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Public Pension Funding Crisis: Who Was Jeremy Gold And <u>Why Should You Care?</u>

The bottom line: public pension plans' poor funding levels would be even worse if they were accounted for the way that private pension plans are, the fact that their accounting methods differ has contributed to the funding crisis, and Jeremy Gold was either a prophetic or foolish in attempting to call attention to this fact.

Let's start with more actuary-splaining:

Actuarial valuations . . . in the corporate world

In the corporate pension world, there are two types of actuarial valuations: accounting valuations and funding valuations. The former determine what liabilities and expense are recorded on the company's books, and the latter determine what contributions the employer will make to the pension fund, or define a range of choices.

The interest rate — or, in actuarial terminology, the discount rate (since you're discounting to the present, the present value of a future benefit) — for accounting valuations is pretty nearly the corporate bond rate; once upon a time, it was just a generic bond rate; then more attention was paid to ensuring that the duration of the bond rate is equivalent to the duration of the plan liabilities (that is, simply defined, that the weighted average of the future payouts of the bond index match the future payouts of the pension plan); now most companies use a yield curve to determine the discount rate.

Continue reading.

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by Elizabeth Bauer Contributor

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