AFSCME Facts

The Truth About Public Service Workers' Pensions

In a time of economic challenges nationwide, false claims that public service workers' pensions are so rich they are draining state and local budgets has led many politicians to try to radically alter public employee pension systems. Legislative proposals in state after state would gut the retirement security of tens of thousands of workers and destabilize pension funds that public retirees depend on. Ironically, these proposals would end up hurting local economies if retirees have fewer pension dollars to spend in the future gap between

The real problem is not the cost of public pensions, which is relatively modest, but the lack of retirement security for most Americans. There's a growing gap between what Americans have saved and what they will need in retirement. Cutting public pensions would merely contribute to this looming crisis.

Pensions are a modest, but irreplaceable source of security for public employees, who generally make substantial contributions to their pension funds.

- 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.
- Many public service workers are not covered by Social Security. They and their employers (state or local governments) do not pay into Social Security, so they will not qualify for benefits based on their public jobs. For these public employees, their public pension is the only retirement check they can count on.
- 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 the unfunded liabilities that 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.
- In instances of serious shortfalls in pension funds, the cause is almost always the failure of employers to consistently fund pension plans combined with the recent investment losses caused by general market declines. In the past, too many politicians shorted pension contributions in favor of wasteful programs or special-interest tax breaks.
- In any case, when pension plans have unfunded liabilities, they do not disappear if pension benefits are cut or the pension plan is closed. The pension liability debt remains.

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State and local government pensions are generally well-managed and 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 over the past few years. As revenues recover, governments will be able to set aside appropriate money to cover their pension obligations.

If loopholes in plan benefit formulas allow for unjust enrichment -- such as "spiking" of final salary to increase the size of an 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 because jobs in public safety, education, social services and public management are unique to that sector.

- Pension plans are actually less expensive for the taxpayer than 401(k)-style plans. For career employees, 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 that 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 can be rebuilt over a period of decades. They can do this because one plan covers workers of all ages and lengths of service. The 401(k) plans are essentially individual accounts that are based on the investments of one person.
- Depending on the age of a worker in a 40 1(k) plan, they may have only a few years to address a deficit in their retirement savings caused by investment losses.

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

- A national economic impact study found 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.