Public Pension Funding Forum
Questions to Ask before Issuing Benefit Bonds

April 22, 2014
Elizabeth Wiley, FSA, FCA, EA, MAAA
Forum Solutions Criteria

- Five criteria that proposed solutions to pension funding gap must meet were provided.
- Benefit bonds have been proposed as a possible aspect of solutions.
- Purpose this presentation is to outline questions as a framework for assessing using benefit bonds as part of your funding.
Five Criteria

1. Does not ask taxpayers to pay for pension funding gap
2. Does not add to the state and local debt
3. Does not raise employee and employer contributions
4. Does not cut benefits
5. Does not harm local economy
1. Does not ask tax payers to pay for pension funding gap

- Are market conditions such that it is anticipated more can be earned with the bond proceeds than the cost of borrowing?
2. Does not add to the state and local debt

- Is the annual service on the bond less than the cost of paying off the UAL?
- Is the pension gap already reflected in the sponsor’s financial statements?
- Does issuance of these taxable bonds crowd out the ability to issue more efficient bonds with lower coupons?
- What will the taxable borrowing costs and any risk mitigation costs be?
3. Does not raise employee and employer contributions

- Will the proposed bond program close the funding gap?
- Are contributions sufficient to cover ongoing pension costs?
- Potential for changes in the UAL recognized and planned for?
4. Does not cut benefits

- Can enough funds be raised to relieve pressure on benefits?
- Policy established and communicated for potential benefit increase pressures due to “overfunding”?
5. Does not harm local economy OR has a positive impact on local economy

- Can the bonds be used to impact economic outlook?
- What is the PR perception of using bonds?
Other Considerations

- Credit rating
- Voter approval
- GASB
- Behavioral Consideration
Credit rating

• Can you service bond debt with lower payments than you could pay down the UAL?
• What is the debt capacity of the sponsor?
• How is the motivation for issuing these bonds likely to be seen by the agencies?
Voter approval

• Is this true for your scenario?
• Can you substitute a different purpose for bond funds in place of the pension fund?
GASB

- Can you avoid a lower discount rate as a result of the bond issuance?
- Are there policy reasons that showing a zero or reduced net pension liability is positive for you?
*Behavioral Considerations*

- One additional question to consider in evaluation all of the criteria
- To what degree can trustees undo the bond program intended impacts?
- What is the impact of the investment policy on the efficiency of the bonds?
- Will the plan sponsor take a more disciplined approach to paying investors than it would to paying the pension obligation?
Contact Information

Elizabeth Wiley
ewiley@cheiron.us
703-893-1456
www.cheiron.us