



Written by [Raven Clabough](#) on October 12, 2010

Unfunded Public Pensions Crippling US Cities

Of the variety of issues plaguing America's economy today, unfunded public pensions are perhaps one of the greatest. CNBC News reports that a study expected to be released today shows major American cities may be faced with a \$574 billion funding gap as a result of unfunded public pensions.

Research at the Kellogg School of Management at Northwestern University and the University of Rochester shows that the funding gap is in addition to billions of dollars in unfunded liabilities already estimated for state-run pensions.



Researchers at Kellogg studied 77 pension plans of 50 major cities and counties, covering nearly 2 million workers. CNBC explains that those examined are estimated to be the two-thirds of workers covered by local pensions. Researchers then extrapolated the results—an unfunded liability of about \$5,300 per worker—to come up with the total estimate of \$574 billion.

Of course, given the staggering figures determined by the Kellogg School, one big question remains: What is yet to be seen is how this burden will be distributed between state and local governments and whether the federal government will be called upon for bailouts, questions Joshua Rauh of the Kellogg School.

He adds, The bondholders would be competing with the pension beneficiaries for scarce government resources.

For example, cities like Cincinnati, Ohio, and Jacksonville, Florida, will not be able to continue to pay the promised pension assets through 2020. Others, however, are even worse off. Philadelphia is only prepared to pay for current pension assets up through 2015, while Boston and Chicago can maintain the pensions a bit longer, until 2019.

To get a better grasp on the staggering figures that make up the unfunded pension funds, New York City, San Francisco, and Boston owe more than \$30,000 per household in pension funds.

As a result, Taxpayers in these areas risk not only local tax increases and service cuts to pay for benefits, but potentially some of the bill for the \$3,000 billion unfunded obligations at the state level, reports researchers.

According to CNBC, the combination has raised concerns that defaults, which are historically rare in the \$2,800 billion municipal bond market where local governments obtain money, could now rise.

Mr. Rauh adds, The fact that there is such a large burden of public employee pensions concentrated in urban metropolitan areas threatens the long-run economic viability of these cities, as residents can potentially move elsewhere to escape the situation.

Because of the terrifying figures, a variety of candidates are calling for cuts in pension funds, including California's Democratic gubernatorial candidate Jerry Brown, who asserts that pension benefits for state



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employees should be reduced to contain rising costs. Browns Republican contender, Meg Whitman, articulates similar sentiments.

Similarly, New Jersey's Republican governor Chris Christie gained popularity from New Jersey voters when he proposed lowering the rate of return on pension income to 7.5 percent from 8.25 percent.

New Jersey's \$68 billion pension is the 11th most under-funded in the country, with only 66 percent of assets to cover future payouts, reports the *New York Post*.

On Sunday, October 10, some headway was made when California Governor Arnold Schwarzenegger passed state pension cuts through a Democratic-controlled Legislature.

While Schwarzenegger states, "With these reforms, we are creating a public pension system that is fair to both the employees and also to the taxpayers," the *Sacramento Bee* is not so sure. According to the local newspaper, the last time California pension cuts were approved, in 1985, the course was reversed at the first sign of economic revival.

CNN reports that the presence of staggering unfunded pensions is nothing new. Generous retirement packages, enabling middle-age workers to retire early, helped sink Detroit.

The report adds, "Government retirement packages are often embedded in law. Wait until politicians tell that to the taxpayers footing the bill."



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