Pension Envy: Lessons From Well-Managed Plans.

Bad press has blurred the fact that not all public pension plans are underfunded and overly generous.

Public pension plans have gotten a lot of bad PR in recent years. And while some of that bad press is certainly warranted, it's wrong to assume they're all a failure. In fact, there are many plans across the country that are humming along fine.

Case in point: Missouri's Local Government Employees Retirement System, or LAGERS. Last year, a reporter for the Springfield News-Leader wanted to know why the city's pension plan was just 80 percent funded — far below the fund's aggregate 94 percent funding level. LAGERS has the ability to compel payments from cities, so the reporter, Amos Bridges, wondered if the fund was letting Springfield off the hook.

As it turned out, LAGERS wasn't. The current funding level only reflected active employees; It was closer to 90 percent when incorporating retirees. Additionally, LAGERS had Springfield on a payment plan to get back to a fully funded status.

"Defeated in my search for a scandal, I had to admit: These LAGERS people seem to know what they're doing," Bridges wrote.

But the News-Leader's complimentary column is more the exception than the rule. Rarely is news ink ever used on a foiled search for a scandal. So what's driving the generally negative coverage? Pension envy.

At a time when few Americans have any substantial retirement savings, public pensions are one of the only vehicles left that offer workers real retirement security. What's more, the ones that make headlines seem overly generous to taxpayers working in the private sector. Financial advisors recommend a retirement income somewhere around 70 percent of a retiree's salary, and the average American has far less than that saved.

In 2014, a study by the conservative American Enterprise Institute found that full-career state workers in five states — California, New Mexico, Oregon, Texas and West Virginia — earned more in retirement income than in their final salary.

But it's unfair to label all pension plans as overly generous taxpayer burdens. In the above five states and others, lawmakers enhanced benefits — often without paying for them — when times were good. The added-on benefits pushed liabilities higher and unfunded liabilities grew faster. Sometimes, governments skipped out on making their full pension payment, which added to the pressure. Then, the losses during the Great Recession only made matters worse. That's simply not the case in many other states.

Employees, though, shouldn't be relying alone on their public pension plans, according to LAGERS Executive Secretary Keith Hughes. One's retirement plan should also include personal savings and social security benefits where available.

“We don’t believe the pension’s purpose is to create wealth for the member and their family forever and ever,” said Hughes. “We believe it is to provide [security] for them for their lifetime. If members want [a plan] to provide wealth, there’s probably another vehicle to do that.”

Part of the reason LAGERS and other similar plans are able to make their annual payments is because their benefits are modest and held in check. Replacement salary for these plans are typically between 30 and 50 percent of the employee’s annual salary. Often, there are checks and balances when it comes to adding benefits. LAGERS, for example, requires a cost study before a contributing government is allowed to enhance its benefits. And no government is allowed to increase benefits without paying for them.

So why don’t more places operate like these plans?

Speaking for the municipal plans, Hughes does admit that managing more than 1,000 plans — with their own menu of benefits — for about 700 governments is a lot of actuarial work.

Furthermore, not every place is capable of enforcing a payment mandate like LAGERS and other well-run plans. Those plans can intercept tax money collected by the state that’s due to the municipality if that government is delinquent on its pension bill. In addition to LAGERS, Illinois’ municipal fund and Idaho’s public employees fund mandate payment by state statute. Texas has the pension payment mandate in its constitution.

In the end, the pension envy resulting from some of the bad PR could present a unique opportunity for a larger discussion.

“I think one of the challenges is that a lot of Americans right now have nothing,” says Bailey Childers, head of the National Public Pension Coalition. “I think the question is, how do we take some of the benefits of professionally managed pensions and take that to private sector?”

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