August 8, 2013

NCPERS Letter to The Economist responding to its piece
Who pays the bill? Pensioners are pushing many cities and states toward financial crisis

As long-time readers of The Economist, we would have expected a far more sophisticated analysis of public pensions in the US than the one offered up in your July 27 piece Who pays the bill? Pensioners are pushing many cities and states toward financial crisis.

Your report makes a number of classic errors. It refers repeatedly to “generous” pension benefits, citing a few examples of high benefits as though they were the norm. In fact, they’re not. Public pension benefits are typically very modest. Nationally, the average public pension benefit is under $25,000 per year. In Detroit, that figure is just $19,000.

It also attaches pension benefits and retiree health benefits at the hip, when in fact they are totally separate creatures. Public pension plans are funded primarily by long-term investment returns and significant contributions by employees during their working years. Taxpayer contributions are predictable and only amount to about four percent of government budgets. Health care costs, on the other hand, are not prefunded and they are volatile.

The truth is that public pension plans in the US are, with a few exceptions, more than adequately funded, financially healthy and sustainable for the long term. The few that aren’t in jurisdictions that chose not to make their required contributions during boom economic times, then couldn’t catch up after the Great Recession sapped their tax revenues. Even in beleaguered Detroit, the police and fire pension fund is 96 percent funded, while the fund for other city employees is 88 percent funded. Standard & Poor’s maintains that a funding level of 70 percent is adequate.

America’s real pension or retirement savings crisis is in the private sector, where the savings deficit is a staggering $14 trillion and rising – many multiples of the deficit your report claims for the public pension world. If tens of millions of baby boomers and the generation behind them retire with insufficient assets, they will not be able to participate in the economy and won’t be generating tax revenues and contributing to general economic stability. They will be more likely to rely on public services, draining public coffers and burdening taxpayers. They will pose a significant drag on government finances and dampen economic growth.

For them, Social Security and personal savings like 401(k)s will not be enough. In survey after survey, American workers say they would prefer the safety and certainty of a modest but guaranteed retirement income to the vagaries of the market or the crippling impact of another sudden economic downturn.

There are numerous proposals, including one advanced by my organization – our Secure Choice Pension plan – to restore defined benefit pensions to the private sector workforce, at no cost and posing no risk to taxpayers. Sen. Tom Harkin, Chairman of the Senate’s Health, Education, Labor and Pensions Committee, is expected to introduce his own legislation to achieve the same goal in the near future.
So when your report concludes by asking, “When politicians promise too much to creditors and pensioners, who ends up footing the bill?” I’d suggest strongly that you’re asking the wrong question.

Far more important to state and municipal finances, to economic stability and growth, to taxpayers’ obligations and to the fundamental American calculation of right and wrong is this question: “Will America be able to deal with the financial disaster that awaits us if we do not get the private sector retirement savings crisis under control?”

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