

AFSCME Facts

AFSCME Public Pensions Fact Sheet December, 2010

Public employee pensions are an irreplaceable source of security for public employees. 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. Public workers often are not covered by Social Security, so the government is not paying 6.2% of workers' pay into Social Security that all other employers pay. In addition, the worker does not qualify for Social Security benefits so his/her pension is the only source of retirement security.

To the extent loopholes in plan benefit formulas allow for unjust enrichment such as "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 the pension system wherever the problems have emerged. 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, for the most part, 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 approximately \$40 to \$50 trillion, so the unfunded liabilities are approximately 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 expense amounted to just 3.8% of all (non-capital) spending. Contributions are expected to increase in the future to cover for investment losses 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. The 5% figure includes both paying off unfunded liabilities and paying for new benefit accruals.

Prior to the market crash in 2008 and 2009, public pensions had, on average, 86% of the assets they needed to pay for accrued benefits. (Anything over 80% is considered healthy.) Despite the market downturn, pension funds are not at imminent risk of default and they have years to recover investment losses. 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 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.

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, 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. The reason costs are increasing for public pension plans is because employers are now paying for past service that the employer 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 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.