National Conference on
Public Employee Retirement Systems
The Voice for Public Pensions

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To the editor:

Nothing in Aaron Brown's analysis of public pensions supports the headline's doomsday scenario. ("U.S. Pension Collapse Isn't a Distant Prospect. It Could Come in Five Years," April 18, 2018.)

Pension funding is a three-legged stool that consists of contributions by employees and by employers plus the investment income from amassed assets. When a state kicks out one leg of the stool by refusing to pay its share, shortages can accumulate.

That is exactly what happened in New Jersey. The public pension system was grossly undermined for years by the state's deadbeat-dad behavior. State employees, of course, had no such option and faithfully made their contributions. Since taking office in January 2018, Democratic Governor Phil Murphy has begun to put things right, but change takes time.

Fortunately, public pensions invest for the long-term and thus are able to manage through periods of volatility. They focus on stability and strive to maintain smooth returns on average over cycles of three to five years. Quarterly gyrations in financial performance have no lasting impact, except when employers skip out on their obligations.

Brown's assertion that states may be on the verge of being unable to pay their pension obligations is not supported by experience. Since our founding in 1941, NCPERS has never been aware of any missed payments in the long history of U.S. public pensions.

Indeed, our research has demonstrated that the funded levels of individual public pension plans are no indicator of a plan's ability to meet its cash obligations, because well-funded plans are just as likely as less-well funded ones to have occasional negative cash flow.   The average across all states we examined was five to eight quarters in which funds ended in the red. In other words, the incidence of negative cash flow quarters was 0.02%.

Respectfully,

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