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The Tougher U.S. Pension Rules in Puerto Rico's Rescue Plan.

The proposed changes would mark unprecedented federal authority over state and local pensions and make their financial status look a lot worse.

Congress might choose to extend unprecedented federal authority over state and local pensions. An effort to impose new reporting requirements, if approved, would ultimately cast the financial status of state and local pensions in a much more dire light.

The proposed requirements were included as part of a financial assistance bill introduced last month to address Puerto Rico's debt crisis, but they would also apply to states and localities throughout the United States.

The legislation, sponsored by Orrin Hatch, a Utah Republican who chairs the Senate Finance Committee, would make state and local pension plans file annual reports with the U.S. Treasury Department. The new filings would have to include an alternative valuation detailing how well-funded the plan is. In nearly every case, that would mean a lower valuation.

State and local government groups, including the National Conference of State Legislatures and the National Association of State Retirement Administrators (NASRA), quickly voiced their opposition to the idea. They sent a letter to Congress, along with 15 other groups, complaining that the proposed provision targets all pensions, rather than limiting the issue to Puerto Rico, and that extra filing at the federal level would be too time-consuming and costly.

"I just don't understand the nexus between adding state and local pension provisions into a bill that has to do [with] Congress' oversight and assistance to Puerto Rico," said Jeannine Markoe Raymond, NASRA's director of federal relations.

The legislation was prompted by Puerto Rico's dire financial problems. Its government is saddled with $72 billion in debt that it can't pay and wants to cut its bond payments in order to meet other obligations, including pensions. The island territory has already defaulted on a debt payment, and going forward, its political leaders said they'll only make full payments on the debt it's legally obligated to pay.

But for some in Congress, the legislation is an opportunity to fix more than just Puerto Rico's finances.

"This pattern will inevitably repeat itself in several of the states if nothing changes," said a Senate aide who asked not to be identified. "If Congress is going to help the territory, then now is the time to begin addressing the broader problem, and a more accurate disclosure of public pension liabilities is a good place to start."

The biggest potential change centers on each pension plan's discount rate — that is, the rate of return on investments that's used to determine its overall fiscal health. The higher the expected rate of return, the lower the amount of funding a government needs to pay into its pension plan. The opposite, of course, is true when the rate of return is lower. The Senate bill would require plans to use an assumed rate of return pegged to a Treasury rate (these days, around 3 to 4 percent), instead of the 7 to 8 percent rate most plans now use. That change would have a drastic effect on how financially healthy a plan looks.

New Jersey has already experienced this.

The state's plans recently had to change the way they value their pension assets and liabilities due to new state and local pension accounting rules from the Governmental Accounting Standards Board last year. As a result, New Jersey's state employees fund went from being 46 percent funded in 2013 to only 28 percent funded in 2014. Its state teachers plan dropped even further — from 57 percent funded to 34 percent. All told, the accounting change more than doubled the state's unfunded liability for those two plans to $75 billion.

This isn't the first time Congress has sought to interfere with state and local pension regulations.

In 2011 and again in 2013, California Republican Rep. Devin Nunes proposed a so-called pension transparency bill nicknamed PEPTA. It failed both times to gain any traction, but his legislation similarly called for state and local pensions to file additional reports with the Treasury that showed the plan's funding status using a market rate of return.

Nunes didn't seek to make use of a market rate mandatory, but his approach included a big stick, threatening to remove a vital infrastructure financing perk: Governments that didn't participate could not issue tax-free municipal bonds.

Given disagreement in Congress over a Puerto Rico bailout, Hatch's bill faces a tough road ahead. Democrats favor a proposal by President Obama that, among other things, would let Puerto Rico restructure its debt in bankruptcy. The addition of the reporting requirements for all state and local pensions could very well be an additional point of contention.

Raymond said her group plans to use the debate over the latest proposed legislation as an opportunity to educate members of Congress about the overall fiscal health of state and local governments. Included along with last month's opposition letter was an overview of state and local governments' financial data.

"Every state, since the Great Recession, has made changes to one or more of its pension plans," said Raymond. "I'm not sure everyone understands that. This isn't an area that has been ignored by state and local governments."

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