

Separate Pension Numbers for Books, Bonds and Budgets

	Books	Bonds	Budgets
Purpose	Standardized financial reporting of pensions for accounting	Stress testing the degree to which pension obligations may affect a government's ability to repay bonded debt	Determining an annual pension contribution to properly fund benefits
Primary Audience	Users of government financial statements	Ratings analysts	State/local policymakers
Source of calculation	Accounting standards set by the Governmental Accounting Standards Board (GASB)	Practices established by individual credit rating agencies	State/local statutory, administrative and procedural rules
Methodology	Pensions are accounted for through the computation of a Net Pension Liability, i.e., the difference between the market value of pension fund assets and benefit obligations as of a specific date	Varies by rating agency, as pensions are just one of many metrics used to determine a bond rating	Most governments make actuarially determined contributions, calculated within established parameters as a level percentage of payroll to fully fund benefits earned each year and to amortize unfunded liabilities
What's changing	The Net Pension Liability is a new figure that will be placed on basic government financial statements and is expected to create unprecedented volatility and, in some cases, could dwarf other items on the financial statement	Some ratings agencies have announced that in their credit analytics, they will adjust pension data using uniform, generally more conservative assumptions regarding amortization periods and investment returns	New GASB standards will no longer include parameters for calculating an annual required contribution. Although this does not necessitate a change to existing funding policies or statutes, governments are urged to follow recommended guidelines established by the Pension Funding Task Force

*Members of the Pension Funding Task Force include the National Governors Association (NGA), National Conference of State Legislators (NCSL), Council of State Governments (CSG), National Association of Counties (NACo), National League of Cities (NLC), U.S. Conference of Mayors (USCM), International City/County Management Association (ICMA), National Council on Teacher Retirement (NCTR), National Association of State Auditors, Comptrollers and Treasurers (NASACT), Government Finance Officers Association (GFOA), and National Association of State Retirement Administrators (NASRA).