

Key Facts Regarding State & Local Government Defined Benefit Retirement Plans

January 2009



Public pensions are positioned to continue paying benefits for the foreseeable future. Despite experiencing losses from the recent market decline, public pension plans remain positioned to continue paying benefits to more than seven million retired public employees and their beneficiaries. Public pension investment policies focus on the long-term, and public pension actuarial processes reduce funding level and cost volatility caused by volatile investment returns. These funds also provide patient capital, investing and holding their assets on a long-term basis. The more than \$2 trillion held by public pension funds is an important source of liquidity and stability for capital markets.

State and Local Pension Plans are an Integral Component of National, State and Local Economies. Public plans distribute more than \$160 billion annually (an amount greater than the total economic output of 22 states) in benefits to 7.5 million retirees, disabilitants and beneficiaries, with an average annual pension benefit of roughly \$21,800. These payments are steady and continuous and provide a valuable economic stimulus to state and local economies throughout the nation, as documented in several state-specific studies.

The Bulk of Public Pension Benefit Funding is Not Shouldered by Taxpayers. On a national basis, employer (taxpayer) contributions to state and local pension systems make up less than one-fourth of all public pension revenue. Earnings from investments and employee contributions comprise the remainder. From 1982 through 2007, investment earnings accounted for more than two-thirds of all public pension revenues; employer (taxpayer) contributions were less than one-fourth. Unlike corporate workers, most public employees are required to contribute to their pension plans, accounting for more than 10 percent of public pension revenues during this period.

Public Retirement Plans Attract and Retain the Workforce That Provides Essential Public Services. More than 20 million working and retired state and local government employees are in the U.S. Retired public employees live in virtually every city and town in the nation (90 percent stay in the same jurisdiction where they worked). Active public employees make up 12 percent of the nation's workforce, and two-thirds are employed in education, public safety, corrections, or the judiciary. Retention of experienced and trained personnel in these and other positions is critical to the continuous and reliable delivery of public services.

State and Local Plans are Subject to Comprehensive Oversight. While private sector pensions are subject solely to federal regulation, state and local government plans are creatures of state constitutional, statutory and case law and must comply with a vast landscape of state and local requirements, as well as industry accounting standards. These plans are highly transparent and accountable to the legislative and executive branches of the state; independent boards of trustees that include employee representatives and/or ex-officio publicly elected officials; and ultimately, the taxpaying public.

State and Local Pension Funds Are Prudent, Long-term Investors. Investment and financing strategies that focus on the long-term have served to make public pensions durable and resilient, able to withstand the type of fluctuations investment markets have exhibited in recent months. Although the extreme volatility of the current investment environment may be unprecedented, public pensions have survived extreme market conditions before, and they continue to generate investment returns consistent with those of corporate pension funds and foundations and endowments. Following past market declines, diversified and disciplined investors, including public pension funds, have been rewarded for their patient, long-term positions with strong subsequent investment returns. Sticking with long-view, prudent investment strategies and funding mechanisms not only provides public plans the liquidity needed to pay promised benefits in the near term, but also positions plans to accumulate assets that will allow them to continue to do so responsibly and continuously.

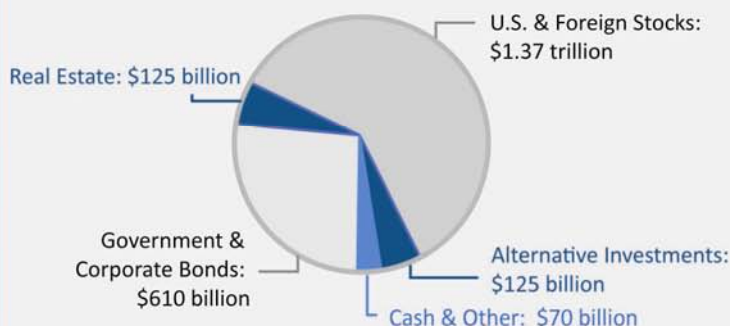
Public Pension Sources of Revenue, 1982 - 2007



Investment Earnings: 68.0%
 Employer Contributions: 20.9%
 Employee Contributions: 11.1%

Source: U.S. Census

Public Pension Estimated Asset Allocation as of 12/31/08



Source: Public Fund Survey