

Associations Tackle Public Pension Funding Issue

Why have the national associations of state and local governments established a pension funding task force? In a nutshell, it is because the Governmental Accounting Standards Board (GASB) has issued new pension accounting standards without any guidance on how governments should calculate the annual required contribution to fund them.

Since state and local officials make annual budget decisions, they need a rational way to determine how much the employer needs to pay each year to cover current employee pension costs as well as an appropriate portion of any unfunded pension liability. Having a rational method to calculate and report the annual required contribution (ARC) ensures that policymakers, employees, and the public can assess how well funded their government's pension plans are.

Task force members include the "Big 7" (National Governors Association, National Conference of State Legislatures, Council of State Governments, National Association of Counties, National League of Cities, U.S. Conference of Mayors, and the International City/County Management Association); National Association of State Auditors, Comptrollers and Treasurers; Government Finance Officers Association; National Association of State Retirement Administrators; and National Council on Teacher Retirement. The Center for State and Local Government Excellence convenes the pension task force meetings.

The new pension funding guidelines build on work done by the actuarial community. The consensus of the task force is that governments should adopt a formal pension funding policy that addresses these five policy objectives:

1. Ensure that pension funding plans are based on actuarially determined contributions
2. Establish funding discipline to ensure that promised benefits can be paid
3. Maintain intergenerational equity
4. Make employer costs a consistent percentage of payroll
5. Require clear reporting to show how and when pension plans will be fully funded.

Public pension plan sponsors and representatives from the finance and actuarial community have participated in early task force discussions. The task force expects to report its recommendations soon.

For more information, read Pension Funding Background.

http://icma.org/en/Article/102402/New_Pension_Reporting_Challenges

GASB's new accounting standards

http://www.gasb.org/cs/ContentServer?site=GASB&c=Document_C&pagename=GASB%2FDocument_C%2FGASBDocumentPage&cid=1176160140567