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NAPO WASHINGTON REPORT FLASH

NAPO Attends Discussion on Public Pension Plan Financing

On June 11, 2013, NAPO attended a discussion on public pension plan financing, valuation, and disclosure issues, which was hosted by the Municipal Securities Rulemaking Board (MSRB). During their opening statements, MSRB Board Chairman Jay Goldstone and MSRB Executive Director Lynette Kelly explained that in 2010, Congress expanded the mission of the MSRB with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") to expressly include the protection of municipal entities, which include public pension plans. The MSRB invited an array of organizations with an interest in public pension plan financing, valuation, and disclosure in order to advance understanding of issues affecting public pension plans. The following provides a brief overview of topics that were discussed during the forum:

- The panel explained that there are many misconceptions about public pensions, such as: public employee benefits are bankrupting states and public pensions are overly generous. Speakers cleared these misconceptions by stating: less than 4% of state budgets are spent on pension benefits and the average state employee's and teacher's benefit is \$22,000 annually (Eitelberg).
- Public pension funds hold approximately \$3 trillion in assets in trust for about 15 million working and more than 8 million retired employees of state and local government and their surviving family members. Until recently, a single set of actuarial calculations, reported by public pension plans and their sponsoring employers, in compliance with the standards maintained by the Governmental Accounting Standards Board, were widely recognized as the definitive assessment of both the condition and cost of a public pension plan. However, the days of a single set of numbers are gone. These are being supplemented by a variety of new calculations and numbers, each with its own intended purposes. There soon could be three sets of pension numbers: one for accounting (books); one for funding (budgets); and possibly a third as part of assessing the credit risk of a plan sponsor (bond ratings) (Brainard).
- For the majority of governments, pension obligations remain manageable in the context of revenues, resources, and budget cutting powers. Most governments have taken needed actions to accommodate increased pension costs and balance budgets. Reforms are lowering employer normal costs, and in some cases reducing accrued liabilities (Blake).
 - Over 40 states between 2010 and 2012 have addressed pension reform (8 in 2012, 32 in 2011, and 21 in 2010). Between 2009 and 2011, 28 states increased employer contributions and 7 states increased employee contributions for new hires. Also, between 2009 and 2011, 28 states increased the retirement age and service requirement and 18 have reduced post-retirement benefit increases, such as COLA (Spiotto).
 - The most common changes have been to increase employee contributions to pensions or to establish different tiers of benefits for newly hired employees. New hires might have higher

vesting requirements, longer service requirements, a later retirement age, and/or lower pensions. There are also more restrictions on retired public workers returning to covered service while continuing to receive their retirement benefit (Spiotto).

- State government units offering retiree health care benefits have declined in number during the past decade. Retiree health care obligations are concentrated in a minority of states; specifically, of all states retiree health care obligations, 80 percent are attributed to 12 states. States are utilizing a variety of methods designed to shift a greater portion of the cost of providing retiree health care to employees and retirees (Franzel).

NAPO will continue to keep our members updated on MSRB developments. If you have any questions about this session, please contact Melissa Nee at: mnee@napo.org.

SOURCES

Blake, Tim. "Moody's Adopts State and Local Pension Adjustments." Lecture. MSRB Public Pension Issues Discussion Series. MSRB, Alexandria. 11 June 2013.

Brainard, Keith. "Books, Budgets, and Bonds." *Government Finance Review* (2013): 70-72.

Eitelberg, Cathie. "MSRB Public Pension Issues Discussion Series." Lecture. Public Pension Issues Discussion Series. MSRB, Alexandria. 11 June 2013.

Franzel, Joshua, and Alex Brown. "Retiree Health Care Benefits for State Employees in 2013." Center for State & Local Government Excellence & NASRA, 4 June 2013. 11 June 2013.

Spiotto, James E. "Unfunded Pension Obligations." Lecture. Public Pension Discussion Series. MSRB, Alexandria. 11 June 2013.

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