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Report

Big City Pensions and the Urban Doom Loop

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Executive Summary

Many American cities are in a quandary. For decades, they have promised generous pensions to police officers, firefighters, and civil servants, who helped make them successful. But now, the deferred costs of this model are squeezing current services.

The combined effect of preexisting pension costs, the end of a bull market, and the Covid-induced exodus of office workers and affluent residents is that cities are watching their revenues top out while they owe billions of dollars to retired and soon-to-retire city employees.

Cities have frequently responded to balance-sheet strain by cutting services—especially policing, thus reducing urban quality of life. Tax increases are another possible response, but they also drive urban exodus. A one-two punch of higher taxes and diminished services threatens to push cities into an urban doom loop: affluent residents and businesses flee cities, which, in turn, reduces tax revenues and services, leading to even more outmigration. As American cities look beyond the pandemic shock, they face the dual challenge of covering pension obligations to former workers while upholding service responsibilities to current inhabitants on tighter budgets.

This paper examines the revenue and pension spending nexuses of America's 10 largest cities by population (New York, Los Angeles, Chicago, Houston, Phoenix, Philadelphia, San Antonio, San Diego, Dallas, and San Jose) as we enter the post-pandemic era.

The key findings are:

- Pension spending increased in all of the 10 largest American cities over the last decade, with a few cities experiencing a doubling or even tripling of their expenditures in 2021 dollars.
- Almost all cities saw an increase in pension spending per employee.
- There is large variation in the amount per employee that American cities are spending on pensions.
- To respond to rising pension demands, some cities have reduced employment, often in the area of public safety.
- A worsening market environment for pension funds will necessitate increased pension expenditures by cities in 2023 and beyond, exacerbating pressures to limit or reduce employment and, thus, city services.

To avoid the vicious cycle of deteriorating urban conditions spurring more outmigration, cities need to consider a host of policy options. We recommend the following:

1. Petition state governments to change pension statutes to allow for defined-contribution options for new hires.
2. Alter existing pension formulas for new hires to require more years before a full pension can be earned.
3. Identify ways to improve service efficiency without investing in greater human capital.

Introduction

The Covid-19 pandemic induced great financial instability for America's big cities. Pension financing, which constitutes a substantial slice of municipal expenditures, rose and fell, as well. A bull market in 2021 was followed by a market collapse in 2022, wiping out the gains made by state and local pension funds over the previous decade.

Pension funds are heavily dependent on their investment portfolios. When the stock market hit new highs in the fall of 2021, the average funding level—assets as a share of liabilities—of state and local pensions rose to 85%, the highest point in the last 15 years, which reduced unfunded liabilities.[1] But the high quickly wore off. The market decline of 2022 pushed funding levels down roughly 15%, and unfunded liabilities have increased. Funding ratios have slumped to where they were a decade ago.[2] In 2023, state and local governments will have to contribute more to these pension plans to compensate for the market shortfalls,[3] which will further strain city budgets.

The rise of work-from-home has also led some businesses and residents to leave American cities, which presents real risks to cities' public finances. The value of commercial real estate has fallen, which will likely reduce important commercial property-tax revenues.[4] Furthermore, fewer riders on public transportation mean that local governments must cover the costs of decreased fare revenues, as the costs of subway and bus systems are largely fixed.

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While economic theory would predict that lower prices will attract new entrants to pick up the market slack, urban theorists worry that this time will be different. With a redistribution of economic activity out of urban cores, many downtown areas face what Arpit Gupta, professor of finance at New York University, calls an urban "doom loop."[5] In this scenario, reduced economic activity and lower daytime populations downtown invite increases in antisocial behavior, preventing the rebounds that have generally followed past downturns. Continual underperformance of commercial real estate leads to lower tax revenues and precipitates service cuts, pushing cities further down the negative spiral.

To respond to these challenges, city governments have limited options. In the long term, some cities might alter zoning and land-use policies to permit the repurposing of commercial structures that are in less demand due to the increase in work-from-home. In the short run, however, given balanced budget requirements, city governments must either raise new tax revenue or cut public spending. Raising new revenue is politically unpopular and bad for the business climate. Cutting spending threatens quality of life, insofar as city governments are unable to provide sufficient public goods such as transit, schools, policing, and sanitation. If affluent, mobile residents continue to leave cities—as some analysts worry that they will—the result may be a pattern whereby budget cuts promote more outmigration, which promotes further budget cuts and more outmigration and, ultimately, urban decay.[6]

In this paper, we tracked big-city government pension expenditures prior to, during, and after the Covid-19 pandemic by gathering data from cities' Annual Comprehensive Financial Reports (ACFRs).[7] We focus on America's 10 largest cities by population because population is a rough proxy for the significance of a metro area. In fact, these cities combined account for nearly 8% of the total U.S. population—and, of course, these cities and their metro areas together account for a much larger share. The trajectory of these cities is clearly of national concern.

By focusing on the big cities, we hold in abeyance the debate over whether local public pension systems in general are in crisis or whether the crisis is confined to a few municipalities.[8] Our data provide a glimpse into how these cities' pension expenditures have changed over the last decade, including in the tumultuous pandemic period. By connecting these local pension expenditure figures to city government budget numbers, we explore whether growing pension expenditures are associated with employment reductions.

Note that city officials have limited control of their pension expenditures and usually cannot easily reduce spending on pensions, the costs of which are largely fixed.[9] Therefore, cities have only three potential responses to rising pension costs: they can increase revenues, reduce expenditures on other items, or reduce employment. The last option is often the most effective because city governments are highly human-capital intensive, and a large portion of city budgets is allocated to employee compensation.

We find that between 2011 and 2021, pension expenditures increased (in inflation-adjusted dollars) in all of the 10 largest American cities. In some cases, the increases were very large. But each city responded somewhat differently to increased costs. Some cut employment, especially in the area of public safety.[10] Others adopted questionable new financing mechanisms or economic growth strategies.

Ultimately, if a city seeks to address the pension crunch by keeping the employee headcount down—often by leaving vacancies unfilled—it must also improve productivity, or public services will deteriorate. This is a major factor in avoiding the urban doom loop.

Background

Defined-benefit pensions operate as follows: workers and their employers each make contributions to a fund (although sometimes in the public sector, the employee's share is paid by the employer), which is governed by a politically appointed board that makes broad investment decisions about how to allocate the money. The fund is then used to pay an annuity-like stream of income to workers when they retire. The "defined benefit" means that a certain percentage of a worker's final average salary—determined by a formula that takes into account the number of years on the job and average salary over the last three to five years of employment—is paid for the remainder of the retired worker's life.

The basic structure of public pension plans raises a problem. By providing a guaranteed stream of income in retirement—regardless of whether the pension fund's assets and market performance are sufficient to make those payouts—such plans expose taxpayers to considerable risk. If the plans are underfunded, public budgets, and ultimately taxpayers, must come up with the money to make the contractually guaranteed payouts.

Most state and some local employees are enrolled in huge state-run pension plans, but many big-city governments operate their own plans. Collectively, in our 10 municipalities, there are 21 distinct plans. In our sample, only San Antonio contributes to a large state-run plan (**Table 1**).

Table 1

New York City

New York Employees' Retirement System (NYCERS)
New York City Board of Education Retirement System (BERS)
New York City Fire Pensions Fund (NYCFPF)
New York City Police Pension Fund (NYCPPF)
New York City Teachers' Retirement System (TRS)

Chicago

Municipal Employees' Annuity & Benefit Fund of Chicago (MEABF)
Laborers' & Retirement Board Employees' Annuity & Benefit Fund (LABF)
Policemen's Annuity & Benefit Fund
Firemen's Annuity & Benefit Fund

Los Angeles

Los Angeles City Employees' Retirement System (LACERS)
Los Angeles Fire and Police Pensions (LAFPP)

Houston

Houston Municipal Employees Pension System
Houston Firefighters' Relief and Retirement Fund
Houston Police Officers' Pension System

Phoenix

City of Phoenix Employees' Retirement System

Philadelphia

Philadelphia Public Employees Retirement System

San Diego

San Diego City Employees' Retirement System

Dallas

Employees Retirement Fund (ERF)
Dallas Police and Fire Pension System (DPFP)

San Jose

Federated City Employees' Retirement System
Police and Fire Department Retirement Plan

Today, some 456,729 people work for the 10 city governments studied here, almost all of whom are eligible for a traditional defined-benefit pension. The problem is that some of these city governments have not set aside enough money to pay for all the benefits that they have promised to current and former workers. Another issue is that some of these plans are very costly, even if the city has been prudent in setting money aside to pay for them.

The best available data on a city's pension contributions are in its ACFRs. By looking at pension expenditures in isolation, we focus on what pensions are costing a city each year. For each city and each year, we also calculate total pension expenditures as a percentage of general revenue, which shows how much of all city revenue is allocated to pensions, and total pension expenditures per full-time employee (FTE). The latter is a useful measure of pension-induced fiscal pressure because a city's pension contributions are, in part, a result of the size of its workforce. If a city hires more workers, its pension contributions will increase because it must contribute on behalf of more people. Therefore, hiring more workers creates greater long-run liabilities, adding to the cost per worker. Finally, we calculate the percentage change in total city employment from 2011 to 2021. These figures form the basis of our analysis.

City Trends

The first thing to consider when thinking about the trajectory of America's biggest cities is their population trends. Cities that are growing rapidly will need to increase the size of their public workforces to provide sufficient services to incoming residents. Those with slow growth (or decline) need to consider ways to trim their number of public workers to correspond to a smaller tax base. In **Table 2**, we display the population trends over roughly the last decade for the 10 cities examined here.

Table 2

City Population Trends

	Increase	Years
New York City	0.40%	2011–2019
Los Angeles	4.19%	2012–2021
Chicago	1.88%	2012–2021
Houston	7.97%	2012–2021
Phoenix	12.75%	2012–2021
Philadelphia	2.59%	2012–2020
San Antonio	17.25%	2011–2020
San Diego	6.79%	2011–2020
Dallas	8.03%	2012–2021
San Jose	9.38%	2011–2020

Looking across all of America's biggest cities over a decade (2011–21), the data we gathered provide six important lessons.

1. Pension Spending Increased Everywhere

Pension spending has increased in all 10 cities. Some cities saw huge increases, such as Chicago (175%), Phoenix (202%), and San Jose (116%). Others saw quite large increases, such as Dallas (42%) and Houston (44%). Meanwhile, New York (15%), Philadelphia (16%), San Antonio (17%), and San Diego (20%) managed to keep the expenditure increases down, by comparison (**Table 3**).

Table 3

Percentage Change in Pension Expenditures, 2011–21

New York	15%
Los Angeles*	16%
Chicago	175%
Houston	44%
Phoenix	202%
Philadelphia	16%
San Antonio	17%
San Diego	20%
Dallas	42%
San Jose	116%

*Since 2013

2. Most Cities Increased Spending per Employee

Most of the cities studied here substantially increased their pension spending relative to the number of people they employ, a key indicator of spending vs. services. In some cities, such as Phoenix (218%), Chicago (188%), and San Jose (102%), the increases were huge. In others, such as San Diego (0.1%), New York (6%), and San Antonio (7%), they were modest (**Table 4**).

Table 4

Percentage Change in Pension Expenditure per FTE, 2011–21

New York	6%
Los Angeles*	13.90%
Chicago	188%
Houston	50%
Phoenix	218%
Philadelphia	15%
San Antonio	7%
San Diego	0.10%
Dallas	26%
San Jose	102%

*Since 2013

3. In Absolute Terms, Pension Spending per Employee Varies Greatly

Though increases were seen across the board, there is large variation in the absolute amount per FTE that America's big cities spend on pensions (**Table 5**). Leading the pack is San Jose, at almost $58,000, while Dallas, Houston, and San Antonio all spent under $20,000 in 2021.

Table 5

Pension Expenditure per FTE, 2018–21

	2018	2019	2020	2021
New York City	$31,884	$32,714	$32,191	$32,063
Los Angeles	$41,405	$42,187	$44,074	$47,266
Chicago	$31,995	$31,417	$44,911	$45,206
Houston	$61,668	$18,630	$18,639	$18,931
Phoenix	$33,652	$30,552	$33,581	$49,466
Philadelphia	$30,271	$29,727	$30,467	$28,263
San Antonio	$15,075	$16,224	$18,426	$17,184
San Diego	$35,914	$36,670	$32,740	$35,003
Dallas	$17,152	$17,331	$17,346	$17,640
San Jose	$49,457	$52,378	$55,933	$57,685

4. Thanks to Federal Grants, Revenues Are Keeping Pace with Expenditures (for Now)

In general, cities' total revenues have tracked pension spending growth (**Table 6**), but that includes grants from the federal government (for Covid response) that are not expected—let alone guaranteed—in the future. Without the grants, city spending on pensions would eat up a greater portion of their revenues. However, one of the cities, Houston, is also something of an anomaly, as it had to bail out its police and firefighter funds in 2018 and thus made a very large expenditure that year.[11] Therefore, looking over a shorter or longer period, Houston would likely show evidence of increasing pension expenditures as a percentage of city revenue.

Table 6

Percentage of City Revenues Spent on Pensions, 2018–21

	2018	2019	2020	2021
New York City	11%	11%	10%	9%
Los Angeles	8%	8%	9%	8%
Chicago	1%	1%	15%	12%
Houston	27%	8%	7%	7%
Phoenix	11%	1%	1%	13%
Philadelphia	8%	9%	9%	8%
San Antonio	7%	7%	8%	7%
San Diego	13%	12%	11%	11%
Dallas	7%	7%	7%	7%
San Jose	17%	16%	15%	16%

5. Some Cities Are Cutting Employment

Chicago (–5%), Houston (–4%), and Phoenix (–5%) all had fewer FTEs in 2021 than they did a decade earlier. Meanwhile, Philadelphia and Los Angeles held employment roughly constant over the period (**Table 7**). Other cities, including San Diego (12%), San Antonio (10%), and New York (9%), increased employment, with most of the increase in those cities coming in the earlier part of the decade and then remaining stable, or declining slightly, in the last four years (**Table 8**). Some of these increases could clearly be interpreted as a response to urban growth—as both San Antonio and San Diego saw significant population increases over the decade. NYC's population, on the other hand, did not grow over the period. With the exception of NYC, the cities that were able to hold employment constant had a lower pension cost per FTE, and the two cities that increased employment the most had the lowest pension-spending-to-FTE ratio.

Table 7

Percentage Change in City FTEs, 2011–21

	2011–2021
New York	9%
Los Angeles*	2.50%
Chicago	–5%
Houston	–4%
Phoenix	–5%
Philadelphia	0.90%
San Antonio	10%
San Diego	12%
Dallas	6%
San Jose	7%

*Since 2013

Table 8

Total City FTEs, 2018–21

	2018	2019	2020	2021
New York City	298,370	300,442	300,446	291,101
Los Angeles	32,535	33,059	33,973	31,369
Chicago	36,231	36,577	36,616	34,767
Houston	22,568	21,932	21,962	21,835
Phoenix	12,686	12,843	12,900	12,742
Philadelphia	24,520	25,315	24,929	23,657
San Antonio	11,099	11,379	11,154	11,042
San Diego	11,593	11,598	11,598	11,295
Dallas	12,518	12,747	13,000	13,000
San Jose	7,527	7,728	7,575	7,627

6. Employment Cuts Tend to Fall on Police Departments

While "defund the police" became a rallying cry only in 2020, city pension problems had already prompted some big cities to reduce the size of their police forces.

Taken together, our data suggest that America's biggest and most dynamic cities are not keeping up with rising pension costs. That is, they are spending more in the here and now but are not providing citizens with any more services, especially public safety.

A Closer Look

The structure of defined-benefit pension plans creates two distinct problems for America's big cities. The first is that, in some cities, pensions may be more generous than necessary to attract a talented and able workforce; these cities would be better off with smaller pensions but higher salaries to attract workers. The second problem is that in many cities, pensions are badly underfunded. This section examines these two problems in the 10 largest U.S. cities by population.

New York City

New York City's pensions are relatively well funded, thanks to a court decision decades ago. But the city's pensions are also generous, so costs are high.[12] Moreover, the city went on a major hiring spree under Mayor Bill de Blasio.[13] Looking at the 10-year trend, the total number of FTEs for NYC rose from 267,423 in 2011 to 291,101 in 2021, despite population remaining roughly flat during the period.[14] Interestingly, the city had nearly the same number of uniformed police officers in 2021 as it did in 2011, while important categories of crime increased.[15] Meanwhile, the number of schoolteachers increased from 107,625 to 119,210, even as enrollment in the public schools declined.

Though the city's pensions are reasonably well funded, they depend not just upon investment earnings but the city's income and property-tax revenues as well. The 2022 stock-market decline was particularly brutal for the city's pension funds, which lost 8.6% of their value.[16] As a result, rather than reducing pension contributions, from $9.6 billion in 2022 to $6.9 billion in 2026, as Mayor Eric Adams's early budget proposes, the city may need to start contributing an additional $4 billion between 2024 and 2026.[17]

The first problem—excessively generous benefits—could be said to exist in NYC. The city currently has a large number of job vacancies in key agencies but is struggling to attract talented employees.[18] It cannot consider better compensation because pension obligations are increasing. So it is stuck trying to find other ways to improve its human capital.

NYC has turned to a novel revenue tactic to boost economic activity and tax receipts: casinos and marijuana sales.[19] This strategy is highly questionable insofar as both these industries threaten to corrode quality of life without providing a corresponding boost in economic growth. Relying on these sources of revenue suggests that the city can no longer meet its commitments through traditional means of economic growth and taxation of that growth.

Los Angeles

Los Angeles, where total city employment fell by 1,166 between 2018 and 2021, exemplifies the city service-reduction problem. The majority of the city's employment drop was among the police force. Los Angeles, which had 10,000 officers in the mid-2010s, now has about 9,200, with another 600 expected to leave the force in the next year. As a stopgap measure, L.A. will now pay retired officers who are receiving pensions to rejoin LAPD, allowing them to double-dip.[20]

Chicago

In Chicago, total city employment declined slightly, from 36,231 in 2018 to 34,767 in 2021. The biggest drop came in the police force, which lost 1,515 employees over that period. This is especially relevant in a city that suffered a brutal crime wave over this period.

The second problem—pensions being underfunded—is clearly manifest in Chicago, which has pension debt greater than 45 states.[21] The funding ratios for its police, firefighter, laborer, and municipal employee pension systems are all in the low 30% range.

Like New York, Chicago has employed questionable methods to boost revenue. For instance, the Windy City approved a new casino in May 2022 and plans to use 9% of its revenue to defray the city's pension contribution. This is a risky and morally dubious strategy because casinos, like state-run lotteries, are equivalent to taxes on lower-income Americans.[22] Other proposals to effectively tax residents (especially those in lower-income sections of the city), such as speed camera ticket revenue,[23] show that the city of Chicago is not only failing to provide adequate services but is searching for new ways to tax its least fortunate residents to pay the pension tab.

Houston

Houston, America's fourth-largest city and the largest in Texas, has a noteworthy recent pension past that predates the pandemic. In 2016, during Mayor Sylvester Turner's first term in office, city voters and the state legislature approved landmark pension reform to get the city back onto firm ground and to reduce yearly spending.[24] The reform package reduced Houston's unfunded liability from over $8 billion at its passage to $1.5 billion by the end of 2021. In our analysis period, the Turner reforms show themselves in the extraordinary spending that the city plunged into its pensions in 2018. That year, the city spent more than 27% of its revenue on pensions, about $61,000 per FTE. In the three recorded years since, Houston has spent 7.5% or less of its revenue on pensions, under $19,000 per FTE. Houston's number of full-time-equivalent employees has held relatively steady, losing only 750 employees between 2018 and 2021. Overall, the number of FTEs in Houston was the same in 2021 as it had been in 2012.

Phoenix

Phoenix, America's fifth-largest city, shows that the emerging cities of the Sun Belt are not immune to the travails that plague older cities. As the Reason Foundation has documented, Phoenix finds itself "awash" in unfunded liabilities, which in 2021 eclipsed $5 billion.[25] This debt has mounted despite the city raising its pension spending substantially over the past decade. The city now contributes three times as much to its pensions as it did in 2011. Its employment numbers, meanwhile, remain at similar levels, with 13,400 FTEs in 2011 and 12,700 in 2021. From 2018 through 2021, Phoenix spent more than $30,000 annually on pensions per FTE. In 2021, that figure was $49,000. As a portion of its total revenue in 2021, Phoenix spent 13% on pensions, which is high for a fast-growing Sun Belt city.

Philadelphia

Philadelphia is, in many ways, a counterpoint to Phoenix. The population of Philadelphia, one of America's oldest cities, plateaued through the twentieth century, and the city exemplified the problem of labor inflexibility amid a changing global economy. In 1960, Philadelphia had a population of 2 million, while Phoenix registered a population of under 500,000. Phoenix saw its population boom in the ensuing decades while Philadelphia's atrophied. On pensions, however, the cities have similarities.

Philadelphia has also had a historically underfunded pension plan; in 2018, funding was at only 46.5%. This plan covers employees of the city, the airport, and the water department. In the last decade, the city has paid more into the fund than legally required, in an effort to improve the plans' funding ratio over the next 15–20 years. In 2018, pension expenditures were 15.5 % of local revenue.[26] Philadelphia was given a 2020 Award for Excellence in Government Finance by the Government Finance Officers Association for its plan to reach 80% funding by 2029.[27]

Philadelphia spends about $30,000 annually per FTE on pensions and has more than $5 billion in unfunded pension liability. One big difference between Philadelphia and Phoenix—perhaps reflective of their different legacies—is that Philadelphia employs about twice as many people as Phoenix, with more than 23,000 people on the full-time payroll in 2021, virtually the same as in 2012. The police force, however, did see a major reduction in employees, losing 426 positions, from 7,276 to 6,847. Meanwhile, Philadelphia has experienced a horrific wave of violent crime. In 2021, the city recorded a record 561 homicides;[28] in 2022, more than 500 were recorded.[29]

San Antonio

San Antonio stands out in this list of cities for its pension management. The city has spent less than 8% of its revenue on pensions throughout our period of analysis and currently spends less than $20,000 per FTE. For the last four years, employment has been remarkably stable, at 11,042 FTEs, an increase from the 2012 figure of 10,386. Yet San Antonio has also benefited from some of the fastest population and economic growth of any American city in the last decade.[30] It is also the only city that does not run its own pension plans but contributes to a larger state-run fund that covers city employees.

San Diego

San Diego is economically vibrant, placing in the top five among American cities in venture capital funding, but its economy also relies heavily on tourism, an industry decimated by the pandemic. In 2021, the *San Diego Union-Tribune* reported that pension payments would rise by $50 million that year, "while tax revenues continue their sharp slide due to the Covid-19 pandemic" but that the required spending increase would be buffered by market gains supporting the pension funds.[31] In 2022, San Diego, like all other cities, was brought back to reality as markets cooled significantly. Moreover, in 2021 a California court invalidated the city's 2012 pension reforms, putting the city on the hook for $200 million to make up for missed contributions.[32] Total city government employment increased from 9,841 in 2012 to 11,295 in 2021 and has held steady over the last four years.

Dallas

Dallas saw city government employment fall from 13,369 in 2012 to 13,000 in 2021. Much of this reduction came via reduced hiring in public-safety services. According to the *Dallas Morning News,* the police force employed as many as 3,600 officers in 2014, before an earlier pension crisis sent Dallas on a lower manpower trajectory.[33] In 2017, the city found itself nearing insolvency, with an unfunded liability of $3 billion, and the Texas legislature stepped in to truncate pension benefits. Today, the department has just 3,100 police officers.

On the pension front, troubles are back. The 2022 market stagnation means that Dallas again has an unfunded liability of about $3 billion, with a 42% funding level. According to the fund's executive director Kelly Gottschalk, it will reach full-funding only in 2090—"and that's if all goes well." An ironic silver lining for the city is that its pension obligations have been effectively softened by 2022's rampant inflation. While, for example, the Social Security Administration implemented an 8.7% adjustment in 2023, Dallas pensioners will benefit from an agreed adjustment of just 3.5%, saving the city money.

San Jose

San Jose, the nation's 10th-largest city and the largest in northern California, faces unique challenges. With a population of more than 1 million, San Jose is just one of many municipal enclaves in the highly productive San Francisco Bay Area. The city is one of America's most productive but also one of the most cost-prohibitive. This has led to skyrocketing compensation figures for city employees as their unions have negotiated for pay to match the local cost of living. Higher pay translates into higher pension obligations.

Average annual pay for a San Jose police officer is about $189,000, not including benefits. Junior officers make $165,000 per year. "It's pretty good pay," Mayor Sam Liccardo told the *New York Times* amid contract negotiations with the San Jose Police Officers' Association in August 2022.[34] "If you compared us to anywhere else in the country, we'd be off the charts." The union, among other demands, is asking for a 14% pay raise and a $5,000 bonus in the new contract.

San Jose's pension spending per total revenue is a frightening 16%. In other words, in 2021, one out of every six city dollars went toward paying for past services. San Jose has increased the number of FTEs over the last decade from 6,799 in 2012 to 7,627 in 2021; the number has held steady in the pandemic years. For every FTE in 2021, San Jose spent $57,685 on pensions, a figure comparable with actual municipal employee salaries in much of the United States.

Recommendations

Pension-induced budget pressure should spur state and city leaders to think about the long term. City leaders, who do not fully govern the pension system to which they must contribute, should pressure their counterparts in state government to take one or both of the following steps:

1. State governments should change pension statutes to allow for defined-contribution options for new hires. Even if only a small percentage of new employees take up the defined-benefit option, it will reduce long-term pension liabilities.

2. State governments might also alter existing pension formulas for new hires to require more years before a full pension can be earned. New York City did this for police officers in the wake of the financial crisis of 2008, and the strategy is beginning to hold down liabilities.

Ultimately, cities will need to find new service efficiencies—to do more with less—to deal with the pension problem and to avoid the larger budget pressures that could contribute to an urban doom loop. Cities have to focus on providing core services more cheaply and trimming bureaucratic fat. Leaner, more mission-driven, public agencies will allow cities to weather the current storm and put them on surer footing for the future.

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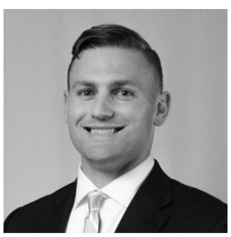

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Endnotes

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