Public Pension Oversimplification Can Complicate Things Quickly

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It's not breaking news that some journalists use a "hot take" approach when covering public pensions to create a splashy summary that glosses over details and roughly hits whatever mark is aimed at.

Public pension plans are frequently lumped together, often at a national level. They may also be broken out by state, but even that can be somewhat inaccurate. As a result, many plans get painted negatively with a broad brush.

For example, a Google search for "public pension plans time bomb" might yield results like these:

- "Time Bomb of Public Pension Funding Ticks Louder" (*Bloomberg*)
- "US Pension Plans Are on the Brink of Implosion – And Wall Street Is Ignoring It" (*The Guardian*)
- "Ticking Time Bomb: The Impending Collapse of The Pension System" (*Epicenter*) Oh no worries, this one is only about Europe.

Aggregation at a State Level

Pew Charitable Trusts summarizes plans and gives total liabilities, assets and resulting funded percentages (assets over liabilities) by state. Overall, Pew shows states ranging from 44% to 119% funded for 2021 (the most recent year summarized.

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For some states, many plans are summed. For others, just one. A state may have a funded percentage of 80% but contain nine individual plans ranging from 25% to 101%. The overall average of 80% is a weighted average, but still paints an overly simplistic picture.

State	Funded %	#of Plans	State	Funded %	#of Plans	State	Funded %	#of Plans	State	Funded %	#of Plans
ALABAMA	75%	3	INDIANA	80%	9	NEBRASKA	111%	5	SOUTH CAROLINA	62%	5
ALASKA	81%	4	IOWA	101%	3	NEVADA	87%	3	SOUTH DAKOTA	106%	1
ARIZONA	74%	4	KANSAS	76%	1	NEW HAMPSHIRE	72%	2	TENNESSEE	114%	3
ARKANSAS	91%	5	KENTUCKY	52%	6	NEW JERSEY	50%	7	TEXAS	86%	5
CALIFORNIA	85%	5	LOUISIANA	80%	4	NEW MEXICO	74%	5	UTAH	105%	8
COLORADO	78%	5	MAINE	93%	4	NEW YORK	99%	2	VERMONT	68%	3
CONNECTICUT	53%	3	MARYLAND	81%	6	NORTH CAROLINA	95%	7	VIRGINIA	88%	4
DELAWARE	108%	8	MASSACHUSETTS	69%	2	NORTH DAKOTA	78%	4	WASHINGTON	119%	12
FLORIDA	91%	2	MICHIGAN	73%	6	OHIO	90%	3	WEST VIRGINIA	98%	5
GEORGIA	92%	7	MINNESOTA	90%	9	OKLAHOMA	92%	7	WISCONSIN	106%	1
HAWAII	64%	1	MISSISSIPPI	71%	3	OREGON	88%	1	WYOMING	85%	8
IDAHO	102%	3	MISSOURI	88%	6	PENNSYLVANIA	68%	2			
ILLINOIS	44%	5	MONTANA	79%	8	RHODE ISLAND	66%	5			

Pew Charitable Trusts, 2021 Fiscal Years

Pew data includes 230 individual plans ranging from 0% to approximately 200% funded. The median plan count by state is five plans. Teacher and education plans are often the largest by liability, and judicial and legislative plans are often smallest.

Some states have large public plans that are not included in these analyses. Illinois, for example, has five plans in the Pew summary averaging 44% funded and resides at the bottom of the rankings. Total liabilities for these five plans are approximately $250 billion, but there is another plan in the state with over $50 billion in liability, covering a population of approximately 500,000 that is 98% funded: The Illinois Municipal Retirement Fund, which does not receive money from the state of Illinois.

Plan Considerations

In contrast to private pension plans that largely reside under the national umbrella of ERISA, resulting in them having the same basic rules, public pension plans operate within the governance structure of individual states. So, for these plans, we are basically looking at 50 mini-nations. A plan in California has different statutes affecting benefits and funding than one in Tennessee. Some Native American plans may be governed by tribal law. Naturally, this causes significant variance among plans. Plans in different states have distinct provisions, assumptions, funding policies, contribution structures and history — basically, their own stories on how they got where they are and where they are headed.

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Because public plans operate so differently from one another based on state laws and regulations, they need to be considered at a more granular level, not always treated as a single state metric. Lumping them together can result in a one-size-fits-all approach to “fixing” them when they have different strengths and weaknesses. Within a particular state, there are often large pension plans funded much better than the overall ratio of all plans.

Below is a non-exhaustive list of some of key features that vary from plan to plan. These items affect aspects of plans like benefit levels, governance, funding, future plan health and plan costs.

Benefit Provisions	
Multiplier	Can cover a wide range; rates near 2% are common Multiplier may be low if plan is a supplemental plan
Pay Average	May be averaged over a whole career or a few years (or even one) Pay may be limited in individual years to a certain amount
Service Maximum	All years may be included or limit may apply
COLA	Annual benefit increases for inflation, ad hoc increases, or no COLA at all

Eligibilities	
Vesting	Plan may require five years or possibly more (or less) Vesting may vary within a plan in different tiers
Retirement Age	Ages range, some plans could be near 50, others in the 60s
Retirement Service	May require a few years or up to 20

Funding	
Contributions	Employees often contribute, but not always
Members:	Rates vary, from near zero to close to 20% of pay
Employers:	Rates vary widely, from single digits to approaching or exceeding 50% of pay
Fixed Rate or Varying	Many plans pay an actuarially determined contribution while some use a fixed rate, adusted occasionally, with others somewhere in between
Other	Some plans pay less than is recommended or have taken contribution holidays

Additional Considerations	
Social Security	Members may participate or plan may be a Social Security replacement plan
Multiple Tiers	Members treated differently within the plan
Underlying Economy	Local economy supporting plan members may be robust or receding
Governing Structure	State statutes, local code, Tribal law
Assumptions	Discount and inflation rates vary, for example
Cost Sharing	Employers bear all adverse experience or share with members
Open or Closed	Plan may be closed to new members, most are still open

While some clearly (and unfortunately) see the public pension plan system collectively as being on borrowed time, most plans have paid benefits for decades (or more) and never missed a benefit payment. Each plan's individual underlying structure, assumptions and other features can provide insight into the health and funding trajectory of the plan.

Why Each Public Plan Should be Analyzed Individually

Each plan is unique, and decisions stakeholders make affecting a plan's future health should be understood. Clustering them can be reckless and misleading on all fronts. As a collective group of plans improves funding in certain years, other plans that lose ground and maintain short-sighted policies should also not get to hide under that umbrella.

It's important to read articles about "public pension plan funding" critically and draw your own conclusion based on data for individual plans. ◆

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