Police Organizations
AARP
National Council on Teacher Retirement
National Association of State Retirement Administrators
National Conference on Public Employee Retirement Systems
National Conference of State Social Security Administrators
International Public Management Association for Human Resources
College and University Professional Association for Human Resources
National Public Employer Labor Relations Association**

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Director of Research and Technical Activities
Governmental Accounting Standards Board
Project No. 34
Via email: director@gasb.org

On behalf of the above-named organizations, we are responding to the Governmental Accounting Standards Board's Invitation to Comment on possible revisions to GASB Statements 25 and 27, providing standards for accounting and reporting on the pension benefits that governments provide to their employees. Together, we represent a wide range of users of public retirement system financial reports, including state legislators and other policymakers; executive officials, such as mayors, county officials, treasurers, and comptrollers; public employers, public employees and retirees; and trustees or other governing bodies of governmental pension plans.

Overall, GASB Standards 25 and 27 in their present form are satisfactory in terms of informing users about the financial, accounting, and actuarial condition of governmental plans. In particular, we believe current measures consistent with governmental pension plans' long-term nature are a better gauge of a plan's financial condition than single-point market-based measures. Thus, we continue to believe that using government-sponsored retirement systems' estimated long-term investment returns, based on their asset allocations, as the rate for discounting projected pension benefits to their present value for accounting purposes is consistent with both the perpetual nature of governments and the enduring, long-term nature of public pensions.

Replacing this current GASB approach with a so-called “Market Valuation of Liabilities” method (MVL), would only serve to confuse users of public retirement system financial reports. Many stakeholders are likely to view MVL as a termination figure that reflects the pension liabilities of an entity that may be acquired or go out of business. These contingencies are virtually nonexistent in the public sector. Moreover, state constitutional or statutory frameworks, and case laws, guarantee the ability of public employees to receive the benefits they’ve been promised, and, in most cases, to continue to accrue those benefits.

MVL is based on the corporate operating and legal environment, and focuses on pricing pension liabilities. Yet the purpose for measuring public pension liabilities is not to price them, but to fund them. Because some may view MVL as reflecting a plan’s termination as of some past date, for entities that are not terminating, and that are required to continue honoring service accruals and salary growth, this measure holds little value for public sector plans and threatens to mislead and confuse stakeholders.

MVL would also lead to lower investment earnings, higher costs, lower funding ratios, and increased volatility of costs and funding levels. A recent study by Gabriel, Roeder, Smith & Company (GRS), a well-known national actuarial firm, confirmed that using a risk-free discount rate (based on 30-year U.S. Treasury yields) would introduce significant volatility into public pension funding levels and contributions.

The study compared the conventional actuarial approach used by the majority of public plans with the MVL approach) over the period from 1978 to 2008. It found that contribution rates under the MVL approach would have varied from about 3% of covered payroll in the mid-1980s (when 30-year Treasury yields were close to 14%) to about 40% of covered payroll in the mid-2000s (when Treasury yields were close to 4%). Under the current GASB method, which uses a discount rate based on expected investment returns, contribution rates ranged between 8% and 14% of covered payroll over the study period -- a range not only more practicable in the public budgeting process, but also more equitable across generations of taxpayers.

MVL would clearly create, in the words of the GRS study, “rapid and erratic changes to a public plan’s normal costs, accrued liabilities, and funded levels.” This volatility in funding levels and required costs would significantly disrupt public sector budget processes. Predictability and stability of required costs are critically important to effective budgeting in the governmental sector, and the imposition of MVL would be unnecessarily disruptive, particularly in these difficult economic times.

Finally, MVL fails to assist decision-makers in determining whether or not interperiod equity is being achieved. On the contrary, by charging current taxpayers on the basis of present interest rates, rather than a long-term expected rate, MVL is more likely to produce significant disparities in what generations of taxpayers are charged for pension benefits. We continue to believe that interperiod equity is better able to be achieved and measured under GASB’s current accounting standards, which permit the allocation of pension expenses to periods in such a manner that each period is charged a level percentage of payroll for normal costs, which equitably spreads the burden of an ongoing benefit program among different generations of taxpayers.

Any changes in the nature or amount of information currently disclosed under existing GASB accounting and financial reporting standards should enhance the overall value of such disclosures to the end users of such information. We firmly believe that the reporting of the liabilities of public pension plans at so-called “market value” not only fails to offer such an improvement, but could actually serve to provide a distorted view of plan funding that would confuse rather than inform the public and provide misleading information to decision-makers. GASB considered and rejected market-based techniques in 1994 when it established standards for calculating and reporting public pension liabilities, finding trend-based actuarial measures, consistent with public plans' long-term nature, are a better gauge of a plan's financial condition and we are hopeful the same conclusion will again be reached.

Thank you for the opportunity to offer our views as you proceed with this important project.