The National Conference on Public Employee Retirement Systems has released a publication entitled *Economic Loss*: *The Hidden Cost of Prevailing Pension Reforms.* Public pensions are under constant attack by those who would like to dismantle them and replace them with do-it-yourself defined contribution plans. Opponents, having little or no understanding of how public pensions are funded, promote misleading information about rate-of-return assumptions and huge unfunded liabilities to convince policymakers to dismantle public pensions. Some states are taking actions that are chipping away at public pensions without realizing the economic damage their actions will inflict on their states and our country's economic future. The purpose of this study is to explore the following questions:

- How are public pensions funded?
- How much economic damage will occur in 2025 if the dismantling of public pensions continues?
- What can we do to address funding issues without dismantling public pensions?

We are hopeful that instead of getting caught in a web of misinformation, policymakers will find answers to these questions useful in addressing pension funding issues without dismantling pensions:

- **Pensions play an important role in the economy** — Spending by retirees stimulates local economies, and pension assets are an important source of capital for businesses. America's mortgage market, its private equity and high-tech industries, and many of its start-ups rely on pension funds as a source of capital. A recent study shows that defined benefit pension plans stimulate $1.2 trillion in economic output.
- **The economy suffers when we undermine pension** — A 2015 NCPERS analysis of empirical data from the 1980s, the 1990s and the first decade of this century shows that when pension funds are dismantled, income inequality rises. Rising income inequality in turn drags the economy down. Moreover, damage to the economy due to pension cuts is usually greater than the pensions' positive impact. Whereas the full positive impact of pensions on the economy may not be realized because recipients may spend only a part of their checks, the negative impact of pension cuts is realized in the economy dollar for dollar — and then is multiplied several times over as it ripples through the entire economy.
- **It is important to understand public pension funding** — Opponents of public pensions apply rules to public-sector pensions, such as rate-of-return assumptions, that are designed for private-sector pensions. Full funding of pensions might be a meaningless goal in the public-sector context. Whereas private companies could and do go out of business, state governments are here to stay. Does anyone really believe the Commonwealth of Kentucky — or any other state for that matter — will go out of business and find its assets sold to a foreign nation?
- **Public pensions are in better shape than portrayed by their opponents** — The present study examines how public pensions are funded. We find that 76% of the money coming into public pensions comes from investment earnings. The same figure in 1940 was only 22%. The 2015 Census data show that state pensions are funded at a level of 76.3%. Similarly, NCPERS annual survey data of state and local pension plan shows that average funding level has steadily improved since 2014. We rarely hear this kind of positive information from opponents of public pensions. We also found that states are exploring new ways to ensure adequate fund for pensions. Oklahoma, for example, has set up a pension stabilization fund to be used when any state pension fund's funding level falls below 90%. The city of Pittsburgh has dedicated a portion of revenues from parking assets to its pension fund. States like Wisconsin and Texas are recognizing the value of economics of scale by allowing small districts to join statewide pension plans. Our study also shows that in 41 states, state and local governments share the responsibility of funding pensions.
- **How large will the economic loss be in 2025 if dismantling of pensions continues?** Using models and parameters developed through our 2015 analysis of empirical data, we estimate that if dismantling of pensions continues, the economy will suffer $3.3 trillion in damage in 2025. We measure economic growth in terms of median income rather than gross domestic product (GDP)

because GDP hides improvements in the incomes of ordinary people. For example, the GDP may be growing, but all the income growth may be going only to the top 1% of the population. Similarly, we also measure the size of the economy by total personal income.

- **NCPERS' analysis shows that in 2025 the economy is likely to grow at 4.00%, the same rate predicted by the Congressional Budget Office**. This rate will be dragged down to 3.29% if the dismantling of public pensions continues. The total size of the nation's economy, as measured by total personal income, is projected to be $19 trillion in 2025, and will be reduced by about $3.3 trillion, if dismantling of public pensions continues.
- **Strategies to adequately fund public pensions without dismantling them â€"** Instead of staying on a path that will inflict significant damage to the economy, we must explore ways to address funding issues without dismantling public pensions. While the best way to adequately fund public pensions is through progressive tax reforms, the approaches explored in this study are less harmful than dismantling pensions. These approaches are discussed in Section III of the study and include the following:
- Asset monetization and dedicated revenue sources
- Well-designed pension obligation bonds
- Reform of revenue systems
- Closing of wasteful tax loopholes
- Management of risks in economic ups and downs
- Other options, including stabilization funds and economies of scale

The full 28-page publication can be found for your review at:
http://www.ncpers.org/files/NCPERS_2017%20Economic%20Loss.pdf