Public Pensions: Books, Budgets, and Bonds

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Overview

- Previously, a single calculation promulgated by GASB was used to measure and report on public pensions
- Now there are multiple calculations
  - Accounting— for books
  - Funding— for budgets
  - Bond ratings— for bonds
Calculating for Books

• Promulgated by GASB for users of public sector financial statements
• Designed to present standardized financial reporting of pensions for accounting purposes
• A new figure, the Net Pension Liability, will be placed on basic financial statements of public employers
• The NPL is essentially the difference between the market value of assets and total liabilities
• The NPL in many cases will be relatively large and will dwarf other financial statement elements

Calculating for Books (cont.)

• GASB no longer will require or maintain parameters for an Annual Required Contribution
• If the retirement system calculates an actuarially determined contribution, that and the history of funding commitment must be reported
• New GASB standards do not change the funding condition or the cost of public pensions
Calculations for Funding

• Policymakers need information regarding the annual cost to fund the pension plan

• Pension plans covering most public employees have a funding policy rooted in actuarially determined costs

• Funding guidelines have been developed by the
  • Pension Funding Task Force
  • California Actuarial Advisory Panel

Calculations for Funding (Cont.)

• States should have pension funding policies based on an actuarially determined contribution calculated within sound parameters – which will in turn be required supplementary information under new GASB standards.

• The Government Finance Officers Association and the Conference of Consulting Actuaries are developing best practices and guidelines that make similar recommendations and provide more specificity
Calculating for Bond Ratings

- Bond ratings agencies develop their own methods for assessing the creditworthiness of issuers of municipal debt; pension obligations are but one component of creditworthiness
- Some agencies restate pension data, generally based on more conservative assumptions
- Restatements do not comport with GASB requirements (new or old), and are not meant to be used for funding purposes
- Of the three major ratings agencies, Moody’s and Fitch have established methodologies that rely on calculations not based on GASB calculations
- S&P’s ratings remain based on outgoing GASB standards

Calculating for Bond Ratings (continued)

- **Moody’s** now applies
  - A uniform, taxable discount rate (currently around 4.5%)
  - A uniform, 20-year amortization period
  - Market value of assets (no smoothing)
  - Attribution of pension liabilities to employers in cost-sharing plans proportionate to payroll
- **Fitch** applies a uniform 7% discount rate and considers contribution effort and the reasonableness of assumptions
- **Moody’s** and **Fitch** combine unfunded pension liabilities with states’ debt to create rankings
- **Standard & Poor’s** relies on traditional metrics: funding ratio, funding level, unfunded liabilities per capita and as a percentage of income
Conclusion

• Multiple pension calculations have replaced the single GASB-driven numbers

• Calculations are being made for different purposes and different audiences

• Stakeholders should recognize the meaning, purpose, and target audience for each calculation