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Pension Plans Go Risky With Investments.

ORLANDO — Unfunded public pension liabilities can be vastly different depending on the assumptions made and how they are calculated, but it is clear that plans are taking far more risk today than they have in the past, pension experts told municipal analysts at a conference here Wednesday.

Representatives of the Governmental Accounting Standards Board, Moody's Investors Service, and the Rockefeller Institute of Government spoke to members of the National Federation of Municipal Analysts at the group's annual conference.

Calculations of unfunded pension liabilities sometime seem contradictory, causing a government's plans to appear either well-funded or poorly-funded despite starting with the same numbers. Rockefeller Institute senior Fellow Donald Boyd said the calculation of a liability can swing very wildly depending on the projected rate of return of its pension investments.

Boyd said there is no "right" discount rate, but pointed out that a typical plan could show a liability that is 63% lower when assuming an 8% rate of return vs. a 4% rate of return. Boyd advocated for a conservative assumption, which places more initial burden on governments because it assumes a lower level of long-term pension benefit payouts will be covered by the plan's investment earnings.

"You ought to have a pretty risk-free or low-risk rate," he said.

Boyd added that many public plans are heavily-invested in equities, leaving them exposed to more market volatility than in the past. Further, some state and local officials wrongly believe that under performance in the short-term will be canceled out over the course of 30 years of investment, Boyd said.

"The risk has grown very, very substantially over the past couple of decades," he warned.

GASB standards approved in 2012 that become effective on July 1 require governments to disclose a "net pension liability" figure for the first time on their balance sheets in addition to funding projections. The net pension liability is the difference between the total pension liability and the assets set aside in a trust and restricted to paying benefits. The GASB standards are not binding, but state and local governments must meet them in order to receive clean or non-qualified opinions from auditors on their financial statements. GASB research manager Dean Mead said he does not expect the new standards to have any impact on funding levels. "I don't have any reason to believe this will have any impact on funding at all," Mead told analysts, adding that groups such as the Government Finance Officers Association have put out their own guidance for pension funding.

"How they fund is their business and not ours," Mead said.

Marcia Van Wagner, a senior analyst at Moody's said the rating agency has created its own adjusted pension analysis formula to create a more workable measurement of how pension liabilities impact municipal credit. Moody's change in pension methodology resulted in an almost immediate

downgrade of 19 muni issuers when the agency rolled it out last year. Moody's treats pension liabilities more like bond debt, which Van Wagner said carries a comparable level of legal and moral obligation to pay in most cases. Van Wagner said the new GASB standards will be helpful by providing a more fulsome picture of pension liabilities, but will not likely impact the way Moody's evaluates pensions.

"We are looking forward to more detail," she said.

BY KYLE GLAZIER

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