

Pension Puffery

Here are 12 half-truths that deserve to be debunked in 2012.

[Girard Miller](#) | January 5, 2012

One of my pet peeves in the ongoing debates over public pension reform is the way partisans on each side try to pitch half-truths and myths to support their arguments. The other side seldom believes any of these, but they help rally the allies on the speaker's side. Sometimes the press naively re-circulates these fallacies, which leaves the general public even more confused about what to believe. There's an old saying in politics that if you tell the same lie long enough, the public will eventually believe it — and that apparently is the mentality of lobbyists on both sides. In an effort to start the new year with a clean slate for public debate, I'd like to set the record straight on a dozen of the most glaring fallacies and silly slogans.

This is a lengthy column, so readers can click on to any one of these topics to jump to that subject:

- [1. "The pension mess was caused by greedy people \(from the other side\), not us."](#)
- [2. "There's no crisis. The stock market will recover and then there is no problem."](#)
- [3. "The solution is to replace pensions with 401\(k\) plans, like the private sector."](#)
- [4. "Experts consider 80 percent to be a healthy pension funding ratio."](#)
- [5. "Only 15 percent of pension costs is paid by employers. Investment income pays the lion's share."](#)
- [6. "My pension contract is protected by the Constitution and can't be violated."](#)
- [7. "States are already fixing the problem with reasonable pension reforms."](#)
- [8. "The solution is collective bargaining. There is no need for drastic legislation."](#)
- [9. "This is a \\$3 trillion problem when you measure it using honest \(risk-free\) math."](#)
- [10. "We earned more than 8 percent in the last 25 years, and will do so again."](#)
- [11. "The average public pension is \\$23,000."](#)
- [12. The \\$100,000 pension club.](#)

So let's look at each of these myths, misrepresentations and slogans, one-by-one:

Half-truth #1: (Multiple-choice) "The pension mess was caused by greedy ...

- (a) Employees
 - (b) Unions
 - (c) Politicians
 - (d) Wall Street investors and bankers
- ... and they are the ones who should pay to fix it."

There is a target for every finger-pointer. The truth is that the pension community has plenty of blame to go around. About half of the underfunding in most public pension plans is attributable to the six-sigma market plunge that nobody saw coming in 2008. When stocks declined by 55 percent in the last recession, more than double the average decline in the 13 previous recessions, that knocked a gaping hole in funding ratios and doubled the average plan's unfunded liabilities. I guess you could try to blame the big banks and the homebuilders and the money managers and the mortgage brokers and the speculators and hedge funds and the real estate industry and the CEOs of the Fortune 500 with their short-sighted stock options and Fannie Mae and Freddie Mac and the Congress that goaded them to lend to unworthy borrowers in the name of universal homeownership, for causing pension deficits. But I'm at a loss to see how that will ever help us fix the public pension problem.

Yet that is only half of the story. Long before the Great Recession, the seeds of today's mess were carelessly sown by politicians who declared pension holidays, unions that bargained for retroactive pension increases, trustees who assumed that investment returns would continue to grow to the moon, employers that granted early retirement incentives and gave away benefits to pass the buck to future taxpayers, pension administrators who were too timid to stand up to self-interested trustees or stakeholders and insist on more conservative practices, accountants who allowed unfunded liabilities to be amortized over two generations, and actuaries abetted by investment advisors who jiggered the investment portfolios toward ever-riskier allocations to enable disingenuous trustees to justify discount rates that would avoid the inevitably heftier contribution rates needed to assure intergenerational equity. Those who point fingers of blame should first look in the mirror.

Half-truth #2: "There is no crisis. Once the stock market recovers, there is no problem."

Some of today's pension Pollyannas claim that when stock-market trends return to their historical averages, everything works out. That is simply ignorance and puffery from people who don't even bother to understand pension math. The actuarial projections used by most public pension plans are already assuming that 85-year historical returns will continue indefinitely, even though many of the major investment consultants have already dialed down their projections for the next decade. Perpetual stock-market increases of 10 percent annually are already baked into the funding ratios that now hover just above 70 percent on average nationwide. Even if stocks return next year to their previous peak levels (DJIA 14,100), that wouldn't restore pre-recession funding ratios. That's because there have been no capital gains from equities for the five intervening years while the underlying liabilities have grown about 50 percent. Stocks may have good and bad growing seasons, but there is never a crop failure on the liabilities farm. [As I explained last year](#), stock indexes would have to double in the next two years to restore most pension funds to their 2007 funding ratios. To return the average pension fund to full funding, stock markets would

have to produce 14 percent compounded returns the rest of this decade, with no intervening recession. That would put the Dow Industrials at 30,000 in January 2020. I'll gladly give even odds against that scenario to anyone who wants to buy into that long-shot.

Half-truth #3: "The solution is to replace pensions with 401(k) plans, like the private sector."

First of all, new 401(k) plans cannot be instituted for state and local government employees under the 1986 tax act. Pre-existing "k" plans are allowed, but there is no ongoing federal tax authority to install these corporate-style, defined contribution (DC) plans for public employees. But there are 401(a) defined contribution plans that can be offered, so a DC option is still available by law. However, the creation of a new DC plan does nothing to eliminate or even reduce the unfunded liability of a pension system. In fact, [it probably makes matters worse](#), as described in my earlier column on this topic.

Freezing an existing pension plan will compel prudent trustees to adopt a more conservative investment portfolio to manage its risks as retirees age (just like individuals must de-risk their own investments as they age), and that will reduce the discount rate which in turn increases the employer's contribution rates. This doesn't mean that DC plans should not be part of the solution, but a wiser approach is a hybrid structure with a smaller pension (using a 1 percent multiplier) with a companion DC plan — like the federal employees' system or the Washington state model. [Rhode Island has officially figured this out](#), as did [California Gov. Jerry Brown](#) in his proposed reforms.

Half-truth #4: "Experts consider 80 percent to be a healthy funding level for a public pension fund."

This urban legend has now invaded the popular press, so it's about time somebody set the record straight. No panel of experts ever made such a pronouncement. No reputable and objective expert that I can find has ever been quoted as saying this. What we have here is a classic myth. People refer to one report or another to substantiate their claim that some presumed experts actually made this assertion (including a GAO report and a Pew Center report that both cite unidentified experts), but nobody actually names these alleged "sources." Like UFOs, these "experts" are always unidentified. That's because they don't actually exist. They can't exist, because the pension math and 80 years of data from capital markets history just don't support these unsubstantiated claims.

With only one rare and fleeting exception (which occurs at the very bottom of a business cycle, similar to the green flash in a tropical sunset), 80 percent funding is not a sufficient, sound or healthy funding level for a pension fund. The only authoritative references to 80 percent funding ratios are the federal ERISA and pension protection act provisions which require private-sector pension plans below 80 percent funding to take immediate remedial action! (Remember that public plans are not even governed by these laws.) These statutes do not make funding ratios at 80 percent "healthy" or "good" or "sound" or "well-funded." Pensions funded at 80 percent are no different than a \$400,000 house in a distressed neighborhood with a \$500,000 mortgage — you can keep living there if you keep making the payments, but it's underwater and your balance

sheet is now upside down no matter how much you try to double-talk it. The only difference is that state and local governments can't mail in the keys to the bank.

Until the last recession, respectable and world-wise actuaries would tell you privately that when a pension system gets its funding ratio above 100 percent, there is a political problem. Employees, unions and politicians suddenly become grave-robbers who invariably break into the tomb to steal enhanced benefits and pension contribution holidays. So these savvy advisors historically have tolerated modest underfunding, based on their recurring past experience with the forces of evil in this business. They figured the ideal public plan would drift between 80 to 100 percent funding over a market cycle, and nobody would be hurt if the plans were a "little bit underfunded" in normal times. Obviously that didn't work out so well in the Great Recession, which has forced us all to take a harder look at the math and this conventional wisdom.

As I have explained in one of my very first *Governing* columns in late 2007 (when the last business cycle was peaking), a fully funded pension plan must today have market-value assets of 125 percent of current accrued actuarial liabilities near the peak of an average business cycle — in order to offset the near-certain loss of stock market values in the following recession. Historically, that is because the 14 recessions since 1926 (including the most recent) have shrunk equity values by 30 percent on average, and equity investments represent about two-thirds of the average public pension funds' portfolio. Real-time pension funding ratios will therefore likely decline by about 20 percent in the average recession, depending on how much the bond portfolio offsets the stock losses and mounting liabilities. So there is not a major public pension plan in the United States today that can be described as "overfunded."

A pension plan that is 100 percent funded at the end of a business expansion will likely lose 20 percent of its value in an average recession, so 80 percent is the bare-minimum "healthy" funding level at the bottom of a recession — and only then. Once the economy begins to recover, it is mathematically necessary for a reasonable funding ratio to be higher than 80 percent and rising on a clear path to full funding. Otherwise, the plan is doomed to be chronically underfunded with current taxpayers supporting retirees who didn't ever work for them. A plan funded at 80 percent going into a recession will likely find itself funded at 65 percent at the cyclical trough — and that's a toxic recipe calling for huge increases in employer contributions to thereafter pay off the unfunded liabilities. That's why today's 70 percent funding ratios are a legitimate concern and a financial burden on younger generations who will inherit this problem that their elders keep sidestepping.

Just think for one minute about what would happen if Europe unravels or China lands hard and we suffer another average recession from today's levels. That would take most pension funding ratios well below 60 percent and trigger a more horrendous multi-year budgetary catastrophe for public employers nationwide. Pension trustees and plan administrators with funding ratios at or below today's national average should be asking that question on the record in formal board sessions — if they understand how fiduciaries are expected to perform their duties.

One can argue that a pension plan with 80 percent funding today can be deemed prudently funded if it adopts a more aggressive amortization schedule that defrays its unfunded liabilities over the average remaining service period of incumbent employees. That's essentially what the

GASB's proposed service-life amortization guidelines would ultimately imply. Anything less should invite suspicion and deserves serious reconsideration of the plan's funding policies and benefits levels. And if employees put skin in the game by agreeing to hereafter bear one-half the cost of paying down the plan's unfunded liabilities during their working years, we can then talk about 80 percent funding as a logically "healthy" or "sustainable" number.

Half-truth #5: "Public employers and thus taxpayers only pay about 15 percent of the cost of public pensions. The rest comes from employee contributions and the investment income."

The idea that investment income comes out of thin air to pay the bills is disingenuous and deceptive. I'm all for actuarial pre-funding and using the power of compounding investment earnings to achieve intergenerational equity, but "interest follows principal." If employers/taxpayers hadn't made their contributions, there would be no investment income in the pension fund. Instead, the employers/taxpayers could have invested the money themselves and pocketed the earnings. Especially for police and fire funds and the majority of pension plans with serious underfunding, most public employers today continue to make the lion's share of total contributions — even though we are beginning to see worthwhile incremental increases in employee contributions toward normal costs in some states. But when you count employer contributions to pay for unfunded liabilities that are required (because investments didn't earn what these same pension advocates expect them to earn as part of this myth), the employers' share dwarfs most employees'.

If interest does not follow principal, then why do plans pay interest on refunds on unvested participants' contributions, and retirees' deferred retirement "DROP" accounts?

Half-truth #6: "This is a contract, protected by the federal Constitution's contracts clause. You can't reduce my pension."

The federal Constitution also authorizes Congress to create bankruptcy courts, which routinely overturn contracts, although I doubt that municipal bankruptcy proceedings will be the solution to pension problems, as explained in an [earlier column on bankruptcy and benefits reform](#).

There is no question that some state constitutions declare the pension promise to be inviolable, and some state courts have held that the pension promise is a contract. In "normal" economic times when the pension plan is properly funded, almost everybody would agree that contractual pension obligations should be fulfilled. But these are not ordinary times, and dozens of major public pension plans are facing the [potential for depletion of their assets](#) during the lifetimes of current employees if nothing is changed. Ultimately, some municipal employers will face a genuine financial emergency if they don't significantly revise their plans' benefits structures. We have already seen such actions upheld in Colorado and Minnesota, where courts held that benefits changes could be made, in order to preserve a reasonable benefit for everybody in the plan. Rhode Island just enacted a law to change benefits including the retirement age for incumbent employees. The city of Cincinnati took similar actions. In some states, these "breaches of contract" will go to court, but what the plaintiffs often do not understand when they file suit is that several courts have supported the police power of the state to make plan

modifications if they are necessary — provided that the remaining benefits are reasonable, and if the plan change is the minimum change required to fix the plan. The simple economics of pension plans inform us that the sooner you fix them, the less pain the beneficiaries will suffer later on. This does not mean that every underwater pension plan should stiff its retirees; the plan must clearly be at risk and alternative remedies should be explored. In fact, the courts typically require such efforts before they impair contracts and reduce vested benefits.

Half-truth #7: "Many states have already adopted pension reforms. We can manage through this problem with some moderate consensus-based changes."

As [this editorial cartoon from California](#) illustrates, the magnitude of the pension problem dwarfs the scope of reforms enacted in most state legislatures and proposed in others. Not that I would belittle the work done so far and the ongoing efforts of pension reformers nationwide. But the simple math is that, when you include both the pension and the retiree medical benefits (OPEB) obligations, we are facing a \$2.5 trillion problem with state and local government retirement deficits. Most of the state reforms made to date focus on prospective benefits changes, often with increased employee contributions and sometimes with higher retirement ages for new hires. But they seldom address the massive unfunded liabilities of the plans. Very few states have seriously attacked the unfunded liabilities, which leaves the bills for these debts to the next generation — what President Obama rightfully calls "kicking the can."

What's worse mathematically, not even one state has adopted laws to require public employers to begin funding their OPEB plans on an actuarial basis. Not one. What are we waiting for? It's been 28 years since Massachusetts belatedly joined the other 49 states to require actuarial funding for pensions instead of pay-as-you-go. It's been 7 years since GASB issued Statement 45 to put OPEB liabilities on the books. The DNA tests are all positive: How much longer will it take the legislatures to admit paternity of this orphaned child?

Half-truth #8: "The necessary changes can be achieved through collective bargaining."

I'm quite impressed by dozens of public-sector unions that have stepped up and agreed to increase employee contributions to support their current benefits. Their leadership is directionally correct, and although their critics may quibble with the magnitude of their concessions, these specific unions deserve genuine praise for becoming part of the solution. They genuinely understand the value of the benefits, and their members are willing to pay a fair personal price to preserve them. I've even seen a few cases where unions have agreed to share some of the cost of contributions to their OPEB (retiree medical benefits) That was unheard-of in most localities before GASB shed light on the size of those liabilities seven years ago. So my hat's off to you folks: your hearts are in the right place, and your payroll deductions are too.

That said, most unions must still be dragged to the table to address retirement plan reform. When confronted with harsh reality, most will begrudgingly agree to plan changes for new hires. But in 2012, real change must begin with incumbent employees. At the very least, we must see more multi-year increases in employee contributions for both pensions and OPEB. Where state law permits prospective benefits reforms for future service of current workers, those must be included in the package as well.

The fallacy of the union mantra is their claim that piecemeal reforms can fix the pension problem. Municipal unions have learned over decades to wear down the public employers one by one. In many cases, the uniformed first-responders play the labor-arbitration game to use "comparable" benefits at other governmental employers — with no consideration of private-sector benefits levels. Perversely, the modest retirement benefits in the real-world local labor markets from which public employees are hired are ignored in this game. Thus, statewide pension reforms are required in many cases, and ultimately it may come through the ballot box in some states. My advice to the unions is to "walk the talk" in 2012 and make major multi-year concessions to put these plans on a sound financial footing. The public wants real reforms — although they have mixed views on what that should mean. Even Machiavelli would understand that a credible multi-year plan to make reasonable changes is what public-sector labor leaders need to put on the table, if only to deflect the mounting demands for even deeper reforms.

In states with consolidated pension plans, there is no way that most local government employers — and their counterpart unions — can achieve meaningful pension reform on their own at the bargaining table. Legislation will be needed to achieve minimum standards and uniform statewide reforms of (a) retirement ages, (b) maximum pension multipliers, (c) hybrid design options, (d) anti-abuse provisions, (e) rights of employers to modify retirement benefits prospectively, (f) mandatory minimum employee contribution levels, (g) mandatory actuarial employer and employee contributions to qualifying OPEB trusts where defined retirement health benefits are provided and (h) pension caps. Within that context, I would have no quibble about bargaining over the details of the benefit design at the employer level as long as the financing is contemporaneous.

Where unions can play a vital and positive role at the bargaining table is OPEB reform. Many retiree medical benefits are derived primarily from the union contract and can thus be modified more easily than pension benefits. In some states, collective bargaining could thus outrun legislation to achieve essential reforms and reduction of OPEB liabilities through shared actuarial contributions, reformulation of the benefits for incumbent employees, and parallel changes for retirees. But failure to address the OPEB issue sometime soon will ultimately invite legislative benefit limits and mandatory contributions by both employers and employees in order to make these plans sustainable.

Half-truth #9: "Pensions are actually a \$3 trillion problem — using a risk-free discount rate."

They failed in their guerilla campaign to persuade the Governmental Accounting Standards Board (GASB) to institutionalize the academic thesis that pension fund liabilities should be discounted using a "risk free" rate. Yet, we still hear from researchers who insist that Treasury bond rates would tell the "true story." That just doesn't reflect how the world works. Pension funds are not going to invest their entire portfolio in 3 percent Treasury bonds right now — or ever — so the risk-free model is not even descriptive of reality and has little normative value.

In fact, that would be a stupid strategy to employ at the bottom of an 80-year interest rate cycle. As my [research shows](#), today's odds of beating inflation with bond portfolios over coming decades are terrible and the expected returns from equities are actually higher than the conventional 85-year Ibbotson averages — once we get past 2020. As I've testified to the GASB during their public hearings, a risk-free discount rate would ultimately result in excessive burdens on today's generation of taxpayers and invite mischief in the future as this approach is a sure-fire way to produce over-funded pension plans in the long run. (I know this sounds laughable in today's funding environment, but that is the logical multi-generational result of the risk-free model.)

A more plausible argument can be made that current investment return expectations are too high for pension plans that face mounting levels of cash payouts coming due in the next decade for retiring baby boomers. Professionally, I have begun using two sets of investment-return projections to educate clients: one for the traditional, long-term, 30-year horizon and a second set that looks forward 10 to 15 years. Then the plan overseers can align their asset and liability streams to derive a composite discount rate to better understand their economics and portfolio risks. With bond yields at generational lows, even the 30-year projections have been dialed down by at least a half percentage point in recent years. The shorter, 10-15 year horizon projections are lower by about a full percentage point because of low interest rates for bonds with those maturities, and global growth prospects for equity investments are impaired for this coming decade because of the overhang of sovereign and consumer debt. I think the debate would be far more informed if trustees and actuaries begin to focus on the implications of lower, but realistic investment-return expectations. This is especially pertinent for liabilities coming due during the remaining service lives of current employees and the lifetimes of today's retirees who have attained age 65. Those are far closer to 10-15 years than the conventional 30-year horizon. The arguments posed by thoughtful critics who present [centuries-long data for equity returns](#) are far more compelling than the half-baked theories of the risk-free crowd.

For what it's worth, the risk-free estimates of the size of the deficit are not far off the mark, but their calculations overlook the elephant on the table — OPEB. Public pension deficits today are about \$750 to \$800 billion using mainstream assumptions and would exceed \$1 trillion nationwide using the more conservative approach of credible commentators (or GASB's proposed methodology). What everybody engaged in this argument keeps ignoring are the \$1½ to \$2 trillion unfunded liabilities of state and local government OPEB (retiree medical benefits) plans, which are at least double the size of the pension problem and rarely mentioned in the popular press. Add in these almost completely unfunded plans that already use a nearly risk-free discount rate because of current GASB rules for unfunded plans, and we definitely have a \$2½ trillion problem.

Where the risk-free school could offer a constructive insight is the calculation of employee contribution rates. A strong case could be made that employees who want a 100 percent guaranteed pension benefit (instead of a hybrid plan that shares costs and investment risks equally with employers) should pay at least half the normal cost of providing that fully guaranteed benefit using a government bond rate. This would align employees' expectations of guaranteed payments with the funding plan. Employers should not bear the investment risk for the employee's share of total costs, which this formula would achieve

Half-truth #10: "We earned more than 8 percent in the past 25 years, and we'll surely do it again."

The counter-argument we often hear to the risk-free approach is the cherry-picking use of multi-year data showing investment returns over a selected period that beat their plans' historical discount rates. Never mind that these periods include the equity markets' disinflationary P/E adjustment of the 1980s and the 1990s Internet bubble years in the stock market and ignore the market misery of the late 1960s and entire 1970s. A rear-view mirror with masking tape obscuring half of the surface would provide a similar view of market history. More importantly, these spin-doctor statistics ignore business, capital/debt and market cycles — especially the tidal results of long-term debt financing which artificially bolsters equity returns during boom phases and crushes them in bust periods such as the one we're enduring now. Sadly, it's payback time in the global financial markets and the international banking system, folks, and one need only study the independent long-term investment projections of the nation's major investment consulting firms to know that the good old days for pension funds are not a reliable model for the future.

For a blunt but thoughtful analysis of the components of long-term equity returns that are unlikely to recur in the near future in the wake of today's low interest rates and current market valuations, see Crestmont Research's report entitled [Waiting for Average](#). I don't agree with every metric and assertion in that analysis, but the general themes must be considered by every pension board: long-term real-growth prospects; real returns on capital; probable future tax rates on capital; and market valuations (P/E ratios, for example) relative to long-term history. To illustrate two points in simplest terms, (1) markets are unlikely to achieve higher P/E ratios if capital gains and dividends taxes are increased materially, which is almost inevitable in coming years and (2) increased longevity creates more elderly investors including pensioners whose assets must be invested more conservatively. That increases demand for low-risk bonds at the expense of equity valuations, thus reducing investors' returns on capital globally at the same time productivity declines in aging Western populations.

To avoid extremism, I step aside from the camp that advocates severely lower actuarial discount rates like 6 percent for funding purposes. But, I do support the GASB's general concept of a lower blended rate for calculating pension liabilities and pension expenses in the financial statements when liabilities exceed portfolio assets. (You can't buy stocks with an unfunded liability.) For funding policy, it seems to me that the most realistic path for the assumed rate of investment returns is a nationwide average closer to 7 percent until the global economy clears its debt hangover in this "New Normal" market environment. Even that adjustment in discount rates would have profound implications for how we value pension liabilities and the annual costs to be borne by employers and employees.

Eventually, the industry will likely restore the more traditional long-term expected returns to levels in the mid-7 percent range and perhaps someday after 2020 we may even return to the traditional 5 percent real rate of return (8 percent nominal) for fully diversified global investment projections. But that really can't happen until the world's major economies complete The Great Unwind of the excesses of the past two decades. Trustees can't justify their rosy numbers right now in the middle of a Liquidity Trap. Just re-read your Keynes on that topic (General Theory of Employment, Interest and Money). Spend a little time looking at stock charts and commodity

prices from 1936 to 1946, and then ask yourself how long it will take to recapitalize the G-7's largest banks that hold rotten assets, as Japan has shown. For pension funds that assume overly optimistic returns, this era is more likely to be the Lost Decade than a magic beanstalk.

Half-truth #11: "The average public pension is only \$23,000."

Sure, if you include part-time employees, short careers, elderly widows collecting 50 percent survivor benefits, and retirees who quit the workforce a decade ago with benefit formulas often 30 percent lower than today's employees. This smokescreen is a classic case of lying with statistics. Ironically, most citizens would be unperturbed by the real averages, because most public employees are not as grossly overpaid as some of the sensational headlines might suggest. For example, the [California teachers' pension system](#) reports candidly that its average pension for new retirees including administrators in FY 2010 was \$4,250 a month. Even allowing for part-timers and short-termers, that is hardly a number that shocks anybody — and it's still 12 percent below average California household income. So I don't understand why pension Pinnochios resort to flaky statistics when the real numbers would be far more credible. The lowball numbers just emphasize that the lobbyists are trying to hide something. In 2012, the truth would be better served if pension systems started reporting numbers based on the averages for full-career workers who retired in the last year or two, more like CalSTRS. (I have since learned from page 149 of the latest CalSTRS CAFR that the average pension for their recent 30-year service retirees is \$68,000 which would be the relevant number here.) I don't mind the lobbyists' publication of the \$23,000 cat-food numbers, but they obviously flunk the relevance test as misrepresentative.

Half-truth #12. The \$100,000 pension clubs.

From the pension antagonists, this is the flip side of the misleading lowball pension averages. The \$100K Club isn't even a half-truth; it's a 4 percent truth presently (but growing rapidly, admittedly). Publication of California's "\$100,000 pension clubs" lists has left a growing impression that hordes of public employees are all raking in benefits that make them multi-millionaires. Sure, there are now thousands of six-figure public retirees and legions of abuses that must be curbed by reform legislation, but the rank-and-file in most cases is not anywhere near these extreme benefits levels. The proper cures are (1) reasonable pension multipliers (see [my previous column](#) for viable metrics) and hybrid systems with a 1 percent multiplier for new hires, (2) longevity-adjusted retirement ages aligned with Social Security, (3) anti-spiking reforms on overtime and special pay and (4) absolute caps on the maximum pension allowable. Hard-dollar pension caps will force the higher-paid employees into a stacked defined contribution plan where investment risk is shared equitably when their compensation exceeds something like twice the statewide average household income. It will put an end to overtime and sick-leave abuse in public pension plans. What surprises me is the failure of the public pension community to pro-actively implement such reforms or to propose the necessary legislation. Some of the self-interested public managers especially need to put their personal compensation aside and guide their elected leaders toward the necessary changes for the public good and not their own pocketbooks.

For the record, I fully support the free-speech rights of those who have fought hard to obtain this public information. Without the data provided by these exposes, the dirt is too easily swept under the rug, and it's impossible to identify the now-obvious abuses. The public has a clear interest in this information with the possible exception of a handful of retired undercover cops needing identity protection; that's an easy carve-out for a board or a judge to order.

Returning to the financial analysis, it's worth noting that a \$100,000 lifetime pension with a COLA benefit makes these folks millionaires: Using a 3 percent real rate of return for secure personal investments in the golden years, it's worth \$1.4 million in present value at age 65 and \$1.8 million at age 55 when many police and firefighters retire — far more than any private sector or nonprofit association worker can ever possibly accumulate over a 30 year career by saving for themselves the federal maximum in their 401(k) or 403(b) account. So these pension benefits are fair game for critics.

That said, I don't think we accomplish much by pointing fingers at the majority of honest public servants and career professionals who work all their lives for a secure retirement. Does anybody really care about a \$100,000 pension for a 65-year-old judge or a 25-year urban police captain or fire chief who has personally protected hundreds of citizens in their careers, or a passionate big-city school principal working every day with tight budgets, stifling bureaucracy, urban gangs, indigent kids and intense multicultural challenges? Those folks are the true public servants and should be our society's heroes, not the scapegoats. If this were Japan, people would be bowing to these folks and honored to dine with them to discuss what is important in human society, so I would urge a return to values that matter most in the civil order. For purposes of reform, let's focus first on the weasels who go out early with guaranteed pensions that exceed their salaries, and the handful of connivers collecting fully guaranteed \$200,000+ lifetime annuities (worth \$3 million or more). Those are the rotten apples that spoil the barrel, incite pension envy in the populace, and really outrage the taxpayer watchdogs. Meanwhile, let's not forget that the entire \$100,000 club's accrued liabilities are a small fraction of our \$2½ trillion funding problem. We need to focus even more on solutions to the bigger fiscal problems.

State and local government retirement systems can be fixed, but it will take more than slogans and Band-Aids. Unfunded liabilities cannot be wished away, and it will take at least a decade of painful changes to benefits levels and higher contribution rates from both employers and employees. The longer we wait, the worse it gets, especially for the next generation. Let's stop looking for easy answers at the other guy's expense, and get to work on the repairs.

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