Presentation to
New Jersey Council of Economic Advisors

Pension Obligations and Reform Options

March 2, 2010

David L. Crawford, Ph.D.

President – Econsult Corporation

Adjunct Professor of Management – The Wharton School

Econsult Corporation

Why Do Public Employers Provide Pensions?

- Tax incentives
- To retain long-term employees
- To attract employees who like pensions
- To push costs beyond the political horizon

Sources of False Hope

- Moving to defined contribution
- Pension obligation bonds
- Deferred retirement option plans (DROP)
- Moving toward full funding

Defined Benefit vs. Defined Contribution

- Choice does not significantly affect cost of providing any specified level of benefits
- Choice does allocate risk between
  - Taxpayers and Employees
  - Current and future taxpayers
- May distort decisions regarding generosity

Pension Obligation Bonds

- Provide initial cash flow
- Replace pension liability with general debt
- Hope is to take advantage of return larger than borrowing rate
- Increase risk
- Do not reduce costs

Deferred Retirement Option Plans

- Are not expected to save money
- Shift risk from taxpayers to employees
- Are intended to retain employees with many years of service
- Would that be a good thing?
- Can create controversy

Full/Partial Funding Decisions

- Are a cash flow issue
- Are a risk issue
- Are not really a pension cost issue
- Are an allocation issue
- Can distort current choices

Reducing Generosity To Lower Costs

- Restrict eligibility
- Raise ages for full and reduced benefits
- Lower benefit formula
- Reduce or eliminate COLA
- Increase employee contribution

Past, Current, and New Employees

- Legal issues
- Not many new employees, not much impact
- Different types of new employees

Presentation to
New Jersey Council of Economic Advisors

Pension Obligations and Reform Options

March 2, 2010

David L. Crawford, Ph.D.

President – Econsult Corporation

Adjunct Professor of Management – The Wharton School

Econsult Corporation