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FACT CHECK

Recent Wirepoints Report Offers Flawed Analysis of Public Pensions
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A recent report by Wirepoints uses a simplistic comparison of public pension assets to annual benefit payouts to claim the “sky is falling” on retirement systems across the country. Unfortunately, this analysis ignores vital information that provides an accurate assessment of the financial health of retirement plans that serve more than 15 million working and 11 million retired employees of state and local government.

Key factors impacting a pension plan’s finances that are completely ignored by this analysis include: future employee contributions, future employer contributions, investment returns, and contribution discipline. Omitting many important key factors leads to misleading results and rankings.

One example is Wirepoints’ ranking of Indiana’s teacher retirement plan. The report ranks it as the “sixth worst plan,” with 6.6 years of benefit payments on hand. At the same time, Indiana is one of only 13 states that has earned a AAA credit rating from all three major ratings agencies, S&P, Moody’s and Fitch. Ratings agencies look beyond a singular data point and use a deeper analysis of both the health of public jurisdictions and a pension plan. Clearly, the Wirepoints analysis is out of step with these highly credible ratings agencies.

It is also important to understand historical context. In Indiana, the teacher pension plan was a pay-go system until 1996. By that time, most other jurisdictions had moved toward prefunding of retirement benefits, which substantially reduces cost. Because Indiana was late to this prefunding transition, that left relatively large legacy costs. However, the state crafted a plan to improve funding levels and has been disciplined about implementing its strategy. In fact, the legacy tier now is more than a quarter prefunded, and a significant portion of the benefit payments that had accrued by 1996 have been paid. Also, a new benefit tier was established, and it now is more than 100 percent prefunded. Sticking with a funding plan for decades has given the state credibility in the eyes of policymakers, ratings agencies and other key stakeholders.

Beyond pensions, the Wirepoints study also ignores the economic trends of the pension plan sponsor. For example, pension plan debt plays out differently in a vibrant, growing city versus one experiencing economic decline. The story of

Detroit's public pensions is usually put forward by pension critics as a cautionary tale. But, Detroit's story is far more complex and broader than how it is often portrayed. As the *Detroit Free Press* noted in 2013, "The total assessed value of Detroit property — a good gauge of the city's tax base and its ability to pay bills — fell a staggering 77% over the past 50 years in today's dollars."

According to Todd Tauzer, vice president and consulting actuary at Segal, singling out pension plans as the primary force in "dragging" some of the nation's largest cities into bankruptcy is unfounded and inaccurate. Tauzer, who previously served as director of municipal pensions at S&P, had first-hand access to data around the Detroit, Vallejo, and Stockton bankruptcies. He said that objective study of sizeable public sector bankruptcies in this country reveals "disruptive demographic trends matched with a lack of adequate financial management across the spectrum of municipal finances, potentially including but not limited to pensions."

The Wirepoints paper also assumes that FYE 2020 returns will worsen public pension finances. But, with only a few days left in the June 30 fiscal year, the S&P 500 is up more than five percent, excluding dividends. It is not yet clear whether investment markets will be hit as hard as the labor market has been by COVID-19. If the financial markets remain resilient, there may not be as deep an impact on pension assets.

This misleading Wirepoints analysis is strikingly similar to another flawed report published in 2010. That report, *The Crisis in Local Government Pensions in the United States*, focused on assets to benefit payments, and ignored other important factors, to predict many major cities would run out of money in the near future. We now have had time to evaluate the predictions stemming from the 2010 analysis, and the author's predictions have proven wildly inaccurate. In fact, prior to the COVID-19 crisis, most pension plans were well-funded and financially stable according to research by the Boston College Center for Retirement Research. And as of the fourth quarter of 2019, public pension assets were $4.82 trillion, doubling their asset values in less than a decade after surviving the 2008 financial crisis.

One flawed prediction was that Philadelphia would run out of pension dollars by 2015. What instead happened is that Philadelphia's pension system funding has improved since 2010, even with more conservative assumptions. Today, the system holds about $6 billion in assets for future benefits.

The prediction that Boston's pension system would run out of money in 2019 was also deeply flawed. Today, the plan is 77.4 percent funded.

It is important to highlight that few public endeavors outside of public pensions hold even two years' worth of assets on hand, much less 20 years of prefunding. Public pension plans maintain a high standard, aiming to pre-fund retirement benefits and holding ample assets to pay expenses decades into the future. A shared responsibility, pre-funding strategy means that retirement benefits can be provided at much lower cost to taxpayers.

Here is the real story. Out of 148 pension systems studied by Wirepoints, all but 13 pension systems have at least eight years of expenses already professionally invested to meet future obligations. Moreover, 118 plans have ten years of funding on hand. In comparison to other government programs, these pre-funded programs are in a strong financial position, and this pre-funding substantially reduces costs to taxpayers.

While a handful of pension plans have faced serious underfunding challenges, the vast majority of these plans are built to last and continue to follow sound funding strategies. So, it is unfortunate to see a failed methodology recycled again after the past ten years have shown that the methodology is flawed when it comes to predicting the future for public pension plans.