Myths and Realities about State and Local Pensions
from *State and Local Pensions: What Now?*

Myth: Most state and local pensions are in crisis.
Reality: While plans were thrown seriously off course by the twin market downturns of the past decade, their finances have begun to stabilize, and most now face a manageable challenge.

Myth: Public sector unions are responsible for today's pension shortfalls.
Reality: It is impossible to find a link between a plan's generosity or funding level and the strength of unions.

Myth: The high discount rates that plans use to value future benefits explain the shortfalls.
Reality: Discount rates do not explain funding levels either. Pension funding is simply a story of fiscal discipline – developing a reasonable plan and sticking to it.

Myth: Plans should always use a riskless rate of return to discount obligations.
Reality: A riskless rate is appropriate for reporting purposes, but not for guiding investment or contribution decisions.

Myth: State and local pensions are busting government budgets.
Reality: In 2009, overall pension contributions were 4.6 percent of total state and local revenues; this share will rise to 5.1 percent if plans realize their assumed returns.

Myth: Public workers are overpaid compared to their private sector counterparts.
Reality: State/local and private sector workers, on average, receive about the same in total compensation, with public workers' lower wages roughly offset by higher benefits. Higher-paid public workers get less than their private sector counterparts while lower-paid workers get more.

Myth: States and localities should switch to a 401(k).
Reality: Both types of plans have strengths and weaknesses. Private sector experience suggests a full switch to 401(k)s would be a major mistake, but some blend of traditional pensions and 401(k)s could spread financial risk and balance the interests of short- and long-tenure workers.

Myth: Plans should try to improve their funding status by investing more in equities.
Reality: Overall, plans have two-thirds of their investments in risky assets, and this level is imprudently high.

Myth: State and local governments can't cut benefits for current workers.
Reality: Most jurisdictions have more leeway than commonly thought, depending on how the courts define the nature of their employment contracts with public workers.

Myth: Fixing pensions is too difficult politically.
Reality: Many states and localities have recently raised employee contributions, reduced benefits, and/or cut cost-of-living adjustments. Some troubled states, like Rhode Island, have enacted sweeping reforms that equitably share the burdens among employees, retirees, and taxpayers. Fairness is the key to a comprehensive solution.

Alicia H. Munnell. 2012. *State and Local Pensions: What Now?* Brookings Institution Press.