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Commentary: The Time is Ripe for Public Pension Obligation Bonds

It’s finally now time for public pension funds and their sponsoring employers to make lemonade from lemons. The market value of public pension stock portfolios has shrunk dramatically in the shadows of the COVID-19 crisis, coupled with the recessionary impact of the Saudi-Russian oil price war. Stock indexes are down 35% or more from their peaks just earlier this year, in a dramatic sell-off.

As trustees and chief investment officers scramble to quell fears of stakeholders, and public finance officers watch their sales and income tax revenues plummet, liquidity and even solvency fears are resurfacing in some places. The potential inability of state and local governments to sustain their pension promises is once again making the news.

Before we start ringing the alarm about pension funding and pension deficits, it’s now the time to revisit a worthwhile public finance strategy and instrument that may be able to come to the rescue of public employers. It works for both their underfunded pension funds as well as their often unfunded retiree medical benefits, known as other post-employment benefits, or OPEB. The pension obligation bond, and its more appropriate “benefits bond” cousin for OPEB plans, could never be more timely — and more vital to the future health of states and municipalities.

Continue reading.

Pensions & Investments

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