



**ENSURING REALISTIC EMPLOYER COSTS FOR RETIREMENT PLANS:  
WHY “MARKET VALUE OF LIABILITIES” MAKES NO SENSE FOR GOVERNMENTAL ACCOUNTING**

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# ENSURING REALISTIC EMPLOYER COSTS FOR RETIREMENT PLANS:

## WHY “MARKET VALUE OF LIABILITIES” MAKES NO SENSE FOR GOVERNMENTAL ACCOUNTING

### Executive Summary

Financial economists want to change the way accounting and actuarial standards address the measurement of plan liabilities. Their contemplated modifications, if they came about, would make the liabilities measured for public sector retirement plans, including those of state governments and school boards, appear to be dramatically higher. As a result, these proposed changes would affect everything from plan design, to budget planning, to the politics of public employee benefits.

The proponents of applying the principles of financial economics to public sector plans argue that plan liabilities should be measured based on a discount rate linked to investments that approximate the plan’s liabilities in duration, risk, and other qualities. Given the nature of pension benefits, they conclude that the best discount rate is one based on high-quality bonds. The resulting liability is often called the market value of liabilities, or MVL.

For retirement plans, which estimate their liabilities decades into the future, the discount rate is a key to how actuaries translate all those estimated future benefit costs into dollar amounts with contextual meaning today. After all, given the nature of money, \$100 in the future is worth less than \$100 now. The same holds true for liabilities. When actuaries estimate a plan’s liabilities, at least two things are always true: the lower the discount rate, the larger the estimated liability, and the higher the discount rate, the lower the estimated liability. Currently, the norm is for pension plans to value their liabilities using a discount rate based on the long-term expected return on plan assets, which generally are diversified to include stocks and other investments expected to provide higher returns than bonds over the long term. Given that it would be based on a lower, bond-based discount rate, MVL for pension plans would be higher than the liabilities estimated using the current approach.

MVL is inappropriate for use in the public sector. Corporations with single employer defined benefit plans have moved toward MVL, but they are different in nature from government. They also have different accounting and reporting needs, as do investors in the private sector as compared to investors in the public sector. As a result, the application of MVL to governments would lead to the reporting of liabilities—if not also expensing, funding, and investing—that are both inappropriate and unrealistically high. At the same time, employer contributions would become much more volatile, undermining a key employer goal for pension plans: the ability to budget for stable contributions. Higher reported pension costs could swiftly lead to serious problems for NEA members: higher employee contributions, reduced benefits, the elimination of pension benefits for new hires, and/or the dismantling of defined benefit pension plans altogether.

In short, the underlying reasons for moving to MVL do not make sense for public employers, and public retirement plans would be severely threatened if such a shift did take place. For these twin reasons, the National Education Association strongly opposes the application of MVL to public employee retirement plans.

### **BOX 1: MAKING SENSE OF ACTUARIAL TERMS AND CONCEPTS**

The work of actuaries is crucial to our members’ pension and retiree health plans, but making sense of the terms and concepts they use can be challenging. That’s why NEA produced a 26-page glossary that explains in detailed but plain language more than 50 key terms and concepts frequently used by actuaries. To receive a copy, contact the NEA Collective Bargaining and Member Advocacy Department at [collectivebargaining@nea.org](mailto:collectivebargaining@nea.org).

## Introduction

NEA members' pension and retiree medical plans often receive intense scrutiny, and never more so than during times of tight government budgets. Frequently, critics of NEA members' retirement benefits hail from state legislatures, taxpayers' groups, and conservative think tanks. Their typical focus: how much employers pay every year and the estimated liability for future benefits. Now, from a completely different corner, our members' plans face threats based on criticism of the way they account for and disclose their retirement benefit costs and liabilities. This paper explains the debate, why the critics of current accounting standards are wrong, and the serious stakes for our members' plans and benefits. Fortunately, NEA affiliates and member trustees still have time to influence the debate.

With roots in the academic discipline of financial economics, these new critics claim that current accounting methods provide inaccurate or insufficient cost and liability measures. In turn, those problems give rise to multiple ills, they argue, including benefits whose costs are not paid for by the current generation of taxpayers and bad plan governance. Financial economists want to change the way accounting and actuarial standards address the measurement of plan liabilities. Their contemplated modifications, if they came about, would make the liabilities measured for public sector retirement plans, including those of state governments and school boards, appear to be dramatically higher. As a result, these proposed changes would affect everything from plan design, to budget planning, to the politics of public employee benefits.

## The Debate

On its face, the debate taking place within the accounting and actuarial professions might seem counterintuitive to trustees and affiliate staff and leaders who work on retirement benefits. We often think about pension plan prefunding and investments as a successful attempt to defray the expected future costs of paying benefits, and we take comfort in knowing that the vast majority of pension revenue comes from investments, not employer or employee contributions.<sup>1</sup> Given the long-term nature of our plans, we have also come to expect that their costs and liabilities will be measured based on the expected return on plan investments. That is, we logically link what we expect the portfolio to produce over the long run to how much we should be setting aside now to ensure that benefits can be paid in the future. In actuarial terms, the discount rate used to value liabilities is based on the expected long-term rate of return on plan assets. (See **BOX 2**, above, for more on discount rates.)

The proponents of applying the principles of financial economics to public sector plans say we've got it wrong. They argue that basic finance theory teaches that liabilities should be measured based on a discount rate linked to investments that approximate the plan's liabilities in duration, risk, and other qualities. Given the nature of pension benefits, they conclude that the best discount rate is one based on high-quality bonds, although there is no agreement on exactly which bonds should be used for the calculation. The resulting liability is often called the market value of liabilities, or MVL. According to the supporters of changing accounting and actuarial standards, the MVL is a much more appropriate liability

### **BOX 2:**

#### **KEY TERM—DISCOUNT RATE**

One of the bedrock calculations done by actuaries is the estimation of a pension or retiree health care plan's liabilities, the value of the benefits promised by the employer. To do so, actuaries apply multiple assumptions, estimate what benefit costs will be decades into the future, and then estimate how much those costs would be today. The discount rate—sometimes called the interest rate—is the factor used by the actuaries to translate all the future benefits costs into the cost today. The bigger the discount rate, the smaller the liabilities, because the larger rate leads to the assumption that plan assets will grow faster to meet future benefit payment needs.

**BOX 3:  
WHO SETS ACCOUNTING AND  
ACTUARIAL STANDARDS?**

The Governmental Accounting Standards Board (GASB) establishes and improves standards of state and local governmental accounting and financial reporting. GASB, a nonprofit organization, is not part of any government agency and does not have the legal authority to compel compliance with its standards. However, some states mandate compliance, and the accounting profession and investors view the standards as part of the baseline for proper accounting. GASB's standards become part of "generally accepted accounting principles." GASB is currently discussing whether changes need to be made in the way state and local governments account for their pension and retiree health care liabilities.

The American Academy of Actuaries is the public policy arm of the actuarial profession in the United States. The Academy also sets qualification, practice, and professionalism standards for actuaries. Recently, the Academy decided not to recommend changing accounting rules to disclose the market value of liabilities, but it did ask the Actuarial Standards Board (ASB) to consider new standards for the consistent disclosure of plan liabilities and assets.

The ASB establishes and improves standards of actuarial practice, or how actuaries should go about their work. The ASB is a nongovernmental organization whose members are appointed by the leaders of the country's main actuarial organizations. Its Actuarial Standards of Practice (ASOPs) identify what actuaries should consider, document, and disclose when performing an actuarial assignment. The ASB is considering the market value of liabilities issue.

measure than the one we're used to using, because MVL establishes a link between the level of risk of the benefit being paid and the level of risk in the assets needed to fund that benefit.

The general issue being debated is whether actuaries should be required to disclose the MVL and, if they are required to do so, how it should be used. At this point, however, there is no specific, formal proposal to change the accounting standards or the way actuaries interpret them.

There are several ways that a change in standards could come about. The Governmental Accounting Standards Board (GASB), which establishes standards for accounting and financial reporting for state and local governments, could adopt or amend standards to say that governments should calculate and use the MVL. GASB currently is reviewing standards relating to the calculation and disclosure of pension liabilities, including whether or not MVL is an appropriate measure. In March 2009, GASB issued an invitation for the public to comment on pension accounting and financial reporting, including on the issue of MVL. For its part, the Actuarial Standards Board (ASB), which establishes standards for how actuaries should go about doing their work, could say that for actuaries to be considered within the bounds of accepted actuarial practice, they should calculate and report the MVL. (For more on GASB and the ASB, see **BOX 3**.) The ASB recently solicited comments from the public pension community, including professional actuaries, regarding the MVL issue.

Both GASB and the ASB have said they will look into this issue.

**What Change Might Consist Of**

There are at least four different ways that the change, if it were to take place, could affect how public employers account and prepare for their retirement benefit promises: disclosure, expensing, funding, and investing. The private sector, at least for single employer plans, has already moved to this model in the first three areas:

1. Disclosure: This would require the measurement of the MVL for the purpose of disclosure in the notes to employers' financial statements. There would be no direct impact on budget requirements to fund pension

and retiree medical plans. However, a higher liability could easily be used to argue against the continuation of these plans. This would put NEA members and affiliates on the defensive.

**2. Expensing:** With the higher liability calculated using MVL, employers would have to record a higher accounting expense—the accounting action of matching cost to revenue on an income statement, whether or not cash is actually laid out for that expense during the year. That is, employers can put cash out to cover costs, like they often do for pension contributions, or they can show on their books that they had a cost for which they did not expend cash, like they frequently do for retiree health care costs. Requiring that employers record a higher accounting expense for pensions would likely lead some to increase their actual pension funding. However, for others the result would likely be a sense that they might as well not even try to put money aside for the funding recommended by the actuaries. Even more than with disclosure, the opponents of defined benefit plans will use the higher cost, or the increased gap between expensed and funded amounts, to argue against maintaining plans.

**3. Funding:** Higher cash funding is just a short step from higher expensing. If expensing means that an employer would report the cost but not necessarily fund the plan, a funding requirement would hold employers to actually putting aside funding for the plans. Public sector employers generally want to fund the full expense for pension plans, while legitimate strategies for dealing with retiree health care expensing/funding vary. In either case, however, increased funding—regardless of how desirable—can cause tension over budget priorities and taxes.

**4. Investing:** While not on the agenda of every MVL advocate, some proponents argue that the final step would be to invest all trust fund assets in bonds. According to them, this investment strategy would eliminate the largest risk to taxpayers: a decline in the stock market that would necessitate additional contributions from the employer. In addition, moving to an all-bond portfolio, or one that is far more conservative than current public pension portfolios, would more closely align a plan’s assets with the underlying financial promises made by pension funds, which, they say, resemble bond obligations; the discount rate should be keyed to a pension plan’s liabilities, not its funding source, they argue. As long-term investors, however, pension and retiree health care funds actually lessen taxpayer burdens by relying on the higher returns provided by stock investments over the long run, and, given that governments are on-going entities and have taxing authority, it is appropriate to use a discount rate based on their expected investment returns.

### **The Potential Impact of the Change**

As noted in **BOX 2**, the lower the discount rate used, the higher the liability and related contributions cost for employers’ pension and retiree health benefit plans. As a result, using bond-based discount rates would produce liabilities that are higher than those produced now using rates that factor in stock returns. At the same time, tying the liability measure to an externally determined discount rate would cause year-to-year contribution requirements to fluctuate much more than if the assumed rate of return on plan assets was used; because it is a long-term estimate, rather than a yearly number, the latter tends to change much less than the “risk-free” rate would. In addition, with respect to the way employers calculate their assets, the MVL debate could potentially lead to other volatility-producing changes.<sup>2</sup>

Knowing exactly how big the change will be depends on having a specific proposal, which does not yet exist. However, we do know that dropping the discount rate increases both liabilities and the amount actuaries say should be put aside every year (the annual cost). Currently, the most common assumption of future investment returns for NEA members’ plans is 8 percent, meaning that actuaries generally assume that assets for prefunded plans are growing at that rate every year.<sup>3</sup> If actuaries were to use a “risk-free” rate instead, they might end up with a discount rate in the neighborhood of 5 percent. If we took a large statewide teachers’ pension plan, we might see the results in **TABLE 1**, below.

**TABLE 1****The Impact of Using a “Risk-Free” Rate to Determine Pension Liabilities and Annual Cost**

	Liabilities	Annual Cost
Measured at an 8 percent rate	\$23 billion	11% of payroll
Measured at a 5 percent rate	\$30 billion	30% of payroll

Source: Actuary’s estimate for NEA.

If the plan’s funded ratio was 90 percent before the change and the discount rate were to change from 8 percent to 5 percent, the plan would drop to somewhere in the neighborhood of 70 percent funded, actuaries estimate. As a percentage of payroll, the annual cost would increase from 11 percent to 30 percent. Of course, benefit levels, the demographic makeup of plan participants, and other factors would affect the relative impact of these changes.

As suggested by **TABLE 2**, below, it would be fair to say that the change to MVL would in some ways be a more material pension problem than stock market losses. If we assume that the stock portfolio of the pension plan in the example above lost 20 percent and that the plan recognized all of the losses right away, the funded ratio would fall from 90 percent to 70 percent—similar to the impact of the change in discount rate in **TABLE 1**. However, the contribution rate would increase far less, from 11 percent of payroll to 17 percent of payroll. The discount rate effect is much greater than the impact of the portfolio loss because the loss of assets does not affect the cost of future benefit accruals, while the discount rate has the effect of making future benefit accruals much more costly. Given that public pension funds generally recognize gains and losses gradually, the impact on contribution rates of a plan losing 20 percent of its stock portfolio would be even more muted than the impact of changing the discount rate from 8 percent to 5 percent.

**TABLE 2****Comparative Impact of Losing 20 Percent of a Pension Plan Investment Portfolio and Dropping the Discount Rate from 8 Percent to 5 Percent**

	No Loss in Portfolio Value		20% Loss in Portfolio Value	
	8% Discount Rate	5% Discount Rate	8% Discount Rate	5% Discount Rate
Funded Ratio	90 %	70%	70%	54%
Annual Cost as a Percent of Payroll	11%	30%	17 %	35%

Source: Actuary’s estimate for NEA.

## **Relevant Differences between Pension and Retiree Health Plans**

Most MVL-related discussion has focused on pensions, not retiree health care, although the debate could lead to its application to both. There are practical differences between pension and retiree health care plans that should be kept in mind during discussions of this issue. For the most part, pension plans are prefunded, while retiree health benefits have historically been handled on a pay-as-you basis. That is, while employers generally try to prefund their pension plans, most have covered only the cost of the health care benefits for current retirees, without putting aside funding for benefits they will have to pay for in the future. Many retiree health plans are currently beginning the prefunding process.

Another notable difference between pension and retiree health care plans relates to the way benefits are determined, administered, and funded. NEA member pension plans are generally designed by state legislatures and overseen by statewide pension systems. Retiree health care, on the other hand, is frequently determined and administered on school district by school district, and they vary tremendously with respect to the benefits offered, the people covered, how long the benefits last, and the cost-sharing components they contain. As a result, governments can have legitimate differences with respect to their desire and need to prefund retiree health care benefits.

Yet another difference relates to the way courts generally interpret the legal nature of benefit promises. Pension benefits are understood to be guaranteed by governments, while courts across the country have varying interpretations of the nature of retiree health care promises. The guarantee of pension benefits is one thing that leads the proponents of MVL to assert that a “risk-free” discount rate is appropriate.

The determination of discount rates is also different for pension and retiree health care plans. The assumed rate of return on plan assets is generally used for both, but because most retiree health care plans have not been funded in advance like pension plans, the relevant accounting standards for employers’ retiree health care benefits establish a range of possible discount rates. On the low side, if the employer is not planning to make consistent payments of the actuarially determined contribution, the discount rate used should be the return on the employer’s general funds, which would currently be below the rate developed based on bond returns. If an employer plans to make consistent contributions, the discount rate would be similar to the rate used for pension funds.

As a result of these differences, an MVL proposal that required the use of the same discount rate for pension and retiree health plans could end up causing pension plans to use a lower rate than they currently use but, for retiree health care plans, a rate that was higher than the one currently used.

Without a specific proposal in hand, it’s hard to know how MVL would variously affect pension and retiree health care benefits, although NEA believes that MVL is conceptually inappropriate for either type of plan.

## **Why Are Some People Advocating Change?**

Leading advocates for MVL believe that the science of finance has evolved and no longer supports the current “best estimate” model used by actuaries to determine discount rates (see **BOX 4**, below). They believe the “best estimate” model transfers risks to future generations of taxpayers and under-prices the value of the promises made. It is more accurate to measure plan liabilities using the MVL, they assert, and more useful to those making decisions about benefits and funding. In addition, they argue that because the model for single employer corporate pension plans has changed to incorporate the MVL concept, public plans should follow suit. In fact, the accounting profession and its standard-makers are actively discussing the adoption of a common set of international accounting rules that would move in the direction of MVL.

**BOX 4**  
**KEY TERM—BEST ESTIMATE**

For pension actuaries, the current standard of practice for measuring liabilities is to use the “best estimate” set of assumptions. This means that pension costs are determined based on how long actuaries think members will live and how much the pension fund will earn on its investments, among other factors. As a result, the exact discount rate to be used for public employee plans is not prescribed in accounting or actuarial standards. Given that pensions have large stock investments, the best estimate return assumptions are often in the range of 7.5 percent to 8 percent annually. For NEA member plans, the median and average rates are both 8 percent.

In addition, some proponents have argued that MVL would push plans toward better internal governance. That is, they assert, when plans report a lower funded status, they are less likely to make what are seen as overly generous benefit promises, and if they do make such promises under MVL, they will at least be more conservatively valued. In any case, advocates claim, more disclosure of information has to be a good thing on its own. Use of MVL would also allow the costs and risks of public sector plans to be compared to one another, they say.

At the same time, political reasons undoubtedly undergird some

proponents of change. MVL might be seen as a way to kill public sector defined benefit pension plans and, at least according to their theory, to reduce the cost of government.

### **Why MVL Is Inappropriate for Public Employee Plans**

On a conceptual level, MVL does not fit well with public employee plans. Single employer plans in the private sector have moved toward MVL for disclosure, expensing, and funding, but the dynamics of public sector pension and retiree health care funds are quite different. In addition, some of the arguments made to support MVL just don't ring true.

To begin with, the idea that using higher discount rates—based on expected portfolio returns—is unfair to future taxpayers is off base. Future taxpayers may actually have to make *smaller* contributions in the future, to the extent that stock and other investments increase in value more than bonds. That percentage may drop with MVL. The degree to which future taxpayers would be required to pay more if stock values dropped is uncertain, because we don't know what stock prices will be in the future. However, we do know for sure that using a lower discount rate now would require current taxpayers to pay a lot more to cover the future benefits of those who have already retired, precisely the type of the generational cost-shifting that proponents of MVL say they're against.

As for the argument that MVL is “more accurate,” or the “true” liability, as some proponents say, it almost sounds as if this liability is clearly identifiable. Unfortunately, there is no agreed-upon definition of MVL. Although it could be defined, the fact that the definition would be hotly debated and ultimately imposed by some authority, perhaps the Governmental Accounting Standards Board, merely highlights the fact that MVL is an arbitrary measure. The trick, then, is to use liabilities with some conceptual relationship to the type of plan for which the liability is calculated.

Citing finance theory, the proponents of MVL say that the discount rate should be chosen to match the risk profile of the liabilities—bonds, in this case. Opponents of MVL note that the very nature of public plans means that a dogmatic adherence to finance theory is inappropriate for public pensions:

- Public employers are around for the long term, while corporations are far more likely not to outlive their employees. For a corporation that might be out of business in the short or medium term, more conservative funding might be appropriate. Compared to the potential impact of short-term discount rate changes on corporations with single employer defined benefit plans, therefore, a change in short-term discount rates does not mean that the long-term pension liabilities of governments with pension plans have changed. In addition, public employers have taxing authority to raise revenue and must ensure that their retirement plans are good enough to attract and retain the best public employees. Some proponents of MVL suggest that if taxes get too high, however, residents will move away. But as bond-rating companies know, a government’s ability to perform up to expectations can suffer when its retirement benefit packages fail to ensure that qualified workers fill the ranks of government employees.
- Another key difference between private sector and public sector plans relates to employers’ finance-related goals. Solvency measures of pension promises are important when pricing corporate stocks and bonds but less important for public bonds. For public employers, the predictability of budgeting is far more important than for their private sector counterparts. The increased volatility of contributions that would result from using MVL, therefore, would undermine public employers and aggravate taxpayers.

With respect to plan-governance arguments, changing the discount rate to address plan governance concerns is like amputating a hand to eliminate a patient’s carpal tunnel syndrome. Governance problems may very well exist in some plans—lack of payment of actuarially determined pension contributions, failure to adhere to contribution policies, employer contribution holidays, and inappropriate determination of the long-term cost of benefit increases, for example. But solutions should be tailored to the problems. If the long-term financial impact of ad hoc cost-of-living increases are not adequately disclosed, for instance, moving to MVL could lead to a conservative cost estimate, such that the COLA was not under-priced, or it could make a plan seem so underfunded that an ad hoc cost-of-living increase would be unthinkable. The better

**Box 5:  
MVL UNDERMINES NYC  
PENSION PLANS**

In October 2008, the Public Interest Committee (PIC) of the American Academy of Actuaries released a summary of findings from a series of presentations it had solicited about the pros and cons of requiring disclosure of public plans’ MVL. The PIC noted that New York City’s pension funds disclose the MVL in their actuarial valuations, and it asserted: “Many of the arguments raised by the opponents to MVL disclosure seemed to be at least somewhat refuted” by the New York City experience. That is, the PIC declared that MVL did no harm to the plans. In fact, the New York City experience confirms MVL opponents’ concerns—mainly that it would be misunderstood and misused, whether intentionally or not, to undermine public sector retirement plans.

Citing alternative liability figures produced using the MVL, and relying heavily on the actuary who produced them, *The New York Times* published an article in 2006 that looked at the city’s pension liabilities. The article suggested that the use of the common discount rate—the one linked to assumed returns on the plans’ investment portfolios—was risky and that the liabilities reported using that method were somehow hidden and inappropriate. The plans could be underfunded by as much as \$49 billion, the report said.

As a result, unions and organizations dedicated to the protection of public pension plans were forced onto the defensive in both labor-management relations and in the news media.

solution, however, would be to target the problem while strengthening the pension system: legislation could require, or trustees could demand, more detailed disclosure of the costs.

Disclosure itself is said to be of value on its own, and use of MVL would allow plans to be compared to one another, proponents say. Why not, the argument goes, disclose more so that consumers of financial data can decide for themselves what is useful? More raw data should not be the goal, however; more relevant information should be, and MVL is not only irrelevant, it's likely to be harmful to plans, as noted in **BOX 5**, above, in the case of New York City. In addition, MVL would not really allow plans to be compared with any particular usefulness, given that plans vary in actuarial methods and assumptions and with respect to their benefit provisions; the discount rate is just one of many factors that would have to be standardized for meaningful comparisons to take place.

Conceptual problems aside, by making plans look much more expensive, the use of MVL could swiftly lead to the weakening of benefits and the elimination of NEA members' plans. Contractual agreements related to pension plans may mean that benefit changes only take place for new hires, but those changes could be swift and comprehensive. For retiree health plans, the impact of MVL will likely be more varied, given that so few plans are funded at all at this point.

## **Conclusion**

MVL is inappropriate for use in the public sector. Corporations with single employer defined benefit plans are different in nature from governments, and they have different accounting and reporting needs, as do investors in the private sector as compared to investors in the public sector. As a result, the application of MVL to governments would lead to the reporting of liabilities—if not also expensing, funding, and investing—that are both inappropriate and unrealistically high. At the same time, employer contributions would become much more volatile, undermining a key employer goal for pension plans: the ability to budget for stable contributions. Higher reported pension costs could swiftly lead to serious problems for NEA members: higher employee contributions, reduced benefits, the elimination of pension benefits for new hires, and/or the dismantling of defined benefit pension plans altogether.

In short, the underlying reasons for moving to MVL do not make sense for public employers, and public retirement plans would be severely threatened if such a shift did take place. For these twin reasons, the National Education Association strongly opposes the application of MVL to public employee retirement plans.

## **For Further Information on Pensions and Retiree Health Benefits**

For further information, please contact the NEA Collective Bargaining and Member Advocacy Department at (202) 822-7080 or <mailto:collectivebargaining@nea.org>. The National Education Association has produced other publications to protect the retirement security of its members:

- Protecting the Retirement Security of NEA Members: A Toolkit
- Characteristics of Large Public Employee Pension Plans
- Defending Retiree Health Care Benefits: An NEA Guide to Understanding and Preparing for the New GASB Standards
- Fact Sheet—A Non-Expert's Guide to Actuarial Valuations
- Fact Sheet—Myths and Facts about New Accounting Standards for Education Employers
- Fact Sheet—Steps for Defending Retiree Health Care Benefits (When You're Not a Technical Expert)
- Fact Sheet—Plain Talk About New Accounting Standards for Education Employers
- Fact Sheet—Bonds and Benefits: The Impact of Retiree Health Care Costs on Employers' Credit Ratings

- Fact Sheet—Defined Benefit Pension Plans = Retirement Security
- Fact Sheet—Don’t Destroy a Proven System
- Fact Sheet—A New Pension System Will Be Costly and Chaotic
- Fact Sheet—Tried and True Works

## Endnotes

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<sup>1</sup> According to the National Association of State Retirement Administrators, “In 2005, investment earnings accounted for 74 percent of all public pension revenue; employer contributions 17 percent.” “Key Facts Regarding State and Local Government Defined Benefit Retirement Plans,” National Association of State Retirement Administrators, January 2007.

<sup>2</sup>To the extent that this debate also leads to changes in the way that public plans smooth their assets, employers could encounter even greater volatility in their contribution rates, because using MVL would lead funds to recognize all of their investment gains or losses every year, rather than over a period of years, as they do now through “smoothing.” Compared to if smoothing were used, therefore, a big investment loss in one year would require a much bigger increase in employer contributions the next. Smoothing is a process used by actuaries to recognize only a portion of any year’s actual investment gains or losses. In the case of smoothing done over a five-year period, for example, it is common for a trust fund to calculate the difference between what it expected its investments to earn and what the investments actually earned during the year, and to reflect 20 percent of that difference in the plan’s actuarial value of assets, with the balance reflected in increments of 20 percent per year over the next four years.

<sup>3</sup> National Education Association, *Characteristics of Large Public Education Pension Plans* (Washington, D.C.: National Education Association, 2008), pp. 69-70.