



Missouri's Pension System Must Change

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When it comes to state pensions in Missouri and bad news, the hits just keep on coming.

Last week, Bellwether Education Partners reported that Missouri is one of only 10 states currently spending more on public employee retirement programs than on higher education. You read that right. We spend more on pensions for public employees than we do for all of our state's public colleges and universities.

Just a few days later, the *St. Louis Post-Dispatch* reported that the state treasurer was revising downward the expected rates of return for the money in the state's pensions systems to adjust to slower growth in the stock market. This means the funds themselves are even more underfunded than we thought and may need huge infusions of tax dollars to meet their obligations to the state's workers.

Add this news to what we already know about pensions, and the full, dismal picture emerges. Remember, teachers in PSRS, the state's main teacher pension system, must spend at least 28 years paying into the system before their retirement earnings will exceed what they contributed while working. Sixty-five percent of Missouri teachers will not hit that mark and will be net losers in the system. In addition, state pension funds are investing in increasingly risky investments in order to chase higher returns.

What more do we need to know before we push for change?

Most public employees in Missouri belong to what are known as *defined-benefit* pension plans.

These guarantee a pensioner a specific amount of money every year for the duration of their retirement. In most cases, the amount these plans pay out to retirees is not based on how much money an employee has contributed, but rather on a formula that only takes into account a few years of service. For teachers in PSRS, only the three highest consecutive years' salaries are used in retirement calculations. This allows individuals who get large pay increases in the final years of their careers to draw considerably more than they ever contributed into the retirement system.

In order to keep the promises Missouri makes to public employees through these plans, the state will face mounting pension obligations. In a recent paper for the Show-Me Institute, Andrew Biggs, resident scholar at the American Enterprise Institute, calculated Missouri's unfunded pension liabilities. Using standard methods from the Government Accounting Standards Board, the unfunded liabilities are nearly \$17 billion. Using more conservative estimates, the unfunded liabilities total between \$57 and \$89 billion depending on the means of calculation.

As liabilities grow, state support for pensions will have to grow as well, and funding for pensions has to come from somewhere. It may come from other public programs, such as higher education, or it may come from taxpayers. The debts we are incurring now will limit our ability to invest in the future of our students and our state. That is a recipe for neither growth nor prosperity.

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