

Pension Research Council Publications

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Pensions in the Public Sector

Edited by

Olivia S. Mitchell and Edwin C. Husted

Pension Research Council

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Contents

Preface	vii
<i>Olivia S. Mitchell</i>	
I. The Structure and Function of Public Pension Systems	
1. Public Sector Pension Plans: Lessons and Challenges for the Twenty-First Century	3
<i>Edwin C. Hustead and Olivia S. Mitchell</i>	
2. Developments in State and Local Pension Plans	11
<i>Olivia S. Mitchell, David McCarthy, Stanley C. Wisniewski, and Paul Zorn</i>	
3. State Employee Pension Plans	41
<i>Karen Steffen</i>	
4. Federal Civilian and Military Retirement Systems	66
<i>Edwin C. Hustead and Toni Hustead</i>	
5. Canadian Public Sector Employee Pension Plans	105
<i>Silvana Pozzebon</i>	
II. Investment Policies, Regulation, and Reporting	
6. Regulation and Taxation of Public Plans: A History of Increasing Federal Influence	119
<i>Roderick B. Crane</i>	
7. Governance and Investments of Public Pensions	132
<i>Michael Useem and David Hess</i>	
8. Investment Practices of State and Local Pension Funds: Implications for Social Security Reform	153
<i>Alicia H. Munnell and Annika Sundén</i>	

vi Contents

9. Asset/Liability Management in the Public Sector <i>Michael Peskin</i>	195
10. Determining the Cost of Public Pension Plans <i>Edwin C. Hustead</i>	218
11. The Life and Times of a Public-Sector Pension Plan Before Social Security: The U.S. Navy Pension Plan in the Nineteenth Century <i>Robert L. Clark, Lee A. Craig, and Jack W. Wilson</i>	241
III. Challenges to Public Pensions	
12. Going Private in the Public Sector: The Transition from Defined Benefit to Defined Contribution Pension Plans <i>Douglas Fore</i>	267
13. Florida's Public Pension Reform Debate: A Discussion of the Issues and Estimates of the Option Costs <i>Kenneth Trager, James Francis, and Kevin SigRist</i>	288
14. Pension Governance in the Pennsylvania State Employees' Retirement System <i>John Brosius</i>	313
15. The New Jersey Pension System <i>Tom Bryan</i>	327
16. Public Pensions in Washington, D.C. <i>Edwin C. Hustead</i>	354
17. Public Pension Design and Responses to a Changing Workforce <i>Cathie Eitelberg</i>	363
Contributors	375
Index	381

Preface

Public sector pensions are much in the news of late. Insolvent state employee retirement programs undermined national economic policy in Brazil during the late 1990s, leading to a currency devaluation and then regional economic collapse. Problems with public pension systems in China threaten not only the wellbeing of retirees but also the economy as a whole. And in many countries, well-meaning efforts to privatize government-run firms have foundered when it has been determined that acquiring these firms imposes huge unfunded pension liabilities on the new owners, resulting from many years of low contributions and feeble investment returns.

What can be done to help public sector pension plans perform more efficiently, and thereby enhance old-age security? This volume seeks to answer this question by taking stock of the public pension situation in North America, offering lessons and highlighting challenges these financial institutions will face in the next several decades. We show that, unlike in other countries, North American public pension systems are performing rather well. State and local plans in the United States have impressive levels of assets backing their liabilities, they provide reasonable replacement rates to retirees, and they invest in a manner not too different from that of private pension managers. The picture is almost as positive for public pensions in Canada, although portfolio restrictions have produced lower investment returns, and funding patterns are less robust. But our assessment is less positive for U.S. military pension systems and the pension system developed by the U.S. Congress for the nation's capital, Washington, D.C. Thus even within the continent, wide variations have resulted from different structures and regulatory regimes.

Our analysis shows that building and maintaining a successful public pension system requires careful attention to benefit and financing policy, strong funding and investment performance, and continuous oversight. The ways in which these factors interact are traced across a variety of institutional environments, each of which has generated its own pension system. Contribu-

tors to the volume illustrate the range of options as they vary across public sector groups, ranging from uniformed employees (police, firefighters), to teachers, legislators and judiciary, municipal and state employees, military personnel, and others. It is a pleasure to have assembled such an impressive set of specialists and experts to take a serious look at these important financial institutions, asking what they do well and what they could do better. We also seek to learn lessons for private pension plans, so as to help policy-makers and practitioners with suggestions for future pension design.

Sponsorship for the research leading to this volume was generously provided by the Wharton School at the University of Pennsylvania, as well as the U.S. Department of Labor. In addition we thank our Senior Partners and Institutional Members of the Pension Research Council for continuing support and guidance. On behalf of the Pension Research Council at The Wharton School, I thank them and the many contributors whose participation made this volume feasible. I am pleased that the Pension Research Council continues its long-standing interest in public sector retirement offerings in sponsoring this volume. The book should be required reading for all managers and policymakers designing public—as well as private—pension systems in the years to come.