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## An Overhaul or a Tweak for Pensions

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After more than three years of deliberations, the board that sets the accounting rules for state and city governments is still far away from issuing a new standard for public pension funds.

What may seem like tedious labors over technical matters can have a large impact on public employees, taxpayers and investors. Many municipalities around the country are grappling with serious shortfalls in their pension funds caused by the recession and other woes.

Since the deliberations began, San Diego's finances have been rocked by a pension scandal; Vallejo, Calif., has filed for bankruptcy after promising costly benefits; and New Jersey has warned that it lacks the cash to comply with its actuary's instructions.

The panel, the Governmental Accounting Standards Board, heard impassioned testimony on Wednesday on the need to make public pension numbers more straightforward, more closely mirroring the pension accounting for corporations. But proponents of an overhaul were countered at every step by state officials and others who testified that broad changes were unnecessary and would disrupt budgets by introducing market volatility.

The board, an independent nonprofit organization that sets the accounting standards for governments, has said that the next step will be the publication, by next May, of a "due process document" to offer possible changes in the rules. That will engender a new round of public comment and revisions, and eventually a new pension accounting standard. The process is expected to take several more years.

"I have concerns that these efforts may, in fact, be too late," one speaker, Diann Shipione, told the board. She said that the existing accounting rules were too loose, allowing "pension mischief" to go on for many years.

“As a result of the fuzziness and imprecision,” she said, “we now have many large systems that are essentially insolvent.”

Ms. Shipione, a former trustee of the San Diego city pension fund, eventually became a whistle-blower, insisting that the fund’s financial reporting was false, constituting securities fraud. After a long legal battle, the Securities and Exchange Commission agreed with her. She is now earning a master’s degree in public administration at the Kennedy School of Government at Harvard.

Ms. Shipione told the accounting board that she thought revisions were needed to make it easier to see when states and cities were falling behind on their pension contributions, which she hoped would prompt them to pump more money into the plans.

But some members of the board took issue with her goals. William W. Holder, one member of the accounting board, told Ms. Shipione that the board’s duty was to write rules that produced accurate and informative financial reports — not to promote desirable activities like funding pension plans more robustly.

“We try to avoid bias in setting accounting standards,” he said. “What we don’t try to do is develop some preconceived notion of what that behavior would be, and then write a standard that would encourage it.”

In the corporate world, the [Financial Accounting Standards Board](#) writes the rules for pension disclosures. It also seeks to avoid bias, and also works at a slow, deliberative pace.

But FASB has a great deal more power and independence than its governmental cousin. Its rules are enforced by the S.E.C., and it was given an independent funding source in the post-[Enron](#) accounting reforms. The corporate pension accounting rules came under harsh criticism at the beginning of this decade, and the FASB has already issued some revisions. Others are still in the works.

The governmental board, by contrast, must still raise its own money. And because no government agency enforces its policies, it must issue rules that states and municipalities will adopt voluntarily. Six of its seven members work on a part-time basis.

Others who spoke on Wednesday sought to assure the accounting board that its existing rules were sound.

They acknowledged that some governments had had pension debacles in the last few years but said that was because they did not follow the rules.

Robert A. Wylie, executive director of the South Dakota Retirement System, said that pension woes were largely absent in his state and that his plan had a well-established funding policy.

Mr. Wylie said South Dakota had the ability to reduce promised benefits when times were tight, something forbidden by statute or constitution in many other states. Because of this flexibility, he said, South Dakota had always been able to keep its contributions in line with its benefits. For a state like South Dakota, he said, the existing pension rules were “very workable.”

“Major changes may add to what would be, in our mind, confusion,” he said.

Questions posed by the board members suggested they were leaning toward making narrow changes in the existing rules, like shortening amortization schedules or reducing the number of actuarial methods that plans may use. They did not seem eager to grapple with the question of which discount rate to use to measure public pension obligations — the biggest issue in the minds of critics of the current rules.

A recent study published by the [National Bureau of Economic Research](#) found that the discount rates now in use were masking a pension shortfall of \$1.2 trillion at the state level.

The questions from the board members also suggested that they were interested in making public pension funds more comparable to each other. The current accounting rules allow so much flexibility that comparisons can be unfair.

Jeremy Gold, an actuary and economist who testified at Wednesday’s meeting, said he expected that when the new standard was finally issued, it would improve the comparability of pension plans.

“The center of gravity is still in favor of sharper pencils, rather than a whole new way of doing things,” said Mr. Gold, who called for radical changes. “This will make Texas, California and New Jersey all comparable while they go to hell in a handbasket.”

## The accounting board will reconvene in Washington on Friday for additional testimony.

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