Maine Eyes Social Security for Pension Bailout

Instead of asking for a federal bailout, Maine is considering shifting part of its underfunded pension plan liabilities to Social Security. Without the proposed fix, the pension liability the state currently faces is "going to rip the guts out of our budget," according to Peter Mills, the state Senator who initially suggested the plan.

Most states provide their workers with a state pension plan as well as support their participation in Social Security. But several states such as Maine opted out of Social Security based on projections that monies invested in the state-run plan would provide more generous benefits to its beneficiaries. As the economy turned down and revenues declined, states like Maine are finding it increasingly difficult to make the contributions necessary to keep their pension plans solvent. Fixing those state budgets is going to be painful, especially when pensioners and bondholders begin to get squeezed.

As a result many states have adopted a "kick the can" approach, with temporary adjustments, accounting tricks, and creative "sleight-of-hand" fiscal chicanery hoping to put off facing reality until the next legislative session. California briefly paid its bills using IOUs, a strategy that the state of New York considered until it decided to "borrow from itself" to close a budget shortfall. Illinois recently claimed a savings of $300 million by making "adjustments" in benefits for employees *who have not yet been hired!* New Jersey's pension plan will only be solvent provided its investment returns *earn at least 8 percent every year from now on.*

It will still be painful if Maine moves ahead with its "opt back in" offer as the state will have to "come up with a considerable sum [just] to sustain its existing pension plan, presumably through some combination of taxes and service cuts", according to the *Times*. On the surface, the proposal looks like it would avoid having to reduce benefits to its retirees, and limit the amount needed to cover shortfalls in the future. But Maine state Senator Mills understands the nature of the current pension plan: "The current system is immoral. It takes younger people and feeds off of them. [If you] withdraw from teaching at age 40 [you will] realize you've got nothing … for your old age." To make matters worse, in 2008 Maine's pension fund lost $2.25 billion, which taxpayers will have to replace.

There is one hidden but favorable statistic behind these awful numbers, and that is turnover: many state employees never receive any pension benefits because they move out of state before they are vested. Dallas Salisbury, president of the Employee Benefit Research Institute, confirmed that that is the case in most other states. So these huge shortfalls in pension plan funding aren't even as bad as they otherwise would be.

The two biggest disadvantages of such a plan are that it would do very little in the short term to help fund the state's current pension deficit, and it would place additional financial pressure on the financially sinking Social Security program. It amounts to bailing out a rowboat by emptying its buckets into a larger rowboat that is also sinking.

Nilius Mattive, a writer for Weiss Research, summarized Maine's and other states' situation:

> First, they have been consistently underestimating how much money they'll need down the line. In essence they are pretending that inflation doesn't exist.

Second, despite the major losses they *actually* experienced in their portfolios, they are acting as if those losses haven't completely happened yet. Instead, they are basically just figuring that things will turn around if they wait long enough.

> And interestingly enough, when these same [investment managers] were winning big a few years ago, they put off contributing more of their current earnings into their accounts…essentially letting their profits carry the day, or even borrowing money from their accounts!

Even today, with their balances way off what they should be, they are failing to contribute [enough] to their accounts. Some are even playing "shell games," by moving money around to make it look like they're in better shape than they really are.

It continues to amaze that so many legislators and pension fund managers remain unwilling to face reality and begin the painful but necessary process of "reducing expectations" through significant reductions in payouts. "All the while," says Mattive, "they're creeping ever closer to their final day of reckoning."