LEROY COLLINS
INSTITUTE

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CONTACT: Lindsay Potvin
(850) 222-3767
Lindsay@CoreMessage.com

Latest Local Pension Research Finds Many Problems Not Caused by Economic Downturn

~ LeRoy Collins Institute report finds many local pensions have long-standing structural issues requiring significant repair ~

TALLAHASSEE, Fla. – Today, the LeRoy Collins Institute (LCI) released *Years in the Making: Florida's Underfunded Municipal Pension Plans,* a report that analyzes trends in municipal pension plans across the state. The report shows that the underfunded condition of most municipal pension plans began well before the downturn in the stock market when economic times in the state and nation were relatively strong.

Using data from the 2005 through 2011 Annual Reports of Florida Local Government Retirement Systems published by the Florida Department of Management Services (DMS), *Years in the Making* provides the latest and most in-depth look at the health of Florida pensions. The key findings show that while the recent turmoil in the financial markets have made conditions worse, there are systemic problems in Florida's municipal pension plans that are not likely to go away when the markets recover.

"In November 2011, LCI released a report card rating one-third of the pension plans in Florida's 100 biggest municipalities with a D or an F. These staggering findings did not include municipalities with populations under 20,000 and reflected only one year of data. This meant we couldn't determine whether the problem was short-term or whether these issues permeated smaller cities," said Dr. Carol Weissert, LCI director and political science professor at Florida State University (FSU). "*Years in the Making: Florida's Underfunded Municipal Pension Plans* analyzes trends in all 492 municipal pension plans giving us a clearer picture of what is happening in Florida's local pension scene."

In most of Florida's municipal pension plans, funding levels have been below 80 percent since 2004 and those levels have continued to decline nearly every year since 2001. During that time, pension contributions from general government employees stayed flat, but municipal government contributions increased 7.5 percentage points from 13.8 percent in 2004 to 21.3 percent in 2010.

Municipal contributions increased even more for public safety pension plans. In 2004, municipalities contributed 15.1 percent; that number jumped to 28.9 percent by 2010 – a 13.8 percentage point increase.

The research found several additional contributing factors that play a role in current pension concerns. "Since 2005, the number of retirees collecting pension benefits has risen significantly, and as the number of retirees rises, so does the size of the payouts from the pension plans," said Dr. David Matkin, LCI research fellow and assistant professor in the Reubin O'D. Askew School of Public Administration and Policy at FSU. "Underfunded pension plans are simply not as prepared for those increases."

Additional findings included:

- Plans tend to underestimate the growth in employee salaries and overestimate the long-term rate of return on investment of pension assets. Investment return assumptions were not met from 2008 to 2010 as a result of the economic downturn. However, a surprising finding was that they were also not met in 2004 or 2005 and barely met in 2006. 2007 was the only year that actual returns were greater than the assumption.

- Payments for unfunded liabilities are making up an increasing proportion of annual pension contributions.

"While most people may attribute the Florida pension problem to the overarching economic troubles experienced across the nation, this research shows that is an inaccurate and potentially harmful assumption," said Professor Matkin. "Now is the time to make tough choices that will correct structural weaknesses in many of Florida's municipal pension plans so that these plans are able to make good on their promises without undue harm to future taxpayers."

This report is the latest in the series of releases on **Tough Choices Facing Florida's Governments**. *Years in the Making* is the fourth in the series which is funded by the Jessie Ball duPont Fund. The Florida League of Cities also generously provided support for this report.

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