Cities’ Pension Liabilities Are About to Look a Lot Worse.

A new GASB rule affecting cities that are part of state cost-sharing retirement plans will be painful, but it’s a step forward.

A new rule from the Government Accounting Standards Board (GASB) requiring municipalities that participate in plans in which they share pension costs with states to allocate and disclose their share of unfunded pension liabilities provides states with some much-needed good news when it comes to pension finances, but it comes at the cost of cities’ balance sheets. Hopefully the enhanced transparency will prompt cities to take measures to address their long-term liabilities.

The cost-sharing plans affected by the new GASB rule are those in which pension obligations and assets are pooled and the assets can be used to pay benefits for any participating government employer. A new issue brief from the Center for State and Local Government Excellence samples 173 municipalities and finds that 92 of them are affected by the new rule because they either participate exclusively in a state retirement system or both administer their own plan and pay into a state system.

Most of the largest cities administer their own plans exclusively and are therefore unaffected by the rule. But the impact is significant for cities that are subject to it. On average, their unfunded pension liability as a percentage of own-source revenues rose from 37 percent to 70 percent (the brief is largely based on 2012 reports).

There is a great variation in how much individual cities are affected. As a result of the new rule, unfunded pension liability as a percentage of overall revenue rises by less than 20 percentage points in 37 of the 92 cities, but it increases by over 60 points in 25 of them.

For example, Newark, N.J., doesn’t administer its own pension plan and has therefore never been included in studies of local systems. But when its portion of unfunded state pension liability is allocated, the amount is a breathtaking 284 percent of city revenues. Cincinnati, Las Vegas and Portland, Ore., are among other cities in which unfunded liabilities are more than 200 percent of revenues.

Why is the new GASB rule good news for states? While it doesn’t change overall liabilities, its requirement that they be allocated and reported results in state liabilities falling by the same amount that municipal liabilities rise.

Nobody likes getting bad news, but it still beats ignorance. For that reason, the new rule is a step forward. Almost a decade ago, when new GASB rules required municipalities to disclose their liability for non-pension post-retirement benefits such as health care, the often-huge numbers caused many municipalities to implement mechanisms to pay down that liability over time. If this newest rule has the same impact, that’ll be good news for retirees and taxpayers alike.

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