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Public Pensions' Latest Challenge: Longer Lives.

Increases in retirees' longevity are likely to make an already dismal fiscal picture look worse.

There is no shortage of self-inflicted wounds plaguing state and local government pension systems. Among the most common are failing to address funding problems even after they become clear, using pension enhancements rather than salary increases to attract and retain employees, and employing unrealistic assumptions about pension-fund investment returns to make their finances appear artificially rosy.

But San Francisco's current pension troubles are less of the city's own making. Sure, the fund assumes a 7.5 percent return on its investments and is currently reaping just 4 percent, but there's a bigger problem: The city's retirees, like Americans in general, are just living too long.

Last year the nonprofit Society of Actuaries released its first updated projections on Americans' longevity since 2000. The organization found that the average 65-year old male would live 86.6 years, about two years longer than previously forecast, and that the average 65-year-old female would live 88.8 years, an increase of nearly two and a half years. For public and private pension funds, those additional years of drawing retirement benefits translate into a 4-8 percent jump in funding obligations.

San Francisco's voter-approved 2011 reforms changed the pension formula for new hires and capped some payments. As a result, pension obligations were expected to peak last year, but they're still growing, and a large part of that growth is related to retiree longevity. Pension funding is the biggest cause of a \$99 million hole in the city's 2016-17 budget.

The numbers are particularly disheartening because in a booming economy city leaders assumed that controlling pension costs would free up money for transportation infrastructure and other upgrades. Instead, they're left to figure out how to close a budget gap — and to worry about what to do when the local economy slows down.

What's happening in San Francisco will likely be seen across the pension landscape as the new longevity numbers are factored in. More and more, the pension crises state and local governments face resemble the Hans Brinker story about the little Dutch boy trying to plug holes by sticking his finger in the dike. Whether self-inflicted or otherwise, there appears to be no end to the new problems.

It's no wonder that the vast majority of private-sector employers have moved away from traditional but more expensive defined-benefit pensions. And while public-to-private-sector comparisons are often problematic, it seems unrealistic to think governments can resist that trend, as most continue to do, and still deliver the range of public services their constituents expect. I have long advocated for public pension systems to transition to a defined-contribution model, but with a "cash balance" option for the risk-averse that guarantees a set interest rate on both employer and employee contributions.

Governments can continue to offer more-generous retirement benefits than their private-sector counterparts, but taxpayers can no longer afford to shoulder the entire risk for the seemingly endless variables that increase pension liabilities. While few would wish anything but the longest lifespans for retired public servants, it's becoming clear that increasing longevity is one of the variables that are likely to continue to bedevil the world of pension funding.

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