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Bonds are the Key to Reining in Runaway Municipal Pension Plans.

In what is the product of the sustained low-rate environment, [many municipalities are considering](#) addressing their pension position through bonds. This should be encouraged by policymakers and explored by pension systems.

Bond markets are offering municipalities the opportunity to exchange discount rates of 6, 7 and sometimes even 8 percent for bonds with yields below 3 percent. The spread between the discount rate and the bond yield is the root of the appeal of pension obligation bonds.

A natural question is “How do pension systems become underfunded?” The answer is a combination of issues. The two largest are underperforming investments and insufficient employee contributions.

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THE HILL

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