Discussion:
Developing More-Realistic Analysis of the Interplay Between Public-Pension Finances and Governmental Finances

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Yin and Boyd (2018) show that pension contribution requirements grow when governments have the least revenue.

- Sponsors are more vulnerable to pension pressures when they rely on an income tax rather than a sales tax.

- Funding policies that amortize unfunded liabilities over a long horizon shift risk from current governments to future taxpayers and pension members.
The analysis highlights the increasingly procyclical nature of pension assets.

Asset volatility stems from risky investments, most recently in alternatives.

Source: Author’s calculations from *Public Plans Database*, 2001-2015.
Pension assets now follow the same path as government revenue.

Growth in Pension Assets and Own-Source Revenue, 1996-2015

Yet, funded ratios are not improving even when the economy performs well.

One reason is that sponsors have not paid the full ARC since the late 1990s.

Sponsors also viewed low costs in the late 1990s as a chance to enhance benefits.

Number of State and Local Pensions Enhancing Benefits, 1999-2007

Source: Author’s calculations from the National Conference of State Legislatures’s Pension Database (1999-2007).
The enhancements increased total liabilities immediately.

Two subsequent recessions prompted a wave of cuts, but state statutes protected current members.

Number of Benefit Cuts by Type of Employee Affected, 2009-2014

Source: Author’s calculations from various AVs and CAFRs, 2009-2014.
As a result, required contributions are at their highest levels since the early 1990s.

Contributions Relative to Own-Source Revenue, 1993-2015

Sources: Author’s calculations from the U.S. Census Bureau’s Employee Retirement Systems Database (1993-2015); and the Public Plans Database (1993-2015).
Conclusion

• Heavy investment in risky assets leads to counter-cyclical funding requirements.

• Yin and Boyd (2018) present a novel finding that states reliant on income tax revenue are most at risk of cyclical stress.

• Considerations for future work:
  o Adding alternative investments to the model.
  o Relaxing the assumption that sponsors pay the full ARC.
  o Allowing pension liabilities to react to economic conditions.