



GOVERNMENT FINANCE OFFICERS ASSOCIATION
NEWS RELEASE

FOR IMMEDIATE RELEASE

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**GFOA Committees Affirm Guidance That State and Local Governments
Should Not Issue Pension Obligation Bonds**

(Chicago, Illinois—February 24, 2021) The Government Finance Officers Association's (GFOA) Committee on Retirement and Benefits Administration Chair **Sandy Matheson**, Executive Director, Maine Public Employees Retirement System, Augusta, Maine, and Vice Chair **Darlene Malaney**, Special Projects Manager, Collier County Clerk of the Circuit Court & Comptroller, Naples, Florida, along with GFOA's Committee on Governmental Debt Management Chair **Kathy Kardell**, Debt Manager, Hennepin County, Minnesota, and Vice Chair **Tim Ewell**, Chief Assistant County Administrator, County of Contra Costa, California, affirm that GFOA's guidance on issuing [pension obligation bonds \(POBs\)](#) remains current.

The reasons for which GFOA recommends that state and local governments do not issue POBs still remain true regardless of economic cycles:

- The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the government.
- POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives.
- Issuing taxable debt to fund the pension liability increases the jurisdiction's bonded debt burden and potentially uses up debt capacity that could be used for other purposes.
- POBs are frequently structured in a manner that defers the principal payments or extends repayment over a period longer than the actuarial amortization period, thereby increasing the sponsor's overall costs.
- Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.

State and local governments are advised to consult their Municipal Advisor (MA) when evaluating financial products. According to the Securities and Exchange Commission (SEC), MAs are the only member of the government's financing team that have a fiduciary responsibility to the issuer.

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It is also important to note that [GFOA's Best Practice](#) recommends that state and local governments contribute the full amount of their actuarially determined contribution (ADC) each year. Failing to fund the ADC during recessionary periods impairs investment returns by providing inadequate funds to invest when stock prices are low. As a result, long-term investment performance will suffer and ultimately require higher contributions. GFOA's guidance remains current as we strive to promote policies and procedures that contribute to improved government management.

For more information on GFOA's advisories and best practices, please visit gfoa.org.

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Government Finance Officers Association (GFOA) advances excellence in government finance by providing best practices, professional development, resources, and practical research for more than 21,000+ members and the communities they serve.