G A O
Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-322, a report to congressional requesters

Why GAO Did This Study

Over 27 million employees and beneficiaries are covered by state and local government pension plans. However, the recent economic downturn and associated budget challenges confronting state and local governments pose some questions as to the sustainability of these plans, and what changes, if any, state and local governments are making to strengthen the financial condition of their pension plans. GAO was asked to examine

(1) recent trends in the financial condition of state and local government pension plans and

(2) strategies state and local governments are using to manage pension costs and the impacts of these strategies on plans, sponsors, employees, and retirees.

To address these topics, GAO analyzed various measures of sector-wide financial condition based on national-level data on pension funding from the U.S. Census Bureau and others, and reviewed information on recent state legislative changes affecting government pensions from annual reports prepared by the National Conference of State Legislatures (NCSL). GAO did not assess the soundness of individual plans, but did obtain documents and conduct interviews with pension and budget officials in eight states and eight localities, selected to illustrate the range of strategies being implemented to meet current and future pension funding requirement.

The Internal Revenue Service and Social Security Administration provided technical comments, which were incorporated, as appropriate.

View GAO-12-322. For more information, contact Barbara D. Bovbjerg at (202) 512-7215 or bovbjergb@gao.gov, or Stanley J. Czerwinski at (202) 512-6806 or czerwinskis@gao.gov.

March 2012

STATE AND LOCAL GOVERNMENT PENSION PLANS

Economic Downturn Spurs Efforts to Address Costs and Sustainability

What GAO Found

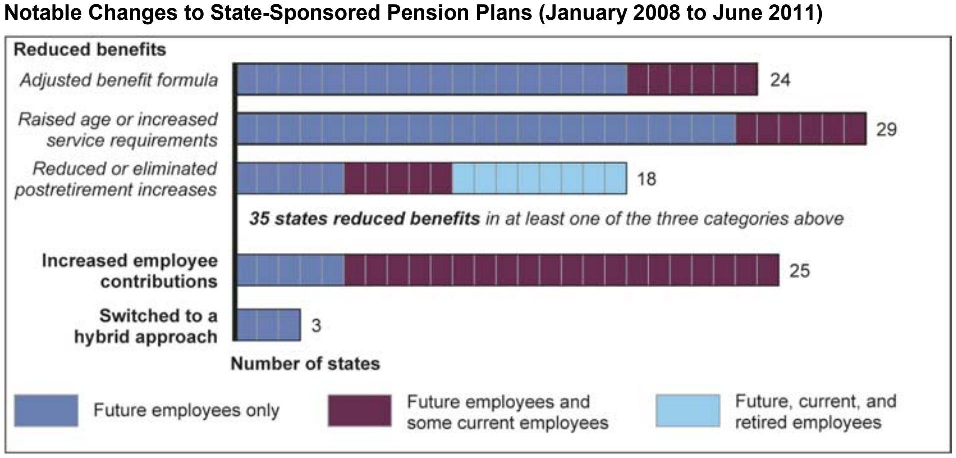
Despite the recent economic downturn, most large state and local government pension plans have assets sufficient to cover benefit payments to retirees for a decade or more. However, pension plans still face challenges over the long term due to the gap between assets and liabilities. In the past, some plan sponsors have not made adequate plan contributions or have granted unfunded benefit increases, and many suffered from investment losses during the economic downturn. The resulting gap between asset values and projected liabilities has led to steady increases in the actuarially required contribution levels needed to help sustain pension plans at the same time state and local governments face other fiscal pressures.

Since 2008, the combination of fiscal pressures and increasing contribution requirements has spurred many states and localities to take action to strengthen the financial condition of their plans for the long term, often packaging multiple changes together. GAO's tabulation of recent state legislative changes reported by NCSL and review of reforms in selected sites revealed the following:

- **Reducing benefits:** 35 states have reduced pension benefits, mostly for future employees due to legal provisions protecting benefits for current employees and retirees. A few states, like Colorado, have reduced postretirement benefit increases for all members and beneficiaries of their pension plans.
- **Increasing member contributions:** Half of the states have increased member contributions, thereby shifting a larger share of pension costs to employees.
- **Switching to a hybrid approach:** Georgia, Michigan, and Utah recently implemented hybrid approaches, which incorporate a defined contribution plan component, shifting some investment risk to employees.

At the same time, some states and localities have also adjusted their funding practices to help manage pension contribution requirements in the short term by changing actuarial methods, deferring contributions, or issuing bonds, actions that may increase future pension costs. Going forward, growing budget pressures will continue to challenge state and local governments' abilities to provide adequate contributions to help sustain their pension plans.

Notable Changes to State-Sponsored Pension Plans (January 2008 to June 2011)



Source: GAO analysis of annual NCSL reports.