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***What disclosures should public pension funds make that they are currently not making?***

# REPORT RECOMMENDS FIVE STEPS FOR GREATER PUBLIC PENSION TRANSPARENCY

**New York City:** The underfunding of public pensions, and the threat this poses to the fiscal solvency of cities and states, has emerged as an urgent policy concern. But pension accounting rules are so convoluted that many lawmakers are themselves in the dark about the true costs of the unsustainable pension promises they've made. By some measures, the pension plans of state and local governments are as much as $3 trillion short of the assets they would need to cover the promises they have made to government workers and retirees.

"Unmasking Hidden Costs: Best Practices for Public Pension Transparency," a new Manhattan Institute report by Josh Barro, recommends five steps that public pension plans could take that would disclose their finances more fully:

- **Discounting**: In calculating their pension liabilities and funded status, pension funds should use a market-value discount rate. The disclosure of the sum this method produces would accompany the existing disclosure, which rests on a discount rate based on expected returns on assets.

- **Smoothing:** Funds should use a standardized "smoothing" period of five years to calculate asset values. Funds should report funded status on the basis of a market value of assets with no smoothing.

- **Accrual method**: Funds should continue to use Entry Age Normal as a standard accrual method for calculating funded status when applying the standards stated above.

- **Projections:** Funds should issue annual five-year projections of contribution rates required of participating governments.

- **Normal cost:** Funds should calculate and report the normal cost of pension benefits using the market-value discount rate they use to calculate pension liabilities and funded status.

This report is the first to recommend a tool kit for state and local governments to improve their financial disclosures as well as to suggest what entities should be responsible for implementing these changes in disclosure policy:

- States should voluntarily adopt them and also require municipalities to do so.

- The federal government should also take steps to make the recommended disclosures. The current bill before Congress, the Public Employee Pension Transparency Act, would provide the financial incentive for states to adopt some of the reforms that this report recommends.

This would clarify the magnitude of states' total accrued liabilities and their annual impact on budgets. Making this information available is the first step in helping states adopt policies that would save taxpayers money in the long run.

The study can be accessed online at http://www.manhattan-institute.org/html/cr_63.htm.If you would like to schedule an interview with the author, please contact Kasia Zabawa at (646) 839-3342 or by email at kzabawa@manhattan-institute.org.

About the author:

**Josh Barro** is the Walter B. Wriston Fellow at the Manhattan Institute, focusing on state and local fiscal issues. He is the co-author of the Empire Center for New York State Policy's "Blueprint for a Better Budget" and author of Underfunded Teacher Pension Plans: It's Worse Than You Think." His recent work has included studies on public employee pensions and on property-tax reform. Barro is a frequent television, radio, and print commentator on fiscal and economic issues. He writes on fiscal issues for *RealClearMarkets.com*, is a regular contributor on *National Review Online* and has also written for publications including the *New York Post,* the *New York Daily News*, the *Washington Examiner, National Review*, and *City Journal*.