

## State and local government pension plans

Many private sector companies have abandoned traditional pension plans and replaced them with defined contribution plans, putting much of the burden for retirement saving on individual workers. State and local governments are now facing various strains on their traditional pension plans and they will have to find ways to deal with these difficulties.

As economist Richard H. Mattoon describes in a recent issue of the Federal Reserve Bank of Chicago's *Economic Perspective*, the challenges include, "unfavorable demographics, low interest rates that increased the present value of liabilities, declining investment returns from the stock market, and swelling ranks of pension benefit claimants." Another factor that Mattoon mentions is that pension obligations of State and local governments are typically protected by legal clauses that guarantee future payouts for existing workers.

Mattoon does report some good news: of the largest State and local pension funds, many of them are in "reasonable fiscal condition." The funded ratios (actuarial assets divided by actuarial liabilities) exceeded 90 percent for 6 of the 10 biggest State funds in 2004. But there is quite a bit of variation across States, and even within States, with regard to funding status. Some plans have ratios below 70 percent and some even dip below 50 percent.

Some States and local governments have developed new pension plans in response to funding problems. Mattoon cites Alaska, Michigan, and the District of Columbia as examples; they currently offer new hires only a defined contribution plan. Some

other governments are offering hybrid systems that involve combining defined benefit and defined contribution plans. More plans may be heading towards structural redesign. As Mattoon states, "Expanded use of defined contribution plans and a general move to shift risk to the beneficiaries appear to be trends."

## Information technology employment in the San Francisco area

"The more things change, the more they stay the same." This proverb could be used to describe employment in information technology (IT) within the San Francisco area. For instance, the composition of IT employment has changed considerably since the San Francisco area became the IT leader in the early 1990s. Yet, during that time, the San Francisco area's share of the Nation's IT employment has been consistently larger than any other metropolitan area's share.

In recent decades, goods-producing sectors (such as manufacturing) have experienced job losses, but service-providing sectors have recorded job gains. IT employment, which includes both manufacturing and service-providing jobs, has experienced the same shift. This has occurred in San Francisco and in other leading IT areas.

By the 1990s, San Francisco had a strong presence in IT manufacturing. In 1995, approximately 75 percent of San Francisco IT jobs were in manufacturing, with the remainder in IT services. By 2006, the distribution of employment between IT manufacturing and IT services in the Bay area was much closer to 50–50. Nationwide, this distribution was close to 50–50

in 1995. Since that time, the share of IT employment in manufacturing in the United States has declined, while that in IT services has increased.

What IT workers did on the job changed from making hardware to providing software and other computer-related services. But while this change was occurring, the share of the Nation's IT jobs located in San Francisco was remarkably consistent. It ranged between 7 percent to 9 percent over the 1990–2006 period, always higher than any other area.

About 8 percent of the Nation's IT employment was in the San Francisco area during most of the 1990s. The area's share rose to 9 percent in 2000. Since then, it has leveled off at 7 percent.

Over the 1990–2006 period, the share of the Nation's IT employment has decreased in Los Angeles and Boston; Los Angeles maintained its second-place ranking in IT employment during the period despite its share decrease, whereas Boston fell from third to fourth. Shares of IT employment have risen in Washington, DC, and Seattle; Washington, DC moved from fourth to third and Seattle maintained its fifth-place ranking.

To learn more, see "Trends in Bay Area IT Employment" (*Economic Newsletter*, Federal Reserve Bank of San Francisco, August 3, 2007) by Lily Hsueh.

We are interested in your feedback on this column. Please let us know what you have found most interesting and what essential readings we may have missed. Write to: Executive Editor, *Monthly Labor Review*, Bureau of Labor Statistics, Washington, DC 20212, or e-mail, [mlr@bls.gov](mailto:mlr@bls.gov)