Government Finance Review

GOVERNMENT FINANCE OFFICERS ASSOCIATION

PUBLISHER
Jeffrey L. Esser

EDITOR IN CHIEF
Anne Spray Kinney

MANAGING EDITOR
Marcy Boggs

SUBMISSIONS

The editors encourage finance officers, scholars, private consultants, and other knowledgeable individuals to submit manuscripts to *Government Finance Review*. All manuscripts should conform to the Editorial Policy and Guidelines for Authors, which are available online at www.gfoa.org. Manuscripts should be submitted electronically to gfr@gfoa.org.

CONTACT INFORMATION

Government Finance Review
c/o Government Finance Officers Association
203 N. LaSalle Street, Suite 2700
Chicago, Illinois 60601-1210
phone 312-977-9700 · fax 312-977-4806
e-mail GFR@gfoa.org

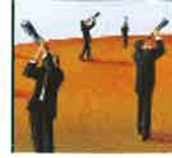
WEB SITE
www.gfoa.org

EDITORIAL
gfr@gfoa.org

ADVERTISING
Natalie Laudadio
nlaudadio@gfoa.org;
312-578-2298

PERMISSION AND REPRINTS
gfr@gfoa.org

SUBSCRIPTIONS / CHANGE OF ADDRESS
Lynn Chorak
lchorak@gfoa.org;
312-578-4408



[from the executive director]

LIES, DAMNED LIES, AND STATISTICS

Mark Twain popularized an expression he attributed to Benjamin Disraeli: "There are three kinds of lies: Lies, damned lies, and statistics." And this pretty well sums up all the falsehoods that have been bandied about in the media regarding state and local government defaults, bankruptcies, and pension fund collapses.

As every reader of this magazine knows, the last couple of years have been rough for state and local governments as they have coped with the effects of the financial crisis and the most severe recession since the Great Depression. Yet, unlike the federal government, state and local governments are required to balance their budgets, and over the past couple of years, they have done so by making many painful decisions, including laying off more than 435,000 employees and asking hundreds of thousands of others to take furloughs. What they haven't done, and have no intention of doing, is defaulting on their municipal bond payments.

Yet, a few people who are apparently trying to make a name for themselves are claiming the sky is falling and that the next financial crisis is in the state and local sector. So let's look at the lies, damned lies, and statistics they are using to make these outrageous claims.

Two articles in this issue of *Government Finance Review*, "Setting the Record Straight About Public Pensions," by Leigh Snell and "Addressing Media Misperceptions about Public-Sector Pensions and Bankruptcy," by Ronald D. Picur and Lance J. Weiss, dispel some of the falsehoods being spread about public pension systems. The scaremongers would have you believe that because there are a few pension systems and states with underfunded plans, the entire system is about to collapse. Nothing could be further from the truth. The facts, as reported by the National Association of State Retirement Administrators (NASRA) — based on the audited financial statements of the 93 largest public pension systems, covering 85 percent of the state and local retirement community — demonstrate that on average these systems are 80 percent funded. Most actuaries and experts consider this an appropriate level.

Yet when these facts are presented to demonstrate that only a few pension systems are having problems, the critics then attack the actuaries and methods used to calculate the funded status of public pension plans. The systems covered by the NASRA research assume an 8 percent average rate of return over a 25-year period, and in fact, the actual rate of return over the last 25 years has been 9.25 percent. Yet as Picur and Weiss demonstrate in their article, some self appointed experts have made a name for themselves by using unvetted research to assess the financial viability of public pension systems.

continued on page 7

Government Finance Review (ISSN 0883-7856) is published bimonthly in February, April, June, August, October, and December. Subscription price is $35 annually. Opinions expressed herein are the viewpoints of the authors. They may differ from the policies and recommendations of the Government Finance Officers Association, its committees, and staff. Letters to the editor are welcomed.

Published by the Government Finance Officers Association, 203 N. LaSalle Street, Suite 2700, Chicago, IL 60601-1210. Periodicals postage paid at Chicago, Illinois, and additional mailing office. Postmaster: Please send address changes to *Government Finance Review*, 203 N. LaSalle Street, Suite 2700, Chicago, IL 60601-1210.

Fact Sheet Clears Up Pension Fallacies

A group of organizations released a joint fact sheet on state and local government pensions, explaining the operations and funding of public pensions, the degree to which they fit in the overall budget picture at the state and local level, and the steps state and local governments are taking to bring their pension plans into long-term solvency. The fact sheet was issued jointly by the National Conference of State Legislatures, National Association of Counties, United States Conference of Mayors, National League of Cities, International City/County Management Association, National Association of State Auditors, Comptrollers and Treasurers, Government Finance Officers Association, International Personnel Management Association for Human Resources, National Council on Teacher Retirement, and the National Association of State Retirement Administrators.

State and local governments have already pre-funded the majority of their pension costs, the fact sheet says. They have more than $2.7 trillion in assets held in trust for current and future retirees, enough for most plans to continue paying promised benefits well into the future. Continued contributions by employers and employees ensure that these trusts can continue to pay benefits for the long term. Retirement systems also remain a small portion of state and local government budgets, according to the fact sheet — about 3 percent.

The fact sheet is available at http://www.nasra.org/resources/PublicPensionFactSheet110125.pdf.

continued from page 3

PERSPECTIVES

The fearmongers go on to suggest that because of the so-called massive public pension funding problem, the operating budgets of state and local governments are about to collapse. In fact, average pension costs are only 3.8 percent of state and local government spending, and even in the cases where reform is needed, increasing this level by one or two percentage points will not significantly affect the operating budget of state and local governments. Health-care costs and Medicaid costs are the real factors that are wreaking havoc with state and local government budgets.

So if the public pension systems are not about to bring about an imminent collapse of state and local governments, why is an analyst with no experience in municipal finance claiming there will be 50 to 100 significant municipal bond defaults in 2011, totaling hundreds of billions of dollars? The real story is that state and local governments have made it through the worst part of the recession, they haven't defaulted on bonds, and the revenue outlook is now improving. According to a recent Deutsche Bank economic analysis, both sales and income tax revenue are up 5 percent over the previous year. So if the two most volatile sources of state and local revenue, which account for more than 50 percent of revenue, are increasing at a fairly steady clip, why are some now predicting defaults and bankruptcies?

Self-appointed experts like to compare all state and local debt with extreme cases like Greece and other European countries where public debt levels ranged from 115 percent to 150 percent of GDP. U.S. state and local spending on debt represents a modest 4 percent to 5 percent of operating budgets. Almost all state and local government debt is issued to fund infrastructure investments, not to fund operating budgets. State and local governments are rightly proud of their collective track record — hardly any defaults by general purpose governments, and only a few bankruptcies over 30 years. This is an achievement that should make investors comfortable.

The real question is what motivation individuals and groups have in making these false claims about state and local government finance. Some want to attack public-sector workers by saying public-sector workers earn more in salaries and benefits than their private-sector counterparts. Independent research by the Center of State and Local Government Excellence demonstrates that this is wrong — average total compensation for state and local employees is 6.8 percent to 7.4 percent lower than that of comparable private-sector workers. And some politicians are trying to get some publicity, suggesting that states should be allowed to declare bankruptcy — something the bipartisan organizations representing governors and state legislators have indicated they neither want nor need.

In the final analysis, state and local governments will make the tough budgetary and pension funding decisions necessary to balance their budgets and make certain pension systems are on a sound footing.

Jeffery L. Esser

Jeffery L. Esser
Executive Director/CEO