

# Viewpoints: Pension-cutting plans on Ballot promise savings but don't deliver

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Sometimes the truth hurts. In this case, the truth is that the two pension-slashing ballot measures that may face voters in November would provide no effective reform while dramatically increasing taxpayer costs by as much as \$1 billion a year for as long as 30 years.

As the Legislative Analyst's Office's detailed analysis points out, these ballot measures would shift pensions for new public workers into insecure 401(k)-type plans that would not be able to guarantee workers' retirement security.

This would substantially reduce cash flow into current plans. It also would force many plans into more conservative investments to meet existing benefit obligations. Large chunks of future investment returns would be lost, sharply increasing costs and unfunded liabilities. That's where much of the projected \$1 billion per year in new taxpayer costs would come from.

Worse, rather than hiking taxpayer costs, governments could declare that paying the new costs would impair essential governmental services and decide to stick the higher costs to their employees instead. If the idea is to make public employment unappealing, this provision would do a good job of that. The LAO also finds that the shrunken and insecure pensions required by the initiatives would discourage new workers from seeking public jobs, forcing public employers to raise salaries to attract these workers and adding still more to public costs.

The pension busters' responses are bizarre. They claim that public salaries are so high that even reduced pensions won't discourage public job applicants. But their own July 11, 2011 study found that salaries for the highest-skilled public workers – scientists, engineers, technicians, analysts and the like – are substantially lower than for their private sector counterparts, saying, "The top 10 percent of public sector employees are paid \$20 per hour less than their (private sector) counterparts."

They then say that higher wages to compensate for smaller pensions are a fantasy because government can't afford them anyway. Perhaps, but taxpayers will pay nonetheless because the important work of protecting public health and safety and well-being must continue.

If lower wages and reduced pensions make it difficult for the public sector to attract these highly skilled workers, the state will either have to contract out this vital work or cede it to the private sector where wages (and thus costs) are higher. Contracting out is particularly expensive. At the federal level, for instance, a report by the Project on Government

Oversight shows that private-sector service contract billing rates – deemed fair and reasonable – pay contractors 1.83 times more than the government pays federal employees in total compensation.

The pension busters then launch the cheapest of cheap shots, tarring the current pension system as a Ponzi scheme, though knowing that in a Ponzi scheme, no money is invested and funds from new "investors" are used to pay off earlier investors. In a pension system, large sums of real money are being invested prudently over the long term and earn real returns. Sixty cents out of every dollar paid in pensions comes from such investment earnings.

Finally, they try to make the new shrunken pensions look better by comparing them favorably to federal pensions. But for regular civilian federal employees, the government contributes 8.51 percent toward their defined benefit and an additional 6.2 percent for Social Security (in addition to employee contributions toward both). That combined employer contribution rate of 14.71 percent is significantly more than the pension caps set forth in the initiatives, making their benefits much smaller than those provided in the federal system.

I am hopeful that where changes are needed to ensure public pensions systems are stable and affordable, they will be worked out where they should be – at the bargaining table and in the Legislature. Both ballot measures are so sloppily written and costly to taxpayers that even advocates of "reform" are shying away from contributing to efforts to put them on the November ballot. But there is still plenty of time for the measures to qualify.

That makes it critical to point out that the millionaire Republican backers behind these measures have arguments that are both dangerously wrong about the huge added public costs and cavalier about the hardships and retirement insecurity the proposed initiatives would have on current and retired public employees.

*Steven Filling is a professor of accounting at California State University, Stanislaus.*