The Widening Gap: Pensions and Retiree Health Care
National Conference of State Legislatures
San Antonio, TX
The rise and fall of state revenues

Nationally, states’ tax revenues are 9 percent below peak levels. (First Q2011 compared to second Q2008, adjusted for inflation)

Source: Pew Center on the States, 2011
Red ink states

Over five years, states closed $480 billion in budget gaps. In FY 2012, 45 states had budget shortfalls.

$480 billion

Source: Pew Center on the States, 2011
The Widening Gap, 2009
For the first time since Pew began tracking public sector retirement obligations, the unfunded liabilities for pensions is larger than retiree health care and other benefits.

Pensions - $2.94 trillion
78 percent funded

OPEB - $635 billion
5 percent funded

Source: Pew Center on the States, 2011
States’ Public Sector Pensions 78% Funded in FY09

Thirty-one states were below the 80 percent funded threshold for a well-funded pension system.

Source: Pew Center on the States, 2011
States’ Retiree Health Benefits 5% Funded in FY09

Nineteen states had set aside no funds as of fiscal year 2009 to pay their bills coming due for retiree health care and other non-pension benefits. Only seven states had funded at least a quarter of their liability.

Percent of Liability Funded
- **50% and above**
- **0.1% to 49%**
- **0%**

Source: Pew Center on the States, 2011
A growing annual bill

The annual bill to fund all 50 states' pension obligations has risen 152 percent since 2000.

$ = In billions

Source: Pew Center on the States, 2011
## Mixed Picture: FY10 Data Show Investment Gains, Recession’s Legacy

For the 16 states for which fiscal year 2010 data are now available, the average pension funding level fell slightly to 75 percent from 77 percent the previous year.

*Figures are in thousands.*

<table>
<thead>
<tr>
<th>State</th>
<th>Pension liability FY10</th>
<th>Pension liability FY09</th>
<th>Pct. funded FY10</th>
<th>Pct. funded FY09</th>
<th>Required contribution FY10</th>
<th>Required contribution FY09</th>
<th>Pct. paid FY10</th>
<th>Pct. paid FY09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connecticut</td>
<td>$44,826,900</td>
<td>$41,311,400</td>
<td>53%</td>
<td>62%</td>
<td>$1,472,000</td>
<td>$1,307,200</td>
<td>87%</td>
<td>96%</td>
</tr>
<tr>
<td>Delaware</td>
<td>7,922,174</td>
<td>7,615,166</td>
<td>92</td>
<td>94</td>
<td>148,586</td>
<td>148,940</td>
<td>97</td>
<td>97</td>
</tr>
<tr>
<td>Florida</td>
<td>148,116,907</td>
<td>141,485,280</td>
<td>82</td>
<td>84</td>
<td>2,860,448</td>
<td>2,928,569</td>
<td>107</td>
<td>108</td>
</tr>
<tr>
<td>Idaho</td>
<td>12,513,200</td>
<td>12,057,500</td>
<td>79</td>
<td>74</td>
<td>262,100</td>
<td>235,626</td>
<td>114</td>
<td>132</td>
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<tr>
<td>Iowa</td>
<td>27,057,850</td>
<td>26,602,516</td>
<td>81</td>
<td>81</td>
<td>524,877</td>
<td>495,196</td>
<td>89</td>
<td>87</td>
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<tr>
<td>Kentucky</td>
<td>37,006,999</td>
<td>35,686,737</td>
<td>54</td>
<td>58</td>
<td>1,023,898</td>
<td>964,979</td>
<td>58</td>
<td>58</td>
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<tr>
<td>Louisiana</td>
<td>41,356,966</td>
<td>39,657,924</td>
<td>56</td>
<td>60</td>
<td>1,599,612</td>
<td>1,375,288</td>
<td>84</td>
<td>97</td>
</tr>
<tr>
<td>Maine</td>
<td>14,799,200</td>
<td>14,410,000</td>
<td>70</td>
<td>73</td>
<td>330,300</td>
<td>331,700</td>
<td>103</td>
<td>100</td>
</tr>
<tr>
<td>Maryland</td>
<td>54,498,265</td>
<td>53,054,565</td>
<td>64</td>
<td>65</td>
<td>1,544,873</td>
<td>1,338,342</td>
<td>87</td>
<td>84</td>
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<tr>
<td>Minnesota</td>
<td>57,604,243</td>
<td>60,835,351</td>
<td>80</td>
<td>77</td>
<td>1,276,570</td>
<td>1,128,407</td>
<td>67</td>
<td>78</td>
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<tr>
<td>Nevada</td>
<td>35,163,755</td>
<td>33,148,347</td>
<td>70</td>
<td>72</td>
<td>1,394,802</td>
<td>1,344,489</td>
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<td>90</td>
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<tr>
<td>New Hampshire</td>
<td>8,953,932</td>
<td>8,475,062</td>
<td>58</td>
<td>58</td>
<td>269,677</td>
<td>262,984</td>
<td>100</td>
<td>75</td>
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<td>North Dakota</td>
<td>4,977,500</td>
<td>4,475,800</td>
<td>72</td>
<td>81</td>
<td>107,524</td>
<td>83,339</td>
<td>66</td>
<td>80</td>
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<td>Tennessee</td>
<td>35,198,741</td>
<td>35,198,741</td>
<td>90</td>
<td>90</td>
<td>836,727</td>
<td>836,911</td>
<td>100</td>
<td>100</td>
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<tr>
<td>Texas</td>
<td>163,416,523</td>
<td>155,679,204</td>
<td>83</td>
<td>84</td>
<td>3,363,531</td>
<td>2,611,397</td>
<td>82</td>
<td>99</td>
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<td>Vermont</td>
<td>4,090,328</td>
<td>4,012,955</td>
<td>75</td>
<td>73</td>
<td>89,514</td>
<td>68,615</td>
<td>94</td>
<td>93</td>
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*Source: Pew Center on the States 2011.*

Funded ratios continue to decline.
Assumptions and the unfunded liabilities

States make assumptions about investment rates of return when they calculate how much money to set aside to pay for their employees' pension benefits. While there is no consensus about the appropriate return rate, we can illustrate the impact of different return rates.

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Source: Pew Center on the States, 2011
Assumptions and unfunded liabilities

The stakes of this debate are high because when a state lowers its investment return assumptions, its liability jumps and the annual contributions required to pay for the states’ pension promises increase dramatically. That takes money away from other state programs and initiatives.

New York: -$218 billion shortfall
California: $94.7 billion shortfall
Texas: $24.7 billion shortfall
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Source: Pew Center on the States, 2011
State pension reforms, 2010

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State pension reforms: 2001 to 2010

- Reduced benefits
- Increased employee contributions
- Both
- No reforms

Source: Pew Center on the States, 2011
State retiree health care reforms: 2001 to 2010

- No reforms
- Reduced benefits
- Increased employee contributions
- Both
- Created a trust fund

Source: Pew Center on the States, 2011
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