



Unfunded Time Bomb

February 21, 2023

Suppose there was a \$1.3 trillion difference between your current assets and what you owe to others. Would you declare bankruptcy?

\$1.3 trillion is roughly how much more 118 state public pension plans owe to their beneficiaries than they actually have on hand. In aggregate, those funds have about 75% of the money they've promised to current and future retired government workers.

You can go to a website calculator to see how much many of the state plans owe vs. how much they have in their investment accounts (https://reason.shinyapps.io/state_pension_projection_2022/), but you should be warned that this exercise might be depressing. Turn to the State Employees Retirement System of Illinois, for example, and you see a current \$30 billion shortfall—or, looking at the situation the other way, about 60% of the promised benefits are unfunded. The California Public Employees Retirement Fund is sitting on a \$160 billion shortfall, though it is roughly 70% funded at the moment.

Where is this leading? U.S. states cannot declare bankruptcy under federal law, and they are theoretically required to balance their budgets. The U.S. Constitution's Contracts Clause bars states from breaching contracts with private citizens. More likely are potentially draconian cuts to state budgets in order to get the finances back in shape. What exactly that would entail, and how voters would respond, is an interesting question.

Sources:

<https://smartasset.com/financial-advisor/state-bankruptcy>

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number [\(215\) 325-1595](tel:2153251595) or you can [click here to schedule a meeting](#).

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.



Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.



****PRIVACY NOTICE****

This message is intended only for the individual or entity to which it is addressed and may contain information that is privileged, confidential, or exempt from disclosure under applicable federal or state law. You are hereby notified that any dissemination, distribution, or copying of this communication, except in accordance with its intended purpose, is strictly prohibited.

Our physical and mail address:

1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:

Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com