

Hearing  
“The Role of Public Employee Pensions in Contributing to State Insolvency and the Possibility  
of a State Bankruptcy Chapter”  
February 14, 2011  
Subcommittee on Courts, Commercial and Administrative Law  
Committee on Judiciary  
House of Representatives  
Testimony of  
Keith Brainard  
Research Director  
National Association of State Retirement Administrators  
keithb@nasra.org  
(512) 868-2774

Chairman Coble, Ranking Member Johnson, and Members of the Subcommittee: thank you for inviting me to testify today on this important matter.

Given the unprecedented fiscal challenges facing all levels of government, the accuracy and integrity of information is vital. The condition of state and local government retirement systems has become the focus of unprecedented attention. Unfortunately, much of the interest seems drawn either to those who lack sound understanding of how these plans work, or who use inappropriate methods and assumptions regarding pension fund operations.

On the whole, state and local government pensions are weathering the financial crisis and making measured changes to ensure their long-term sustainability.

Only a generation ago, most public plans were operated primarily on a pay-as-you-go basis. Since then, states and localities have worked to advance-fund pension benefits by requiring employees and employers to contribute enough to a pension trust during employees’ working years to pay for their pension benefits. This was done without federal intervention and has largely been a success.

By 2000, assets in most public pension trusts equaled or exceeded expected pension payments. Public pension trusts are designed to weather market volatility and have done so repeatedly –the past 25 years alone has included three economic recessions and four years of negative median public fund investment returns. Even at the market low of the most recent and unprecedented financial downturn, there was still over \$2 trillion set aside in public pension trusts, and values have rebounded sharply since.

Spending on public pensions is a relatively small amount of states and local government budgets: slightly less than three percent of state and local spending goes to pension contributions.

Although this percentage varies by state, for every state except three, the percentage spent on pensions was less than four percent. Half of the states spent less than 2.5 percent on pensions. Attached to my written testimony is the spending breakdown by state.

The assertion that public employee pensions are contributing in a meaningful way to state insolvency is simply not supported by the facts.

Recent reports citing pension fund exhaustion dates for nearly every state are either vastly overstated or completely unfounded. Combined, state and local retirement systems hold in trust some \$2.8 trillion, equal to roughly 14 times the amount these funds paid out last year. Public

employees and employers contribute to these trusts. Even if the trusts earn only a relatively modest annual return of six percent, their *investment earnings alone* would be enough to pay for most of the benefits they distribute each year.

Predictions of widespread pension fund insolvency are inconsistent with the findings of the professional actuaries who are trained and certified to analyze these plans. Such predictions are also inconsistent with findings of the Center for Retirement Research at Boston College, the Center for State and Local Government Excellence, the Center for Economic and Policy Research, and bond rating agencies. These predictions also are at odds with my own projections, that using even conservative estimates, the typical fund can continue to pay benefits for 25 years, enough time for states to make necessary adjustments to restore their plans' sustainability. Assuming a rate of asset growth consistent with historic market norms, most funds *never* run out of money.

Joshua Rauh's calculation understates the real value of the assets by excluding the growth that has occurred since 2009, and is also based on the unlikely assumption states and localities will violate their own constitutional and statutory requirements to fund their pensions. The outcome of his approach is an implausible, but attention-getting prediction of impending widespread insolvency.

Misrepresenting the true condition of the public pension community is, in my view, reckless and irresponsible, and has caused needless confusion and turmoil among the public, policymakers, pensioners, and municipal bond markets.

Public retirement systems are highly transparent entities. Systems providing benefits for the vast majority of employees of state and local government publish audited annual financial reports in compliance with Generally Accepted Accounting Principles set by the Governmental Accounting Standards Board, financial reporting standards set forth by the Government Finance Officers Association, in addition to sunshine laws in every state. Those who want to know and understand the condition of state and local government pensions, know how and where to get that information.

Pension benefits and financing structures are being examined to strengthen reserves. A different range of solutions will be required for each state and city. An honest assessment of the problems and potential solutions is critical. State and local government retirement systems do not require, nor are they seeking any Federal financial assistance.

Joshua Rauh is the only person I know of calling for Federal financial assistance for public pensions. His \$75 billion estimate of the cost of federal intervention ignores the cost to state and governments, which would likely be significant.

Predictions made on the basis of selective use of data, inapplicable methods and assumptions, and calculations in conflict with financial and pension fund history, are unhelpful and distract from the important business of discerning and responding appropriately to the problem.