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

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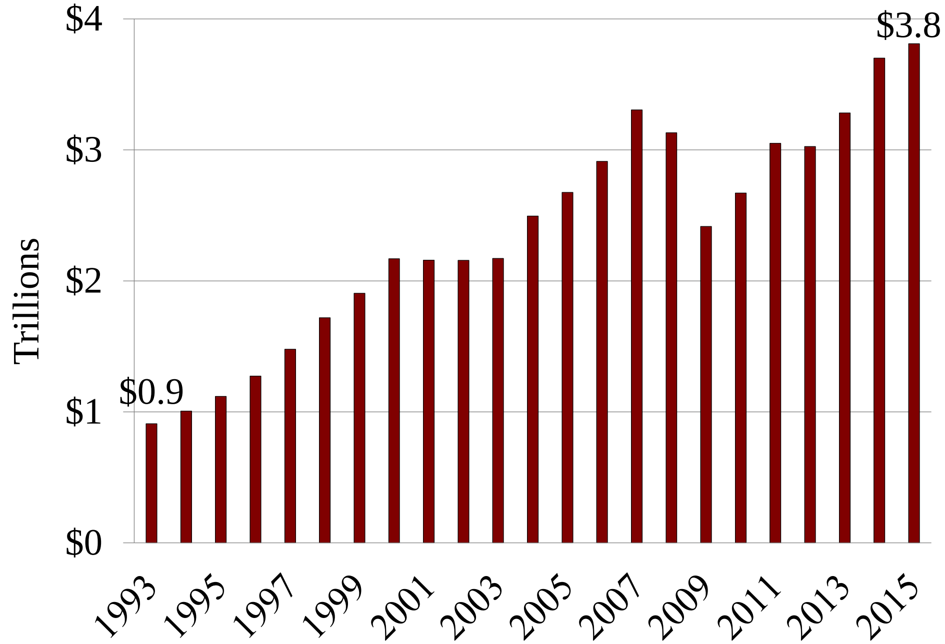
Yin and Boyd (2018) show that pension contribution requirements grow when governments have the least revenue.

- 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.

Assets in State and Local Pension Funds, 1993-2015



Source: the U.S. Census Bureau's *Employee Retirement Systems Dataset*, 1993-2015.

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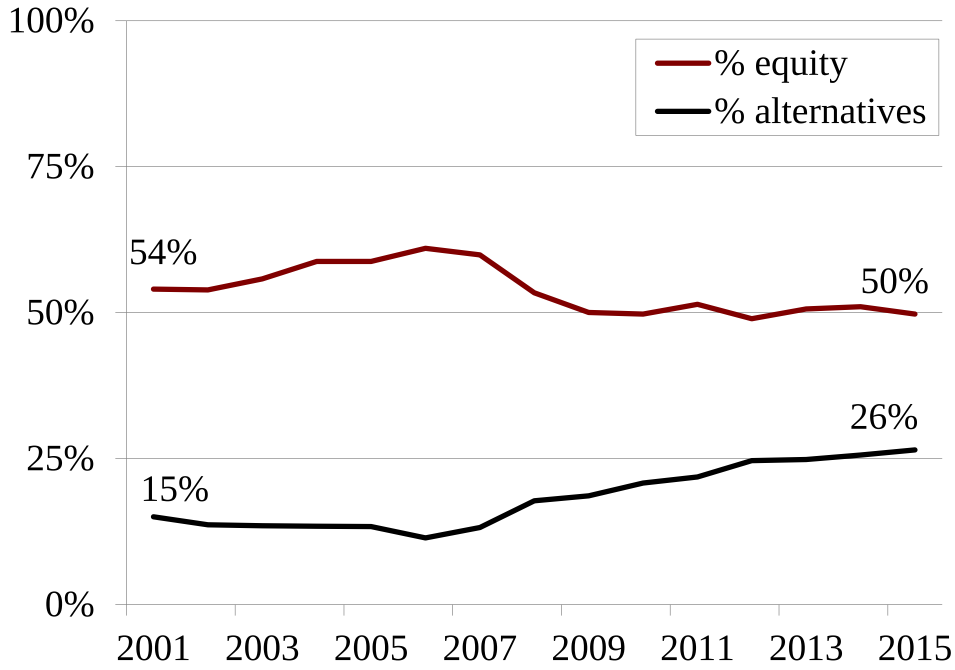
Asset volatility stems from risky investments, most recently in alternatives.

Percentage of Assets Invested in Equity and Alternatives, 2001-2015



Source: Author's calculations from *Public Plans Database*, 2001-2015.

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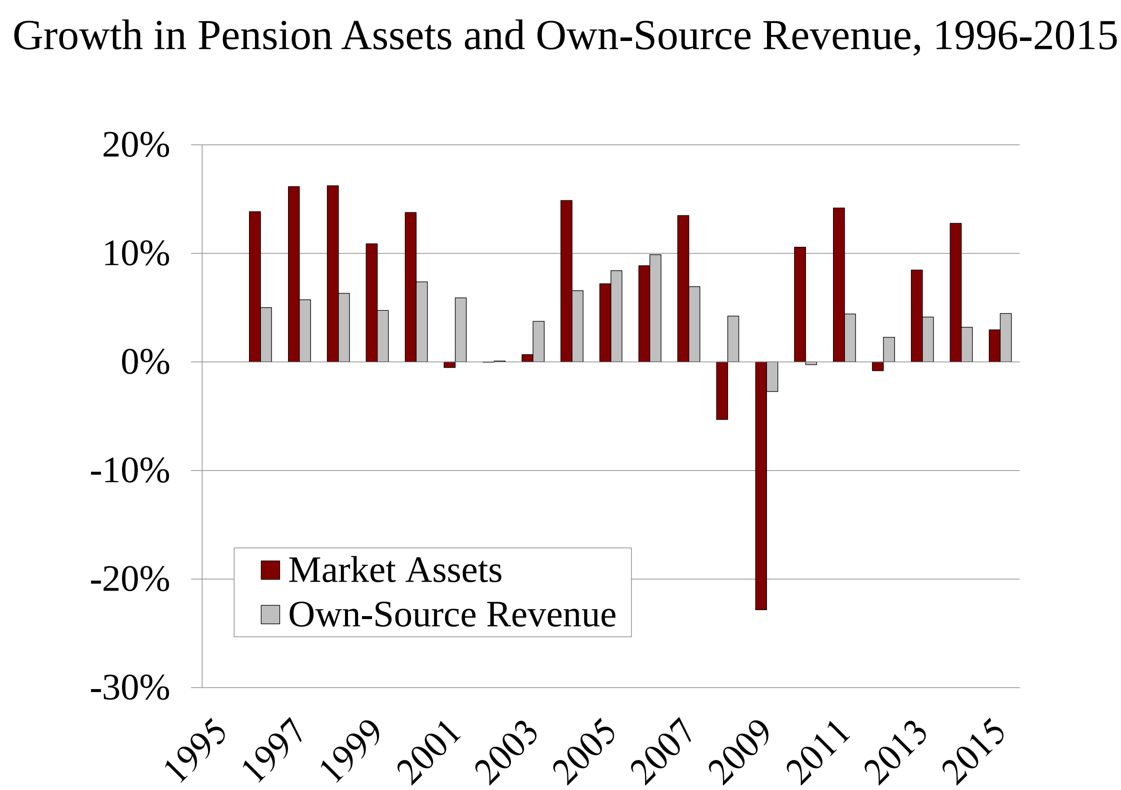
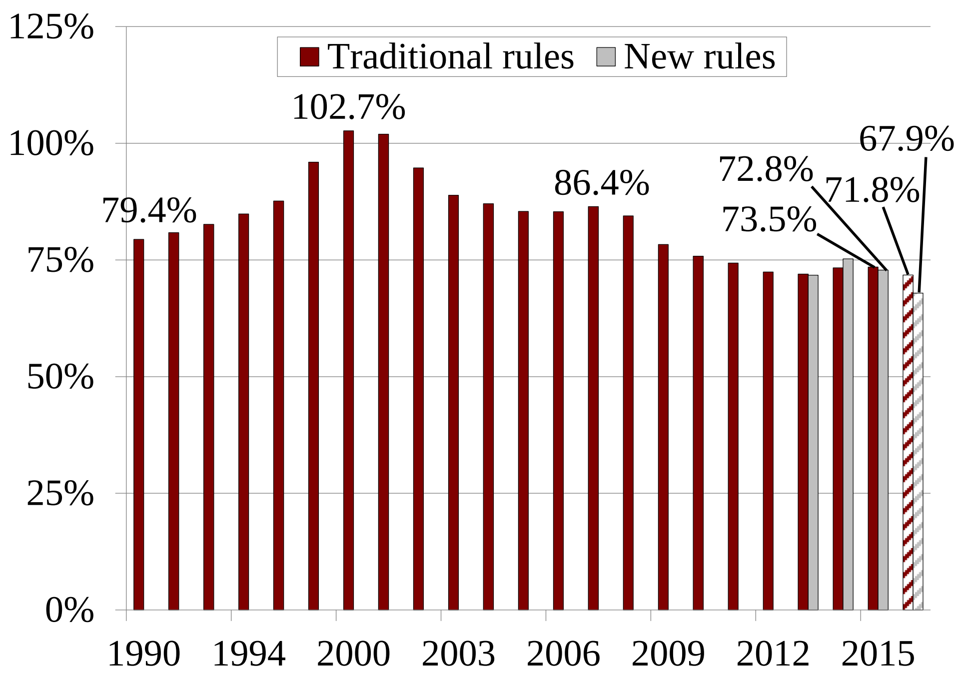
Pension assets now follow the same path as government revenue.



Sources: Author's calculations from the U.S. Census Bureau's *Employee Retirement Systems Database (*1995-2015) and *Government Finance Database* (1995-2015).

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

State and Local Pension Funded Ratios, FY 1990-2016



Source: Jean-Pierre Aubry, Caroline V. Crawford, and Alicia H. Munnell. 2017. "State and Local Pension Plan Funding Sputters in FY 2016." *State and Local Plans Issue in Brief* 56. Center for Retirement Research at Boston College.

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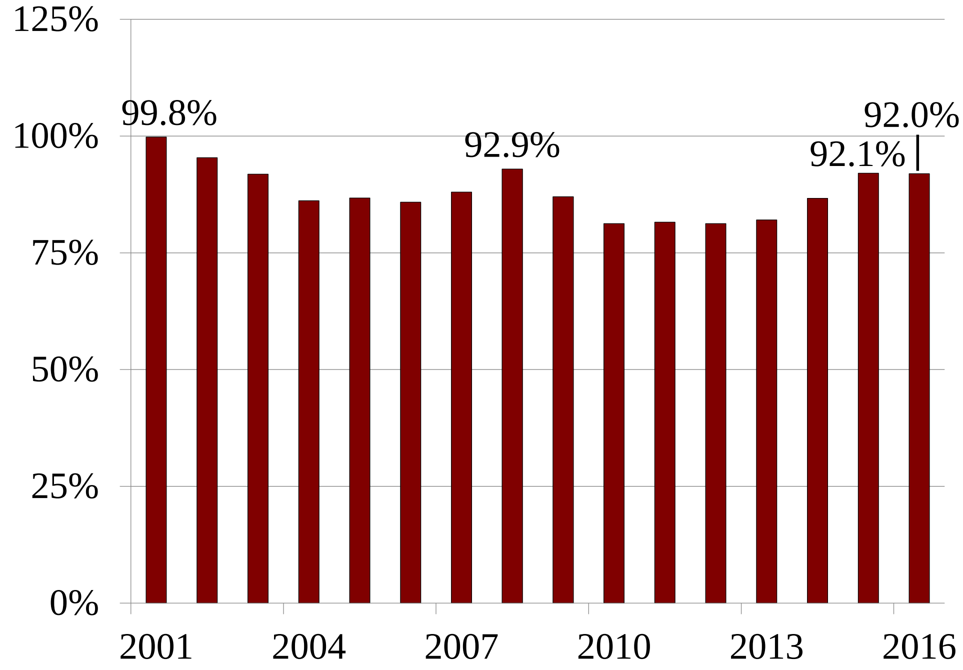
One reason is that sponsors have not paid the full ARC since the late 1990s.

Percentage of Aggregate Required Contribution Paid, FY 2001-2016



Source: Jean-Pierre Aubry, Caroline V. Crawford, and Alicia H. Munnell. 2017. "State and Local Pension Plan Funding Sputters in FY 2016." *State and Local Plans Issue in Brief* 56. Center for Retirement Research at Boston College.

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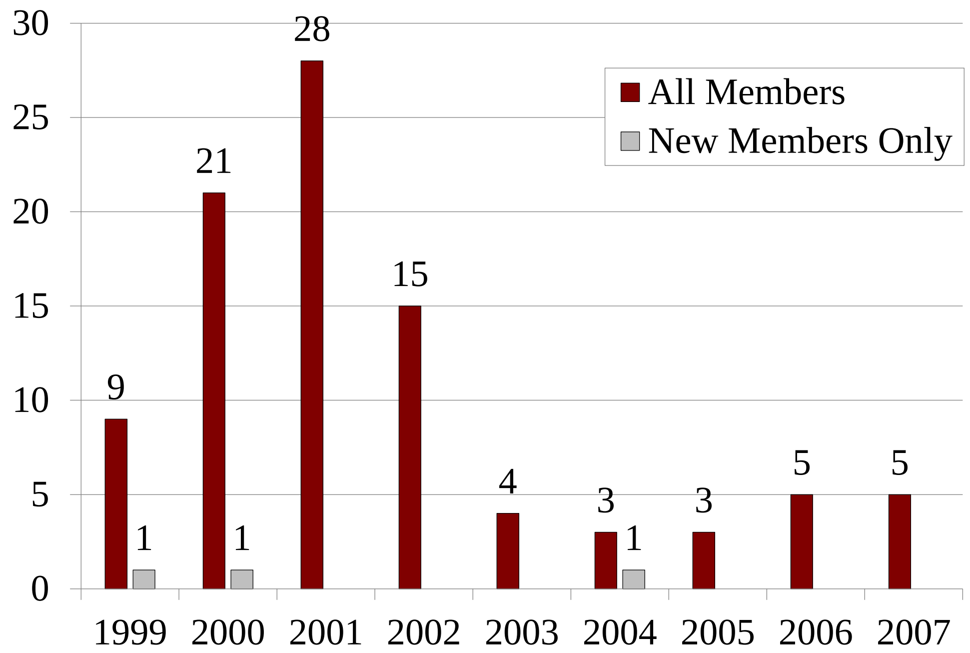
Sponsors also viewed low costs in the late 1990s as a chance to enhance benefits.

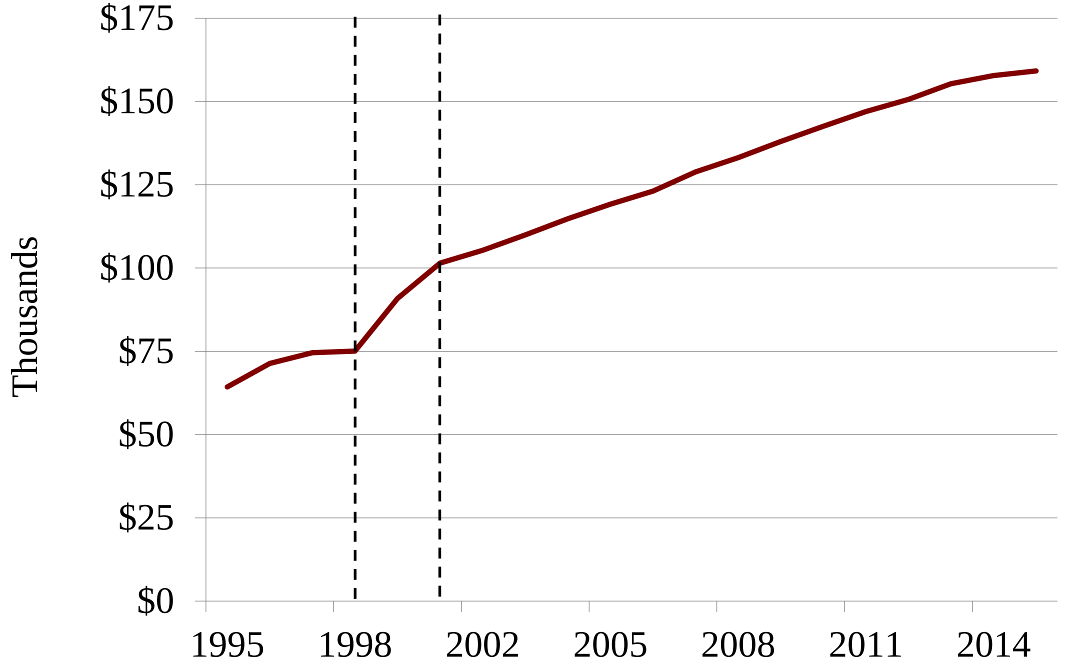
Number of State and Local Pensions Enhancing Benefits, 1999-2007



Source: Author's calculations from the National Conference of State Legislatures's *Pension Database* (1999-2007).

The enhancements increased total liabilities immediately.

Total Liabilities per Member, 1995-2015



Sources: Author's calculations from Paul Zorn. 1990-2000. *Survey of State and Local Government Retirement Systems: Survey Report for Members of the Public Pension Coordinating Council*. Government Finance Officers Association; and *Public Plans Database* (2001-2015).

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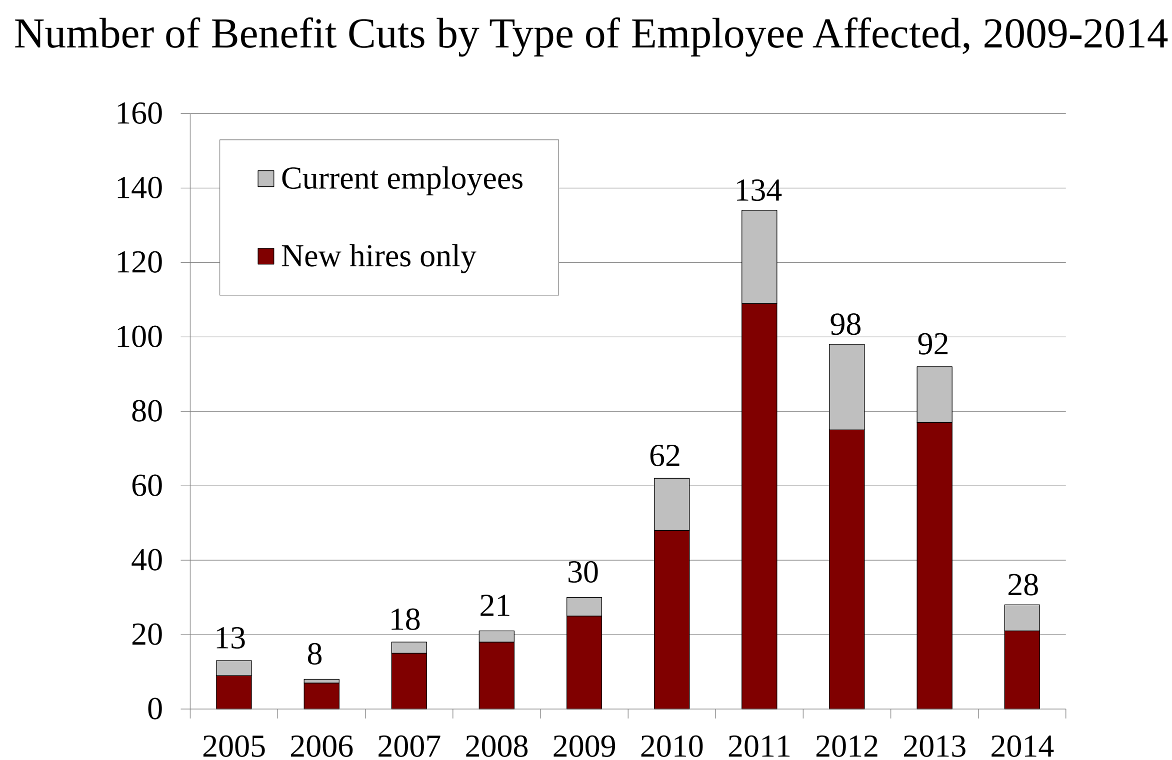
Two subsequent recessions prompted a wave of cuts, but state statutes protected current members.



Source: Author's calculations from various AVs and CAFRs, 2009-2014.

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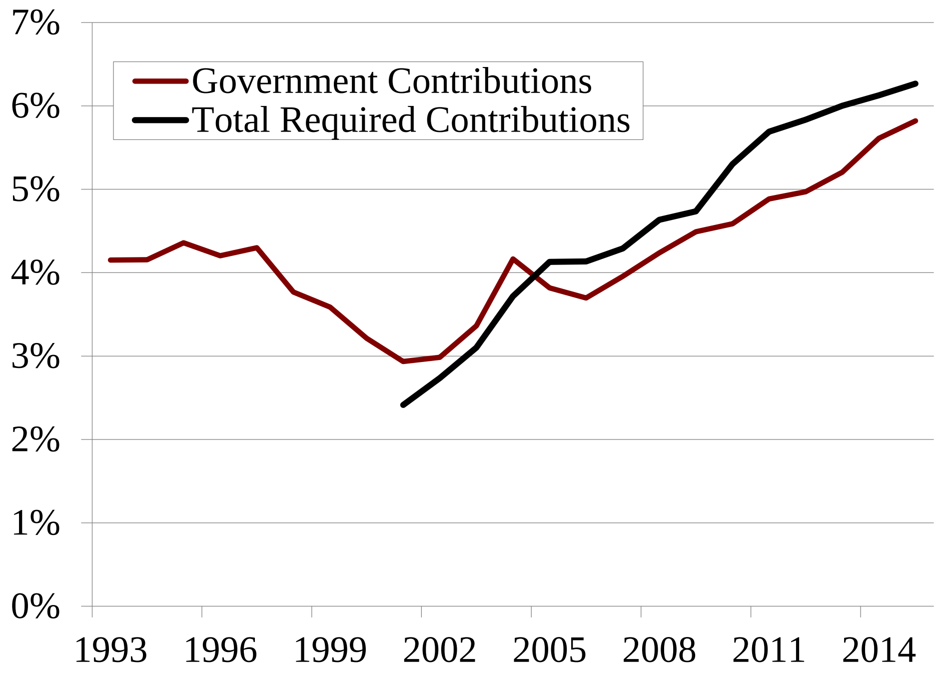
As a result, required contributions are at their highest levels since the early 1990s.

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:
    - Adding alternative investments to the model.
    - Relaxing the assumption that sponsors pay the full ARC.
    - Allowing pension liabilities to react to economic conditions.