10 Things You Should Know About Public Pension Disclosure Changes

State and local government retirement systems have significant oversight and disclosure requirements, some of which are being considerably modified. Several new and separate public pension calculations are being published – each derived in different manners and for distinct purposes – and could easily be misunderstood and create confusion. Below are ten key takeaways regarding existing disclosures, notable changes, and their effects.

1. **State and local governments provide significant oversight for their retirement systems and require open reporting and processes.** These systems are established under state statutes, local ordinances, or both; subject to fiduciary, investment and administrative laws, as well as to open records and sunshine statutes; overseen by elected governmental bodies, state and local regulators, elected office holders, the public, and independent boards of trustees.
2. **The Governmental Accounting Standards Board (GASB) is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.** GASB standards must be followed to receive a clean audit. GASB was established by state and local government organizations in conjunction with the Financial Accounting Foundation, in recognition of the fact that governments are fundamentally different from for-profit business enterprises, including their unique time horizons, oversight, revenue streams, constitutional or contractual protections, stakeholders and accountability for resources.
3. **GASB has recently completed a multi-year process of reviewing and revising its accounting standards on public pension reporting.** GASB Statement 68, which will be implemented into state and local government financial statements this year, includes many changes. Notably, state and local governments will now be required to report their net pension liability on their balance sheets.
4. **The new GASB requirements *do not* affect actuarial funded ratios or pension contribution requirements;** they only change where and how pension costs are accounted for in financial statements to provide additional and more prominent information.
5. **The placement of net pension liabilities on an employer's balance sheet could create the erroneous impression that this is an obligation that is due immediately. This is not the case.** Pensions are funded and paid out over very long periods – contributions are made over employees' careers and distributions are provided in monthly installments in their retirement.

6. **A new term, pension expense, refers to the change in the net pension liability from one year to the next, and should *not* be confused with what governments actually budget and expend on pension contributions.** The new GASB net pension liability figure will be volatile, because it is based, in part, on the market value of pension assets, which fluctuate with investment markets. Under GASB 68, pension expense is a measure of this volatility, not an employer's pension contribution.

7. **Information about annual pension contributions *has not* gone away.** Actuarially determined pension contributions, as well as the assumptions that underlie them, are required to be included in financial notes, along with a government's 10-year pension contribution history. The financial condition of the retirement system, including funded status and necessary contributions, must be certified by qualified actuaries that adhere to Actuarial Standards of Practice maintained by the Actuarial Standards Board, which identifies what U.S. actuaries should consider, document, and disclose.

8. **Adjusted pension data being published by some credit rating agencies does not change a government's pension liabilities, it is merely part of their credit analytics.** Some credit ratings agencies are now modifying pension data using their own methodologies to standardize results and they are publishing this adjusted data. Credit ratings agencies have long been factoring pension liabilities into their credit ratings and bond ratings for only a small number of governments are expected to change due to pension obligations.

9. **State and local policymakers are urged to review the effectiveness of existing funding policies and practices.** National organizations representing the nation's governors, state legislatures, state and local officials, and public finance professionals have released Pension Funding: A Guide for Elected Officials, which recommends the calculation and payment of actuarially determined pension contributions within accepted guidelines so that pension promises can be paid, employer costs can be managed, and the pension funding policy is clear to all stakeholders.

10. **Since the Great Recession, all 50 states and numerous localities have been taking steps to strengthen their pension funding; none has requested nor required federal intervention.** Federal legislation has been proposed to eliminate the tax-exempt status of municipal bonds if state and local governments do not comply with federally-imposed, conflicting and costly pension reporting mandates. It is inappropriate for the federal government to propose unfunded mandates and penalties in an area that is the fiscal responsibility of sovereign States and localities.

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CSG -	The Council of State Governments
NACo -	National Association of Counties
NLC -	National League of CIties
USCM -	U.S. Conference of Mayors
ICMA -	International City/County Management Association
NASBO -	National Association of State Budget Officers
NASACT -	National Association of State Auditors, Comptrollers and Treasurers
GFOA -	Government Finance Officers Association
NASRA -	National Association of State Retirement Administrators