

THE COUNCIL OF STATE GOVERNMENTS

Resolution Encouraging Action to Reverse Growing Unfunded Public Pension Liabilities

Resolution Summary

A number of factors related to the financial position of public retirement systems require the urgent attention of state policymakers. Alongside the fact that a majority of public pension plans are under funded to varying degrees, the fact that the financial position of every element of our nation's retirement architecture, both private and public, remains tenuous demands the focus of policymakers. The wave of baby boomers expected to retire in record numbers after 2008 is another factor further complicating the nation's retirement architecture.

Resolution Background

As states cautiously emerge from their worst financial downturn in six decades, policymakers now face the daunting challenge of dealing with a series of surging expenditure categories: healthcare (Medicaid is forecasted to grow by 9 percent to 10 percent a year in the next decade), education (including court-mandated costs), retirement systems, corrections, transportation and infrastructure needs.

Lawmakers in almost every state grapple with unfunded pension liabilities and the urgent need to devise solutions to secure the solvency of these retirement systems expeditiously. Various reasons account for these rising unfunded liability levels including the shellacking public pension plans received during the 2000-2002 stock market collapse, rising benefit costs led by healthcare expenditures, states skipping retirement contributions during lean fiscal times, the benefit 'sweeteners' states and localities offered workers during the booming 1990s and changing demographics, i.e., fewer current workers supporting an increasing number of retirees (the worker to beneficiary ratio declined from 16.5-to-1 in 1950 to 3.3-to-1 today and will decline to 2-to-1 in 40 years).

A number of recent research studies indicate that a majority of public pension plans are under funded to varying degrees, i.e., assets are less than their accrued liability. The farther a plan's funding level is below 100 percent, the greater the contributions required to finance its unfunded liability. According to The Council of State Governments' Southern office pension report (2004), 73 percent, or 68 of the 93 plans for which information was secured, were unfunded to varying degrees. Then, according to the latest (2006) Wilshire Report on 125 state retirement systems, the actuarial value funding ratio of plans declined from 103 percent in 2000 to 87 percent in 2005. Finally, according to the latest (September 2006) survey of 102 plans by the National Association of State Retirement Administrators (NASRA), the average funding level stood at 87 percent with a cumulative unfunded liability of \$337 billion.

Even more chilling news for the already teetering public pension plans involves a ruling from the Governmental Accounting Standards Board (GASB), the independent standard-setter for 84,000 state and local government entities, that state and local governments have to place a value on “other post-employee retirement benefits” (OPEB), i.e., mostly healthcare, they promise to employees. According to this ruling, states and localities will have to record as an expense the amount—the annual required contribution—they would need to stash away to fully fund this long-term liability over 30 years. While the private sector has had similar rules since 1992, for the public sector, implementation will be phased in over three years beginning December 15, 2006. Given the huge spikes in healthcare costs expected in upcoming years, the explosion in unfunded liabilities as a result of this ruling promises to be most alarming.

Alongside the disquieting news about the fiscal soundness of public retirement systems, other elements of the nation’s retirement architecture, vital to financing the retirement of millions of Americans in the future, remain extremely tenuous as well. Specifically, the precarious financial position of corporate pension plans and the federal Pension Benefit Guaranty Corporation (PBGC); the looming shortfalls expected in the Social Security and Medicare programs in coming decades; and the low personal savings rates of most Americans, coupled with the high rates of consumer and household debt cumulatively amount to an impending ‘perfect storm’ of fiscal woes. Given that the baby boomer generation is rapidly nearing retirement age and America’s senior population is growing faster than the number of younger workers required to cover their retirement needs, policymakers and citizens across the country must begin paying a great deal more attention to this unfortunate confluence of events.

Additional Resource Information

- The Council of State Governments’ Southern Office, the Southern Legislative Conference (SLC): www.slcatlanta.org
- The Legislative Analyst’s Office (LAO), State of California: www.lao.ca.gov
- Governmental Accounting Standards Board (GASB): www.gsb.org
- National Association of State Retirement Administrators (NASRA): www.nasra.org
- Federal Reserve Bank of Minneapolis: www.minneapolisfed.org
- Federal Reserve Bank of Chicago: www.chicagofed.org
- Rockefeller Institute of Government: rfs.rockinst.org
- Standard & Poor’s: www.standardandpoors.com

Public Retirement Systems Management Directives

- **Management Directive #1:** Create a sense of urgency regarding state and local governments initiating a comprehensive review of their retirement systems in order to determine their fiscal position.

- **Management Directive #2:** Initiate measures, if necessary, to bolster the short-term and long-term fiscal position of these public retirement systems.
- **Management Directive #3:** CSG staff will continue to closely track and publish information on the status of public retirement systems and publicize these research efforts using CSG's communication media.

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- WHEREAS,** Every element in our nation's retirement architecture, public and private, face significant financial pressures;
- WHEREAS,** Despite the vastly improved revenue picture, states will have to contend with a series of rising expenditure categories, including public pensions, in the coming decades;
- WHEREAS,** Practically every state retirement system has to contend with unfunded pension liabilities and the requirements of GASB;
- WHEREAS,** Cumulatively, the challenges remain enormous and will require state policymakers to adopt innovative and immediate strategies to stabilize the financial position of their retirement systems;
- WHEREAS,** Alleviating the fiscal pressures faced by their retirement systems and creating long-term stability of these pension plans ensure the security of a state's economic health.

NOW THEREFORE BE IT RESOLVED, that The Council of State Governments hereby endorses and recommends that governors, members of state legislatures and other executive branch officials, including state pension administrators, work cooperatively with all stakeholders to study the short-term and long-term financial health of their retirement plans and if necessary, devise solutions to effectively and efficiently enhance the financial position of these retirement plans.

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Governor Jim Douglas
2006 CSG President



Senate President Earl Ray Tomblin
2006 CSG Chair