

America's Public Retirement Plans [Stresses in the System]

Sujit M. CanagaRetna
Senior Fiscal Analyst
Southern Legislative Conference

© Copyright October 2004
Southern Office
The Council of State Governments

P.O. Box 98129
Atlanta, Georgia 30359
404/633-1866
www.slccatalanta.org

Colleen Cousineau, Executive Director

Contents

Introduction	2
Chapter 1: History and Origins of Public Sector Retirement Systems	5
Table 1: Government vs. Non-government Securities Split in Public Retirement System Portfolios	6
Public and Private Sector Pension Plans: Major Differences	6
Table 2: Characteristics of Employer Pension Plans	7
Types of Public Sector Retirement Systems	8
Administering Retirement Systems in the Public Sector	10
Chapter 2: Sources of Retirement Income: Social Security, Private Savings and Corporate Pension Plans	11
Social Security	11
Table 3: CBO’s and the Social Security Trustees’ Long-term Economic Assumptions.....	13
Personal Savings	13
Table 4: Personal Savings Rate and Disposable Income	14
Figure 1: Personal Savings as a Percent of Disposable Income	14
Table 5: Homeownership Rates as a Percent of Total Households	15
Corporate Pension Plans	15
Chapter 3: Economic and Fiscal Variables Influencing Public Sector Retirement Systems	20
GDP Growth.....	20
Table 6: Percent Change From Preceding Period in Real GDP and Other Key Economic Indicators.....	21
Unemployment Trends	22
Table 7: National Unemployment Levels.....	22
Figure 2: National Unemployment Rate	22
Federal Budget	23
Table 8: Federal Budget Deficit/Surplus as a Percent of GDP	23
Consumer Confidence	24
Figure 3: Index of Consumer Sentiment	24
Energy Prices	25
Figure 4: Regular Gasoline Prices: Nominal and Real.....	25
Interest Rates.....	25
Figure 5: Federal Funds Rate	26
Equity Markets.....	26
Table 9: Dow Jones Industrial Average	28
Table 10: Significant Milestones: NASDAQ Composite Index Records.....	28
Figure 6: S&P 500 Index.....	29
Figure 7: Russell 2000 Index.....	30
Figure 8: National Unemployment Rate	31
Table 11: Average Annual Unemployment Rate by State	31
Table 12: Year-Over-Year Change in Quarterly State Tax Revenue.....	32
Chapter 4: Analysis of Federal Government Data on Public Sector Retirement Systems	33
State and Local Government Retirement Plan Trends	33
Table 13: National Summary of State and Local Government Employee Retirement System Finances.....	34
Table 14: State and Local Government Employee Retirement System Finances Composition of Cash and Investment Holdings by Percent	35
Figure 9: Selected Investment Types: State and Local Government Retirement Systems	36
Table 15: State and Local Government Employee Retirement System Finances Breakdown of Total Receipts and Payments by Amount	37
Figure 10: Receipts and Payments	38
Table 16: Number and Membership in State and Local Government Employee Retirement Plans	38
Figure 11: Changes in Membership Profile: State and Local Government Retirement Plans	39
Table 17: Number and Membership of State and Local Government Employee Retirement Systems	40
Table 18: Cash and Investment Holdings of State and Local Government Employee Retirement Systems	42
Table 19: Securities as a Percent of Total Cash & Investment Holdings	44
Table 20: Percentage Breakdown of Government Securities vs. Non-government Securities	45

Revenues of State and Local Government Employee Retirement Systems.....	46
Table 21: Revenues for State and Local Government Retirement Systems.....	47
Table 22: Revenues of State and Local Government Retirement Systems Percentage Differences in Selected Criteria	49
Expenditures of State and Local Government Employee Retirement Systems	50
Table 23: State and Local Government Retirement System Expenditures.....	50
Table 24: Percentage Differences in Total Payments, Total Receipts and Benefits	51
Chapter 5: Analysis of Information in The Council of State Governments' Southern Office Survey	52
Analysis of Information in CSG Survey	52
Table 25: Five Plans with Lowest and Highest Market Value of Assets	53
Table 26: Five Plans with Lowest and Highest Annuitants as a Percentage of Actives	54
Table 27: Five Plans with Lowest and Highest Actuarial Funding Ratio.....	55
Table 28: Five Plans with Highest and Lowest Actuarial Unfunded Liability or Surplus Amount	56
Public Sector Retirement Plan News from Across the Country.....	56
Alabama.....	56
Arkansas	57
California.....	58
Connecticut.....	59
Florida	59
Georgia	59
Illinois.....	60
Kansas	60
Louisiana	60
Maine.....	62
Maryland	63
Mississippi.....	64
New York.....	64
North Carolina.....	65
Oregon.....	66
Pennsylvania.....	66
South Carolina.....	66
Figure 12: South Carolina Retirement System, Plan Net Assets.....	67
Tennessee.....	67
Texas.....	68
Virginia	69
West Virginia	69
Wisconsin	70
Conclusion	71
Policy Options and Considerations	73
Methodology	75
Appendices	
Appendix A: Survey Device.....	78
Appendix B: Cash and Investment Holdings of State and Local Government Employee Retirement Systems.....	80
Appendix C: Revenues for State and Local Government Retirement Systems	83
Appendix D: State and Local Government Retirement System Expenditures.....	86
Appendix E: Market Value of Assets	89
Appendix F: Annuitants as a Percentage of Actives.....	92
Appendix G: Actuarial Funding Ratio.....	95
Appendix H: Actuarial Unfunded Liability or Surplus Amount	97
Endnotes	99