

The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

Letter # 295

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GASB'S FOLLY*

***'Folly' summarizes our reaction to the new pension accounting standards proposed by the Governmental Accounting Standards Board [GASB] in the United States.**

*"We do not err because truth is hard to see. Truth is easy to see.
We err because it is more comfortable to do so".*

Aleksandr Solzhenitsyn

GASB's Pension Accounting Update

GASB's views on how the accounting standards for public sector DB pension plans in the United States should be updated are set out in "Pension Accounting and Financial Reporting by Employers" (June 16, 2010). Fortunately, the expressed views are deemed "preliminary", which we take to mean that persuasive argument can change them, and that is the goal of this *Letter*. Here is the heart of the 'folly' matter as we see it (as quoted from the June 16 document):

"It is GASB's view that a reasonable expected long-term rate of return on the plan's investments would continue to be the basis for discounting projected benefit payments to their present value, but only to the extent that the current and expected future plan net assets will be sufficient to

cover the future benefit payments....Benefit payments that are expected to occur beyond the point at which expected plan assets are projected to be exhausted would be discounted to their present values using a high-quality municipal bond index rate."

In other words, GASB proposes to throw a bone to those of us who have been critics of its willingness to permit public sector employers in the United States to use as the pension liability discount rate "a reasonable expected long-term rate of return on the plan's investments". It now proposes that this (likely high) discount rate would only apply to pension liabilities covered by plan assets. Any excess liabilities would be discounted at the (likely lower) market-based yield for high-quality muni-bonds.