National Association of State Retirement Administrators

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Editor
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Dear Editor:

The National Association of State Retirement Administrators recently released an *Issue Brief on State and Local Government Spending on Public Employee Retirement Systems* that describes U.S. Census data on contributions made to public pension plans by states and local governments. In the first paragraph, the brief states, "On a nationwide basis, contributions made by state and local governments to pension trust funds account for 4.1 percent of direct general spending. Pension spending levels, however, vary widely among states and are sufficient for some pension plans and insufficient for others."

This seems pretty straightforward, but Andrew Biggs' article ("How Much Would It Cost For State and Local Governments to Actually Fully Fund Their Pensions?," 4/1/16) selectively pulls from the brief and adds incomplete information to conclude that 1) all governments think they are making appropriate pension contributions, and 2) none of them are doing so. Both of these assertions are incorrect.

NASRA has documented and published substantial information regarding the pension funding efforts of state and local governments, including states and cities that failed to adequately fund their pension benefits. Most recently, NASRA studied contributions to state-administered pension plans, which cover the vast majority of state and local government employees, from fiscal years 2001 to 2013. This was a tumultuous period, as capital markets declined sharply in 2000-02 and again in 2008-09, and the nation endured two economic recessions. The result was that increased pension costs hit states as their revenues were in decline. Despite this significant challenge, the median pension contribution during this period was 95% of the actuarially required amount. There were states and cities that fell short, in some cases significantly, from making required contributions, but they don't represent the majority of governments, and they knew that contributions were insufficient.

Mr. Biggs claims that in 2013, only 41 percent of state and local pensions received their full contribution. However, he fails to acknowledge that many plans received nearly their full required contribution, with the shortfall due to lags in the legislative appropriations or other processes or policies. Further, in fact, the majority of plans—not 41 percent—that year received 100 percent or more of their full contribution.

Rather than the current level of 4.1 percent of general spending, Mr. Biggs contends that states and local governments should be spending more than 20 percent of everything on pensions, which he calls a sign of how "big and expensive" these plans are. Yet this figure is based on current, historically low interest rates, and assumes invested pension assets will earn returns only at that extremely low rate. Biggs' number reflects what governments would need to spend if they were to terminate and privatize their pension plans at this moment in time, something most of them cannot legally do.

If Mr. Biggs were to perform this same calculation using interest rates from, say, 2006 or 1986, his outcomes would result in dramatically reduced required costs for public pensions. This fact illustrates that interest rates are an extremely volatile measure of a long-term cost, and why corporations continually have asked Congress for, and received, relief from using current interest rates to fund their plans–a salient fact also absent from Mr. Biggs' analysis.

A 2009 paper by a national actuarial consulting firm compared the outcome of funding a pension plan using the most prevalent public plan funding method versus the approach suggested by Mr. Biggs. Interestingly, both methods resulted in similar long-term funding levels. However, the method suggested by Mr. Biggs would have required wildly volatile contributions, and the conventional method used by public plans resulted in contributions levels that were comparatively stable. Consequently, the paper concluded that the conventional approach is more effective in meeting the funding objectives in the public sector, which must balance the need to fund long-term benefits with the need of states and cities to avoid sharp increases in plan costs from one year to the next.

A few states have conspicuously failed to adequately fund their pension plans, but they are aware of this fact, and they do not represent the common condition. Industry recommended practices and guidelines urge all state and local policymakers to review the effectiveness of existing funding policies and practices, and recent results indicate that most governments that have shorted their pension contributions in the past are now making an effort to correct the problem. Proper calculation and payment of actuarially determined pension contributions within accepted guidelines ensures pension promises can be paid, employer costs can be managed, and the pension funding policy is clear to all stakeholders.

Sincerely,

Keith Brainard
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