Memphis Police, Firemen Quitting Following Pension Plan Reductions

Last July more than half of Memphis' police officers took sick days off to protest the reductions in the city's contributions to their pension plan and increases in their contributions to the city's health benefits plan. The national media was sympathetic with cases of "blue flu," instead of recognizing the new economic reality: Because public pensions are underfunded, everyone expecting benefits from the city will now take a hit, not just new hires.

Some of those who took sick days in July now are quitting altogether, finding other better opportunities elsewhere. In fact, other departments from nearby states are advertising in local papers and setting up job fairs to entice the discontented to new positions.

In a word, those unhappy with the new reality are adjusting.

Most solutions proposed to bring underfunded pension plans back into balance have involved freezing the benefits for present workers while moving new hires to more viable plans. As well, cost of living adjustments were reduced or eliminated altogether. But the pension plan of Memphis was just too far gone for those remedies to work. It lost nearly 20 percent of its investments during the Great Recession, and the rebound in stocks hasn't closed the gap. In 2008, the plan showed a surplus, but a year later it was short by 20 percent. Said Brian Collins, the city's finance director, "We couldn't invest our way out of this."

Indeed. Nationally U.S. public pension plan liabilities have ballooned by a third just since 2008, while their assets only increased 14 percent, according to the National Association of State Retirement Administrators.

It could have been worse in Memphis. Mayor A. C. Wharton wanted city employees to pay 57 percent more for their health insurance premiums, but after union pushback he was able to enact only a 24-percent increase. Wharton was out of options: The city's pension plan's shortfall soared to $554 million, while the city's entire budget for 2014 was just $622.5 million.

The new plan for employees in Memphis is a hybrid retirement idea called a "cash balance plan" where part of the city's contributions are placed into an account with certain minimum guarantees, while the rest are put into a more typical 401(k) plan where individuals can make their own investment decisions. It represents a modest shifting of risk from the city of Memphis to the individuals who receive pensions, who will be required to take on more personal responsibility for their own retirement.

While numbers aren't available for how many police officers have quit in Memphis, at present fewer than 50 of the city's 1,500-person fire department have quit their positions to look for better situations elsewhere, but more are expected. The city is presently looking to fill a 10-percent shortfall in staffing as a result of the exodus, but it is having to compete with nearby states where benefits, although lower, are more secure.

Memphis isn't alone in facing the new reality. In late February New Jersey Governor Chris Christie endorsed the findings of a commission that recommended installing a similar "cash balance" retirement plan in place of the present defined contribution plan. That state's plans' obligations are also racing ahead of funding, with the pension plan currently showing a shortfall of $37 billion and the healthcare benefit plan falling short by $53 billion. In contrast Christie's 2016 state budget totals just $34 billion.

In one single sentence, the report recognized reality: Modest promises that can be kept are better than more generous ones that can't:

> Although the proposed plans are likely to be less generous to long-tenured employees as compared with the current plans, a less generous plan that is funded is preferable to a more generous plan that isn't.

As expected, unions in both Memphis and in New Jersey are ramping up to fight the reductions in benefits and increases in premiums. In New Jersey 16 unions are pushing back against Christie's commission's recommendations, claiming protection under the state's constitution and saying that benefits to state employees can't ever be abrogated. In response, Christie is taking the new reality to the hustings, partly to build support for the plan and partly to show political observers that he still has the gumption to take on the unions. He declared,

> There is no way to tax ourselves out of this problem. There is no way to cut government enough to be able to fix this problem.

It eventually had to happen. Everyone expecting benefits from governments — local, state or federal — is going to have to face the simple reality that many of those promises won't be kept. At least in Memphis, workers unhappy with that reality have a choice: They can move elsewhere.

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