



October 14, 2011

Director of Research and Technical Activities Governmental Accounting Standards Board Project No. 34-E/P

Via email: director@gasb.org

On behalf of the National Association of Counties (NACo) the only national organization representing county government, I am responding to the Governmental Accounting Standards Board's Exposure Draft (ED) on revisions to GASB Statements 25 and 27, providing standards for accounting and reporting on the pension benefits that governments provide to their employees. I wish to relay NACo's continued support for transparent and useful financial reporting standards that account for the specific nature and needs of governmental jurisdictions and their stakeholders and changes that further promote this objective. We greatly appreciate the effort that GASB has undertaken to ensure an open, thorough and due process in formulating the proposed rules. However, given the significant departure the EDs make from existing governmental pension accounting standards, we strongly urge GASB to be deliberative in reviewing and implementing the proposed changes.

While GASB has continued to recognize the long-term nature of state and local governments and their obligations in a number of respects, the Board's decision to separate pension accounting from long-term funding costs represents a radical departure from a long-held practice. GASB's proposed changes would significantly alter the way the state and local government retirement system accounts for pension benefits. In particular, governments would be required to put the net pension liability on their balance sheets rather than the existing practice of reporting their payment of the annual required contribution.

This departure represents a momentous and fundamental change in how pensions are measured, and will create confusion in that the numbers used for accounting purposes would no longer be the same as what is used for pension funding and governmental budgeting purposes. Even though the proposed accounting numbers should not be interpreted as reflecting the funded status or required contributions to the retirement system, there already has been serious misunderstanding in this area. Furthermore, for the numerous retirement systems that share costs across multiple jurisdictions, as proposed, the EDs could result in an assignment of liabilities to jurisdictions that are in direct conflict with how they are allocated under their state statutes and trust law.

Without exception, state and local governments are committed to having the highest-quality standards of accounting and financial reporting possible. NACo supports disclosure guidelines developed by the Government Finance Officers Association and the Governmental Accounting Standards Board in cooperation with public interest groups and urges county governments to adhere to these guidelines. While we continue to believe that existing GASB standards have served this purpose well, we also understand that the changing environment may require some modifications to enable easier access to decision-useful information.

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However, we hope GASB will reconsider the proposed move away from accounting for long-term pension costs. Many of our constituents are concerned this new information will no longer reflect the actions the governmental plan sponsors take to finance promised benefits, assist decision-makers in the setting of benefit and contribution levels, achieve added comparability across jurisdictions, nor promote reasonably stable plan costs across generations of taxpayers.

Therefore, if GASB is going to move forward on separating governmental pension accounting from funding, it should, at a minimum, clearly and specifically articulate in the final rules that new accounting measures are not based on, and should not be used for, governmental pension funding or budgeting. Furthermore, we again urge GASB to allow sufficient time for state and local governments to fully understand this departure and recognize the impacts of the proposal before the rules are finalized and implemented.

Thank you for the opportunity to comment, as you move forward with this important project.

Sincerely,

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Larry E. Naake Executive Director