Dismantling Public Pensions Increases Economic Volatility

Misguided ‘Reforms’ Have Long-Term Consequences, NCPERS Finds

Washington, D.C. – A decades-long push by fiscal conservatives to dismantle public-employee pensions has backfired by unleashing economic, financial, and revenue volatility, the National Conference on Public Employee Retirement Systems said in a study released today.

Negative pension reforms – such as cutting benefits, increasing employee contributions, and adopting plans that force retirees to shoulder all risk – have contributed to disruptive swings in the economy since the 1980s, according to the new study, “Economic Volatility: Hidden Societal Cost of Prevailing Approaches to Pension Reforms.”

“We know from experience and careful study that the assault on public-employee pensions has come at a great cost to individuals who worked and sacrificed for the promise of a reliable income in retirement,” said Hank H. Kim, Esq., executive director and counsel of NCPERS. “This study, coupled with our previous examination of how pension changes have spawned income inequality, helps to deepen the understanding of how damaging many supposed ‘reforms’ have been for our nation’s economic well-being.”

The economic volatility study draws on empirical data from sources including the U.S. Census Bureau, the Bureau of Labor Statistics, the Bureau of Economic Analysis, and the Tax Policy Center, and analyzes both national and state data.

In one key area of focus, the study looked at the how the percentage of the workforce that is shifted to defined-contribution plans, such as 401(k) plans, impacts volatility. NCPERS found that for each 1% shift to defined-contribution plans:

- Economic volatility, as measured by changes in median income, rises 2%.
- Financial volatility, as measured by changes in the S&P 500 stock index, rises 8%.
- Revenue volatility, as measured by changes in total U.S. revenues, rises 54%.
At the state level, the impact was even more devastating, with economic volatility rising an average of 10.5% for each negative change to defined-benefit plans, and revenue volatility rising 65.1%.

NCPERS Director of Research Michael Kahn unveiled the report at the NCPERS annual convention, which is being held in San Diego May 16-19. He urged policy makers to consider the vital role pensions play in promoting stability as they evaluate any future changes to the defined-benefit plans. “Pension beneficiaries keep receiving their pension checks in good as well as bad economic times,” Kahn said. “Incomes from jobs and investments may decline during hard economic times, but pension checks provide an economic cushion and help local economies thrive.”

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage more than $3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.

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