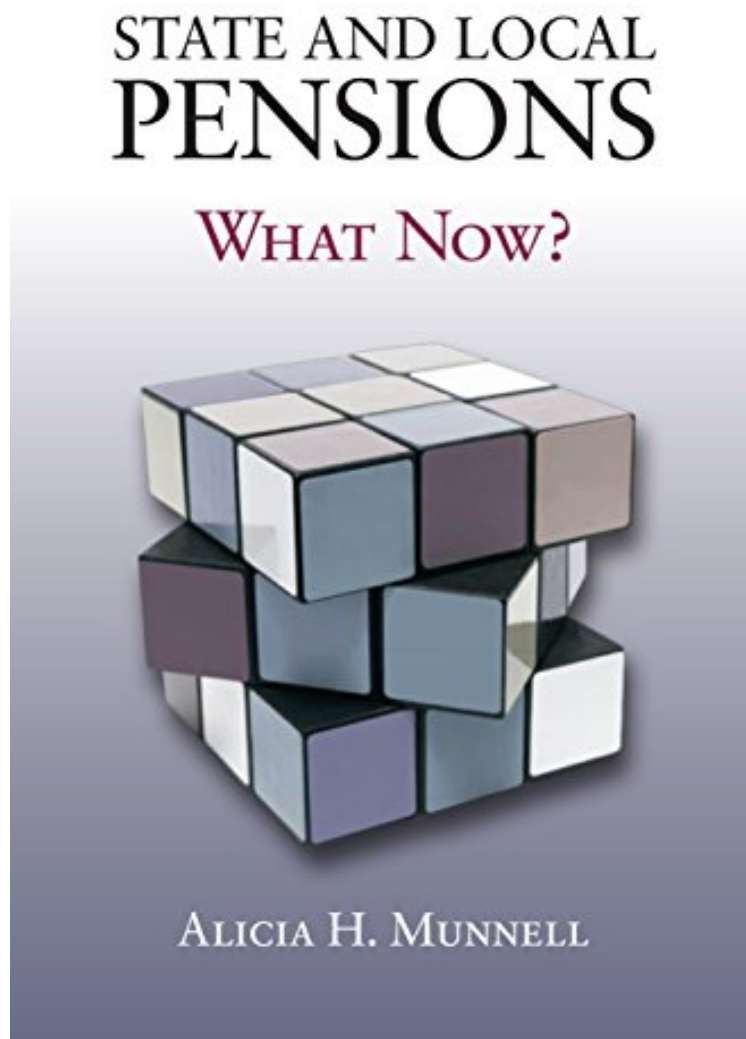


[FREE] State and Local Pensions: What Now?

State and Local Pensions: What Now?

Alicia H. Munnell

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Alicia H. Munnell : State and Local Pensions: What Now? before purchasing it in order to gage whether or not it would be worth my time, and all praised State and Local Pensions: What Now?:

1 of 1 people found the following review helpful. Objective and Well-ResearchedBy Dr. Howard A. FrankThis is one of the most important subjects in current public policy debate. Professor Munell's work is thorough and thought-provoking. She is correct in asserting that a handful of very poorly defined benefit plans have given all a bad name. That said, she does see the potential use of hybrid plans that combine defined contribution and defined benefit components. She is correct in asserting that switching to DC plans does not take jurisdictions off the hook for prior liabilities. But she understates the political and substantive draw of ending the balance sheet risk that future

generations won't face through such a transition. In a similar vein, I agree with her that reduced benefits may make the public sector less appealing to younger workers. But the question may be whether the millennial generation will tolerate 6-10 year vesting periods attendant to the DB plans. Munnell asks if the public groundswell to cut public pension is in part a race to the bottom in which all Americans are seeing an increasingly bleak retirement. That is a fair question to ask. I don't think she provides an answer. She does raise a broader question about the need for a third tier of retirement savings built around a portable DB model. Senator Harkin introduced legislation that would establish such a plan. It won't see the light of day, but it suggests Munnell is putting the current public pension mess into broader relief.

1 of 1 people found the following review helpful. A must-read book for those interested in the economics of state and local pensions

By David Denslow

An authoritative, comprehensive, insightful book for those studying the economic of public finance aspects of state and local pensions. Munnell covers many issues. I'll comment on one, the appropriate discount rate. She states, correctly, that virtually all pension economists say that since pension obligations are secure, the discount rate to use for calculating the present value of liabilities should be a safe rate, such as treasuries or perhaps AAA corporate bonds. Accountants, and every public pension plan I know of, use the expected return on assets. The modal value is 8%. Munnell suggests a compromise: use the safe rate for reporting funding, use the expected return for the annual required contribution. All three--pension economists, accountants, and Munnell are wrong, however. The actual obligation is (chiefly) to an intermediary, the future taxpayer. If utility-maximizers, future taxpayers are willing to bear some risk (more a tax-distortion risk than a portfolio risk, Lucas Zeldes AER--who for some reason test empirically a model they maximize over one variable instead of the appropriate two). With back-of-the-envelope calculations, I propose the correct discount rate is around 7% currently, depending on the curvature of tax distortions. Why not the Munnell compromise? Who's going to pay attention to it if it doesn't affect the ARC--just another number to ignore. That, and the true obligation is mainly to the future taxpayer--shared slightly with current recipients and just a little more with current employees. All those who write on the discount rate, including Munnell, state in passing that the future taxpayer is at risk, and then ignore that fact. Rauh Novy-Marx, for example. (I'm taking advantage of the opportunity to express a view on one issue, a fraction of the book.)

2 of 2 people found the following review helpful. Very Clear Look at Public Pension Landscape

By Thomas H. Kozlik

The exhaustive work by Alicia H. Munnell on the pension history, landscape, etc. is an in-depth look at one of the factors that is causing state and local govt expenditure demand to rise faster than revenue growth. I have found the data and insights to be very useful.

In the wake of the financial crisis and Great Recession, the health of state and local pension plans has emerged as a front burner policy issue. Elected officials, academic experts, and the media alike have pointed to funding shortfalls with alarm, expressing concern that pension promises are unsustainable or will squeeze out other pressing government priorities. A few local governments have even filed for bankruptcy, with pensions cited as a major cause.

Alicia H. Munnell draws on both her practical experience and her research to provide a broad perspective on the challenge of state and local pensions. She shows that the story is big and complicated and cannot be viewed through a narrow prism such as accounting methods or the role of unions. By examining the diversity of the public plan universe, Munnell debunks the notion that all plans are in trouble. In fact, she finds that while a few plans are basket cases, many are functioning reasonably well. Munnell's analysis concludes that the plans in serious trouble need a major overhaul. But even the relatively healthy plans face three challenges ahead: an excessive concentration of plan assets in equities; the risk that steep benefit cuts for new hires will harm workforce quality; and the constraints plans face in adjusting future benefits for current employees. Here, Munnell proposes solutions that preserve the main strengths of state and local pensions while promoting needed reforms.

"State and local pensions are much in the news, but the current discussion largely ignores why some plans are in financial trouble while others are not. Drawing on extensive research, Munnell cogently explores the diversity of past actions, current circumstances and needs, and opportunities for reform. This book is the essential starting place for thinking about and reforming pensions."

—Peter Diamond, Institute Professor and professor of economics, emeritus, MIT, and 2010 Nobel Laureate

"Munnell offers a thoughtful examination of the challenges facing state and local governments as they strive to provide retirement security for their employees. Her work represents a giant leap forward by establishing a comprehensive framework for leaders looking to tackle these critical issues."

—Gina Raimondo, general treasurer, State of Rhode Island

"Pensions for state and local employees generate ferocious debates among both the general public and pension experts, with serious repercussions for public sector pay and government budgets. Munnell explores this controversy with clarity and fairness, providing a critical resource for citizens who wish to understand public pensions and the policymakers who must manage them."

—Andrew Biggs, resident scholar, American Enterprise Institute

"Why does this book stand out? It's because Munnell has relied upon, and truthfully portrayed facts, to produce light, not heat. Moreover, uniquely, she places blame where it belongs without rancor and provides reasonably achievable solutions."

—Ian Lanoff, attorney and public pension expert, Groom Law Group, Chartered

"This book is the most comprehensive assessment of public pensions yet compiled. Munnell evenhandedly

challenges stereotypes and ideologies in describing the nuanced and consequential details of retirement benefits for employees of state and local government. Her book is indispensable for anyone with an interest in the nation's public retirement policy."?Keith Brainard, research director, National Association of State Retirement Administrators

About the Author Alicia H. Munnell is the Peter F. Drucker Professor of Management Sciences, Carroll School of Management, and director of the Center for Retirement Research at Boston College. She has served as assistant secretary of the Treasury for economic policy and as a member of the President's Council of Economic Advisers. She was also cofounder and first president of the National Academy of Social Insurance. Munnell has written several books, including Brookings titles *Working Longer: The Solution to the Retirement Income Challenge*, with Steven Sass (2008), and *Coming Up Short: The Challenge of 401(k) Plans*, with Annika Sundeaacute;n (2004).