New American
Written by Alex Newman on September 21, 2010

Debate Over Government Pension Plans Heats Up

After losing billions during the economic crisis, bloated benefits of state and local government-employee pension plans across America have been thrust into the spotlight as officials consider the tough reforms necessary to ensure their funds' continued existence.

Underfunding of state pension plans has been a problem for years, but the economic crisis made it far worse, an analysis by the Pew Center on the States concluded. State and local plans are at least $1 trillion in the red, possibly more. But for the most part, taxpayers are expected to make up the difference.

Some states' government-worker pension funds have posted impressive gains this fiscal year, but not even close to enough to make up for massive losses suffered in recent years that in some cases reached as high as 29 percent. And of course, renewed heavy losses cannot be ruled out as high unemployment and foreclosure rates and uncertainty continue to plague the economy.

But according to a survey by the National Association of State Retirement Administrators cited by the *Wall Street Journal*, the median expected return among some 100 government pension plans is eight percent. Analysts have said these figures are unrealistically optimistic, and many funds are reducing expectations or at least considering doing so. But when that happens, the numbers get even worse.

According to the Associated Press, at least 20 different states have either reduced pension benefits or seriously considered it — even for current and retired government workers. Taxpayers in many states have expressed outrage about having to prop up these retirement plans, which are usually far superior to pensions for private-sector workers. But of course, the reforms are causing an uproar among government-worker unions.

"Whether legislatures have the power to change benefits for people who are already in the system, that's a tough question," National Conference of State Legislatures public-pension analyst Ronald Snell told the AP. "It's unresolved in a lot of places."

But something has to give. New Jersey's public pension system, which has received a great deal of media attention recently, has an almost $50 billion anticipated deficit. So, Republican Governor Chris Christie announced his intention to seek several important changes. His proposals would, among other things; lower benefits, raise regular government-workers' retirement age from 60 to 65, end automatic cost-of-living adjustments, undo a nearly 10-percent benefit increase agreed to in 2001, and raise contributions made by government workers by around 3 percent.

"These are ugly, hard truths. I no more want to say them than you want to hear them," Christie told a town-hall meeting last week. "We have two choices — get ourselves out of this hole or keep digging."

At a separate gathering, he explained that, "You may hate me now, but 8, 9, 10 years from now, you're going to look back and say that it was this Governor that saved your pension."

And Christie has taken bold action to accomplish the changes he says are necessary. For one, he blocked the state's yearly contribution to the public-pension system, saying he would not put money into a "broken" system. Now, there is a showdown going on between him and government unions and certain state legislators.

"It's absolutely clear the pension and health benefit system is a ticking time bomb," said New Jersey State League of Municipalities Director Bill Dressel. And now, "the time bomb has exploded."

California is another state that is in dire straights economically. And its massive government-worker pensions are in trouble, too. "At the same time that government-employee costs have been climbing, the private-sector workers whose taxes pay for them have been hurting," wrote California Governor Arnold Schwarzenegger in a recent editorial about the pension mess.

"Since 2007, one million private jobs have been lost [in California]. Median incomes of workers in the state's private sector have stagnated. The retirement accounts of those workers have declined. The average 401(k) is down nationally nearly 20 percent since 2007," Schwarzenegger noted. "The defined benefit retirement plans of government employees — for which private-sector workers pay — have risen in value."

Similar scenarios are playing out across the country as government unions wrestle with reality to salvage as much of their plans as possible and taxpayers make their anger heard at town-hall meetings and across the Internet. And of course, public-pension problems are not unique to America, especially since the economic crisis is a global phenomenon. Legislators in France, for example, raised the retirement age from 60 to 62 last week, and more changes could come soon.

But the fact that reforms are needed in American state and local pensions is accepted by almost everyone. Without serious changes, government workers could very well find themselves without any pensions at all in the near future. But what sort of reforms are needed is becoming a heated debate, with opportunists taking advantage of the situation to call for more unconstitutional, federal involvement. "Part of the problem is that pension funds need significant new financing to cover the growing number of retirees. But the real issue is the lack of incentive to improve pension performance," wrote Richard Riordan and Alexander Rubalcava in a *New York Times* opinion piece. "What we need, then, is a federal program that combines stimulus with serious fund reform."

The op-ed piece, entitled "How Pensions Can Get Out of the Red," then calls for federal help based on the mistaken assumption that Washington will otherwise be forced to bail out state and local government pensions. The federal government "should strike a grand bargain with city and state pension funds: in exchange for capping their liabilities and adopting better management practices, they could cover their costs through tax-free, federally guaranteed securities," the writers suggested.

The New American magazine actually discussed back in early 2009 some of the looming problems that are now becoming manifest. And since then, the fiasco has become immense.

But what is needed is not more unconstitutional federal programs or more tax hikes on increasingly destitute taxpayers. Reform is going to be necessary, without a doubt. But more importantly, a change in the accepted role of government will be required in the long term. Tens of millions of people now work for state and local governments. And that must change. Government has a place, but it has grown far too large. The productive economy cannot continue to support the massive bureaucracies that seem to grow without end, producing very little, if anything.

For now, compromise must be reached to meet — as far as possible — promises that were already made. But going forward, some combination of less government workers, pension plans more in-line with the private sector, bigger contributions from state and local employees, and reduced benefits will probably be required to solve this problem that literally threatens the solvency of countless state and local government entities. The alternatives are not pretty, but doing nothing would be worse.