AFSCME Facts

The Truth About Public Service Workers' Pensions

The continued horrible economy, claims by some that public service workers' "rich" pensions are draining budget coffers and other challenges have led many politicians to try radically changing public employee pension systems. Lawmakers' proposals would gut the retirement security of tens of thousands of workers, most of whom will put that money right back into the economy by spending in our state after they retire. The gap between what Americans have saved and what they will need in retirement, rather than the modest cost of public service workers pensions, is the real crisis. It's time the nation gets serious about ensuring America's retirement security.

Public employee pensions are a modest, but irreplaceable source of security for public employees to which they generally contribute substantially.

- Employee contributions and investment returns fund the overwhelming majority of the cost of pensions. Taxpayers shouldered only 14.3 percent of all pension funding in the 11-year period ending in 2007.
- The average AFSCME member earns less than $45,000 per year and receives a pension of approximately $19,000 per year after a career of public service.
- Public service workers often are not covered by Social Security, so their employer (state or local government) does not pay into Social Security as other employers do. Since the worker does not qualify for Social Security benefits, his/her pension is the only source of retirement security.
- While politicians who run state and local governments have often failed to faithfully contribute to their employees' plans, public workers have contributed year in and year out.

Pension benefits are not the cause of unfunded pension liabilities which are making the headlines.

- The deep financial downturn of 2008 and 2009, spurred by recklessness on Wall Street, caused significant problems in many pension funds. Until the recent market crash, public pensions were well funded and not a problem – they had on average 86 percent of the assets they needed to pay for accrued benefits (anything over 80 percent is considered healthy).
- Pension funds are not at imminent risk of default, and they have years to recover investment loses. The history of public pension fund management demonstrates that pensions have not been a long-term burden to governments.
- Where the problems with pension funds are substantial, the cause is the failure of employers to consistently fund pension plans and recent investment losses. In the past, too many politicians ignored pension contributions in favor of wasteful programs or special-interest tax breaks.
- In any case, unfunded liabilities do not disappear if pension benefits are cut or the pension fund is closed. The pension liability debt remains.

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State and local government pensions are, for the most part, well-managed and are not the source of budget problems for most states and local governments.

- In 2008, state and local government pension expenses amounted to just 3.8 percent of all (non-capital) spending.
- There has been considerable distortion of the size of the unfunded liabilities of public pension funds. The aggregate number is not very relevant because all pension funding is local or state-based, not national. Nevertheless, the aggregate number, which most impartial observers set at $500 billion to $1 trillion, while seeming large, is not particularly onerous when the following facts are considered:
- The unfunded pension liabilities may be paid during a period of 30 years under generally accepted accounting.
- During this 30-year period, state and local government revenues will be approximately $40 to $50 trillion, so the unfunded liabilities are approximately 2 percent of governmental revenues during the payback period.
- Because of the recession, a substantial majority of state and local governments have lost between 10 percent and 20 percent of their revenues during the past two to three years. As revenues recover, governments will be able to set aside appropriate money to cover their pension obligations.

To the extent loopholes in plan benefit formulas allow for unjust enrichment such as "spiking" of final salary to gain a higher annuity, those loopholes should be closed.

- AFSCME has worked to end spiking, double-dipping and other unjust gains from the pension system wherever the problems have emerged.
- While stories of abuse make headlines, they are extremely rare, and closing loopholes will not resolve the pension funding challenges.

Defined benefit pension plans make sense in the public sector where jobs in public safety, education, social services and public management are unique to that sector.

- Pension plans are actually less expensive for the taxpayer, for long-term employees, than 401(k)-style plans. Pension plans can deliver the same retirement benefit as a 401(k)-style plan for 46 percent less cost – a huge savings for taxpayers.
- The reason costs are increasing for public pension plans is because employers are now paying for past service that the employer did not properly fund.
- Pensions are a key tool for recruiting and retaining quality public service workers.

The economic crisis has wiped out the retirement security of millions of Americans in all walks of life.

- Pension funds, unlike 401(k) plans, may be rebuilt over a period of decades because they cover a wide range of employees in terms of age and years of service.
- Depending on the age of a worker in a 401(k) plan, they may have only a few years in which to address their retirement savings deficit.

Pensions are engines of economic growth and help maintain economic stability and curtail poverty.

- A national economic impact study finds that the benefits provided by state and local government pension plans have a significant economic impact: 2.5 million American jobs and $358 billion in economic activity each year.

Our nation faces enormous fiscal challenges. But these challenges are manageable if our political leaders and the public understand both the source of the problem and the implications of proposed solutions. It's time to start having a serious conversation about retirement security for all Americans.