GOOD JOBS FIRST

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PUTTING STATE PENSION COSTS IN CONTEXT:

HOW THEY COMPARE TO THE COST OF CORPORATE SUBSIDIES, TAX BREAKS AND LOOPHOLES

PUBLIC PENSIONS ARE UNDER ASSAULT throughout the United States. Led to believe that retirement costs for government workers are out of control, governors and legislators in numerous states have been moving to cut benefits, narrow eligibility requirements and push new hires into 401(k)-style defined-contribution plans instead of traditional and more secure defined-benefit coverage.

While it is true that numerous public pension systems are underfunded because of past decisions by policymakers and because the financial crisis harmed the value of pension-plan investments, that does not necessarily mean that the costs of benefits are excessive.

Good Jobs First seeks to put current pension costs (known as employer normal costs) into comparative context. Focusing on 10 states where the pension cost controversy has been intense, we compare those costs to the amount of revenue those states lose each year as the result of economic development subsidies offered to corporations as well as the tax preferences and accounting loopholes (including offshore tax havens) used by companies. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

We found that in all 10 states, the total annual cost of corporate subsidies, tax breaks and loopholes exceeds the total current annual pension costs for the main public pension plans administered by the states (see table below). In some cases the differences are enormous. In Louisiana, subsidy and tax break/loophole costs are more than five times the current pension costs; in Florida they are about four times pension costs. In six of the ten states, pension costs are less than 50 percent of subsidy and loophole costs, and in another they are just barely above 50 percent.

In only one state do current pension costs come close to equaling subsidy and tax break/loophole costs. In Arizona this is true not because pension costs are high but rather because the state tends to give out less in subsidies.

The state with the next highest ratio is Illinois, where public pension costs are a red-hot issue. Last month, Gov. Pat Quinn signed (behind closed doors) legislation that is supposed to shore up the state's retirement system by reducing benefits and increasing state contributions. Yet even here, current pension costs are outweighed by the costs of corporate subsidies, tax breaks and loopholes.

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As a matter of honest accounting and fair budgeting, state leaders should examine all forms of spending before they single out pensions or any other expense. Corporate tax breaks and loopholes are often poorly understood and little-noticed because they do not get debated as appropriations, nor do they often get sunsetted or audited. But over time, they add up to hundreds of millions, or even billions, of dollars per year.

	Annual employer normal pension costs	Annual cost of corporate subsidies and tax breaks/loopholes	Annual pension costs as a share of subsidies + tax breaks/loopholes
Arizona	$474,524,688	$552,108,211	86%
California	$6,822,294,460	$9,701,000,000	70%
Colorado	$179,560,282	$593,109,000	30%
Florida	$905,581,094	$3,810,902,291	24%
Illinois	$1,855,100,000	$2,400,796,000	77%
Louisiana	$348,471,694	$1,813,729,079	19%
Michigan	$586,592,328	$1,860,600,000	32%
Missouri	$427,300,226	$840,231,523	51%
Oklahoma	$221,501,696	$479,033,081	46%
Pennsylvania	$1,395,509,900	$3,888,000,000	36%
TOTAL	**$13,216,436,368**	**$25,939,509,185**	**51%**