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## Borrowing to Backfill Public Pensions Makes a Comeback.

Low interest rates made the potentially risky and often criticized practice more attractive. But then the stock market plummeted, complicating the outlook for some places that took on the debt.

Welcome back to another edition of Route Fifty's Public Finance Update! I'm Liz Farmer and this week I'm writing about an oldie but a goodie: pension obligation bonds (POBs). These bonds, which are also issued in the municipal market as "certificates of participation," are taxable debt issued by governments looking to shore up their pension plans. Proceeds from the sale are typically used to pay off part or all of a pension's unfunded liability, making future bills much more manageable. The debt comes at a higher interest rate than non-taxable general obligation bonds, but governments who issue POBs generally view the added stability they get for their retirement plans as worth the extra financing cost.

Still, POBs are a gamble and they fell largely out of favor after the Great Recession. Timing is everything and governments always face the risk of putting a bunch of borrowed money into their pension plan only to see it lose value in the event of a downturn. That happened to a number of places after the 2008 financial crisis and contributed to Stockton, California's bankruptcy. In these worst-case scenarios, governments are now saddled with 30 years of debt payments and a pension plan that's not much better off.

But last year, debt for pensions made a big comeback. More than 110 governments issued bonds to pay off pension liabilities, totaling nearly \$13 billion in new debt, according to data compiled by Municipal Market Analytics. It's more than double the issuance compared with recent years and the highest total since 2003, according to Bloomberg.

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