In Defense of Public Pensions

Public employee pensions are a modest benefit that employees themselves have paid for.

- Public employee pensions are an irreplaceable source of security for public workers. Nationally, the average AFSCME member earns less than $45,000 per year and receives a pension of approximately $19,000 per year after a career of public service.

- AFSCME members typically contribute towards the cost of their pension. While government employers have often failed to faithfully contribute to their employees' plans, public workers have contributed year in and year out. In fact, taxpayers shouldered just 14.3% of all pension funding in the eleven year period ending in 2007. Employee contributions and investment returns provided for the rest.
  http://www.ebri.org/pdf/FFE127.17June09.Final.pdf

- State and local public employee total compensation, including the cost of health and retirement benefits, trails private sector compensation by about 7% to 7.5% when factors such experience, education and occupation are considered, according to research by the National Institute on Retirement Security and the Center for State and Local Government Excellence. The Center for Economic and Policy Research reached a similar conclusion when it studied the issue.
  http://www.slge.org/index.asp?Type=B_BASIC&SEC={22748FDE-C3B8-4E10-83D0-959386E5C1A4}&DE={BD1EB9E6-79DA-42C7-A47E-5D4FA1280C0B}

  http://www.cepr.net/documents/publications/wage-penalty-2010-05.pdf

- According to the General Accountability Office, salaries and wages of state and local government employees increased less than the growth in personal income in 45 of 50 states plus the District of Columbia. in the thirty year period ending in 2007 (the latest period for which data is available) http://www.gao.gov/new.items/d10899.pdf (page 22)

- [Where applicable] Public workers are not covered by Social Security so the government is not paying 6.2% of workers' pay into Social Security like all other employers pay. In addition, the worker does not qualify for Social Security benefits so his/her pension is their only source of retirement security.

- To the extent loopholes in plan benefit formulas allow for "spiking" of final salary to gain a higher annuity, those loopholes should be closed. AFSCME has worked to end spiking, double-dipping and other unjust gains from pension systems. However, it is important to keep in mind that while the isolated story of the $100,000 a year pensioner makes the headlines, annuities that size are earned by less than 1 or 2 percent of all pensioners. And, although loopholes should be closed, closing the loopholes will not resolve the pension funding challenges.

State and local government pensions are well managed and are not the source of budget problems for most states and local governments.

- There has been considerable distortion of the size of the unfunded liabilities of public pension funds. Although the aggregate number may have some academic interest, it's not very relevant because all pension funding is local or state based, not national. Nevertheless, the aggregate number, which most impartial observers set at $500 billion to $1 trillion, while seeming large, is not particularly onerous when the following facts are considered:
    - The unfunded pension liabilities may be paid over a period of 30 years under generally accepted accounting rules issued by the Governmental Accounting Standards Board (GASB);
    - During this thirty year period, state and local government revenues will be over $50 trillion, so the unfunded liabilities are less than 2% of governmental revenues over the payback period;
    - Because of the recession, a substantial majority of state and local governments have lost between 10% and 20% of their revenues over the past two to three years. As revenues recover, governments will be able to set aside appropriate money to cover their pension obligations.

- In 2008, state and local government pension expenses amounted to just 3.8% of all (non-capital) spending. Contributions are expected to increase in the future to cover for investment loses and many public employers' failures to adequately contribute in the past. However, the increase in the contribution rates will result in pension costs, in aggregate, approximating a still manageable 5% of all state and local government spending by 2014 and beyond. http://crr.bc.edu/images/stories/Briefs/slp_13.pdf.

- Prior to the market crash in 2008 and 2009, public pension funds had, on average, 86% of the assets needed to pay for accrued benefits. http://www.publicfundsurvey.org/publicfundsurvey/pdfs/Summary_of_Findings_FY08.pdf (Anything over 80% is considered healthy.) Despite the market downturn, which has affected everyone's retirement security, pension funds are not at imminent risk of default and they have years to recover investment loses. The history of public pension fund management demonstrates that pensions have not been a long term burden to governments. Most pension funds have been existence for over sixty years.

- Pension funds are not seeking a federal bailout and a bailout is not necessary. Pension obligations are the responsibility of the state and local governments, and their employees, who participate in the plans.

- Pension benefits are not the cause of unfunded pension liabilities which are making the headlines. Where the problems are very deep, the cause is the failure of employers to consistently fund pension plans and recent investment losses. In any case, unfunded liabilities do not disappear if pension benefits are cut or the pension fund is closed. The pension liability debt remains. The ongoing cost of providing employees with additional pension benefit accruals each year is usually quite modest and paid for, in part, by employees themselves.

- Some commentators have challenged the accounting methods and investment return assumptions of pension funds. However, these methods are well established and generally accepted. In addition, for the 25 year period ended December 31, 2009, the median investment return was 9.25 percent, far exceeding a typical assumed rate of 8 percent. http://www.nasra.org/resources/InvReturnAssumption_Final.pdf Because public pension have long term investment horizons, it is appropriate to consider the investment returns over a long period, rather than over a short term investment cycle.

Moving public employees into defined contribution (401k) type plans is inadvisable for taxpayers and employees alike.

- America has made a mistake by relying to too great an extent on 401k plans. Indeed, millions of Americans a sought to supplement meager 401k savings with home values which have also been wiped out. In the years ahead, we will be faced with millions of retiring baby-boomers who are financial ill-equipped to retire. This will pressure our social safety net systems. We need to address retirement security for all Americans, not eliminate retirement security for those who have it.

- Americans' failure to adequately save for retirement has been calculated at $6.6 trillion as of September 2010. This is the total amount of money Americans between the ages of 32 and 64 should have saved for retirement, but have not. http://www.retirement-usa.org/retirement-income-deficit-0. The average American has saved only 7 percent of his targeted amount for retirement and Americans age 50 to 59 have saved, on average, only $29,000 for retirement. http://news.yahoo.com/s/nm/20101208/bs_nm/us_wellsfargo_retirement

- Defined benefit pension plans make sense in the public sector where jobs in public safety, education, social services and public management are unique to that sector. Pension plans are actually less expensive for the taxpayer, and for long term employees, than 401k-style plans. Pension plans can deliver the same retirement benefit as a 401k-style plan for 46% less cost - a huge savings for taxpayers. http://www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48

- The issue relevant to taxpayers is not defined benefit pension versus defined contribution 401(k)-type plans. The issue is the level of cost for employee retirement benefits. However, the reason costs are increasing for pension plans is because employers are now paying for past service that they did not properly fund. The cost for the accrual of current benefits is in line with what most large employers spend on retirement benefits in a 401(k).

- The Wall Street-precipitated economic crisis has wiped out the retirement security of millions of Americans. Pension funds, as well as 401k accounts, must be replenished. However, pension funds, unlike 401k plans, may be rebuilt over a period of decades because they cover a wide range of employees in terms of age and years of service. Depending on the age of a worker in a 401k plan, he or she may have only a few years in which to address his or her retirement savings deficit.

Pensions are engines of economic growth and help maintain economic stability and curtail poverty.

- A national economic impact study finds that the benefits provided by state and local government pension plans have a significant economic impact: 2.5 million American jobs and $358 billion in economic activity each year. (State data is available at www.nirsonline.org)

- Pension plans play a vital role in decreasing poverty and material hardship among older Americans. Rates of poverty in households without defined benefit pension plans were six times the rate of poverty of households with a pension plan. Households with pension plans were less reliant on public assistance, saving over $7.3 billion in public assistance payments in 2006. http://www.nirsonline.org/storage/nirs/documents/pension_factor_web.pdf