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BLUE MODEL BLUES

Pension Debt Exceeds 40k Per Household

According to a first-of-its kind pension-tracking website created by a team at Stanford's Institute for Economic and Policy Research, America's unfunded pension liabilities—the difference between the value of state pension funds and the amount owed to public sector workers—totals over $4.8 trillion, or $41,219 per household. The Stanford team arrived at number assuming a three percent rate of return—far lower than the 7.5 percent "actuarial" rate many pension funds rely on, but rarely meet. (Even if the actuarial basis were accurate, state pension funds would still owe a combined $1.04 trillion, or $8,872 per household).

The findings highlight the fact that state pension shortfalls are not some marginal worry, but one of the most pressing fiscal problems facing the United States—quite possibly more urgent than the U.S. federal debt. Because while the federal debt is higher (at $19 trillion), federal tax revenues are several times larger, as well. Moreover, the federal government, unlike states, can issue debt in its own currency (currently at record-low rates) and even print money to cover its obligations. And while the federal debt as a percentage of GDP has increased at an alarming rate over the past several years, pension debt has grown even faster. Nonetheless, journalists and public officials devote far more of their energies to thinking about the federal government's fiscal imbalance than the equally destructive ones besetting state retirement systems.

Of course, the $4.8 trillion figure is a sum of all 50 states' shortfalls. Some state systems are relatively stable, or will be with minor tweaks; other states are already taking promising steps to overhaul theirs (especially by declawing public sector unions and moving to 401(k)-style retirement systems for public employees); and other states' taxpayers may be willing to bail out pensioners once the current systems go belly-up. But it seems increasingly likely that the states and localities in the most dire straits will one day be forced to approach the federal government for a bailout, Puerto Rico-style. In the short run, Congress should make policy changes to minimize this risk—but in the long run, it should start planning for how to manage the fallout of the looming pension meltdown. Will any federal assistance be forthcoming, and if so, on what terms?

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