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Study: Public Pension Funds Still Highly Vulnerable.

The Mossavar-Rahmani Center for Business and Government at Harvard University studies what could happen to pension funds in 10 states under various economic scenarios.

CHERRY HILL, NEW JERSEY — Many pension funds for public workers already owe far more in retirement benefits than they have in the bank, and the problem will only grow worse if the economy slows down, according to a report released Thursday.

The study from The Pew Charitable Trusts found that the New Jersey and Kentucky funds are in such perilous shape that they risk running dry.

Governments have been ramping up contributions to the funds to help cover the promises they've made to retirees, but that leaves less money to spend on schools, police, parks and other core government services.

Another option is reducing pension benefits. A plan to do that in Kentucky led to teacher walkouts earlier this year.

The <u>Pew study</u>, published by the Mossavar-Rahmani Center for Business and Government at Harvard University, examines what would happen to pension funds in 10 states under various economic scenarios.

If a fund doesn't bring in enough money to cover its promised retirement costs, the state would have to make up the difference. In New Jersey, that would mean spending at least \$2 billion more a year.

"These findings don't come as a surprise and underscore the need to bolster the state's surplus," said Jennifer Sciortino, a spokeswoman for the state Treasury Department. She said Gov. Phil Murphy, a Democrat who took office in January, wants to increase the surplus by 50 percent.

New Jersey is gradually raising its contributions, but the Pew report says getting to full funding will be a challenge for the state.

Kentucky Gov. Matt Bevin, a Republican, signed a bill last month reducing some retirement benefits for current and future teachers, but not for those already retired.

On Thursday, Bevin spokeswoman Elizabeth Kuhn said the Pew findings echo warnings from the governor since he took office. She said addressing the pension fund's \$60 billion unfunded liability is his top fiscal priority.

"After years of Kentucky governors underfunding and mismanaging the pension system, the report confirms that Gov. Bevin's commitment to fully fund the system will provide a stronger financial outlook for the state," she said in a statement.

The report said that even with changes, Kentucky could be in a situation similar to Connecticut and Pennsylvania. Both states have increased state pension contributions and might have to keep them

high for decades to come, squeezing out funding for other priorities in the state budget.

The report also found that the relatively healthy pension systems in North Carolina and Wisconsin are more likely to weather downturns. Pew also looked at the funds in Colorado, Ohio, South Carolina and Virginia.

Notably absent from the report was California, which has the two largest public pension funds in the nation. They had a combined \$168 billion in unfunded liabilities in 2016, according to another recent Pew report. Mennis said California's funds were not included in the stress test study because they are so large and uniquely structured.

Nevertheless, the issue has been on the mind of California Gov. Jerry Brown, a Democrat who is in his final year in office. Brown suggested earlier this year that when a recession hits, pensions "will be on the chopping block."

By Geoff Mulvihill

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