There Isn’t Really a Pension Problem, Is There?

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“…… so-called pension crisis is a myth promoted by people who are either hostile to public employees, have a financial interest in moving from pensions to 401(k)s, or both.”

Useful to Revisit Earlier SIEPR Work

Going For Broke: Reforming California’s Public Employee Pension Systems

By Howard Bornstein, Stan Markuze, Cameron Percy, Lisha Wang, and Moritz Zander.
Faculty Advisor: Joe Nation
CalPERS Funded Ratio Shows Downward Trend Since About 2000

CalPERS Funded Ratio, 1993-2016

State benefits expanded
Dotcom crash
Great Recession
PEPRA
SIEPR study

PERF only.
Source: Comprehensive Annual Financial Reports
CalPERS Agency Funded Ratios Demonstrate Similar Trends

City of Palo Alto, All Plans

Graph:

Source: Pension Tracker, Annual Valuations
CalPERS Unfunded Liability at Nearly $150 Billion in 2016

CalPERS Unfunded Liability, 1999-2016

PERF only.
Market Value of Assets.
Source: Comprehensive Annual Financial Reports, CalPERS News.
Note: S&P 500 doubled from 2009-2016.
Combined With Assets, Clearer Picture Emerges

CalPERS Liabilities v. Assets, 2007-2016

Sources: Comprehensive Annual Financial Reports, CalPERS News
Comparing California’s Unfunded Pension Liability With Other Gov’t. Debt

Reported

- Pensions, $292, 34%
- Bonds, loans, $426, 49%
- Retiree health, $148, 17%

Pensions Earn 5%

- Pensions, $789, 58%
- Bonds, loans, $426, 31%
- Retiree health, $148, 11%

Sources: Actuarial Valuations, Comprehensive Annual Financial Reports, State Controller's Office, California Policy Center
This Problem Is Not Limited to California

Pension Debt
United States Public Employee Pension Systems

Market Basis
Total Pension Debt: $5.599 trillion
Pension Debt Per Household: $47,388

Actuarial Basis
Total Pension Debt: $1.306 trillion
Pension Debt Per Household: $11,055

View State Pension System Data
2015 Market Pension Debt/Household

Key Metrics: Top 10 Lists
Highest to Lowest

Actuarial Funded Ratio

<table>
<thead>
<tr>
<th>Rank</th>
<th>State</th>
<th>Actuarial Funded Ratio</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>District of Columbia</td>
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<tr>
<td>2</td>
<td>Wisconsin</td>
<td>100.0%</td>
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<tr>
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<td>Tennessee</td>
<td>96.7%</td>
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<td>4</td>
<td>South Dakota</td>
<td>95.0%</td>
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<tr>
<td>5</td>
<td>New York</td>
<td>93.7%</td>
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<tr>
<td>6</td>
<td>North Carolina</td>
<td>93.5%</td>
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</tbody>
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“Going for Broke” Policy Recommendations

- Adopt probability-based funding targets
- At a minimum, funds should be 80% certain of covering at least 80% of liabilities (an “80/80 strategy”)
- Make contributions at the Normal Rate without exception
- Amortize shortfall repayments over at most half the duration of liabilities
- Invest in less volatile asset classes (predominantly fixed income)
- Offer employees a hybrid system of both defined benefits and a 401(k)style system