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New Pension Standards and their Impact on States

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

Overview

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

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?

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.

"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

	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

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

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.

Resources?

- NCSL policies
- Pension Funding Guidelines
- Advocacy letters

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