

July 30, 2009

David Bean
Director of Research and Technical Activities
Project Number 34
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

The undersigned State Treasurers are responding to the Governmental Accounting Standards Board's (GASB) request for comment to Pension Accounting and Financial Reporting order. Many State Treasurers serve as the sole fiduciary of their state's pension program. Others serve on boards that oversee public retirement systems. Some Treasurers who do not have direct oversight of retirement systems have oversight of investment and management of public pension assets, and some have responsibilities related to reviewing, reporting, or preparing public retirement financial data.

The comments below pertain to the GASB Invitation to Comment on Statements 25 and 27.

It is our view that the current arrangement for calculating and reporting public pension liabilities provides an adequate framework for reporting and fostering understanding of the financial condition of public pension plans. Although minor modifications may be warranted, we encourage the GASB to approach any possible changes to these statements with care. Changes in these statements present the potential to cause confusion among users of public pension financial reporting, by interrupting the consistency of financial reporting and disrupt a common understanding that has developed among users of public pension financial reporting.

One of the questions the invitation to comment asks is whether or not Statements 25 and 27 are appropriate in projecting future salary growth among pension plan participants, future accruals of service, and future cost-of-living adjustments (COLAs). In light of the fact that public pension benefits typically are guaranteed to be provided to their participants, and since public sector entities are going concerns and have the ability to generate revenue, failing to recognize the cost of future benefits would fail the test of accountability by not recognizing costs for which there is a reasonable expectation will be incurred. Not recognizing the cost of these benefits also could fail the principle of interperiod equity, as the cost is likely to be paid by future taxpayers, rather than equitably spreading the cost over generations if it is not projected in the present.

Another issue raised in the invitation to comment is the rate used to discount future pension benefits. We believe that a pension fund's long-term expected investment return should continue to be used as the discount rate. This rate is the best measure for determining present costs of future benefits, because it is the best estimate of public pensions' largest source of revenue—investment earnings.

By contrast, the use of a risk-free discount rate is likely to overstate present costs and obligations, and to understate future costs, violating the principle of interperiod equity. Because of the volatility interest rates exhibit, use of a risk-free or other discount rate tied to interest rates, would also cause volatility in the funding level of pension plans and in their required cost. This volatility serves no useful purpose in a public pension plan and can wreak havoc on public pension plan sponsors' budget process.

Finally, we believe the GASB should permit public pension plans to phase in, or smooth, investment gains and losses. Requiring pension funds to immediately recognize all market gains and losses would result in significant and needless fluctuation in the funding level and required contributions. Actuarial smoothing of assets is an important tool in maintaining a public pension plan, and, like the use of a stable investment return assumption, is vital to the ability of public sector entities to properly plan for and budget required costs. Thus, we encourage the GASB to retain asset smoothing for the benefit of public pension plan sponsors, plan participants, and taxpayers.

Again, thank you for the invitation to express our views on these issues. Please feel free to contact one of us should you have questions about the perspectives discussed in this letter.

Sincerely,



Jerry Burnett, AK



Converse Chellis III, SC




Ron Crane, ID



W. Daniel Ebersole, GA



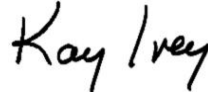
Richard Ellis, UT



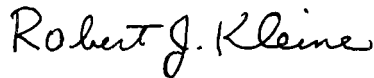
Michael Fitzgerald, IA



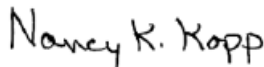
Manju Ganeriwala, VA



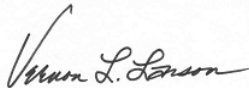
Kay Ivey, AL



Robert Kleine, MI



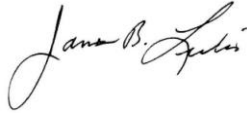
Nancy Kopp, MD



Vernon Larson, SD



David Lemoine, ME



James Lewis, NM



Rob McCord, PA



Dennis McKinney, KS



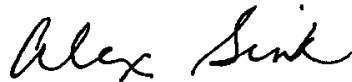
Richard Mourdock, IN



Catherine Provencher, NH



Dawn Marie Sass, WI



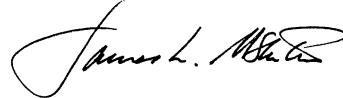
Alex Sink, FL



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