

City of Kelso

Administration Office 105 Allen • Kelso, WA 98626

Letter of Comment No: / 7 / File Reference: AICPA ICG Date Received:

March 24, 2005

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Smith:

The City of Kelso is a municipal corporation in the State of Washington. We have 80 employees, the majority of which are members of the ICMA Retirement Corporation as well as the State (PERS) retirement system. Nearly all of those invested with ICMA-RC have significant portions of their anticipated retirement funds within the Vantage Trust Plus Fund managed by ICMA Retirement Corporation.

The city has learned through ICMA-RC that the AICPA Investment Companies Expert Panel and Accounting Standards Executive Committee recently completed an issues paper requesting guidance on generally accepted accounting principles for valuing fully benefit responsive investment contracts held by non-registered investment companies (commingled stable funds).

Stable value funds are an integral component of our retirement package for the hard working members of the City of Kelso and for other public sector employees in thousands of other communities across the nation. Not allowing ICMA-RC to invest through commingled stable value funds would have a major negative impact on public investors such as City of Kelso employees.

Stable value has and continues to be a popular investment option for our plan participants. It provides them a level of return similar to an intermediate bond fund with risk levels comparable to a money market fund. The fund provides a needed balance against the risk of equity funds in long-term portfolios. Stable value's attractiveness as an investment option stems from returns that average 2%-4% greater than money market investment options, without a corresponding

increase in risk. ICMA-RC manages the stable value assets of our employees through the Vantage Plus Fund.

It is imperative to preserve the current commingled stable value fund accounting treatment for fully benefit responsive investment contracts. Commingled funds are the only vehicle that will allow small plans to realize the diversification and portfolio efficiency of large plans.

An unfavorable opinion by the Financial Accounting Standards Board (FASB) would have a disparate impact on small and large defined contribution plans. The expected differences would be reflected by unequal performance, risk and cost profiles for large and small plans. An unfavorable decision would create a two-tiered stable portfolio structure. Higher returns would accrue to the large plan portfolios and lower returns for less efficient or smaller and mid-sized portfolios.

Large plans would also be able to more broadly diversity their portfolios which reduces the risk to plan participants. It is estimated that small to mid-size plans will only be able to diversify among 15-25 different issuers while larger plans will have the ability to diversity among hundreds of issuers. Fund Managers such as ICMA-RC who set high credit quality standards may have to purchase securities of lower rated firms in order to meet the Fund's investment demands.

An unfavorable FASB decision would also increase the cost of stable value investing for participants, plan sponsors and plan providers. Increased administrative and operational costs will result from a decision to change accounting procedures for commingled stable-value funds. These increased costs will reduce the rate of return to the investor. Stable value funds have a history of being an efficient and beneficial investment for defined contribution investors. No investor has ever experienced a loss from a stable value investment. There is no reason to change the investment accounting standard for these funds.

As a public sector employer, we encourage the FASB to consider the public policy and social impact of their decision. Small and mid-size plans will be placed at an economic disadvantage to large plans. It will also lower the retirement investment returns of thousands of workers serving small towns (like Kelso), counties and other public sector entities throughout the nation.

I urge you to allow stable value funds to continue meeting the retirement needs of our employees.

Sincerely,

D.K. Robinson City Manager

City of Kelso, WA

cc: Kelso City Council, Finance Director