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Crisis? What Pension Crisis?

A new paper from the University of California at Berkeley contends that concerns about the declining health of public retirement systems in the modern era are largely overblown. The author, Tom Sgouros, argues that maintaining a fully funded pension is not necessary for governments because they'll always be around to pay the bill.

Sgouros also argues that the accounting standards used to evaluate pension plans are partly to blame for the current pension crisis narrative. Be it city council members or "analysts at Moody's determined to justify a downgrade," these players often misuse the data to blame pension plans for municipal woes. "Debt due in the distant future is not a crisis today," he writes, "even if it is a cause for concern."

The Takeaway: Sgouros makes several good (and interesting) points. But he doesn't really acknowledge that pension funds are essentially money set aside to invest and help pay for retirement benefits and are thus designed to defray the ultimate cost of those benefits to the government. In other words, pay less today rather than a lot more down the road. The accounting and numbers may be twisted in seven different kinds of ways, depending on who's doing the talking, but it's not a reason say the entire process doesn't matter.

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