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The Elusive Pension Cure-All.

A new study by the National Institute on Retirement Security provided a good reminder that the 401(k)-style retirement plans that some governments have established for new employees are not a cure-all for the unfunded pension liabilities those governments have. Governments that close off their pension plans to new employees will still have huge liabilities for the employees under the old plan, a situation made worse when there's a market downturn and they have to pay out more money from the fund in benefits than their dwindling employee members are putting in.

Even if plans are fully funded when they're closed, things can turn sour. Michigan closed its defined benefit plan to new hires back in 1997. The plan was actually overfunded at the time – it had slightly more money in it than it needed to pay all the benefits it had promised to those employees. But by 2012, the plan's funded status had dropped to about 60 percent while retirement security for defined contribution plan participants had decreased, the NIRS report said.

The report found similar losses in West Virginia and Alaska. Two very important factors are at play. For one, the 2008 stock market crash wiped out nearly a third of most plans' assets. Michigan's assets still have not recovered from the recession. That's partly due to another other factor: Michigan had not been putting in its full contribution to during those years. The state is now trying to fix the problem and in 2013 put in 99 percent of the recommended contribution.

Still, the report correctly noted that there is less retirement security for those in a 401(k)-style plan. Of course, that's the financial benefit for governments – they pay a set benefit now and thus eliminate the risk that they will have to pay more later. The risk is transferred over to the employee.

In Washington, hybrid plans potentially offer a balance. A paper by the University of Washington's Center for Education Data & Research on the state's teacher pension system indicated that the state's financial exposure is significantly lower under a hybrid plan becuase its per-teacher pension liability is approximately half as large as under its traditional plan. And, when given a choice, at least six in 10 teachers (statistics vary by year) choose the hybrid plan.

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BY LIZ FARMER | FEBRUARY 13, 2015