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# New Pension Standards and their Impact on States



**New Mexico - Investments and Pensions Oversight Committee  
October 16, 2013**



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# Overview

- Three broad sets of calculations:  
accounting, bond rating and funding
- Books, Bonds and Budgets
- Need for state pension funding standards



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# Reasons to develop guideline

- GASB Statement No. 67 and 68
- Moody's proposed adjustments to US public sector pension data
  - S &P? Fitch?
- Federal government pension reporting standards?



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# Reasons to develop guideline (continued)

- To develop recommended standards and practices for public pension funding that are supported by the actuarial community
- To identify a method for voluntary compliance with these recommended standards and practices

GASB's new exposure draft broke the link between accounting and funding standards. State and local groups wrote the guideline in an attempt to fill this void.



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# "Big 7" and others

- National Conference of State Legislatures
- National Governors Association
- The Council of State Governments
- National Association of Counties
- National League of Cities
- The U.S. Conference of Mayors
- International City/County Management Association
- National Council on Teacher Retirement
- National Association of State Auditors, Comptrollers and Treasurers
- Government Finance Officers Association
- National Association of State Retirement Administrators



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	BOOKS	BONDS	BUDGETS
Purpose	Computing an annual position regarding pensions for financial statements	Calculating how pension obligations affect a government's creditworthiness	Determining the appropriate annual contribution to the retirement system for sound funding
Changes	Net Pension Liability  No longer require set parameters for an ARC	Changes to discount rate, amortization; no smoothing	GASB no longer includes ARC  Pension Funding Guideline



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# Recommendations

- Have a pension funding policy that is based on an actuarially determined contribution
- Build funding discipline into the policy to ensure that promised benefits can be paid
- Maintain intergenerational equity so that the cost of employee benefits is paid by the generation of taxpayers who receives services
- Make employer costs a consistent percentage of payroll
- Require clear reporting to show how and when pension plans will be fully funded



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## Recommendations (continued)

A sound pension funding policy should address the actuarial cost method, asset smoothing method, and the amortization policy.

The most important step for local and state governments to take is to base their pension funding policy on an actuarially determined contribution.



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Resources  
?  
•NCSL policies  
•Pension Funding Guidelines  
•Advocacy letters

**Understanding New Public Pension Funding Guidelines and Calculations**

The importance of properly financing state and local government retirement systems has never been greater. Sound pension funding policies not only help ensure costs and benefits remain sustainable, but also strengthen the financial position and credit rating of the sponsoring governments.

State and local governments soon will need to distinguish several separate pension calculations that will be derived in different manners for distinct purposes:

- Books - computing an annual pension obligation to affect a government's creditworthiness
- Bonds - calculating how pension obligations affect a government's contribution to the retirement system for sound funding
- Budgets - determining the appropriate annual contribution to the retirement system for sound funding

The Governmental Accounting Standards Board (GASB) has released new standards for how governments should report pensions on their books or income statements. Some credit ratings agencies have announced that they will make new adjustments to governmental pension data for bond ratings. However, none of these computations is intended to determine the appropriate annual pension contribution a government should appropriate to ensure sound funding.

To guide lawmakers in reviewing the effectiveness of existing funding policies and practices, national organizations representing the nation's governors, state legislatures, state and local officials, and public finance professionals jointly formed a Pension Funding Task Force and released *Pension Funding: A Guide for Elected Officials*.

These guidelines urge policymakers to ensure pension promises can be paid, employer costs can be managed, and the policy to finance pensions is clear to all stakeholders.

	Books	Bonds	Budgets
<b>Purpose</b>	Standardized financial reporting of pensions for accounting	Stress testing the degree to which pension obligations may affect a government's ability to repay bonded debt.	Determining an annual pension contribution to properly fund benefits
<b>Primary audience</b>	Users of government financial statements	Rating analysts	State/local policymakers
<b>Source of calculation</b>	Accounting standards set by the Governmental Accounting Standards Board (GASB)	Practices established by individual credit rating agencies	State/local statutory, administrative and procedural rules
<b>Methodology</b>	Pensions are accounted for through the computation of a Net Pension Liability, i.e., the difference between the market value of pension fund assets and benefit obligations as of a specific date	Varies by rating agency, as pensions are just one of many metrics used to determine a bond rating	Most governments make actuarially determined contributions, calculated within established parameters as a level percentage of payroll to fully fund benefits earned each year and to amortize unfunded liabilities
<b>What's changing</b>	The Net Pension Liability is a new figure that will be played on basic government financial statements and is expected to create apprehension to create expenditures and, in some cases, could dwarf other items on the financial statement	Some ratings agencies have announced that in their credit analyses, they will utilize pension data using uniform, generally more conservative assumptions regarding amortization periods and investment returns	New GASB standards will no longer include parameters for calculating an annual required contribution. Although this does not necessitate a change to existing funding policies or practices, governments are urged to follow recommended guidelines established by the Pension Funding Task Force

**FUNDING: A Guide for Elected Officials**  
Task Force 2013



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# For more information

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