U.S. state pension funds have $1 trillion shortfall: Pew

WASHINGTON (Reuters) - U.S. states face a total shortfall of at least $1 trillion in their funds for employees' pensions and retirement benefits, and their financial problems are quickly mounting, according to a report released by the Pew Center on the States on Thursday.

Illinois is in the worst shape, with only 54 percent of its pension obligations funded, according to the report, which looked at fiscal year 2008.

Because the analysis did not encompass the final six months of calendar year 2008 -- most states' fiscal year's end during the summer -- it does not include the market downturn that devastated many funds' investment portfolios.

"The funding gap will likely increase when the more than 25 percent loss states took in calendar year 2008 is factored in," the report said.

Regardless of stock market fluctuations, pension funds were destined to fall down a budget hole, the non-profit research center found.

"Over the last 10 years, many states have shortchanged pension plans in good times and bad," said Susan Urahn, the center's managing director, who called the beginning of the century a "decade of irresponsibility."

States did not save for the future and manage costs well, said Urahn. She also cautioned that the 8 percent return on investments most states typically expect may need to be lowered.

Still, the dwindling value of the funds' investments from stock market problems has forced states to deposit more money into their accounts.

In 2000, they were only required to pay $27 billion total into their funds. By fiscal 2008 that amount had more than doubled to a $64 billion deposit. This comes at a time when a long and deep economic recession has devastated states' revenues and made it nearly impossible for many to pay for basic costs such as salaries.

Describing state pension funds as operating similarly to credit card holders who make minimal monthly payments on their debt but continue to charge, Urahn said the funds were making their problems worse by not preparing for impending retirements.

"The growing bill coming due to states could have significant consequences for taxpayers -- higher taxes, less money for public services and lower state bond ratings," she said.

A pension fund is considered healthy if it has a funding level equal to at least 80 percent of its liability. In fiscal 2008, 21 states were below that mark, compared to only 19 states in fiscal 2006.

The rate of decline has been rapid, the center said. In fiscal 2000 half of the 50 states had fully funded their pension systems but by fiscal 2008 only four -- Florida, New York, Washington and Wisconsin -- could boast being able to cover their costs.

Public employees often receive other retirement benefits such as health care, and states are struggling even more to meet those spending needs. Only 5 percent of the $587 billion total liability they have is funded, the center said.

Alaska and Arizona are the sole states that have more than 50 percent of the assets needed to pay for other post-employment benefits, Pew said.

(Reporting by Lisa Lambert; Editing by Leslie Adler)

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