August 11, 2011

Mr. Robert Attmore
Chairman
Governmental Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856

Dear Chairman Attmore and members of the Board,

We are writing to express our strong concerns regarding the Governmental Accounting Standard Board’s (GASB) proposed revisions to Statements 25 and 27. Under your proposal, states, cities and counties would be required to use an entirely new accounting regime with regard to their pension plans. While we believe these changes have no justification, GASB should reconsider them or, at a minimum, thoroughly review their impact on stakeholders, assess the costs and benefits of all aspects of the proposed new rules, and allow ample time for education and public comment prior to implementation.

We find it is difficult to understand why GASB has concluded that such significant changes to public pension accounting are necessary given the reliability of most public pension plans and their sponsors. Over the last 25 years, a time period that includes three economic downturns, including the most recent Great Recession, public pension plans have earned, on average, 9.25% annually, which already exceeds the current assumed rate of return by 1.25%. Over the last 40 years, only four counties or cities have defaulted on their bonded obligations, demonstrating a remarkable ability to budget prudently. This represents a 0.03% default rate, compared to a 10% default rate in the private sector. Among AAA-rated municipalities, the default rate was 0%, also lower than the corporate default rate of 0.52%. Local governments are managing their money just fine without having arbitrary and destructive new standards imposed on them by GASB.

Furthermore, it is seems inappropriate to take a short-term view of pension expenses in the public sector, when investments are long-term and plan sponsors are ongoing entities that do not default or go out of business. Changing the standards as you propose would impose gratuitous volatility and economic hardship on cash-strapped localities. The proposed rules will likely exacerbate these economic difficulties, particularly for the smallest governments that are part of cost-sharing statewide retirement programs.

We understand you will be conducting field tests to determine the effects of these new rules on state and local governments and their retirement systems. We look forward to following the results of these field tests, and the documentation of potential consequences for a range of states, counties, cities and plans. We strongly urge you to be more deliberative in assessing such impacts, and determining needed revisions, education and transition time, as you have been on formulation of the exposure drafts themselves.
While changing accounting standards as you have proposed would be destructive, counterproductive, and unjustified during any economic circumstances, it would be particularly damaging now. Economic stagnation and federal fiscal austerity has created unprecedented strains on local budgets and local taxpayers. Arbitrarily changing accounting standards for pensions could only exacerbate our economic difficulties by sowing doubt about the solvency of pensions which in fact are quite well funded.

Sincerely,

Gerald E. Connolly  
Member of Congress  
11th District, Virginia

Edolphus Towns  
Member of Congress  
10th District, New York

GC/ZF
cc: David Bean, Director, GASB