

Pew Center on the States Report: “The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform”

Suggested Talking Points and Responses to Media Inquiries

- The report affirms that pensions work and provide a reliable source of retirement income; that they play an important role in enabling public employers to attract and retain qualified workers; and that some states have been disciplined about funding their retirement obligations.

“When you get beyond the shocking title and actually look at the report’s findings, you will see that most States have ample assets in reserve to pay pensions over the near and long term - and have a long time horizon to recoup losses associated with the market downturns that occurred in the first decade of the twenty-first century,” said Keith Brainard, NASRA’s Director of Research.

- The primary drivers of public pension funding problems relate to how “short-term policy decisions have long-term impacts”—failure to pay required contributions, approving benefits without knowing the cost, poor plan designs—and are not attributable to traditional pensions.

“I generally don’t like reports that rank public plans, as it is impossible to properly take into account the varying plans designs, benefits and governance across the country; however, a strength of this report is that it focuses on how public pension plans got into the condition they’re in, and it offers examples of how many States have avoided or resolved these issues, rather than simply dramatizing the condition of a select group of plans,” according to Mr. Brainard.

- Many states have made or are now making changes to restore the long-term sustainability of these plans.

Brainard also noted that “the Pew report makes the case for a patient and proactive approach that has served States well in the past, and highlights the many states that are doing such.”

“Public defined benefit pension funds are not by their nature unaffordable. In fact, studies continue to document how they provide the best value for a secure retirement income of all retirement savings vehicles currently available in the United States,” said Brainard. “However,” Brainard added, “the takeaway from this report is how failing to pay required contributions, approving benefits without knowing their true long-term cost, or establishing benefit structures that create perverse incentives, can undermine the provision of what would otherwise be an affordable pension.”

Actual Questions from Participants in the Webinar Pew Conducted today with Members of the Media

- “Aren’t public retirement benefits an extravagance we can no longer afford?”

Everyone benefits from a secure retirement. The cost of pension benefits for most employees of state and local government is actually quite reasonable. Pensions for most employees of state and local government are designed to provide a modest income replacement after a career of public service. A 2008 study by the National Institute on Retirement Security found that a defined benefit plan can deliver the same retirement benefit as a defined contribution plan for almost half the cost. This is made possible through pooling of investment and longevity risk, lower administrative and investment costs, and higher returns of professionally invested DB funds.

Much of the cost of overall retirement benefits is for either retiree health care benefits or to make up for contributions that were skipped in past years. Health care cost containment options, financing structures and benefit protections are entirely different from those of pensions, and mired in a debate over the nation’s healthcare system. Moreover, health care benefits are likely to be adjusted in the coming years in cases where the cost is unsustainable.

Finally, the Pew report underscores the importance of public retirement benefits in attracting and retaining a well-qualified, effective public workforce, noting that public sector retirement benefits “help public employers retain qualified personnel to deliver essential public services.” This latter role of public pension plans often goes unnoticed, and Pew is to be commended for underscoring that “Retirement benefits are an important part of how states can attract and retain a high-caliber workforce for the twenty-first century.”

- “Isn’t an investment return assumption of eight percent unsupportable? Warren Buffett says it is.”

Public pension funds are invested over very long timeframes in diversified portfolios. Actuarial standards require that the investment return assumption be developed on the basis of several factors, including historic rates of return for individual asset classes, the fund’s actual historic return, current and projected rates of inflation, and projected returns for individual asset classes. Although investment returns this decade have been below historic norms, as the Pew report notes, average public pension fund returns over the past 20 years exceed eight percent. The median public fund return in 2009 was 19.5 percent.