

While the Pew report unfortunately has a sensationalistic title and links healthcare liabilities to pension costs, it also documents that State pension obligations are prefunded and that even the worst States have at least set aside the majority of the money they will need to meet future pension obligations. Despite this fact, the bulk of the reporting, as expected, is less than flattering and makes little distinction (if any) between healthcare and pension costs. Below are some articles/editorials and/or links assembled by the National Association of State Retirement Administrators.

[Study: States must fill \\$1 trillion pension gap](#)

[PEW Study Shows Trillion Dollar State Pension Gap; Can Anything Be Done?](#)

[Pew: States must fill widening pension gap](#)

[Study: Michigan faces public employee pension gap](#)

[Nation's state pension funds slip further behind, think tank warns](#)

[Pension study rates Nebraska as 'strong performer'](#)

[State public retirement funds \\$50 billion short](#)

[Ohio Feeling the Pinch of Public Pensions](#)

[States urged to address \\$1 trillion funding gap for public pensions, retiree health care](#)

[Study: States Must Fill \\$1 Trillion Pension Gap](#)

[States \\$1 trillion short on retirees' benefits](#)

[Robert Powell: States' pension plans face steep shortfalls](#)

[States workers' pension plans short by \\$1 trillion](#)

[S.C. pensions \\$12 billion underfunded](#)

[Report: US state pension funds face \\$1 trillion shortfall](#)

[NASRA, NCTR Issue Statement on Pew Retirement Report](#)

[Pension study rates Nebraska as 'strong performer'](#)

Eight States Have Shortchanged Pensions, Pew Study Finds

February 18, 2010 - New York Times

By [MARY WILLIAMS WALSH](#)

Eight states have been given failing scores for their pension management under a new grading system developed by the Pew Center on the States, which also found a \$1 trillion gap between what all 50 states have promised their workers and what they have set aside.

The Pew center said on Wednesday that Alaska, Colorado, Illinois, Kansas, Kentucky, Maryland, New Jersey and Oklahoma had, in essence, failed its new test because they made no meaningful progress on keeping their retiree benefit plans sound. The worst case was Illinois, with a \$54 billion gap between the cost of the benefits it had promised to pay retirees over the next 30 years and the amount it had set aside.

“Recessions and investment losses played smaller roles in the creation of this problem,” said Susan K. Urahn, the center’s managing director. “To a significant degree, the \$1 trillion gap reflects states’ own policy choices and lack of discipline.”

The center based its measurements on data provided by the states as of June 30, 2008 — the most recent generally available — so any changes made since then would not have been factored into the scoring.

The data also did not capture the worst of the market crash, which occurred in the fall of 2008. Ms. Urahn said that as a result, the \$1 trillion figure probably understated the problem.

By devising a simple scoring system for state pension funds, the Pew center was adding a new layer to the analysis now done primarily by credit rating agencies like [Moody's](#) and [Fitch](#). The agencies have increasingly tried to take stock of public retirement plans when rating how likely each state will be to pay its bonds.

Pension plans have grown so large and costly in some places that they can compete with bondholders for scarce state dollars. But ranking them is notoriously difficult because no two state pension systems are identical, and the variations can make comparisons extremely misleading.

The Pew center's grading system took into account just a few simple factors, like whether states were making adequate contributions every year; how big any shortfalls were, relative to the size of the state payroll; and whether a state had managed to keep at least 80 cents on hand for every dollar it owed.

The center also looked at board effectiveness and the presence of any other retirement benefits, like health care. But it did not assign these factors points in its scoring system.

Nor did it try to determine whether some states were investing too aggressively, one of the pension world's hottest controversies.

One of the main problems the center found was some states' tendency, in lean years, to add too little money to their pension funds. Workers' benefits kept growing while the contributions stopped.

Companies are required by law to put new money into their pension funds each year, but states and local governments are not. Instead, they receive nonbinding instructions from an actuary on how much to contribute.

If a state fails to contribute for a number of years, it can eventually fall so far behind that it has little chance of ever catching up. Many states appeared to have reached that point, the center found. The less they pay, the more their actuaries tell them to contribute the following year, and the problem snowballs.

In a news conference on Wednesday, Ms. Urahn noted that New Jersey had failed to contribute to its pension fund for more than a decade, and now the recommended yearly amounts had soared far beyond the state's ability to pay.

"It is irresponsible to defer dealing with this problem, because the cost will only go up," Ms. Urahn said. "And in the short term."

New York State, by contrast, has not strayed far from its actuary's instructions. So even though New York has been through an embarrassing pay-to-play pension scandal, its fund has not fallen behind.

Washington Post Editorial

The mixed news about state and local pensions

Thursday, February 18, 2010; A16

MOST RECENT NEWS about the financial condition of state and local government employee pension plans has been pretty troubling, so when a sliver of positive information emerges, it's probably only fair to focus on it. [A report published Thursday by the Pew Center on the States](#) shows that, overall, pension systems have enough money to cover 84 percent of their cumulative \$2.8 trillion in long-term obligations. This is comfortably above the 80 percent funding level generally considered acceptable. The wolf is not at the door.

Not yet, anyway. The rest of the Pew report amply justifies the concern that we and others have expressed about the long-term mismatch between states' and localities' lavish promises to their retirees and the resources they have set aside to fulfill them.

First, the Pew report is based on data only through the middle of 2008, so it does not adequately reflect the impact of the devastating market losses that pension funds registered in the second half of that year, only some of which were recouped in 2009. For technical reasons, those losses will be spread out over the next several years.

Second, while states' unfunded pension liabilities total \$452 billion, their unfunded retiree health-care commitments are even larger -- \$587 billion. And few states have even begun grappling with that issue.

Finally, the pension mess is heavily concentrated in certain large, economically pivotal states, especially Illinois and New Jersey. Pew identified eight states, including Maryland, that have underfunded pensions and that have made "no meaningful progress" toward correcting the situation.

Back on the bright side, Pew notes that the necessary pension reforms are not difficult to identify: States must improve investment oversight, increase employee contributions and subject new employees to tighter eligibility requirements for more modest benefits. States would also be well advised to abandon the accounting fiction that pension funds will earn an average of 8 percent a year. Several states have already enacted such measures since the financial crisis hit. All it takes are elected officials with a long-term perspective and a willingness to tell their employees the bitter financial truth.

Wisconsin gets positive marks for pension funds

Associated Press (Chicago Tribune)

4:01 AM CST, February 18, 2010

MADISON, Wis.

Wisconsin gets positive marks for its pension fund under a new report issued by the Pew Center on the States.

The report released Thursday found that nationally there was a \$1 trillion gap between the money states and localities had put aside to pay employees' retirement benefits and how much they would actually cost.

The report finds that in 2000 slightly more than half the states had fully funded pensions but by 2006 that had shrunk to just six. By 2008, only Wisconsin, Florida, New York and Washington still had pensions that were fully funded.

Wisconsin was one of nine states designated as being a solid performer when it comes to state retiree health care and other non-pension benefits.

Study: Michigan faces public employee pension gap

Associated Press (Chicago Tribune)

2:01 AM CST, February 18, 2010

LANSING, Mich.

A new report says Michigan, like most states, should improve how it funds public sector retirement benefits.

A study issued Thursday by the Pew Center on the States ranks 16 states as solid performers for how they fund state-administered public employee pension plans. Michigan was among 15 states ranked as needing improvement. Another 19 states ranked worse, with Pew noting serious concerns about the plans.

Michigan was among 40 states listed as needing improvement on adequately paying for public retiree health care and other non-pension benefits.

Gov. Jennifer Granholm has proposed requiring state workers and teachers to pay more toward their retirement benefits in the fiscal year starting Oct. 1.

States urged to address \$1 trillion funding gap for public pensions, retiree health care

MARK SCOLFORO

Associated Press Writer (LA Times)

10:03 PM PST, February 17, 2010

HARRISBURG, Pa. (AP) — States may be forced to reduce benefits, raise taxes or slash government services to address a \$1 trillion funding shortfall in public sector retirement benefits, according to a new study that warns of even more debilitating costs if immediate action isn't taken.

The Pew Center on the States released a survey Thursday of state-administered pension plans, retiree health care and other post-employment benefits in all 50 states that blamed a decade's worth of policy decisions for leaving them shortchanged.

The result for some states will be "high annual costs that come with significant unfunded liabilities, lower bond ratings, less money available for services, higher taxes and the specter of worsening problems in the future," the study said.

The cost of the trillion-dollar shortfall, which will be paid over the coming decades, is about \$8,800 for each American household. The study did not include many city, county and municipal pension plans, which are thought to have similar underfunding.

"We have a significant problem now, but it's a problem that can be solved by taking relatively modest steps," said Susan K. Urahn, the center's managing director. "If they don't do anything, if they wait, eventually they will have an unmanageable crisis on their hands."

As of 2008, states had \$2.4 trillion to meet \$3.4 trillion in promised pension, health care and other post-retirement benefits, according to the report.

The true gap may even be wider, because the study did not account for the full impact of investment losses in late 2008, during the stock market downturn, and because many plans employ multiyear smoothing techniques to lessen the effect of a single year's losses. But more recent stock market returns could help — on Wednesday, for example, Pennsylvania's \$47 billion public school pension plan reported it had earned about 12 percent on investments in the 2009 calendar year.

Pew deemed 16 states solid performers in how they fund pensions, 15 needing improvement and 19 considered to be facing serious concerns.

"Meanwhile, more and more baby boomers in state and local government are nearing retirement, and many will live longer than earlier generations — meaning that if states do not get a handle on the costs of post-employment benefits now, the problem likely will get far worse, with states facing debilitating costs," the study said.

The exploding financial burden could be a bitter pill for taxpayers, many of whom will not be collecting similar pensions or other benefits when they retire, said David Kline with the California Taxpayers' Association. About one in five private sector workers have traditional defined benefit pensions, compared with about 90 percent of public-sector employees — including some that do not get Social Security.

"Taxpayers in the future will be paying for people who worked decades before they may have even lived in the area or begun paying taxes, because the obligation for these benefits is just snowballing," Kline said.

The study graded states on how well they have managed employees' retirement benefits. Florida, Idaho, New York, North Carolina and Wisconsin began the current recession with fully funded pension systems, while eight states have left more than one-third of their pension liability unfunded.

Illinois was rated the most troubled pension system during the study period, with a 54 percent funding level and a total liability of more than \$54 billion.

In Pennsylvania, a series of decisions by the Legislature and governor have shielded taxpayers from much of the pain for the past decade, but costs of less than \$1 billion a year now is projected to climb to about \$6 billion annually in the coming three years.

The report said policy makers have exacerbated the problem by expanding benefits, relying on overly optimistic assumptions about investment returns and failing to sufficiently fund the programs.

"Even though the actuaries tell the states what they should be doing, the states feel free to ignore that," said Olivia Mitchell, director of the Pension Research Council at the University of Pennsylvania's Wharton School. "So putting some teeth behind the requirements is really the problem."

Pew calculated a \$587 billion national cost for current and future retiree health care and other nonpension retirement benefits, with only about 5 percent of that amount funded as of 2008. The cost of health care and the number of retirees are both on the rise, adding to the pressure on states.

The study found that 15 states made some legislative changes to their state-run systems last year, 12 did so in 2008 and 11 in 2007. About a third of states had formal efforts to study potential reforms under way last year.

"Pension plans work when they are allowed to work, and part of that dynamic is that sometimes adjustments have to be made," said Keith Brainard, research director with the National Association of State Retirement Administrators. "It's important not to take away decent retirement benefits for some of the few people that have them."

Pew said states should consider changes that have proven to be effective and politically viable. Among them: setting minimum contribution levels that are actuarially sound, sharing some of the investment risk with employees, cutting benefits, increasing the minimum retirement age,

making employees pay more into the system and providing more robust oversight and investment rules.

Mitchell said many states have constitutional prohibitions against lowering employee pension benefits, but health care programs can more easily be altered.

RETIREMENT COSTS (LA Times)

California, other states face problem of growing pension liabilities

State governments can help ease a \$1-trillion shortfall by reducing future benefits, requiring greater employee contributions and raising retirement ages, a Pew report says.

By Marc Lifsher

9:00 PM PST, February 17, 2010

Reporting from Sacramento

California has plenty of company when it comes to not being able to pay its growing public pension costs, a Washington think tank says in a report to be released Thursday.

Coming up with the money to pay for future obligations is expected to burden state and local governments and school districts with huge retirement costs that could translate into higher taxes and fewer basic services for the next generation of taxpayers.

In all, state governments face a \$1-trillion shortfall, the difference between what they owe current and future retirees and what they expect to have available to pay promised benefits.

California's two big systems accounted for \$122 billion of the deficit as of June 30, 2008. Unfunded pension costs totaled \$59.5 billion while unfunded healthcare costs were \$62.5 billion.

But the outlook has darkened in the last 18 months with the onset of the recession of 2008 and 2009.

Both the California Public Employees' Retirement System and the California State Teachers' Retirement System lost more than a fifth of their portfolio values in the 2008-09 fiscal year, when they had about 87% of needed pension funds in their portfolios.

Since then, CalPERS' funding ratio dropped to 61% on June 30, 2009, while CalSTRS' was 77%.

"California has a troubling pattern of not paying its annual required pension contributions in recent years," said Susan Urahn, managing director of the Pew Center on the States.

And pensions are only part of the problem: The two retirement funds have set aside less than 1% of the \$62 billion they need to cover lifetime health insurance benefits for retirees.

California and other states need to act quickly to address their pension liabilities that they are contractually obligated to pay.

"They are not going to go away," Urahn warned. "States can defer payments and that liability will still be there.

"But, states do have the opportunity to make changes for new employees coming in. That might not necessarily have an immediate impact, but over a period of time, [it] will have a substantial impact."

States could trim future obligations by reducing benefits for future employees and requiring greater employee contributions to retirement funds, the Pew report says. They also could raise retirement ages and improve the way pension funds are managed.

Minnesota has saved \$650 million over the last 10 years by raising the retirement age for new hires by one year, the report notes.

Calls for similar changes are growing louder in California. Three proposed initiatives are gathering signatures for the November ballot. The ballot measures, among other things, would limit the amount of pension a retiree could draw. They also would raise the minimum retirement age and reduce benefits for newly hired state and local government workers.

Raising full retirement from the current 60 years to 66 would save California \$500 billion over the next 30 years, said Marcia Fritz, president of the California Foundation for Fiscal Responsibility, a Sacramento group that is sponsoring two of the initiatives.

What's more, actuaries estimate that the change would increase a public worker's lifetime earnings by more than 10%, she said.

CalPERS, the teachers retirement system and public employees unions are expected to wage vigorous campaigns against the initiatives should they make it to the ballot. CalPERS already is holding informational sessions with its 1.6 million members to give them more information about the health of their system and its benefits.

The teachers retirement system is readying a yearlong educational and lobbying campaign ahead of a planned legislative drive next year to ask lawmakers and the governor to raise employer pension contributions by 14% to fill a \$43-billion funding gap.

Some combination of those benefit reductions or contribution hikes needs to happen soon, Urahn said.

"We have a significant problem now that can be solved by taking modest steps," she said. If not, "we will have an unmanaged crisis on our hands."