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# 10 Worst-Off State Pension Funds

By Joe Mont

BOSTON () -- Pension reform is a political football that has increasingly pitted state officials against state and municipal workers relying on retirement benefits."The confluence of the severe recession and the collapse of the housing bubble dramatically slashed tax revenues," says aby the Federal Reserve Banks of Cleveland and Atlanta. "The toll has been particularly heavy on public pensions, whose troubles with chronic underfunding predate the financial crisis. By one estimate, the nation's 126 largest public pensions were underfunded by at least $800 billion in 2010. By another, 54% of the country's state and local plans will have exhausted their funds as early as 2034. It now seems inevitable that sacrifices will be required from current employees, employers, and in some cases, retirees."How bad is the funding gap? The study calls it "a matter of debate," but according to the funding-status measure prescribed by the Government Accounting Standards Board, the nation's largest 126 pension plans were underfunded by around $800 billion in 2010, while critics of GASB's accounting methods estimate the aggregate pension fund shortfall to be as much as $4 trillion.We took a look at some of the nation's most troubled state pensions, in terms of funding, shortfalls and political rancor:

**California**In terms of funding ratios for its various pension funds, California is hardly among the worst of states. But that could change easily, and uncertainty accounts for its inclusion here.A 2010found that between June 2008 and June 2009 CalPERS, CalSTRS and UCRS1, three public pension funds covering 2.6 million Californians, lost a combined $109.7 billion in portfolio value and, at that time, were underfunded by nearly a half-trillion dollars. A more recent study by the the Stanford Institute for Economic Policy Research found that none of the state's public pensions are at the recommended 80% funding level.Not only are its pension funds a financial drain; the health care benefits offered to retired public employees are adding to the economic stress.Aby state Controller John Chiang showed that the 30-year cost of providing health and dental benefits for state retirees is $62.1 billion. The unfunded obligation as of June 30 grew $2.2 billion from the $59.9 billion obligation identified as of June 30, 2010. While state pensions are pre-funded, allowing investment returns to reduce liabilities, California pays for retiree health benefits on a "pay-as-you-go" basis, or the minimum amount needed to fund the costs as they are due.Pre-funding benefits, he says, could reduce that liability by as much as one-third.**Illinois**Years of underfunding has led Illinois' unfunded pension liability to reach an estimated $83 billion. Sustaining that system is costing the state upward of 15% of all general revenue spending.Democratic Gov. Pat Quinn has faced political opposition for a plan announced last month to restore some solvency. Among the proposals (estimated by the governor to save as much as $85 billion over 30 years): raising the retirement age for a full pension to 67, increasing employee contributions and capping cost-of-living increases.**Rhode Island**Efforts are under way to overhaul Rhode Island's. The question is whether it is enough, and in time, to help its ailing cities.On

Tuesday,**Standard & Poor's**downgraded the credit rating for capital city Providence to BBB, just two ratings away from junk bond status. Just one day earlier, city officials unveiled a plan to trim upward of $16 million from its estimated $423 million in pension obligations, with much of those reductions coming from suspending cost-of-living increases as high as 6% per year. Future pensions will also be capped at one and a half times the median state household income (about $55,000).Providence is hardly alone in facing pension problems. Neighboring Cranston has a mere, a $245 million shortfall. Estimates for the unfunded liabilities for the 36 Rhode Island municipalities is estimated at between $2.4 billion and $6 billion.**New Hampshire**Despite concerns that New Hampshire's public pension system is underfunded by nearly $4 billion, officials and unions are at odds over solutions.A fierceis under way as that state's legislature seeks to move away from the traditional pension system to a defined-contribution plan similar to the 401(k) plans millions of Americans have moved toward over the past few decades.Union officials have argued that administrative costs for new plans would actually add more than $1 billion in costs; proponents have countered with calculations of their own showing $2 billion in savings over the next decade.**West Virginia**The good news: The libertarian **Cato Institute,** a Washington, D.C., think tank, issuedthat found West Virginia was the state that most improved its actuarial funding ratio for state pensions.In 2001, the state's nine pension plans were 45.1% funded, earning its rank of 50th. By 2009, the funding ratio improved to 50.3%.The bad news: That still leaves the state with a $5 billion funding gap and some of the most inadequately funded plans in the nation.**Kentucky**According to the, a nonprofit division of The Pew Charitable Trusts, Kentucky's six pension systems had a combined funding level of 63.8% last year. Unfunded liabilities for pensions and health care benefits are at about 31%.Fiscal watchdogs such as the conservativehave pointed out that the problems inherent in having an unfunded liability that is 234% of payroll are even more staggering considering that as recently as 2001, these plans were very well funded, at 110%. Fueling the funding decline has been a lack of funding cost-of-living increases.**Oklahoma**When it comes to funding its pension obligations, Oklahoma has long been one of the worst states.The Pew Center on the States has ranked it in the bottom five in the nation, with a 57%. The state has roughly, a $10 billion spike over a decade blamed on benefits that increased without offsetting deposits.With crisis there may be opportunity, however. In recent months, state officials have looked aggressively at improving the funding of its pensions. The retirement age for new employees has been raised and cost-of-living benefits, for the first time, can not be awarded without allocated funding.Already, $5.5 million has been shaved from liabilities and even the Oklahoma Teachers Retirement System, considered one of the worst-managed funds in the state, could be fully funded within 20 years.**Kansas**Fiscal conservatives have seized upon the Kansas Public Employees Retirement System as a poster child for budget-busting benefits.Officially, the KPERS unfunded liability stands at $8.3 billion, but "the real deficit" according to the, a conservative think tank, is "more likely to be at least $14 billion" and possibly as high as $20 billion. The sweep of estimates is because the official statistic is based on assets earning an 8% annual return over the next 30 years. Critics say that the investment return should be set much lower and, for example, a 6% investment return would require an additional $3.3 billion in state contributions over 10 years.Among the reforms being considered is to put new employees and nonvested current employees into a 401(k)-style retirement plan.**Louisiana**In 2010,on state pension funds by Joshua Rauh, of Northwestern University's Kellogg School of Management, and Robert Novy-Marx, of the University of Chicago's Booth School of Business, predicted Louisiana would face a "day of reckoning" and fiscal insolvency by 2017, sharing that fate with Oklahoma.While critics trounced the study as fearmongering, officials in that state have beenat its $18 billion unfunded liability through such proposals as increasing employee contribution requirements.The constitutionality ofspearheaded by Republican Gov. Bobby Jindal is being debated and implementation looks to be delayed.**Connecticut**In 2010, two groups gave dismal reviews for Connecticut's public Pension plans, criticisms that coincided with its highest unfunded pension liability in more than two decadesThe Pew Center on the States cited Connecticut as one of only eight states underfunding more than a third of its pension liability. Less than 48% of these obligations are funded, and Connecticut's unfunded Pension and Medical liability is nearly $42 billion., an independent think tank that challenges conventional thinking in education policy, cited the state as having among the highest unfunded pension liability per capita in the nation, second only to Alaska (a state that despite moving employees to a 401(k) style plan in 2005 is still chipping away at a lingering $11 billion shortfall, even as legislators debate bringing back pensions as an employee option).This year, amid a debt rating downgrade by**Moody's Investment Services**, Gov. Daniel P. Malloy began touting a new funding plan he claimed would make the state employee pension system fully funded within 20 years.--Written by Joe Mont in Boston. >To submit a news tip, email:.