



Defending Public Pensions



A couple is pictured preparing a retirement plan in this undated file photo. (Ron Chapple/Getty Images)

OPINION By EARL POMEROY and CATHIE G. EITELBERG

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Over the past year, politicians, pundits and an array of think tanks have put forth some frightening predictions about public [employee pension plans](#). A misguided belief that pensions, particularly defined benefit plans, are causing the fiscal stress of many states is false. The widely held notion that 401(k) plans can provide adequate retirement benefits is, similarly, a myth.

Here are some other major and oft-repeated misconceptions floating around many statehouses these days:

Myth: Public employee benefits are bankrupting states. Not so. According to publicly available data gathered from government websites, less than 4 percent of state budget expenditures go to funding pension benefits. A recent study from the Center on Budget and

Policy Priorities concluded that state budget shortfalls are largely a result of decreases in tax revenue in part due to falling real estate values and shrinking tax revenue in general.

Myth: Public pensions are overly generous. Hardly. The most recent U.S. census data reveals the average state employee has a retirement benefit of \$22,000 per year.

Myth: Public pension funds are going broke and will require billions in taxpayer bailouts. Nope, sorry. It is a fact that the states' pension funds face a shortfall. The Pew Center on the States recently pegged the collective number at \$660 billion, a far cry from the \$3 trillion figure being bandied about by some professors.

Some forecasts, discussed in certain academic circles and regurgitated unchallenged by the media, have many public pension plans running out of funds by 2020. But these estimates are based on flawed assumptions, such as no additional contributions and long-term low investment returns. And, that's to say nothing of the \$3 trillion in assets public pension plans hold to pay future benefits.

Yes, \$660 billion is a big number, but manageable when viewed over a long-term funding horizon, and when coupled with recent plan revisions for new employees.

Here is the simple reality about the bulk of today's shortfall: It is the direct result of the fact that our economy went off a cliff three years ago, sending state revenues plummeting. As the overall economy recovers, funding levels in most public retirement plans will improve as well. Let's remember that pensions are funded over the long-term and have weathered previous swings in market returns.

Over the 25 year-period ended Dec. 31, 2010, the median public pension plan has produced an annualized return of 8.8 percent. For the years ending 2009 and 2010, the median rate of return was 12.8 percent and 13.1 percent respectively. These returns will not fully repair the funding deficit, but as they are recognized by the plans over the next few years, they will help with the recovery of asset levels.

Public plans are not relying only on investment returns to mitigate the shortfall. In 2010, more than 20 states made changes to their pension plans to bring down future costs. Over time, these revisions, combined with employee and employer contributions and investment returns, will restore stronger funding for most pension plans.

As state and local legislatures across the country consider scaling back and changing retirement benefits of public employees, it is imperative that they focus on the real challenges they're facing. The critics are missing the real issue: the retirement security of the coming wave of baby boomers, many of whom are woefully unprepared for the financial demands ahead of them. While a defined contribution plan should be an important part of a retirement portfolio, it should not be the sole source of retirement income.

Consider this: By 2020, one-fourth of the U.S. population will be over the age of 65. The Employee Benefit Research Institute reports that the average balance in a DC plan will be only about \$35,000, not enough to live on through retirement.

Having so many people without adequate income will have a devastating impact on the economy. This is the real looming crisis you don't hear much about: a growing segment of the population slipping into poverty.

If we don't have some form of serious conversation about America's retirement systems, one that puts retirement security in a more positive light, then in another decade we'll be wondering what we were thinking attacking a mostly healthy system that has served millions of Americans for decades.

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