Retirement News Highlights

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Public pension plans face negative returns, lower funding levels

By James Comtois
Pensions & Investments
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Most public pension plans will finish the fiscal year ending June 30 with negative returns, reduced asset values, lower funding ratios and higher actuarial costs if markets remain at their current levels until June, estimated the Center for State and Local Government Excellence in a report released Tuesday.

The report found that the funding ratio of assets to liabilities for public plans dipped to 69.5% in 2020 from 71% in 2019. The report estimates that this might raise the average actuarially determined contribution to 19.7% of payroll from 18.8%.

As of mid-April, only half of the center's sample of roughly 200 state and local government pension plans had reported their 2019 funding levels. None had reported 2020 levels.

The data show that the average funding ratio for public plans will steadily decline from 2020 to 2025. However, most plans will have enough assets to pay benefits indefinitely even if markets don't fully recover until 2025.

The report forecasts that all plans — even the lowest funded — will remain solvent over the next five years. However, a few are projected to exhaust their assets soon after.

The estimated average funding ratio for the 20 worst-funded plans is currently 38.5%. If markets don't recover fast enough, that average funding ratio will drop to 31.5% in 2025, while the six worst-funded plans — Charleston (W.Va.) Firemen's Pension and Relief Fund, Kentucky Employees Retirement System, Chicago Municipal Employees' Annuity & Benefit Fund, Chicago Policemen's Annuity & Benefit Fund, Providence Employee Retirement System, and New Jersey Teachers' Pension and Annuity Fund — will have funding ratios of 25% or less.

Retirement in America is already uncertain. Republicans want to make it worse.

By Helaine Olen, Opinion writer
The Washington Post
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To a hammer, every problem looks like a nail. To a Republican, every crisis is an opportunity to cut benefits.

Not that they would put it that way, of course.

This past weekend, The Post reported on a proposal from a conservative think tank, floated to the White House as a way to limit the impact of novel coronavirus stimulus spending on the national debt. Americans made financially desperate by the pandemic could receive a $5,000 federal payment. The catch? The recipients would need to delay their future Social Security filing to pay it back.

The plan received a hearing from the Trump administration, where it has been dismissed because it doesn't seem, in the words of The Post, "likely to advance given the political stakes," and faced "skepticism" from the president himself. But it should have never gotten that far.

It's worth taking a moment to remind readers that, from the very beginning, the Trump administration has played a disingenuous game when it comes to Social Security. Trump campaigned for president as a champion of the program, someone who would ensure that retirement benefits would never suffer a single cut. But even before he became president, his aides assured anyone who would listen that he didn't really mean it. Trump himself gave the game away this past winter, admitting in a CNBC interview that he was "going to look" at entitlement reform — that's Washington insider code for cutting Social Security and Medicare — at the end of the year, after the presidential election.

Moreover, Ivanka Trump teamed up with Sen. Marco Rubio (R-Fla.) to promote a plan similar to the recently dismissed one back in 2018. Ivanka Trump's paid family leave policy for childbirth or adoption would have been paid for by beneficiaries agreeing to delay when they could begin collecting Social Security.

These sorts of plans can sound harmless. If you're 30 and unemployed, what's an extra few months decades into the future? But in fact, many retirees claim Social Security retirement benefits at age 62, the earliest that they can — not because they lack the patience to wait a few years to receive a larger check, but because they can't find work and they have no financial choice.

If anything, Americans are likely to be more dependent on Social Security going forward, not less. The 401(k) and defined contribution revolution, which was predicted to set off a savings boom, instead coincided with the opposite: a rapid increase in the amount of debt Americans acquired as the costs of health care, housing and education soared. Not only does almost no one set aside the recommended 10 to 15 percent of their salary each year for retirement, but the problem is increasing. Data analysis reveals younger baby boomers have less set aside for retirement than the older members of their generation. Generation X is thought to be in even worse shape. And all that was before the current economic cataclysm, which is taking another chunk out of people's retirement finances.

There is one more potential issue. Defined contribution plans, and the more recent surge into index funds, are based on the uncertain premise that in the long run, the overall American stock market will increase in value. But over at the Financial Times, Rana Foroohar makes the point that if this crisis continues, that's likely to be a chancier proposition going forward. And even that is a problem for the luckiest among us — a sizable minority of the population either doesn't have access to or doesn't participate in a workplace retirement plan at all.

For these people, Social Security is all they've got. Early use that needs to be paid back by delaying when someone can file for benefits is not just a risky idea. It also likely opens a door no future retiree should want opened — if you can impinge on Social Security benefits to help people combat one economic crisis, what's to stop any future administration from doing it again, for some other reason?

Social Security is not meant to serve as an all-purpose, just-in-time government emergency fund. There are other, better ways to achieve that. As presumptive Democratic presidential nominee Joe Biden said on Monday via Facebook, "I have a better idea: Give people coronavirus economic relief and don't hold their hard-earned benefits hostage."

Amen to that.