Pew report: US unfunded public pension liabilities hit $1 trillion

George Gallanis
20 July 2015

State and local public pension funds were underfunded by more than $1 trillion in 2013, a $54 billion increase from the year before, according to a report issued Tuesday by The Pew Charitable Trusts. The pension shortfall is the result of decades of underfunding by state and local governments, even as they have offered billions of dollars in tax handouts to big business.

The pension obligations of all US states totaled $3.4 trillion, of which $968 billion were unfunded, according to the report. This total hits over $1 trillion when combined with unfunded local pension obligations. States such as Illinois and Kentucky ranked last in pension funding, with Illinois only funding 39 percent of its pension obligations.

Many states were unable to meet their annual required contribution (ARC), which is the annual amount of money an employer must contribute for a pension to be considered fully funded. The ARC for 2013 was $92 billion, yet states only contributed $74 billion, an $18 billion dollar shortfall. Only 24 states were able to contribute at least 95 percent of their determined ARC.

The pension shortfall for all states is expected to remain around $1 trillion in the coming years. Preliminary data for 2014 already suggests the pension deficit for all states to be above $900 billion.

While the 2008 crash significantly worsened the pensions crisis, the underfunding of pensions has been ongoing for decades. As noted by the Pew report, "The recession exacerbated the challenges—but many states entered the recent downturn with fundamental weaknesses in their retirement systems that stemmed from earlier mistakes and decisions."

The report further notes that, "The gap between the pension benefits that state governments have promised workers and the funding to pay for them remains significant." It adds, "Many states have enacted reforms in recent years and have benefited from strong investment returns. But investment returns are uncertain, and government sponsors in many states have continued to fall short of making recommended contributions in 2013."

In other words, state and local governments, led by big business politicians, have systematically starved pension funds of cash for decades, based on the claim that there is "no money" to properly fund them. This has taken place even as these same politicians have given billions of dollars in state and local funds to major corporations in the form of tax abatements as incentives.

Having created the pension funding crisis, politicians nationwide are using the underfunded state of pensions as a pretense to slash workers' pension benefits, even under conditions when they are protected by state constitutions.

The Detroit bankruptcy, which began in July of 2013 and concluded last November, laid the ground for an unprecedented attack against workers' pensions. The bankruptcy resulted in the slashing of most Detroit retirees' pensions by 4.5 percent, together with the elimination of health insurance benefits.

This has been followed by Democratic politicians in California proposing an amendment that would remove the protection of public employee pensions from the state's constitution. In June, a bill was passed by the Pennsylvania senate that allows for the slashing of benefits for current workers and the elimination of defined-benefit pensions for new workers.

In Illinois, Republican Governor Bruce Rauner has introduced legislation to dramatically reduce wages and pensions of Illinois state workers. In Chicago, public school teachers are faced with paying the entire cost of their pensions out of pocket.

Meanwhile, the White House has been leading the assault on pensions at the federal level. Passed by Congress last December, legislation now grants multiemployer pension plans the ability to cut benefits of current retirees, which was previously forbidden under federal law. In June, the White House unveiled a plan that would allow multiemployer pension funds to impose benefit cuts on retirees even if they vote down benefit cuts.