



PUBLIC PENSION REFORM

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THE PROBLEM: Defined benefit (DB) pension plans promise employees annual payments for life upon retirement, but if a public plan does not have enough money to make these payments, taxpayers are legally bound to fund the difference. Nationwide, state-run public pension funds are underfunded by nearly \$1 trillion dollars.

THE SOLUTION: *Defined contribution plans.*

Defined contribution (DC) plans consist of employer/employee contributions into individual accounts—think 401(k)—which employees can manage as they see fit. Upon retirement, the funds are available to employees. DC plans fundamentally differ from DB plans in that they cannot incur unfunded liability (so taxpayers are not on the hook), they put investment decisions into the employee's hands, and they are transferable from one job to another.

WHO ELSE DOES IT? Public DC plans exist across the nation; states such as Michigan and Alaska offer DC plans for new state employees, while others such as Florida offer both DC and DB plans.

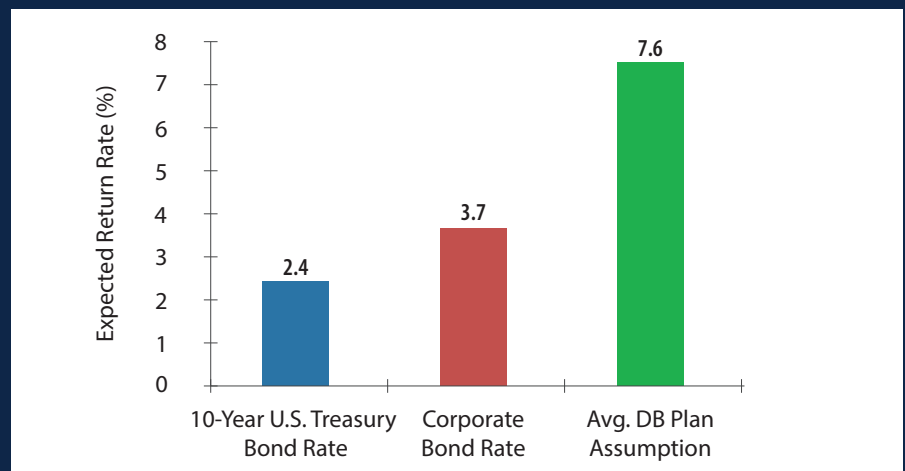
THE OPPORTUNITY: Pension reform offers a chance to stop the bleeding. DC plans cannot (by definition) incur unfunded liabilities. DC plans also offer employees a retirement account that they can manage themselves and take with them if they change jobs in the future.

KEY POINTS

- DC plans can protect Missouri from devastating budget shortfalls.

RATES OF RETURN: TREASURY AND CORPORATE BONDS VS. DEFINED-BENEFIT PLAN ASSUMPTIONS

Defined-benefit plans assume higher return rates than either Treasury bonds or corporate bonds.



Sources: IRS data; Citibank Pension Liability Index; Boston College Public Plans Database.

- When a DB plan's investment returns are below (sometimes unrealistic) assumptions, taxpayers can be forced to pay the cost.
- DC plans put investment decisions in the employee's hands and can be transferred from one job to another.
- Shifting to DC plans reduces the political incentive to overpromise when impacts won't be felt for years.

SHOW-ME INSTITUTE RESOURCES

Policy Study: "Public Employee Pensions in Missouri: A Looming Crisis"

Policy Study: "Missouri Transition Costs and Public Pension Reform"

Essay: "The Funding Status of State and Local Government Pensions in Missouri"