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**Risk Sharing's Key Role in Strengthening Public Pensions**

As Wisconsin and Arizona are demonstrating, fiscally sustainable retirement systems aren't an impossible dream.

BY [CHARLES CHIEPPO](http://www.governing.com/authors/Charles-Chieppo.html) | OCTOBER 4, 2016

There appears to be a lesson to be drawn from Wisconsin's fully funded public pension system, along with promising pension reforms recently enacted in Arizona: More risk sharing between employers and employees can be a major ingredient in creating fiscally sustainable state- and local-government retirement systems.

Wisconsin's pension serves 604,000 state-government workers and retirees, as well as those of local governments except for the city and county of Milwaukee. By one measure, the state system [had a $2.5 billion surplus](http://projects.jsonline.com/news/2016/9/26/wisconsins-fully-funded-pension-system-is-one-of-a-kind.html) in December 2014. Compare that to neighboring Illinois, where the state pension fund's $111.5 billion in unfunded liability is more than the entire assets of the Wisconsin system.

Like other pension systems, Wisconsin's guarantees a fixed minimum benefit, in its case based on an employee's years of service and salary at the time of retirement. But the secret of its success is that benefits can rise above or fall back down to the minimum based on the fund's fiscal health. Factors such as how long retirees live, how long their spouses collect benefits and the rate of return on fund investments all can impact retiree payouts. Critically, changes in the benefit level are triggered automatically and don't require politically difficult votes.

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During the Great Recession in 2008 and 2009, for example, total payouts fell by $4 billion, due largely to poor investment returns. But over the last three years an improved market triggered a $3.5 billion increase in benefits paid.

For the most part, various branches of state government have acted to safeguard the system's fiscal integrity, and elected officials have agreed to appropriate the necessary annual employer contributions.

The record isn't perfect, though. When the governor and legislature tried to raid the pension to free up funds for immediate priorities in 1987, the state Supreme Court not only rejected the move and required them to return the money to the pension but also forced the raiding party to pay attorney's fees and interest on the diverted funds.

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And in 1999, at the height of the bull market, the governor and legislature increased future payouts more than it raised payments into the system. But four years later, after the market had crashed, the state took advantage of low interest rates to borrow money and put it into investments expected to generate a higher yield. So far the gamble has paid off.

Shared risk is also an important part of [promising reforms](http://www.governing.com/blogs/bfc/col-arizona-public-safety-pension-reform-national-model.html) to Arizona's Public Safety Personnel Retirement System enacted earlier this year. There, pension costs and risks for new workers will be shared equally between employers and employees. Whether cost-of-living adjustments are paid out and how large they are will depend on how well funded the system is.

It's no secret that pensions and other post-employment benefit liabilities, such as retiree health-care costs, are threatening to overwhelm the finances of a growing number of state and local governments. Developing targeted ways to share the risk with employees can go a long way toward ensuring that today's public workers will have the benefits they've earned when they retire. Right now, that's a promise that far too few of the many governments that have gotten themselves into pension trouble can honestly make.

[Charlie\_Chieppo@hks.harvard.edu](mailto:Charlie_Chieppo@hks.harvard.edu)



#### [Charles Chieppo](http://www.governing.com/authors/Charles-Chieppo.html)

*Charles Chieppo is a research fellow at the Ash Center of the Harvard Kennedy School.*

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