

# How to Become a (Public Pension) Millionaire

**In five states, an average full-career retiree receives a retirement income higher than his final salary.**

By

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March 14, 2014 7:18 p.m. ET

Detroit and San Bernardino and Stockton, Calif. are in bankruptcy, and across the country the costs of maintaining pensions for city and state employees more than doubled to nearly \$84 billion in 2011 from 2002. Yet the American Federation of State, County and Municipal Employees (Afsme) declares that public pensions are "modest," noting that its average member "receives a pension of approximately \$19,000 per year after a career of public service."

The facts don't agree. Data compiled from all state pensions show that, for employees who spend a career in state government, generous pensions put retired public workers among the highest earners in their state.

It is true that average public-pension benefits rarely seem extravagant. But these averages are reduced by two groups: older employees who retired many years ago and whose benefits are far less than those of an employee retiring today; and by short-term workers who often receive tiny pensions but almost surely have retirement savings from another job.

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A far more relevant measure of the public-pension burden is how much a typical full-career state employee retiring *today* receives. In a new study for the American Enterprise Institute, I compiled data from pensions plans' Comprehensive Annual Financial Reports, which show the average benefits paid to a newly retired state government employee with at least 30 years of job tenure. Public-safety employees, who typically receive the most generous pensions, are excluded from these

figures. These are not one-off examples of egregious abuses. They are what the average full-career employee actually received in retirement.

The typical full-career state worker retiring this year will receive an annual pension of \$36,000, nearly double the \$19,000 figure cited by Apscme. Add Social Security benefits, which state-government employees receive in 43 states, and the average rises to more than \$51,000. These averages include states such as Mississippi, Indiana and Kansas where pension benefits don't appear overgenerous and aren't controversial.

In California, by contrast, a typical full-career worker retiring today receives \$61,560, plus roughly \$20,000 in Social Security benefits. In Oregon the average new pension benefit is \$58,188, while West Virginia pays \$49,141 plus Social Security.

Retiree health benefits, which most state government retirees receive, can add thousands of dollars each year. In Massachusetts, annual retiree health payments average \$7,500. The California State Department of Personnel Administration once advertised to prospective employees the nearly half-million dollars in lifetime retiree health benefits they could expect to receive.

Ideally, we could compare the incomes of retired public employees to those of private retirees, but government data do a poor job of tracking the income that private retirees receive from IRA and 401(k) plans. However, we can compare government retirees' incomes, including Social Security, with those of workers in their state. This is a more conservative approach, since retirees need a significantly lower income to maintain their standard of living.

Data from the Bureau of Labor Statistics' Occupational Employment Statistics survey show that the average retired state-government employee has an income higher than 72% of full-time workers in his state. Generous public pensions ignore political bounds. A retired full-career California state worker takes home more than 87% of full-time workers' incomes, but the same is true for Alabama and Texas. Oregon pays its retirees more than is earned by 90% of employees in that state.

Unions claim that no one works for government to get rich, but many public employees become "pension millionaires" along the way. In Nevada, an average full-career state worker can expect to receive \$1.3 million in lifetime pension benefits. Alaska, California, Colorado and Oregon all pay lifetime benefits exceeding \$1.2 million. A wealthy, high-cost-of-living state such as Connecticut offers more than \$1 million in average lifetime benefits to full-career employees who retire today; so does a relatively low-cost state such as West Virginia.

According to the Social Security Administration, financial advisers recommend a retirement income equal to 70% of pre-retirement pay. But 30 states pay replacement rates above 85%, and in five states—Oregon, California, Texas, New Mexico and West Virginia—an average full-career employee retiring today receives a retirement income higher than his final salary.

This isn't to say that every public employee receives a generous pension. Due to vesting provisions and a "back-loaded" benefit formula, long-term employees receive generous benefits but government workers with shorter careers receive far less. Nearly half of government employees leave without any right to future pension benefits. Shorter-term employees would do better with a 401(k) or cash-balance plan, but public employee unions—dominated by long-career employees—oppose most pension reforms.

Pension reform should do three things. First, make the true costs and generosity of government pensions more transparent, so policy makers and voters have a better understanding of what they have promised.

Second, bring the generosity of pension benefits more in line with the private sector. Some state governments might have to pay more generous salaries to attract and retain workers—but most wouldn't.

Third, public pensions should treat short and long-term employees more equitably. It is bizarre that state governments, despite per-employee pension spending that dwarfs that of private firms, allow many employees to leave public service with practically nothing set aside for retirement.

*Mr. Biggs is a resident scholar at the American Enterprise Institute. His study "Not So Modest: Pensions Paid to Full-Career Employees of State Governments" will be published on March 19 at [www.aei.org](http://www.aei.org).*