Understanding New Public Pension Funding Guidelines and Calculations

The importance of properly financing state and local government retirement systems has never been greater. Sound pension funding policies not only help ensure costs and benefits remain sustainable, but also strengthen the financial position and credit rating of the sponsoring governments.

State and local governments soon will need to distinguish several separate pension calculations that will be derived in different manners for distinct purposes:

- **Books** – computing an annual position regarding pensions for financial statements
- **Bonds** – calculating how pension obligations affect a government’s creditworthiness
- **Budgets** – determining the appropriate annual contribution to the retirement system for sound funding

The Governmental Accounting Standards Board (GASB) has released new standards for how governments should report pensions on their books or income statements. Some credit ratings agencies have announced that they will make new adjustments to governmental pension data for bond ratings. However, none of these computations is intended to determine the appropriate annual pension contribution a government should appropriate to ensure sound funding.

To guide lawmakers in reviewing 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 jointly formed a Pension Funding Task Force and released *Pension Funding: A Guide for Elected Officials*.

These guidelines urge policymakers to ensure pension contributions are actuarially determined within sound parameters. Doing so ensures that pension promises can be paid, employer costs can be managed, and the policy to finance pensions is clear to all stakeholders.

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