



Public Pensions: Shedding Light on a Heated Debate

ICMA Annual Conference, September 19, 2011

The Current Picture

- Sustained fiscal constraints for states and localities
- Looming workforce challenges
- Unfunded liabilities
- Federal deficit
- Public sector bashing
- Historic political changes

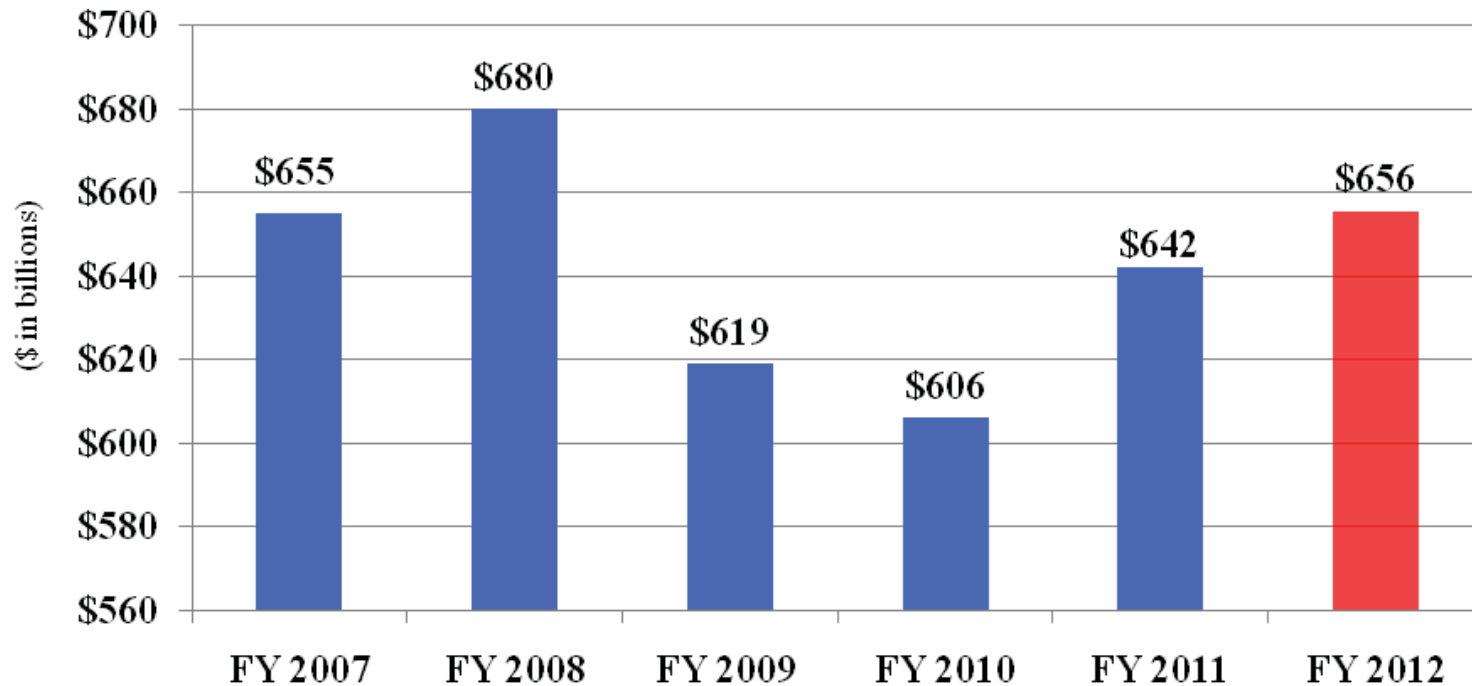


Are Pensions Are Responsible for Local Budget Problems?

- Pensions are paid from a trust
- Pension costs are 3-4% of state and local spending; 8% of local budgets
- Contribution increases of 2% of payroll needed to put most plans on track
- Some places – Providence, Pittsburgh are poorly funded – 34% funded ratio
- Health care costs are the greatest concern (active and retired employees)

Revenue Remains Below Pre-Recession Levels

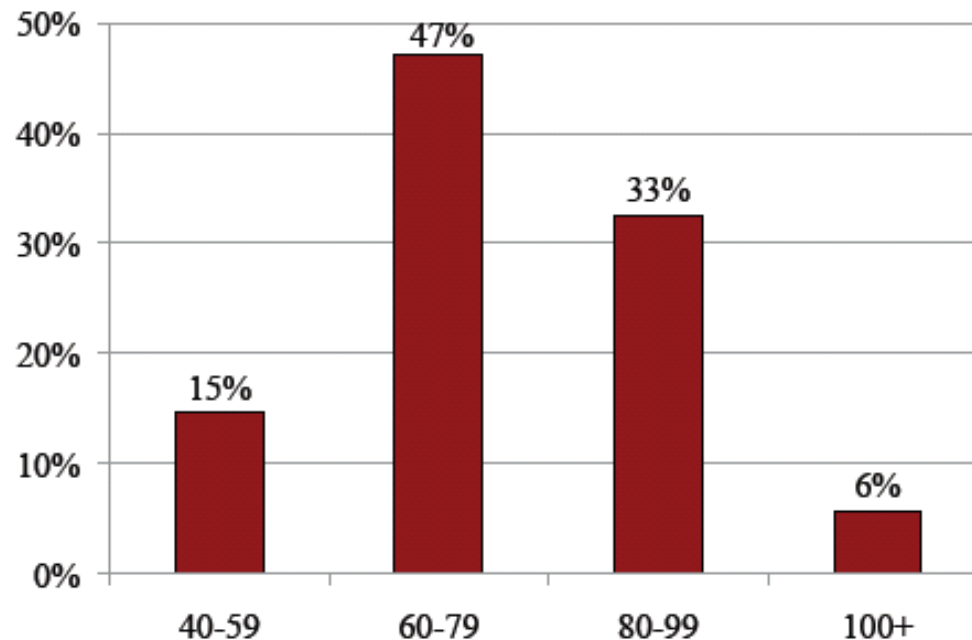
General Fund Revenue: FY 2007-FY 2011 (in billions)



** FY 2007, 2008, and 2009 are actual. FY 2010 is preliminary actual and FY 2011 is enacted.*

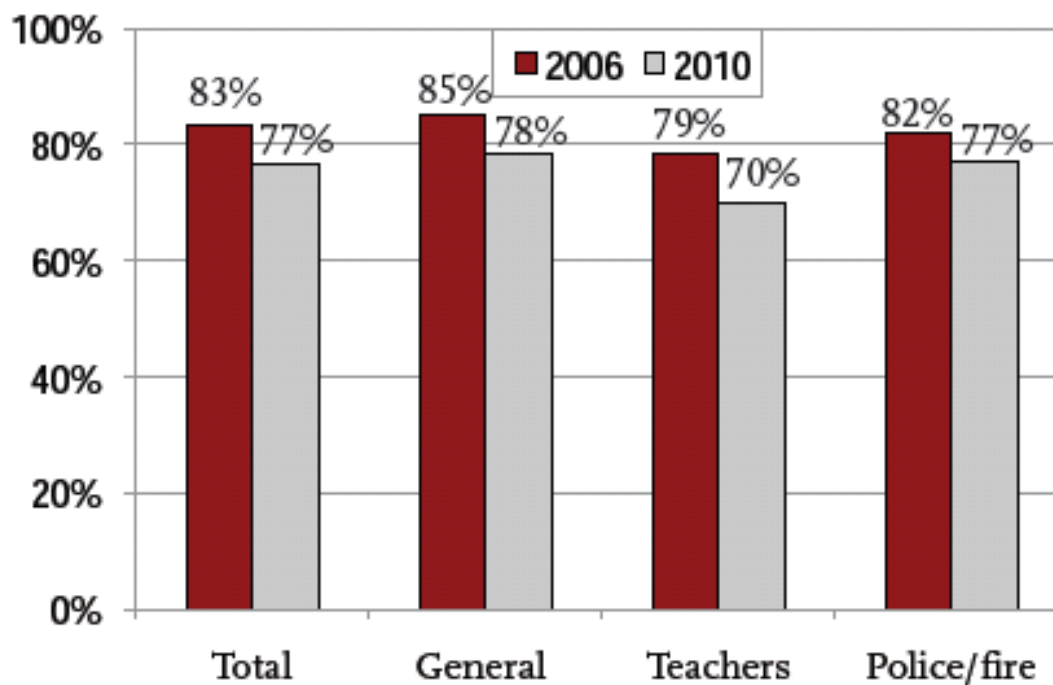
Funding varies among state and local plans

DISTRIBUTION OF FUNDED RATIOS FOR STATE AND LOCAL PLANS, 2010



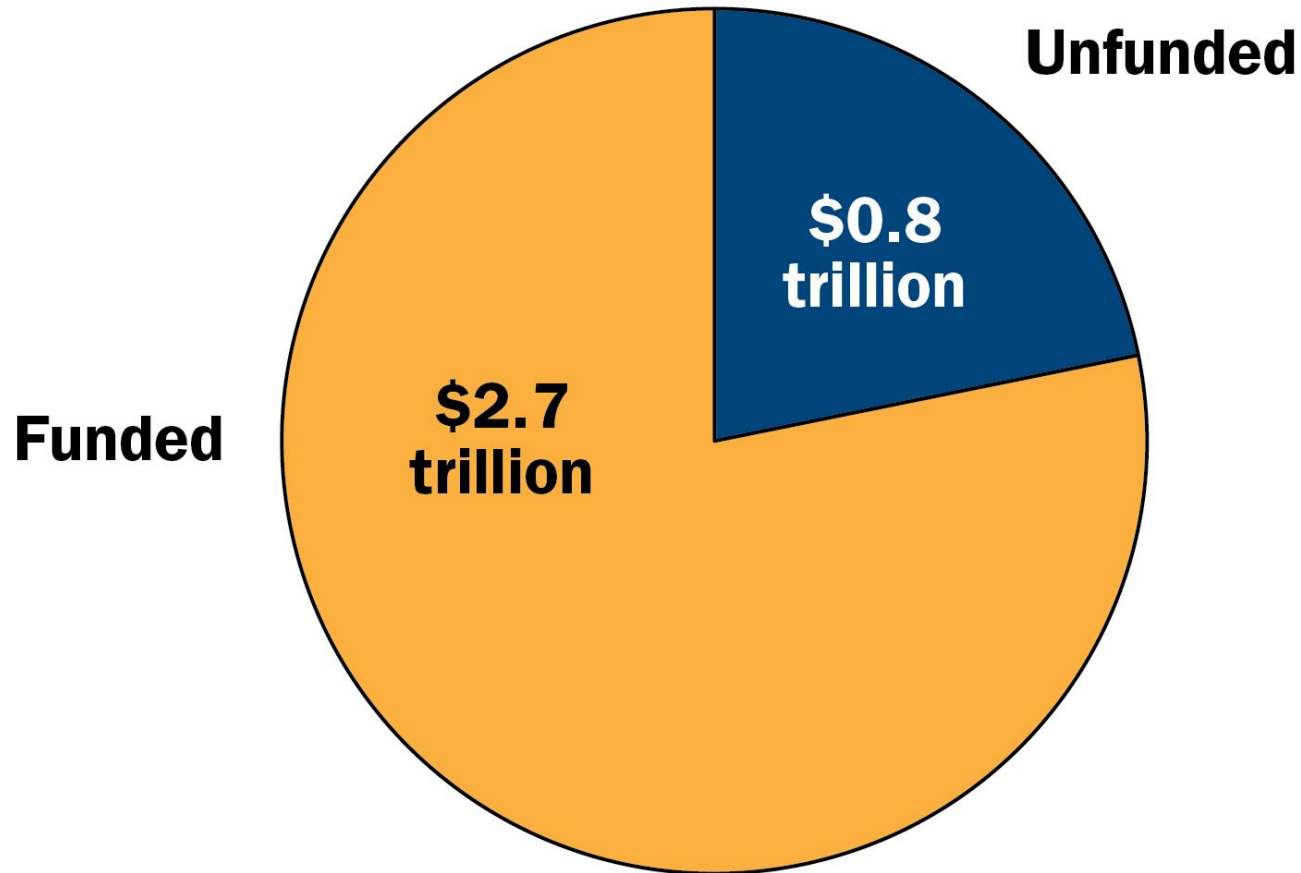
Sources: Various 2010 actuarial valuations; and authors' calculations from the *Public Plans Database* (2009).

FUNDED RATIOS FOR LOCALLY-ADMINISTERED
PLANS BY TYPE OF PLAN, 2006 AND 2010



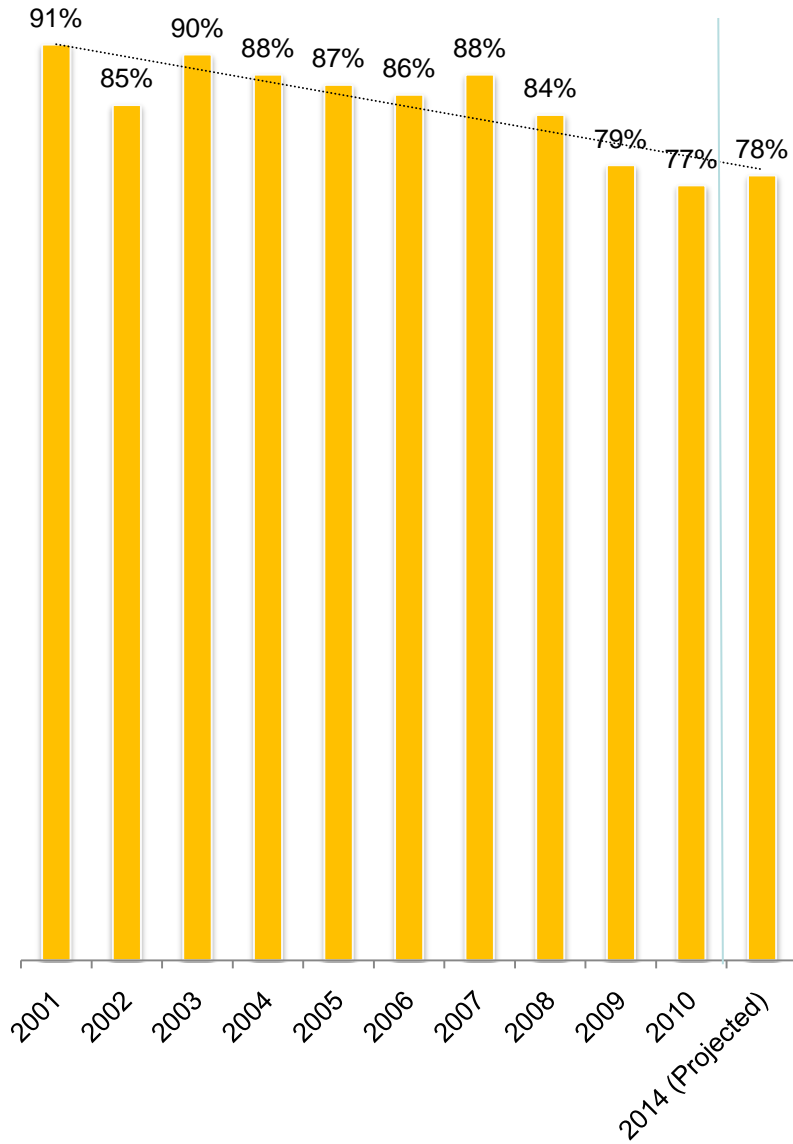
Sources: Authors' calculations from the PPD (2006 and 2010); and various financial and actuarial reports.

Funding of Aggregate Pension Liability, 2010



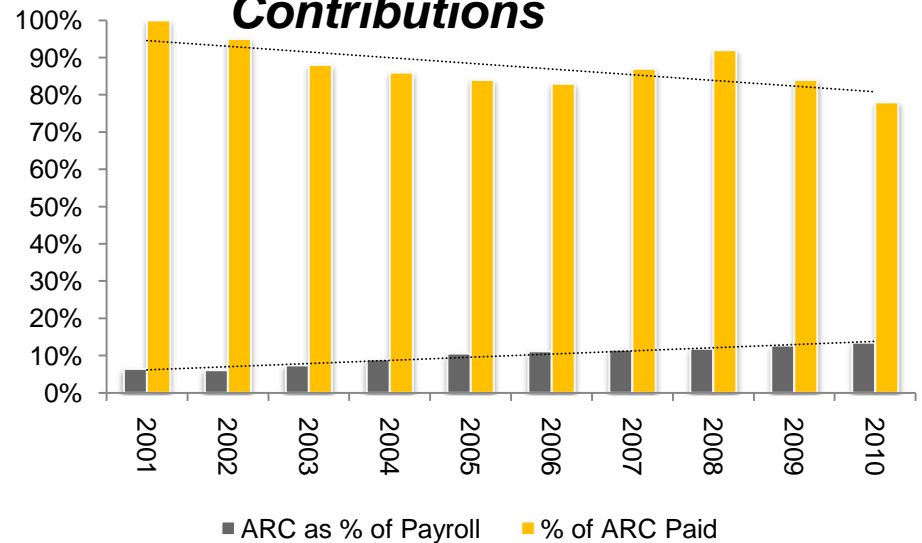
[Source: “The Funding of State and Local Pensions in 2010”, BC-CRR]

Aggregate Funding Ratios



Data from:
Public Plans Database

Annual Required Contributions



Why Are Some Plans Better Funded than Others?

- Consistent funding of the annual required contribution (ARC)
- Have appropriate full-retirement ages
- Are realistic about investment assumptions
- Do not allow extraordinary income to be included in pension formulas
- Take a long term view; no contribution “holidays” in good times

Illinois Municipal Retirement Fund

- Created in 1939; benefits set by state legislature; serves 2,950 employers
- Strives to be 100% funded; 83.3% funded in 2010
- IMRF Board sets the annual required contribution; 12.4% in 2011 (compared with 9.27% before 2008 losses)
- Authority to enforce collection

What if your plan is poorly funded?

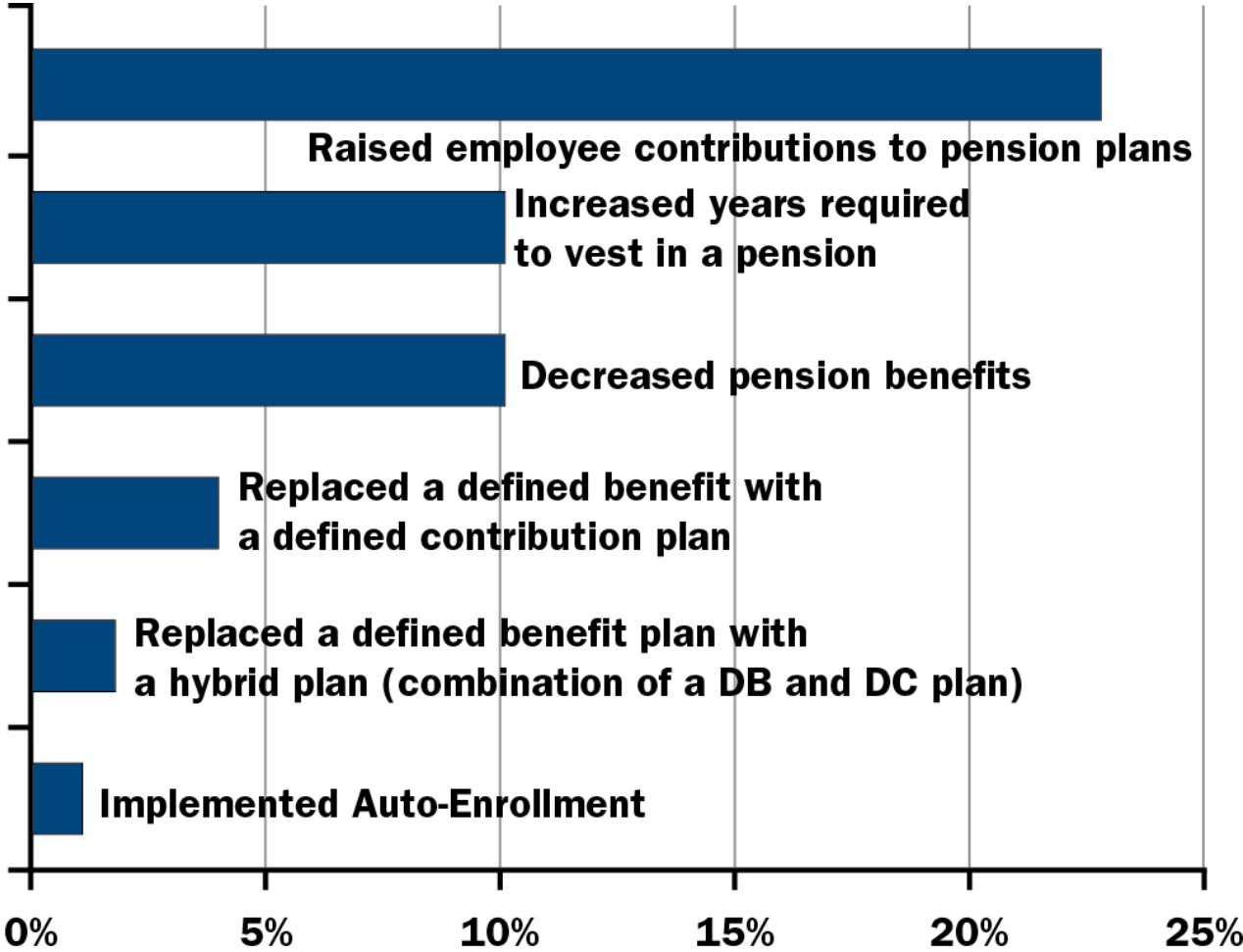
Houston – a careful process

- Get your legal house in order; communicate with employees, citizens
- Houston voters approved “opt out” provision to allow changes in 2004
- Employee contributions raised to 5%; reduced COLA to 3% for 2005 hires
- Adjusted multiplier and raised retirement age to 62 (new hires, 2008)
- Focus on sound actuarial data

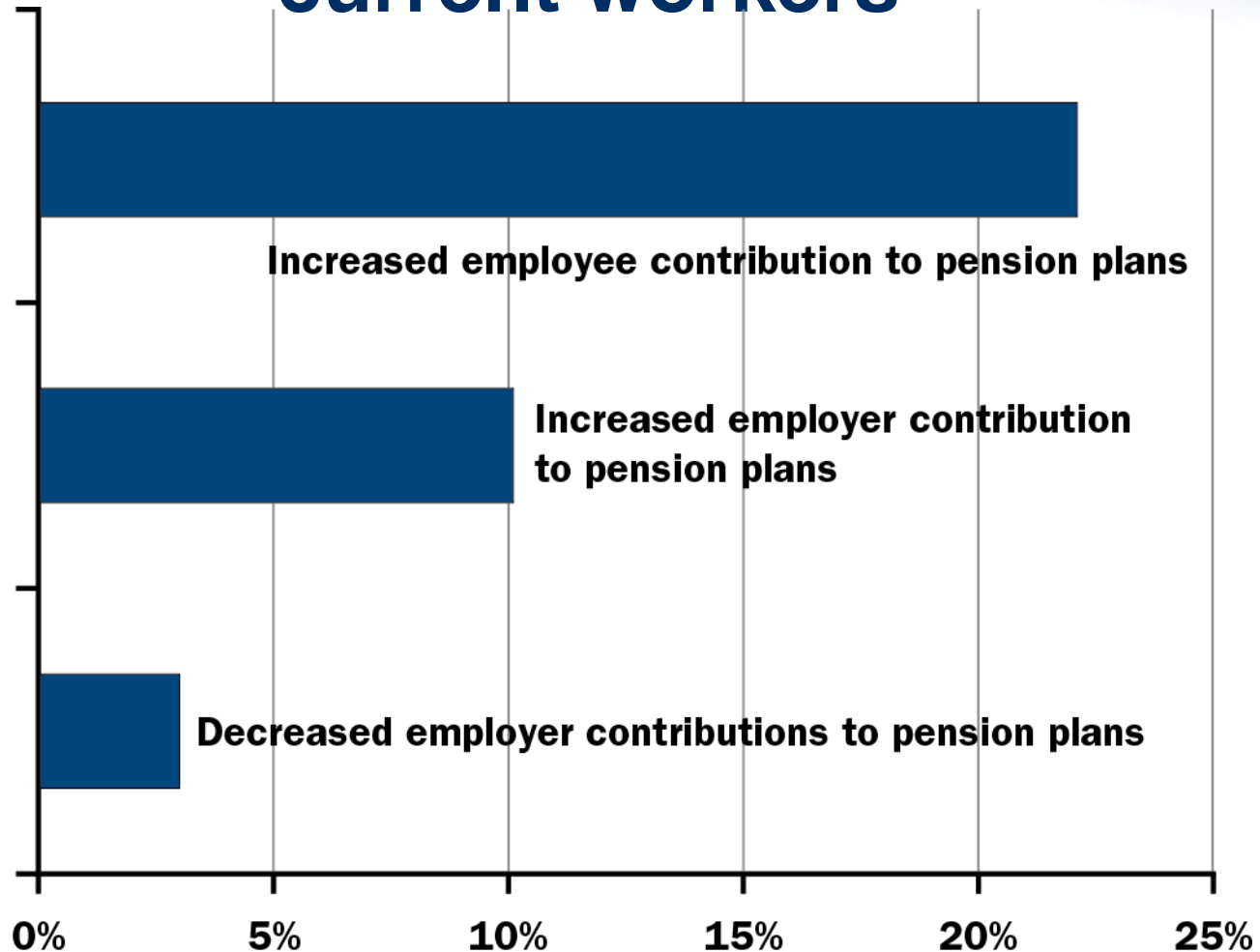
Situations vary...local governments seek flexibility

- Kalamazoo, MI has pension plan that is over 100% funded; a state-imposed defined contribution plan would add to fiscal woes
- Gwinnett County, GA, gradually switched to a defined contribution plan to meet human resources goals; some financial challenges remain

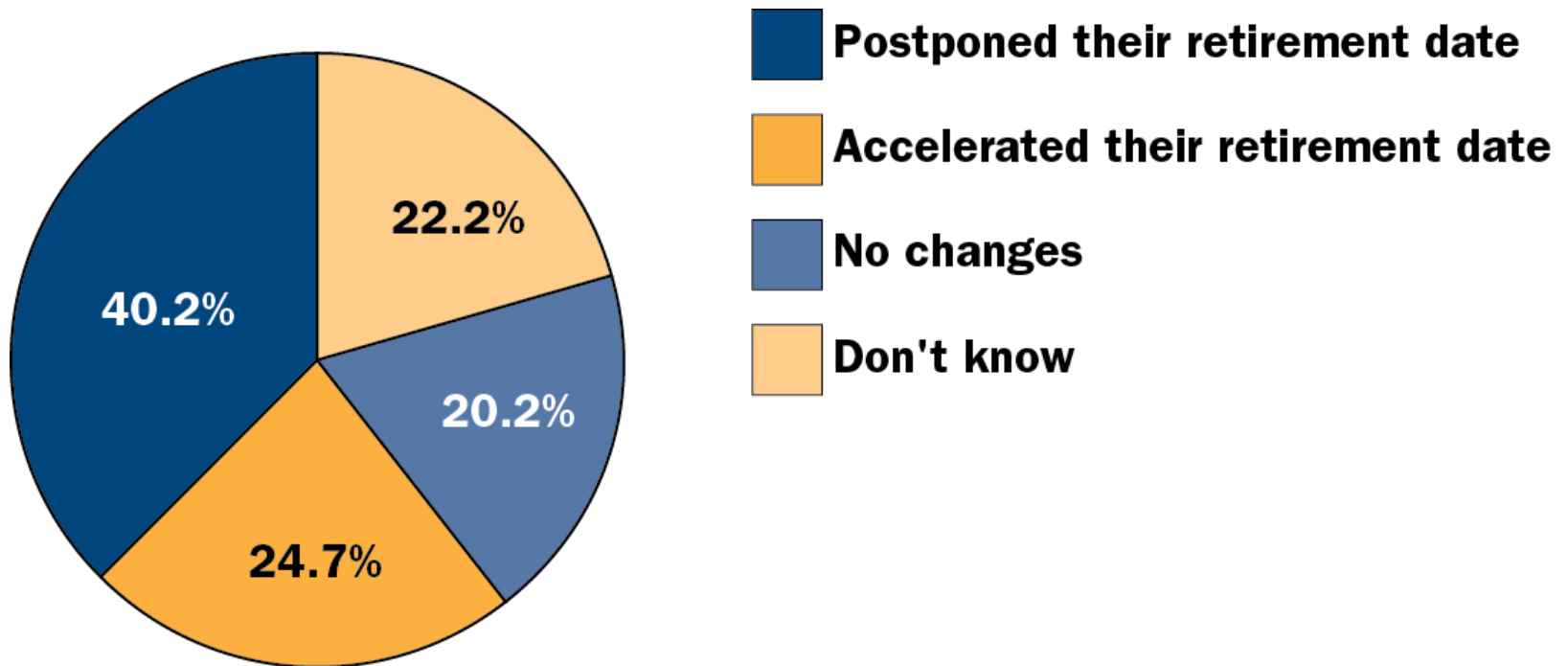
Retirement benefit changes for new hires



Contribution changes for current workers




Retirements are accelerating



Meeting human resources goals

- Do you know what is important to current and future employees?
- Do you have a workforce plan? What are your demographics, talent gaps, needs, and development plans?
- Is your compensation and benefits package competitive? Are you able to recruit and retain the talent you need?



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