Public pensions are not a drag: Study

By Editorial Staff   *Thu, May 7, 2020*

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Public pension funds generating $179.4 billion more in state and local government revenues than taxpayers put in 2018, according to a biennial study by the National Conference on Public Employee Retirement Systems.

Public pensions' financial impact rose 30.6% from $137.3 billion in 2016, according to a new study, "Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk." The 2020 edition of the study builds on NCPERS' 2018 analysis of how investment and spending connected to pension funds affects state and local economies and revenues.

The analysis draws on historical data from public sources including the U.S. Census Bureau, Bureau of Economic Analysis, and Bureau of Labor Statistics. While pension fund assets are invested globally, the economic impact of these investments can be traced down to individual states based on the NCPERS study methodology.

"If public pensions didn't exist, policy makers would need to increase taxes on their constituents to sustain the current level of public services," said Michael Kahn, NCPERS's research director and the study's architect. He noted that in 40 states, pensions were net contributors to revenue in 2018, an increase from 38 states in 2016.

The original Unintended Consequences study in 2018 examined how state economies and tax revenues are affected when pension funds invest their assets and retirees spend their pension checks, and how taxpayer contributions compare to revenues, said Hank H. Kim, executive director and counsel of NCPERS.

"Pensions are often cast as a pawn in political dramas over short-term spending," Kim said in the release. "This study underscores that breaking faith with public pensions is actually a costly strategy for state and local government. In the long-term, diminishing public pensions will backfire."

NCPERS's analysis of the data also showed:

The economy grows by $1,372 for each $1,000 of pension fund assets. The size of pension fund assets—$4.3 trillion in 2018—means that the impact of this growth is greatly magnified, the study found. Investment of public pension fund assets and spending of pension checks by retirees in their local communities contributed $1.7 trillion to the U.S. economy.

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Founded in 1941, the National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 500 funds throughout the United States and Canada with more than $4 trillion in pension assets.