

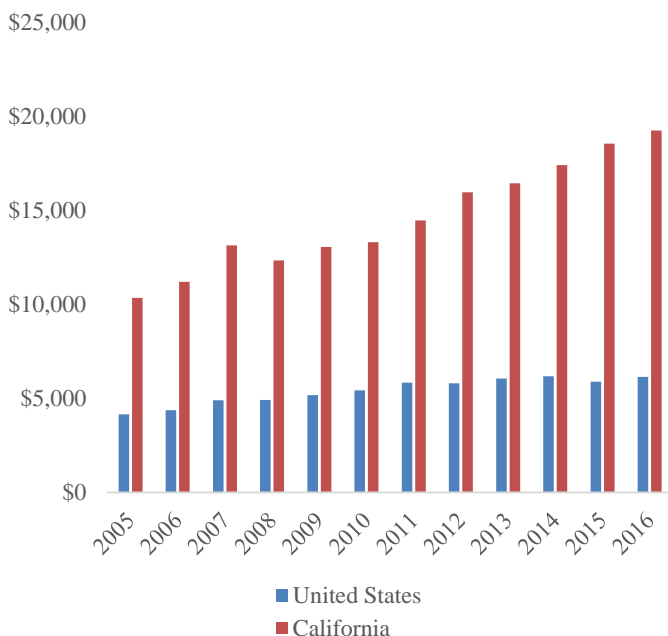


Pensions in the Trenches: Are Rising Local Pension Costs Crowding Out Public Services?

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In recent decades, policymakers across the U.S. have made public pensions more generous and have failed to set aside enough money to pay for them. Many experts claim that local governments are now feeling the consequences in the form of rapidly rising pension expenditures, but specialists disagree about the extent of the problem: some say local governments are being forced to raise taxes and cut services, whereas others argue that the “crisis” is limited to a few places. Without data on pension expenditures at the local government level, it has been difficult to say which is more accurate. I have collected twelve years of data on the pension expenditures of 442 municipalities and counties across the United States and combined them with U.S. Census data on local government finances and employment. I evaluate how local governments’ pension expenditures have changed over time and how the changes have affected local government operations.

Local government pension expenditures per employee (2016 dollars)



Key Findings:

- Local governments vary dramatically in how much they spend per employee on pensions, and pension costs in California are more than double the national median. As of 2007, the median local government in the dataset spent \$4,901 per employee on pensions (in 2016 dollars), whereas the median for California cities and counties was \$13,128.
- Since 2007, local pension costs have risen almost everywhere, but growth has been more pronounced in California than in many other parts of the U.S. In the median U.S. local government in the dataset, pension costs grew by \$1,216 per employee between 2007 and 2016 and absorbed an additional 0.7% of local general revenue. Within California cities and counties, median local pension cost growth was \$7,022 per employee and 2% of general revenue.
- Most local governments are not responding by increasing revenue; they are instead shrinking their workforces. Modeling changes within cities and counties from 2005 to 2016, I find that greater growth in pension costs is linked to larger reductions in local government employment per capita—especially in states like California that have mandatory collective bargaining and high public-sector union membership.

Implications for Policy:

Local government is being transformed by rising pension costs, and as a result, citizens of California can expect a future in which city and county governments do less with more. These changes are also not positive for government employees and their unions, because as local governments spend more on pensions, they are also cutting jobs.

This project was funded by the Laura and John Arnold Foundation, the Berkeley Institute for the Future of Young Americans, and the Institute for Research on Labor and Employment