



## National Association of State Auditors, Comptrollers and Treasurers

Statement for the Record  
On Behalf of the National Association of State Auditors, Comptrollers and  
Treasurers

### EXECUTIVE COMMITTEE OFFICERS

**President**  
THOMAS H. McTAVISH  
Auditor General  
Michigan

**First Vice President**  
GLEN B. GAINER, III  
State Auditor  
West Virginia

**Second Vice President**  
NANCY K. KOPP  
State Treasurer  
Maryland

**Secretary**  
BARBARA J. HINTON  
Legislative Post Auditor  
Kansas

**Treasurer**  
MARTIN J. BENISON  
Comptroller  
Massachusetts

### EXECUTIVE DIRECTOR

R. KINNEY POYNTER  
Lexington, Kentucky

### CONTACT INFORMATION

Headquarters Office  
449 Lewis Hargett Circle  
Suite 290  
Lexington, KY 40503-3590  
(859) 276-1147  
Fax (859) 278-0507

Washington Office  
444 N. Capitol Street, NW  
Suite 234  
Washington, DC 20001  
(202) 624-5451  
Fax (202) 624-5473

[www.nasact.org](http://www.nasact.org)

American Academy of Actuaries  
Public Interest Committee  
“Public Plans Forum”  
September 4, 2008

Mr. Chairman and Members of the Committee:

On behalf of the National Association of State Auditors, Comptrollers and Treasurers, we thank you for conducting a public forum to hear views from various stakeholders and for affording our organization the opportunity to submit the following comments for the record.

As an organization that represents high-level financial professionals, we recognize the importance of providing meaningful accounting information to the public. However, we disagree that there is an overwhelming need to value public pension plans on a so-called market value basis. Valuing public plans in this manner is inconsistent with the way in which public pension plans function and ignores both reasonable expected returns and the historical actual investment returns generated by diversified, professionally-managed portfolios.

Public sector pension benefits are generally guaranteed, so measuring liabilities on a plan termination basis fails the test of providing meaningful accounting information to stakeholders. Governments are fundamentally different from for-profit business organizations and require separate accounting and financial reporting standards in order to provide information to meet the needs of its stakeholders. Information in the public sector is used by ordinary citizens and elected officials to make political, social, and economic decisions and to assure government accountability in providing services and goods to constituents in an efficient and effective manner. Financial reporting information of private sector business organizations is generally used by equity investors for making investment and credit decisions focusing specifically on earnings rather than nonfinancial performance information.

While we realize that the promulgation of standards is an ongoing and ever-changing process, we urge you to consider the differences between public and private sector entities, particularly how financial information is used and presented. In our opinion, calculating liabilities on a termination basis is inappropriate for the public sector based on the unique nature of government. We remain strong proponents of financial disclosures that provide meaningful value to those that use the information and realize that such valuation could be of use in the private sector, where in the event of a firm's bankruptcy or freezing of its pension plan, stakeholders would need to know the plan's settlement costs. Nonetheless, we are not convinced that applying MVL to

public sector pension liabilities provides value to users of governmental financial information. In fact, we are not aware of government financial information users, including bond insurers or rating agencies, who find the current valuation methods to be inadequate for their purposes.

Calculating pension liabilities using an accrued benefit obligation method is inconsistent with the fact that public sector entities are ongoing concerns that will continue to operate. While we recognize that pension plans in the private sector can be terminated at will and their sponsors can go out of business, governments cannot “go out of business,” and their plan benefits are generally guaranteed under state constitutional, statutory, contractual and or existing case law.

In making policy decisions regarding important state operations and in making financial decisions as to how to allocate limited resources, officials must look at longer-term factors that affect revenues and expenditures. Similarly, plan investment strategies look at long-term horizons that can withstand short-term market volatility. MVL is not linked directly to funding methods and does nothing to help stakeholders determine the stability, adequacy and appropriateness of funding for such a long-term enterprise. Because MVL could decrease apparent funding levels, MVL disclosure could only further complicate the process for assuring that the annual required contributions are adequately satisfied. The use of MVL logically leads to far more conservative asset allocations for pension fund assets, reduced investment earnings, and higher costs to participants, plan sponsors and taxpayers.

MVL proponents contend that the disclosure of liabilities on an MVL basis is separate from the funding of those liabilities. This divorce of the value of liabilities from the funding of those same liabilities is illogical and will cause much confusion among stakeholders.

Thank you for consideration of our comments. We hope that you recognize the need for differing financial and accounting standards for government and carefully review the effects of applying corporate financial reporting models to government before making a recommendation that the Academy’s Board of Directors endorse the disclosure of MVL by public pension plans.

\*\*\*\*\*

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) is an organization for state officials who deal with the financial management of state government. NASACT’s membership is comprised of officials who have been elected or appointed to the office of state auditor, comptroller or treasurer in each of the 50 states, the District of Columbia and U.S. territories. For more information on NASACT or its affiliate organizations, the National State Auditors Association (NSAA) and the National Association of State Comptrollers (NASC), call (859) 276-1147 or visit [www.nasact.org](http://www.nasact.org).