



News Release

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STATE AND LOCAL GOVERNMENTS FOCUS ON PENSION FUNDING POLICY



The Council of State Governments
Sharing capitol ideas.

WASHINGTON—The “Big 7” state and local government associations and the Government Finance Officers Association (GFOA) today released [Pension Funding: A Guide for Local Officials](#) to provide key facts about public pension plans and a brief overview of which issues state and local officials should address. The guide explores why developing a pension funding policy is essential and offers guidelines to follow when developing that policy.



Last year, the Governmental Accounting Standards Board (GASB) issued new standards that focused on how state and local governments should account for pension benefit costs but did not address how employers should calculate the annual required contribution (ARC) necessary to fund those pensions. To assist state and local government employers, the Big 7 and GFOA established a Pension Funding Task Force (Task Force) to develop [policy objectives](#) and guidelines. The policy objectives were released last October.



“These new GASB accounting standards will change the way public pensions and their sponsoring governments report their pension liabilities. In fact, the new GASB standards end the relationship between pension accounting and the funding of the ARC, which is how many governments budget their pension plans each year,” said **Robert J O’Neill, International City/County Management Association executive director and the current chair of the Big 7.** “Because some ratings agencies could use another set of criteria to assess creditworthiness that could dramatically affect the issuance of municipal bonds, it is critical for both the financial community and the public to have an objective set of guidelines on which to present their financial reports. Thus, the most important step here is for state and local governments to base their policy on actuarially determined contributions that use these guidelines.”



The Task Force recommends that pension funding policies be based on the following five general policy objectives:

- Have a pension funding policy that is based on actuarially determined contributions;
- Build funding discipline into the policy to ensure promised benefits can be paid;
- Maintain intergenerational equity so the cost of employee benefits is paid by the generation of taxpayers who receives services;
- Make employer costs a consistent percentage of payroll; and
- Require clear reporting to show how and when pension plans will be fully funded.



The Big 7 is a coalition of seven national associations in Washington, D.C., whose members represent state and local governments. Members of the Big 7 include the National Governors Association, the National Conference of State Legislatures, The Council of State Governments, the National Association of Counties, the National League of Cities, The U.S. Conference of Mayors and the International City/County Management Association.





In addition, the National Association of State Auditors, Comptrollers and Treasurers; the National Association of State Retirement Administrators; and the National Council on Teacher Retirement serve on the Task Force. The Center for State and Local Government Excellence is the convening organization.

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The Big 7 is a coalition of seven national associations in Washington, D.C., whose members represent state and local governments. The leadership of these organizations works together regularly to discuss issues of mutual interest affecting state and local governments. Members of the "Big 7" include: The National Governors Association, the National Conference of State Legislatures, The Council of State Governments, the National Association of Counties, the National League of Cities, The U.S. Conference of Mayors and the International City/County Management Association.