

# NASRA ISSUE BRIEF: STATE AND LOCAL GOVERNMENT SPENDING ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS



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Employer (taxpayer) spending on pension benefits for employees of state and local government has been the object of growing attention. A closer look reveals that a relatively small portion of all state and local government spending goes to public pensions. According to the latest estimates,<sup>i</sup> *less than three percent* of all state and local government spending was used to fund public pension benefits. Figure A. illustrates spending on public pensions as a percentage of all state and local government spending. Although public pension costs have risen due to the loss of pension assets during the 2008 decline in capital markets, and are likely to rise further, this cost should be considered in the context of a) the benefits retirement systems

distribute each month to more than 7.5 million retired public employees, their beneficiaries and survivors; and b) the economic effects these benefits generate in local and state economies. In 2008, public retirement systems distributed more than \$175 billion in pension benefits, an amount more than double the amount paid in by taxpayers through employer contributions. These benefits reach every city of every state in the nation, and their economic effects are well documented.<sup>ii</sup>

The vast majority of public employees are required to contribute a portion of their wages—typically five to 10 percent—to their state or local pension fund; some share pension costs equally with their employers. An estimated 30 percent of employees of state and local government do not participate in Social Security, including substantially all of them in seven states, approximately one-half of all of the nation’s public school teachers, and two-thirds to three-fourths of firefighters and police officers. In most of these cases, employers and employees are contributing to the pension fund *in lieu of* contributions to Social Security, reducing state and local taxpayer costs by an estimated \$15.6 billion annually.<sup>iii</sup> On a national basis, as shown in Figure B, employer (taxpayer) contributions to pension plans have remained fairly steady. Since 1995, employer contributions as a percentage of all state and local government spending have remained around three percent, providing most employers with a fairly predictable expenditure for attaining retirement security.

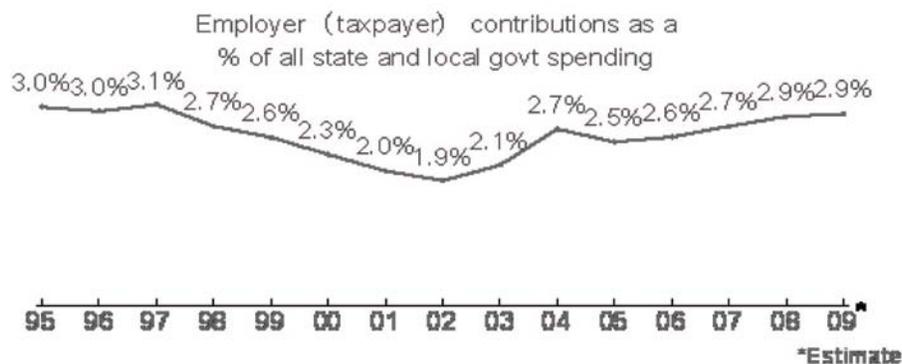
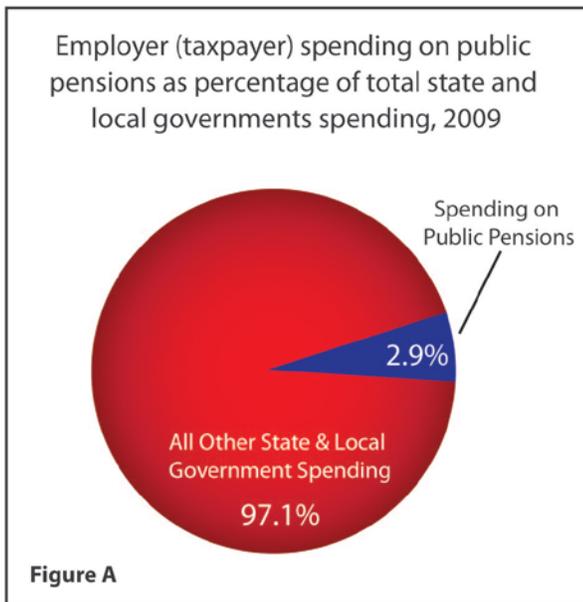


Figure B

**Employer (taxpayer) contributions to pensions  
as a percentage of all state and local government spending, by state, 2008**

Alabama	2.93	Louisiana	3.46	Oklahoma	3.68
Alaska	2.33	Maine	2.85	Oregon	2.47
Arizona	2.41	Maryland	2.81	Pennsylvania	1.61
Arkansas	3.07	Massachusetts	3.35	Rhode Island	4.65
California	3.83	Michigan	2.46	South Carolina	2.26
Colorado	2.16	Minnesota	1.60	South Dakota	1.72
Connecticut <sup>1</sup>	4.07	Mississippi	2.82	Tennessee	2.15
Delaware	1.50	Missouri	3.29	Texas	1.95
District of Columbia	1.24	Montana	2.27	Utah	2.69
Florida	2.37	Nebraska	1.36	Vermont	1.03
Georgia	2.02	Nevada <sup>2</sup>	5.44	Virginia	3.83
Hawaii	3.70	New Hampshire	1.97	Washington	1.51
Idaho	2.55	New Jersey	2.84	West Virginia	3.91
Illinois	3.40	New Mexico	3.06	Wisconsin	1.35
Indiana	2.82	New York	3.96	Wyoming	1.28
Iowa	1.74	North Carolina	0.92	United States	2.89
Kansas	2.01	North Dakota	1.40		
Kentucky	2.43	Ohio	2.92		

1/ Excludes \$2 billion in pension bonds issued by the state in 2008.

2/ In addition to being a non-Social Security state, one-half of Nevada PERS employers' contribution is attributable to a non-refundable pre-tax salary reduction to fund the employees' portion of the contribution.

**Sources:**

<http://www.census.gov/govs/estimate/> - Total spending by states and local governments

<http://www.census.gov/govs/retire/2008ret02a.html> - State and local government retirement system sources of revenue

**See also:** *The Impact of Public Pensions on State and Local Budgets*, Center for Retirement Research at Boston College, October 2010 (The CRR measure excludes capital spending in its calculation of pension contributions as a percentage of all state and local government spending.)



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<sup>i</sup> Estimated by applying normal annual growth rates to 2008 data.

<sup>ii</sup> For example, *Pensionomics: Measuring the Economic Impact of State and Local Pension Plans*, National Institute on Retirement Security, February 2009; see also "Economic Effects of Public Pensions," <http://www.nasra.org/resources/economic.htm>

<sup>iii</sup> Author's calculation based on 30 percent of state and local government employees not participating in Social Security.