Chapter 8

The Changing Environment of State and Local Government Public Pensions

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CONTENTS

Pensions are an integral part of the compensation system for public sector employees. Conceptually the model for pensions for government employment fits the traditional ideal of public service long-term protected employment with conservative salary increases tied to seniority and tenure. This concept for pensions is termed "defined benefit" as a specific annual payment is determined based on an employees years of service and salary levels and paid to the employee as a retiree for the remainder of his or her life. In terms of incentives, public workers are financially motivated to stay in the same system because their postretirement compensation would usually be based in large part on the average salary they obtained in the last several years of employment. This has been especially true at state and local government levels where compensation levels are negotiated through collective bargaining arrangements that have generally precluded strikes and work stoppages.

Ironically, traditional state and local government convention now stands in strong contrast to the American private sector and the federal government (and increasingly other countries). Since the 1980s, corporate and federal systems in and outside the U.S. have moved to a "defined contribution" model where organizational and employee contributions are set aside into an investment account and interest is not taxed until payment after retirement. Defined contribution is the dominant mode over 90 percent of private sector employees in retirement plans. (Gale et al. 2005) There are of course numerous "hybrid plans" that blend defined contribution and defined benefit. The most prevalent is called cash balance in which the defined benefit payment is calculated and tied to a fixed rate of return. Retirees generally cash out of these organizational accounts and take their balance as a lump sum distribution. A fourth benefit model used extensively in the private sector is a stock ownership plan in which employees are given stock options or awards in the corporation. These plans are rather more controversial these days. The poster child model—Microsoft which at one point in its early days had the largest number of millionaires among its workforce based on their stock plan accumulations (and stock value)—being replaced by Enron where employees lost everything in the bankruptcy and resulting valueless stock.

Although each pension system has its plus and minuses, defined benefit has one bottom-line requirement—that the organization (governmental or private) has invested adequate reserves to pay the pension benefits for its retirees. Budget requirements are annually determined (and reported) that assess the difference between current reserves and what will be needed for the future payouts as "unfunded pension liabilities." So current estimates show the following anomaly. (Spiotto 2006) Pension systems for public sector workers which are less than 10 percent of the U.S. workforce have an estimated $750 billion of unfunded pension liabilities. Private sector unfunded pension liabilities (covering over 80 percent of the workforce have only estimated $450 billion. Although there are serious pension funding issues in some private sector industries, most notably automotive and telecom companies (Ford and General Motors alone have over 60 billion in unfunded pension liabilities alone [Matton 2006]), the movement toward defined contribution systems for most of the private sector is the real causal factor for the statistic noted above.

This overview of state and local public pension issues is more an advance than a review. It will largely focus on two core issues. First, can state and local governments cope with the unfunded pension liability issues that have emerged in the twenty-first century and somewhat related to that—the even more contentious issue of other post employment benefits (OPEB) mainly providing healthcare insurance for retirees. The second core issue is whether state and local public pensions will remain as the last bastion of defined benefit systems or migrate to defined contribution. Closely linked to that issue is the effect on the future workforce in state and local government in terms of mobility and retention.

This advance will not provide any form of comprehensive assessment about state and local pension systems—their governance, system mechanics, funding structures, and plan designs. There is a fair amount of existing work that covers trends and infrastructure numbers for public pension systems. (Hustead and Mitchell 2001; Cayer 2003; Kearney AQ1 2003; Reddick and Coggburn 2007). Likewise, there are numerous periodic surveys that well illustrate the current state of public pensions. (Wilshire 2004; U.S. Census Reports 2005). The primary contention here is that state and local pensions will strategically AQ2 move over the next decade further along the defined benefit-contribution continuum towards the private sector and the federal government. This movement will have significant political and economic consequences, but it will come.

It is also important to note from the outset that even the idea of drawing any general conclusion about state and local public pensions is statistically daunting. This is because there are over 2500 state and local retirement systems in the U.S. covering 18 million plus members with about a third currently receiving periodic benefit payments. Table 8.1 below, the most current system census data available from the U.S. Census, shows the diversity of systems that constitute the whole. In terms of assets, AQ3

8.1 A Haunting Prophecy

> *Our review of the public pension arena at the threshold of the 21st century finds a generally robust, well-funded, and reasonably well managed pension environment. Notwithstanding this positive assessment, many challenges remain for the future. The ageing and more mobile workforce will exacerbate pressures to make changes such as replacing defined benefit plans with hybrid or defined contribution plans. It would also be painful if there were a substantial and long-term economic downturn. Pension funding ratios are quite healthy at present- but this is partly a result of strong stock returns- which may not persist in the future.*
>
> **Edwin C Hustead and Olivia S Mitchell**
>
> **Pension Research Council—The Wharton School (2001)**

AQ4

Table 8.1 Number and Membership of State and Local Government Employment Retirement Systems Fiscal year 2004–2005

State and Type of Local Government	*Number of Systems*	*Membership (Total)*	*Membership (Active)*	*Membership (Inactive)*	*Total Beneficiaries Receiving Periodic Payments*
United States (all)	2,656	18,012,078	14,193,043	3,819,035	6,946,309
State	222	16,207,122	12,569,872	3,637,250	5,846,393
Local (total)	2434	1,804,956	1,623,171	181,785	1,099,916
County	161	527,196	464,832	62,364	249,727
Municipality	1749	1,100,725	1,002,889	97,836	754,523
Township	401	36,998	34,632	2,366	21,248
Special district	110	53,430	48,266	5,164	29,861
School district	13	86,607	72,552	14,055	44,557

Source: U.S. Census 2005.

Seldom has an assessment covered with seemingly only a few caveats so quickly come to pass. As the above review in 2001 by the Pension Research Council warns, the average 100 percent full funding of pension liability for state and local government quickly evaporated. Three years later, the Wilshire Report on state retirement systems would find that of the more than 125 separate state retirement systems it surveyed, 93 percent would be under funded, up from 79 percent in 2002 and 51 percent in 2001. Average under funding of all plans would have a ratio of assets to liabilities equal to 77 percent. (Spiotto 2006). More troubling still 14 states—Colorado, Connecticut, Delaware, Hawaii, Illinois, Indiana, Louisiana, Maine, Massachusetts, Mississippi, New Hampshire, Oklahoma, Rhode Island, and West Virginia—had pension plan under funding ratios fall below 70 percent (West Virginia the lowest at 40 percent). The magnitude of unfounded pension liabilities can be daunting. As Wilshire reported in 2004, 16 states had unfunded liabilities that exceeded the state's total budget. (Wilshire Research 2004) AQ5

Before discussing how this rapid turnabout occurred, it is important to note that levels of unfunded pension liability at state and local levels have fluctuated greatly over the past 30 years. According to a recent Standard & Poor's report average funding ratio has grown and declined over time, as reflected in the figures noted below:

Funding Percentage of Total Pension AQ6

Period	*Liabilities* (percent)*
Mid 1970s	50
1990	80
2000	100
2003	77

Source: Standard & Poor's, Research: Managing State Pension Liabilities: A Growing Credit Concern, Jan 2006.

The astute business reader will note that the most probable cause for this variation is the performance of the U.S. stock market. That is basically what occurred at the state and local level in the last decade. Following the recession in 1991–1993, state and local governments were able to expand their workforces, keep public salaries and budgets (even reduce tax levels) in line, and limit—in some cases even reduce—their funding contributions to pension funds because of stock market boom. When the stock market crashed after 2001 followed by recession, the entire strategy came down like a house of cards.

One other factor should be included for context—changes in state and local employment numbers. Using the annual employment numbers from governing, Table 8.2 shows average rates of growth of state and local employees over the last

Table 8.2 Change in State and Local Government Employment (1997–2006)

	1997–2002 (Percent)	*2002–2007 (Percent)*
State government employees	+7.0	+2.5
Local government employees	+12.5	+4.8
Selected states with below 70 percent pension funding liability		
Colorado	+13.5	+2.7
Connecticut	+4.1	–5.8
Delaware	+9.6	+8.6
Hawaii	+23.4	+2.9
Illinois	+2.7	–9.4
Indiana	–2.0	+3.8
Louisiana	+0.5	–0.7
Maine	+10.4	–0.7
Massachusetts	+8.3	+0.6
Mississippi	+18.5	–2.1
New Hampshire	+3.8	+3.8
Oklahoma	+6.4	+3.0
Rhode Island	+1.2	–4.4
West Virginia	+6.0	–1.7

Source: Employment Trends from Sourcebook.governing.com. AQ7

decade and for comparison purposes—how the 14 states with the highest levels of unfunded pension liability coped, or rather dramatically shifted, for the most part—their employment strategies over the decade.

The issue to be decided here is whether the current state of affairs is a simple stock market adjustment or a real situation where public pension and healthcare liabilities have morphed into a full blown budget insolvency epidemic. Put in its simplest terms—is it merely a "incident" likened to a hangover due to the stock market decline in 2000–2001 wrecking some poorly timed financial strategies of expecting over performing investment yields to make up for under funding public pensions? Or is it something much more serious—potentially a "situation" where state and local governments are facing the cumulative consequences of past compensation bargaining policies of providing large future pension and healthcare benefits in exchange for smaller salary increases and the demographics of the workforce is really what is pushing governments into potential fiscal insolvency, or what some analysts call, "pension deficit disorder" (O'Grady 2007).

Further complicating the situation, potentially on an exponential scale are new requirements that state and local governments now account for other post employment benefits (OPEB) primarily healthcare insurance. As of December 2006, new Government Accounting Standards Board standards (Nos. 43 and 45) go into effect which require that all state and local governments must show in their annual (audited) fiscal statements healthcare expenses and future liabilities. In addition, GASB stipulates that governments must shift from a pay as you go system for healthcare to one that estimates and funds future costs. The Government Accounting Standards Board issued these new requirements for two reasons. First, these types of benefits which GASB defines as health insurance coverage for retirees and their families, dental insurance, life insurance and term care coverage (Note the requirements don't include one time termination benefits such as accrued sick leave and vacation) have been increasing in cost as healthcare costs have dramatically escalated in the United States. And because most government entities fund OPEB on a pay as you go basis, the real cost burden is shifted to the future as life spans increase. Unlike pension fund obligations, most government entities do not make OPEB investments on some form of pre-funding basis.

Little wonder, analysts like Rick Matton of the Chicago Federal Reserve Bank call OPEB the "800 pound gorilla in the room." Matton aptly sums up the predicament to be faced by state and local governments when they square up to the brave new world of GASB 43 and 45."

> *Estimating the total OPEB liability is an accounting nightmare. Unlike pensions where actuarial estimates can be at least somewhat understood, OPEB requires making guesses about things like health care and prescription drug inflation and utilization. One estimate suggests the unfunded liability is around $700 billion, but this is a back of the envelope guess. Other estimates suggest that OPEB exposure could range from five to ten times current outlays for retiree health care.*
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> *Managing OPEB costs is tricky. In most cases, retiree health care is not a contractual responsibility like pensions. It is a voluntary benefit offered by the employer. However where it is a contractual responsibility, the ability to require retiree contributions, increase co-pays or cut benefit coverage is limited. Where retiree health insurance can be modified, a concern is*

> *that when these liabilities are reported, some governments may choose to abandon or significantly reduce coverage, forcing the federal government to serve as the health care insurer of last resort.* (*Matton 2007*)

Although this assessment will focus exclusively on pension systems, the future effect of the potential cost of pensions and healthcare liability for public employees is a significant factor. When headline media stories report how healthcare liabilities are critical challenges affecting corporate competitiveness in the U.S. auto industry, there is a fall-out effect on public sector systems. Increasingly, what is becoming apparent to government pension managers and union leaders is a potential shift in public sentiment about benefits for public sector workers.

At a Chicago Federal Reserve Board Forum (Chicago Fed Letter, May 2006) this was cast in very stark terms. As Michael Moskow, the President and CEO of the Chicago Federal Reserve Bank has pointed out—not only are public pensions not subject to ERISA (Employment Retirement Income Security Act) which has allowed governments to offer increased pension benefits without setting aside commensurate funding, "but 90 percent of public pensions are still defined benefit plans, and many of them include cost of living increases that increase liabilities even further." The contrast becomes very marked when compared to the private sector where only 11 percent of corporations offer defined benefit.

8.2 Pension Deficit Disorder—Four Scenarios for the Future

How will state and local governments cope? As a means to a selective assessment that can show different paths, four scenarios are outlined here based on an actual state or city's recent response. Each of these scenarios is developed briefly, using media reporting. Space precludes developing any type of real case study, but because the objective is to illustrate a range of scenarios, they do show actual examples of political and fiscal response to pension reform.

8.2.1 Legislative Absolution—The Oregon Scenario

One political scenario is to terminate a defined benefit and convert it to defined contribution through state legislation. This legislated change of a system crafts a financial rescue plan to clear fiscal liability issues and bypasses collective bargaining entirely. Oregon in 2003 is the classic example of how this conversion can be done. (O'Keefe 2006) After changing benefit calculations and demographic assumptions for current employees, legislation was passed that prevented new employees from going into the defined benefit system. The state then issued $2 billion in pension obligation bonds to cover the funding for the system for old employees. Basically, over time, of course, defined benefit pensions in Oregon will be phased out in favor of a hybrid defined benefit-contribution system. Pension bonds effectively convert a potential liability to a current one, although it should be pointed out that the state still is factoring into its financing strategy investing bond proceeds. Another difference with this type of pension bond is that these are not tax exempt bonds and thus not quite the attractive investment that most state and local government bonds are.

Another variation of legislative absolution is through voter proposition. California governor Schwarzenegger tried this in 2004 at considerable risk with a voter referendum that would have moved California state employees to defined contribution. Facing heavy opposition by the public unions, the voters rejected the effort. There were a number of political factors involved that complicated the vote, including the fact that a real nexus between California's budget crises (then) and state pension liabilities was never firmly established. It is unfortunately the case that significant change politically is hard to achieve without a visible crises or burning platform to compel action.

8.2.2 Fiscal Meltdown—The San Diego Scenario

Although states can not declare bankruptcy, many municipal governments can. (Of course governments can repudiate debt) At the far end of the political spectrum here, but not alone, is the City of San Diego which faced a 1.4 billion dollar budget deficit for funding of its pension fund. (Walsh 2006, Spiotto). San Diego had criminal charges levied at its officials for not only deliberately under funding pensions, but illegally concealing the fact that it had two billion in unfunded pension liabilities. Although San Diego must figure out how to raise the funding it needs to meet its pension liabilities, it must do so without having access to the public bond markets, which it can't do until it has a certified audited financial statement. But fiscal meltdown is a solution—the taxpayers of San Diego, just those of Orange County a decade ago, will have to solve first its fiscal deficit, either by cuts in expenditures (decreasing city services and employees) or raising taxes. The second part will then be a mixture of reducing or containing retirement liabilities and then issuing bonds (once their financial credibility is restored) to close the gap between required assets and future obligations.

8.2.3 Workforce Compartmentalization—The Chicago Scenario

The first two scenarios involve changing retirement assets and liabilities within the system. Another model is to change the mix of the workforce. Chicago is the classic example—it is buying, rather selling its way, out of its projected eight billion pension deficit. First up was the sale of a city toll road (privatization) to a multinational infrastructure management corporation of 1.8 billion (Financial Times, July 11, 2006). Chicago also is intending to sell Midway airport, several waste disposal plants, parking garages, among others. A portion of the proceeds go to cover the pension deficit and of course, by getting out of "businesses"—defined as any city enterprise that generates cash flow, current, and future city employees are shed. Chicago's compartmentalization scenario assumes that governments will only carry employees that are part of core, essential, inherently government services, ensure that their pension and benefits are fully funded and while still relying on a defined benefit system—be totally transparent in the city budget.

Workforce compartmentalization does not preclude any of the other strategies for reducing or containing retirement liabilities or issuing bonds to lock in assets to meet future obligations. It also makes clear to public unions and taxpayers its commitment to a smaller core workforce even if it means foreswearing more entrepreneurial government activities and shedding employees.

8.2.4 Labor Management "Smackdown"—The New York City Scenario

New York City represents a fourth scenario, where pension and healthcare benefits are increasingly a part of the city's strategy for union negotiations (Cooper 2006; Walsh 2006). The front end of the strategy is for the city to ask for concessions on health insurance and pensions in the form of increased contributions from employees. At the back end are more structural reforms to include raising the retirement age to qualify for a full pension among current employees and limiting benefits for new employees. The city for its part will move the funding issues from simply one of showing percentage of pension funds that are fully funded to one that shows the city's pension contribution as a percentage of workers salaries.

Such a strategy will surely lead to increased tension and confrontation between city officials and unions. Unions will claim betrayal and insist that all past settlements are off the table. The 2005 short transit strike before the holidays in New York City (Greenhouse 2005) was supposedly triggered by attempts to include that even in the talks. Efforts by city officials to lower retirement liabilities and provide less generous benefits will be labeled "cramdowns." Whether city officials in New York or in any city or state will want to continue pursue this type of confrontation strategy will also hinge on levels of political support by unions and party affiliations.

Two other factors should be mentioned in closing this section on government scenarios. The first is a significant change in media attention and attitude. Although public sector employees and their unions talk about their commitment to defined benefit systems and pension obligations, they see solutions centering on simply raising taxes and modernizing tax bases. As Hank Scheff of AFSCME notes, the larger issue is how to pay public employees, and pay for public services. Tax structures are antiquated, tax bases are too narrow and rates too flat. From the union perspective, it's not just pension systems that aren't getting funded, but public services as a whole. (Scheff 2006).

But attempting to dismiss current pension issues as a series of "exceptions" would miss the fact that the media attention devoted to this issue has increasingly changed the tone of the debate about a $700 billion dollar future liability problem to one about the need for much broader public sector pension reform. Thus far the media have had some interesting stories to focus on in New York, San Diego, Illinois, New Jersey, and others. But the tone is that states and cities have made deals that they cannot pay for and some form of radical reform is essential. As an example, *The New York Times* covered pension reform in a three story series in August of 2006 but handled the coverage more like investigative reporting of back room political deals. (Cooper and Walsh 2006). When this type of media attention rolls over into front page stories in U.S. Today (Cauchon 2007) that report how much more favorable public sector benefits are than what typical workers receive, there are implications for future support. This type of article is also starting to appear on healthcare coverage for public sector employees (Walsh 2007).

A second factor is a legal development that may also offer a different track for change. In the summer of 2006, a federal appellate panel reversed a 2003 court ruling that IBM's major change of its pension system discriminated against older workers. (Walsh 2006) The essence of IBM's solution was to switch employees from a length of service pension based plan to a "cash-balance" system. Although workers keep their defined benefit system, the pension is earned in equal amounts over their tenure at IBM, rather than the number of years of seniority and their "high three" i.e., the average of the three final years of service. Obviously, this type of change would take dead aim at the seniority advantage and neutralize the attraction of staying in only one system. Although the cash-balance approach covered here has been primarily a legal issue involving age discrimination complaints, the debate may now shift to more economic and political grounds.

This IBM factor, for want of a better term, also aligns with a major shift in how employment benefits have evolved over the past two decades. Table 8.3 illustrates this development.

The basic categories of what organizations offer employees to support recruitment and retention are as listed above—retirement, healthcare, and more intangible benefits revolving around work life issues. The traditional benefits package of a pension, healthcare coverage, and paid sick leave and vacation has become both more diverse and elaborate. Benefits packages today offer a myriad of options and choices. But what is more significant is that many of the options—such as deferred compensation, health savings accounts, thrift savings plans, and now training and education accounts—are based on an individual ownership model. The organization no longer simply pays a benefit or offers a service at a group cost. Many of the benefits are tied to accounts which are "owned" by the employee, reported on periodically, and are portable in that they go with the employee should they chose to leave the organization. In short, increasingly benefits in organizations are moving further along the defined contributions continuum.

Table 8.3 The Evolution of Employee Benefits

Category	*Traditional*	*Modern-Range of Choices*
Retirement income	Defined benefit pension	Defined benefit
		Hybrid (cash balance)
	Payroll savings plans	Defined contribution
		Deferred compensation
		Employee savings plan
Medical and insurance	Healthcare life insurance	Health insurance (medical, dental, etc.)
	Disability/workers compensation	Health savings accounts
		E.A.P.
		Fitness programs
Quality of work life	Sick leave	Subsidized transit and parking
	Paid vacation	Flexi-time
		Flexi-place (work at home)
		Subsidized meals
		Frequent flyer accounts
		Web site accounts
		Concierge services
		Training and education accounts
Other		Flexible benefit plans

8.3 New Workers in Old Systems–Old Workers in New Systems

This fits the new ideal of the modern worker portable benefits to match a portable career. That being said, it is too soon to tell what the public sector workforce of the future will value. Partly this is because public workforces since 1985 have become more white-collar, older, and more concentrated in highly skilled occupations. Using the federal government as the example, MSPB has reported that in 1985, about 25 percent of the federal workforce was over age 50. By 2001, the comparable figure was almost 40 percent. In comparison nearly three-quarters of the federal workforce is over age 40 while only about half of all employed workers in the United States are.

More importantly, federal workforce surveys continually show the significance of benefits programs to workforce retention. In the 2000 USMP Merit Principles survey—easily the most trusted and comprehensive survey of the federal workforce—employees were asked to rank the top factors for leaving or staying.

Factors to leave	*Factors to stay*
Better use of skills and abilities	Federal benefit programs
Increased opportunities to advance	Job security
Desire to earn more money	Current job duties
Lack of recognition	Pay compared to private sector
Improve opportunities for training	Current working schedule

Source: U.S. MSPB, 2000 Merit Principles Survey.

Although there are some age difference, the rankings hold up remarkably well across all age brackets.

	Top Factors for Retention	*All*	*Under 40*	*40–49*	*Over 50*
1	Federal benefit programs	90.5	88.7	88.9	91.0
2	Job security	85.2	81.5	87.2	91.5

Source: U.S. MSPB, 2000 Merit Principles Survey.

Whether these numbers would apply to state and local government employees is another issue, but the point remains that the new model of worker touted in the private sector has yet to reach critical mass in the public sector. Everyone accepts that the baby boomers will retire (although predictions of the mass exodus forecast annually over the past decade and a half have not yet been realized) and that the next generation of workforce will have different ideals and motivations. How this will affect the movement towards defined contribution systems is still unclear, much less government human resource management strategies for recruitment, development, and retention.

Perhaps a better way of forecasting the prospects for change over the next decade in the state and local pension arena is to create a stakeholders diagram. Table 8.4 attempts this. It highlights five principal stakeholders and their designated agents or representatives. For example, in the case of state and local employees, their viewpoints are important but they are represented by their unions which negotiate benefit goals and pursue specific retirement strategies.

Table 8.4 Public Pension Arena: The Stakeholders

Stakeholder	*Agent/Representative*	*Preferred Strategy (Political/Economic)*
Employee	Union/employee professional association	Maximize payments-PCT of salary paid in retirement
Elected executive officials	Appointed budget and HRM managers	Optimal public support for current budget-trade off long-term for short-term stability
Legislative representatives	Committee chairs and party leaders	Optimal Government spending and revenue solutions—for re-election and constituency approval
Pension fund board trustees	Pension fund investment managers	Maximize long-term investment capability and sometimes use weight of fund for social ends
Taxpayers	Key business and interest groups auditors	Accountability—highest services for taxes paid—fair wage for employees
Creditors (bond holders)	Credit agencies and financial	Highest credit rating for government minimize credit risk minimize credit risk

Less obvious is the operating strategy for each of the stakeholders as expressed in the actions and reaction of their agents. The most obvious conflicts are between unions and elected officials and pension fund managers and creditors. In the past, compromises that worked traded off short-term concessions from unions that kept budgets in balance without resorting to tax increases in exchange for long-term gains in benefits that might be realized by successful investments or at least would be payable in someone else's term of office or management. Furthermore, less transparency about future obligations aided this process.

And that is precisely why current reporting on pension funding liability and soon OPEB via GASB 43 and 45 is so significant. State and Local governments will first report their numbers and in the process of getting audited financial statements have to reveal their assumptions and projection methods. As Matton rightly points out it is, especially for healthcare liabilities, a potential financial mess of contradictions and adjustments. However, transparency will over time create consistency, if not rationality. The auditing community will complete this task, since as past financial disasters have show, they are just as liable as fund managers and city officials.

This is not to say that it will come easy. Several states are resisting the GASB requirements on the grounds that the financial consequences are too severe for an area like healthcare liability which is not all that understood. The Texas legislature passed a bill (HB 2365) basically exempting its major cities from GASB 43 and 45 if they deemed it appropriate (Walsh 2007), which Governor Rick Perry signed into law on June 15. The state of Connecticut was also considering even harsher legislation.

Perhaps that's the real benefit of a stakeholder's diagram. Reform, as opposed to simple refinancing initiatives will come, sooner than later, because the old routes for bargaining and negotiation without considering the long-term consequences will be cut off. In all likelihood, many state and local systems will be able to maintain their defined benefit systems if they choose or move towards a hybrid system such as cash balance. But keeping a defined benefit system will require a much higher level of fiscal discipline than what was practiced in the twentieth century. As state and local governments watch their older workforces depart, the pressures (fiscal competitiveness, at best unsympathetic media and public reaction, and increasing awareness public sector benefits are at odds with private and nonprofit benefit programs) will mount.

As governments and workers and unions try to reconcile appropriate reward systems with tough fiscal choices, they will have to recognize that what is at stake is the real future of the public service. For all the talk about pay for performance in the modern public service, pension and health benefits are its real soul. Nowhere is this more relevant that the states and local governments in the United States.

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If the Pension Bomb Stops Ticking, What Happens Next?
James E. Spiotto
Chapman and Cutler LLP
Recommendations to Reform Public Pension Boards of Trustees in Illinois
Lise Valentine
Research Director, The Civic Federation

Author Queries

AQ 1: The reference "Mitchell and Hustead, 2001" has been updated as the list. Please check.

AQ 2: The reference "U.S. Census Reports 2005 is not cited in the list. Please check.

AQ 3: The sentence is incomplete. Please check.

AQ 4: Kindly provide the details of the source in Table 8.1.

AQ 5: The reference "Wilshire 2004" has been updated as per the list. Please check.

AQ 6: Please provide the explanation for "*"

AQ 7: Please provide the details for the source in Table 8.2.