




# The Public Pensions Crisis in the U.S.

## A GENEVA ASSOCIATION REPORT




### The threat of bankruptcy or other type of fiscal disruption



State and local retirement systems in the U.S. face a shortfall of more than a trillion dollars. The majority of states (34) have pension funding levels below 80 per cent. The states with the worst pension funding situation are Connecticut, Illinois, Kentucky and Rhode Island, all below 55 per cent. This situation threatens the financial viability of many municipalities, with Detroit already declared bankrupt in 2013.




### Policy choices and fiscal discipline



The shortfall in retirement funding is due to policy choices and lack of fiscal discipline, in particular: a failure to make annual required payments for pension systems at recommended levels, and promising needed and desirable benefits without properly accounting for them.




### Should the federal government step in?



While extensive involvement of the federal government may be disturbing to some decision-makers, research shows that the secondary effects of fiscal problems of states and cities fall upon the entire nation, in particular through the delocalisation of businesses to offshore sites and resultant unemployment.



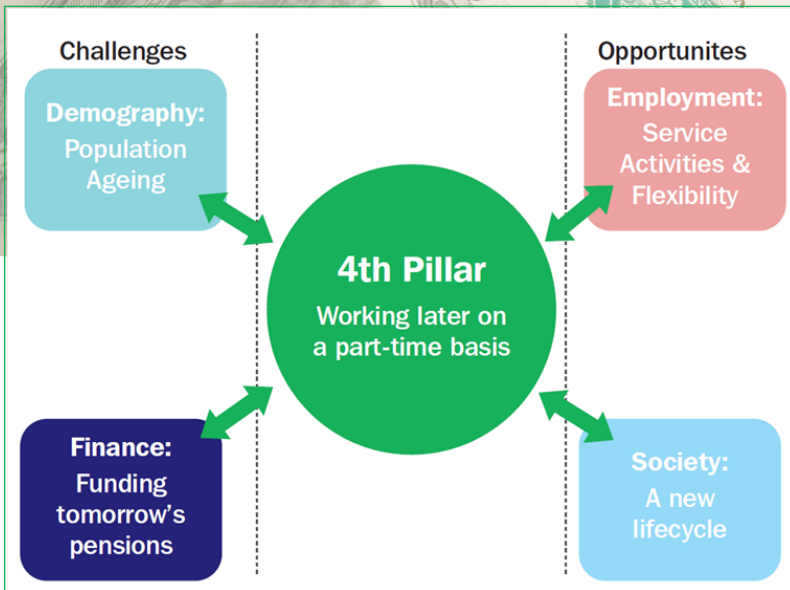
### A four-pillar structure to sound pension planning



For more than 25 years The Geneva Association has advocated a four-pillar structure to stable and secure retirement funding: social security, a universal public system of pensions; occupational pensions provided by employees under government supervision; savings, where individuals invest for their own retirement using financial intermediaries such as private insurance companies; and continued employment, with the reduction or even removal of barriers to the partial employment of retirees.

### A four-pillar imbalance

In the U.S., pension systems of states, cities and other municipalities are separate from Social Security, meaning employees have no first pillar, and state and local governments have to fund effectively two pillars of retirement. Furthermore, government employees generally have not have income levels sufficient to create a sizeable third pillar of savings, and public sector workers have been traditionally precluded from seeking any form of continued employment.



### Human capital as an asset, the fourth pillar as a hedge against longevity risk

The human capital potential of retirees is far greater than commonly acknowledged. Increasing longevity is only a threat to the financial sustainability of government finances if it comes with no increase in the length of time during which human capital is viable. This requires an alignment of incentives between policy-makers, employers and individuals.

### Real reform

Solutions will not come from financial operations but from reform that lowers or eliminates bankruptcy costs, encourages better governance of the pension plans, and provides pension managers with a better understanding of longevity risks and asset management.