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Public Plans

Public Pensions Not in Crisis, Coalition Says, Pointing to 'Substantial Assets' for Long Run

State and local government pension funds "are not in crisis," according to a fact sheet issued Jan. 26 by a coalition of 10 organizations representing state and local employers.

"Most state and local government employee retirement systems have substantial assets to weather the economic crisis; those that are underfunded are taking steps to strengthen funding," the coalition said in the fact sheet, *Facts on State and Local Government Pensions*.

The group noted that state and local government pensions are not paid out of general operating revenues. Instead, it said, they are paid out of trusts that state and local government retirees and their employers contributed to while they were working.

"While some pension trusts are fully funded (they have enough assets in the trust now for all pension obligations), following the recent market decline, plans will need to increase their contribution levels to five percent on average to return to full funding," compared with current levels of about 3 percent, the coalition said.

"There is currently \$2.7 trillion already set aside in pension trusts for current and future retirees. Further, state and local government retirees do not draw down their pensions all at once. Employees must reach certain age and/or years of service before they are eligible for a pension; once retired, they must receive their pension in installments over their retirement years (as an annuity). The unprecedented number of benefit and financing changes in public plans over the last few years will help to keep any required increases to a minimum," it said.

Members of the coalition include the National Conference of State Legislatures; the National Association of Counties; the U.S. Conference of Mayors; the National League of Cities; the International City/County Management Association; the National Association of State Auditors, Comptrollers and Treasurers; the Government Finance Officers Association; the International Personnel Management Association for Human Resources; the National Council on Teacher Retirement; and the National Association of State Retirement Administrators.

The fact sheet is available at <http://op.bna.com/pen.nsf/r?Open=pkun-8dptgk>.

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FACTS ON STATE AND LOCAL GOVERNMENT PENSIONS

Retirement systems remain a small portion of state and local government budgets. State and local government pensions are not paid out of general operating revenues, but instead, a trust that public retirees and their employers contributed to while they were working. The portion of state and local government spending dedicated to retirement system contributions is about three percent.¹ While some pension trusts are fully funded (they have enough assets in the trust now for all pension obligations), following the recent market decline, plans will need to increase their contribution levels to five percent on average to return to full funding.² The unprecedented number of benefit and financing changes in public plans over the last few years will help to keep any required increases to a minimum.

Public pension plans are not in crisis. Most state and local government employee retirement systems have substantial assets to weather the economic crisis; those that are underfunded are taking steps to strengthen funding. It is important to understand that pensions are funded and paid out over decades. There is currently \$2.7 trillion already set aside in pension trusts for current and future retirees. Further, state and local government retirees do not draw down their pensions all at once. Employees must reach certain age and/or years of service before they are eligible for a pension; once retired, they must receive their pension in installments over their retirement years (as an annuity).

State and local governments are already taking steps to secure their pensions for the long-term. More state and local governments enacted significant modifications to improve the long-term sustainability of their retirement plans in 2010 than in any other year in recent history. In the past few years, nearly two-thirds of states have made changes to benefit levels, contribution rate structures, or both; many local governments have made similar fixes to their plans.³

Public employees share in the financing of their pension, which in many cases is in lieu of Social Security. The vast majority of public employees are required to contribute a portion of their wages—typically five to ten percent—to their state or local pension, and these contribution rates are being raised in many state and local governments. Employee contributions along with investment returns comprise the majority of public pension fund revenues. The average retirement benefit for public employees is \$22,600 and for many of them, including nearly half of all teachers and over two-thirds of firefighters and public safety officers, it is in lieu of Social Security. State and local salaries on which these pensions are based are lower than those for private sector employees with comparable education and work experience, even when benefits are included.^{4, 5}

Pension dollars help the economy of every jurisdiction. Public employees live in every city and county in the nation; more than 90 percent retire in the same jurisdiction where they worked. The over \$175 billion in annual benefit distributions from pension trusts are a critical source of economic stimulus to communities throughout the nation, and act as an economic stabilizer in difficult financial times. Recent studies have documented public retirement system pension distributions annually generate over \$29 billion in federal tax revenue, more than \$21 billion in annual state and local government tax revenue, and a total economic impact of more than \$358 billion.⁶

Long-term investment returns of public funds continue to exceed expectations. Since 1985 – a period that has included three economic recessions and four years of negative median public fund investment returns – actual public pension investment returns have exceeded assumptions.⁷ For the 25-year period ended 12/31/09, the median public pension investment return was 9.25%.⁸ Moreover, for the year ended 6/30/10, this return was 12.8%.⁹ These actual returns exceed the 8% average public pension investment assumption, as well as the average assumed rate of return used by the largest corporate pension plans.¹⁰

State and local government retirement systems do not require, nor are they seeking, Federal financial assistance. The great strides made in the ability of state and local government retirement systems to ensure that more than 20 million working and retired public employees have financial security in retirement have been achieved without Federal intervention. One-size-fits-all Federal regulation is neither needed nor warranted and would only inhibit recovery efforts already underway at the state and local levels.

ENDNOTES

- ¹ [NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems](#)
- ² [The Funding of State and Local Pensions](#), Center for State and Local Government Excellence
- ³ [Pensions and Retirement Plan Enactments in 2010 State Legislatures](#), National Conference of State Legislatures
- ⁴ [The Wage Penalty for State and Local Government Employees](#), Center for Economic and Policy Research
- ⁵ [Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years](#), Center for State and Local Government Excellence/National Institute on Retirement Security
- ⁶ [Pensionomics: Measuring the Economic Impact of State and Local Pension Plans](#), National Institute on Retirement Security
- ⁷ [Investment Return Assumption for Public Funds: The Historical Record](#), Callan Investments Institute Research
- ⁸ [NASRA Issue Brief: Public Pension Plan Investment Return Assumptions](#)
- ⁹ [The Public Fund Survey](#)
- ¹⁰ [Milliman 2010 Pension Funding Study](#)

OTHER RESOURCES:

[The Impact of Public Pensions on State and Local Budgets](#), Center for Retirement Research at Boston College

[Faulty Analysis is Unhelpful to State and Local Pension Sustainability Efforts](#), National Association of State Retirement Administrators

[Frequently Asked Questions About Pensions](#), National Institute for Retirement Security

[Research Brief on America's Cities](#), National League of Cities

NATIONAL CONFERENCE OF STATE LEGISLATURES ([WWW.NCSL.ORG](http://www.ncsl.org))
NATIONAL ASSOCIATION OF COUNTIES ([WWW.NACO.ORG](http://www.naco.org))
UNITED STATES CONFERENCE OF MAYORS ([WWW.USCM.ORG](http://www.uscm.org))
NATIONAL LEAGUE OF CITIES ([WWW.NLC.ORG](http://www.nlc.org))
INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION ([WWW.ICMA.ORG](http://www.icma.org))
NATIONAL ASSOCIATION OF STATE AUDITORS COMPTROLLERS & TREASURERS ([WWW.NASACT.ORG](http://www.nasact.org))
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