# Bond Case Briefs

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## The Crumbling Assumptions of US Public Pension Plans.

The governor's office for Illinois, a state with notoriously weak finances, this week issued a stark warning about what might happen if it reduced the assumed rate of return for its Teachers' Retirement System.

"If the board were to approve a lower assumed rate of return taxpayers will be automatically and immediately on the hook for potentially hundreds of millions of dollars in higher taxes or reduced services," the state's senior adviser for revenue and pensions wrote in a memo.

Unlike corporate pensions, US public pensions discount their liabilities using the rate of return they expect to generate on their investments. Some experts complain that these rates have been set unrealistically high. Lower return expectations would push up the cost of liabilities on their balance sheet, and force Illinois to make higher contributions. If costs to the pension were to increase by $250m it would nearly equal an entire year's appropriation for six universities.

Continue reading.

**Financial Times**

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