accrued each year, plus the annual cost to amortize unfunded liabilities from past years, minus required employee contributions.

On a weighted basis, the average ARC paid in recent years has been around 84 percent. Beneath this average ARC experience lies diversity: approximately 60 percent of plans in the Public Fund Survey consistently receive 90 percent or more of their ARC.[ix] This means that although a majority of plans have been receiving their required funding, many plans have not been adequately funded, which will result in higher future costs.

Leading national public sector associations established a Pension Funding Task Force, which in 2013 released its report *Pension Funding: A Guide for Elected Officials* urging policymakers to follow recommended guidelines for an actuarially determined contribution to government retirement systems.

Social Security Coverage

Twenty-five to thirty percent of state and local governments and their employees make contributions to their retirement plan instead of to Social Security. This is the case for most to substantially all of the state and local government workforce in seven states, 40 percent of the nation's public school teachers, and a majority of firefighters and police officers. Pension benefits—and costs—for those who do not participate in Social Security are usually higher than for those who do participate, in order to compensate for the absence of Social Security benefits. This higher cost should be considered in the context of the 12.4 percent of payroll, or an estimated $31.2 billion annually,[x] these employers and employees would otherwise be paying into Social Security.

Investments and Other Parts of the Financing Equation

The largest portion of public pension funding comes from investment earnings, which illustrates the major role this revenue source plays in determining pension costs (see *NASRA Issue Brief: Public Pension Plan Investment Return Assumptions*, October 2014). Other factors that affect pension costs include expectations for wage and general inflation, rates of worker retirement and attrition, and rates of mortality. Expectations for these and other economic and actuarial events typically are based on long timeframes, such as 20 to 50 years.

In addition to the performance of pension fund investments, macro-economic and demographic events also affect the cost of the plan. These events include such changes as retirement rates, attrition and rates of hiring, and wage growth, which is affected by salary cuts and layoffs. Additionally, legislatures in nearly every state have made changes to pension benefits and/or financing structures, in some cases reducing plan costs and long-term obligations.

Conclusion

On average, retirement programs remain a relatively small part of state and local government spending, although required costs, benefit levels, funding levels, and funding adequacy vary widely. Over $240 billion is distributed annually from these trusts to retirees and their beneficiaries, which reaches virtually every city and town in the nation.[xi]

Changes to benefit levels and required employee contributions adopted by states and cities have been diverse, dependent in part on such factors as the legal authority to make changes to benefits or required employee contribution rates, and the plan's financial condition prior to the 2008-09 market decline. Generally, states and cities with a history of paying their required pension contributions are in better condition and have needed more minor adjustments to benefits or financing arrangements compared to those with a history of not adequately making their contributions.