

Platte Chat

*An ongoing conversation about how to best preserve free enterprise,
personal responsibility and limited government in Nebraska*



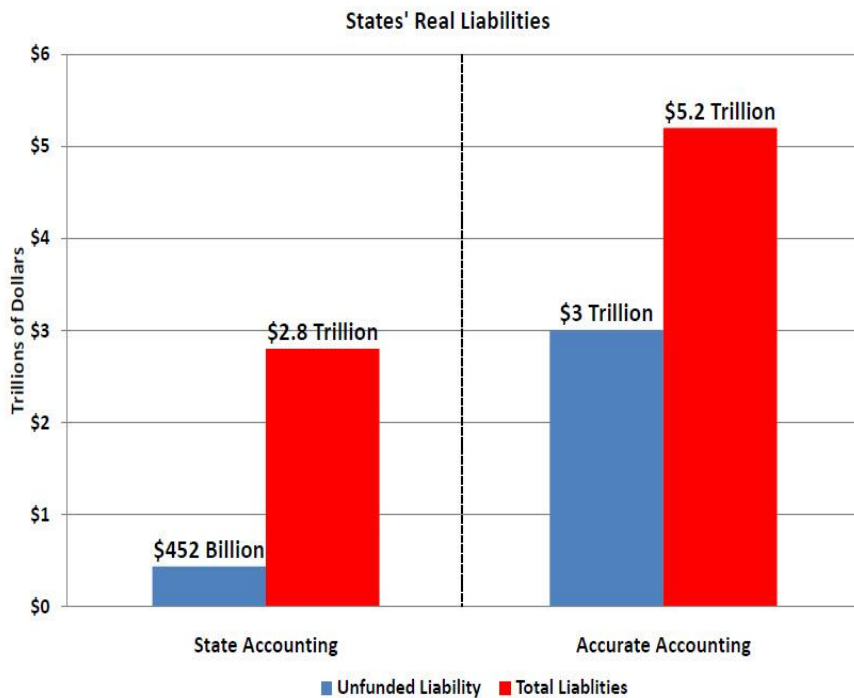
States' Real Pension Liabilities

Editor's Note: The following information comes from the Mercatus Center at George Mason University.

Nearly all states operate defined benefit pension plans for their employees. Financed through a mix of employee and employer contributions and the investment returns on contributions, a defined benefit plan comes with a state obligation to pay a given amount in benefits. States are obligated to pay these benefits whether there are assets in the fund at the time of the employee's retirement or not. Despite this looming obligation, states have not planned for coming retirement payouts. As a result, states' pensions are severely underfunded, with some states' funds scheduled to run out as soon as 2017.

Pension underfunding has been compounded by states' idealistic accounting, with methods based on what the assets are expected to return when invested. So while official reports claim that in 2008 state pensions were underfunded by \$452 billion, with total liabilities of \$2.8 trillion, these numbers change dramatically when private sector accounting methods are applied. This is significant, because public sector methods assume certain, high returns on all investments while private sector accounting methods incorporate uncertainty and risk into their expectations. Using methods that are required for private sector pensions, total liabilities for 2008 balloon to \$5.2 trillion and the unfunded liability rises to \$3 trillion.

It is only a matter of ability of governments to pay for the retirement benefits promised to public sector workers runs up against the reality of limited resources.



*Source: Andrew Biggs, The Market Value of Public-Sector Pension Deficits; Robert Novy-Marx, and Joshua D. Rauh. 2009. "The Liabilities and Risks of State-Sponsored Pension Plans."
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