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Highlights

Highlights of GAO-08-983T, a testimony before the Joint Economic Committee

STATE AND LOCAL GOVERNMENT PENSION PLANS

Current Structure and Funded Status

Why GAO Did This Study

Millions of state and local government employees are promised pension benefits when they retire. Although these benefits are not subject, for the most part, to federal laws governing private sector benefits, there is a federal interest in ensuring that all American have a secure retirement, as reflected in the special tax treatment provided for private and public pension funds. Recently, new accounting standards have called for the reporting of liabilities for future retiree health benefits. It is unclear what actions state and local governments may take once the extent of these liabilities become clear but such anticipated fiscal and economic challenges have raised questions about the unfunded liabilities for state and local retiree benefits, including pension benefits. GAO was asked to report on (1) the current structure of state and local government pension plans and how pension benefits are protected and managed, and (2) the current funded status of state and local government pension plans. GAO spoke to a wide range of public experts and officials from various federal and nongovernmental entities, made several site visits and gathered detailed information about state benefits, and analyzed self-reported data on the funded status of state and local pension plans from the Public Fund Survey and Public Pension Coordinating Council.

What GAO Recommends

GAO is not making recommendations at this time.

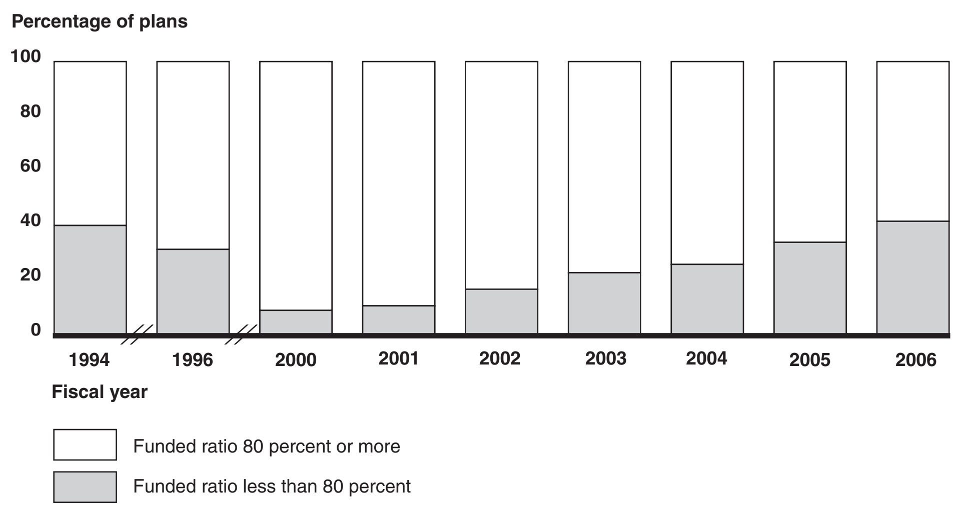
To view the full product, including the scope and methodology, click on GAO-08-983T. For more information, contact Barbara Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov.

What GAO Found

State and local entities typically provide pension plans with defined benefits and a supplemental defined contribution plan for voluntary savings. Most states still have traditional defined benefit plans as the primary retirement plans for their workers. However, a couple of states have adopted defined contribution and other plans as their primary plan. State and local entities typically offer tax-deferred supplemental voluntary plans to encourage workers to save. State statutes and local ordinances protect and manage pension benefit and often include explicit protections, such as provisions stating that pensions promised to public employees cannot be eliminated or diminished. In addition, state constitutions and/or statutes often require pension plans to be managed as trust funds and overseen by boards of trustees.

Most state and local government pension plans have enough invested resources set aside to fund the benefits they are scheduled to pay over the next several decades. Many experts consider a funded ratio (actuarial value of assets divided by actuarial accrued liabilities) of about 80 percent or better to be sound for government pensions. We found that 58 percent of 65 large pension plans were funded to that level in 2006, a decrease since 2000 when about 90 percent of plans were so funded. Low funded ratios would eventually require the government employer to improve funding, for example, by reducing benefits or by increasing contributions. However, pension benefits are generally not at risk in the near term because current assets and new contributions may be sufficient to pay benefits for several years. Still, many governments have often contributed less than the amount needed to improve or maintain funded ratios. Low contributions raise concerns about the future funded status.

Percentage of State and Local Government Pension Plans with Funded Ratios above or below 80 Percent



Source: GAO analysis of PFS, PENDAT data.