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Battle Looms Over Huge Costs of Public Pensions

By **RON LIEBER**

There's a class war coming to the world of government pensions.

The haves are retirees who were once state or municipal workers. Their seemingly guaranteed and ever-escalating monthly pension benefits are breaking budgets nationwide.

The have-nots are taxpayers who don't have generous pensions. Their [401\(k\)s](#) or [individual retirement accounts](#) have taken a real beating in recent years and are not guaranteed. And soon, many of those people will be paying higher taxes or getting fewer state services as their states put more money aside to cover those pension checks.

At stake is at least \$1 trillion. That's trillion, with a "t," as in titanic and terrifying.

The figure comes from [a study](#) by the Pew Center on the States that came out in February. Pew estimated a \$1 trillion gap as of fiscal 2008 between what states had promised workers in the way of retiree pension, health care and other benefits and the money they currently had to pay for it all. And [some economists](#) say that Pew is too conservative and the problem is two or three times as large.

So a question of extraordinary financial, political, legal and moral complexity emerges, something that every one of us will be taking into town meetings and voting booths for years to come: Given how wrong past pension projections were, who should pay to fill the 13-figure financing gap?

Consider what's going on in Colorado — and what is likely to unfold in other states and municipalities around the country.

Earlier this year, in an act of rare political courage, a bipartisan coalition of state legislators passed a [pension overhaul bill](#). Among other things, the bill reduced the raise that people who are already retired get in their pension checks each year.

This sort of thing just isn't done. States have asked current workers to contribute more, tweaked the formula for future hires or banned them from the pension plan altogether. But this was apparently the first time that state legislators had forced current retirees to share the pain.

Sharing the burden seems to be the obvious solution so we don't continue to kick the problem into the future. "We have to take this on, if there is any way of bringing fiscal sanity to our children," said former Gov. Richard Lamm of Colorado, a Democrat. "The New Deal is demographically obsolete. You can't fund the dream of the 1960s on the economy of 2010."

But in Colorado, some retirees and those eligible to retire still want to live that dream. So they sued the state to keep all of the annual cost-of-living increases they thought they would be getting in perpetuity.

The state's case turns, in part, on whether it is an "actuarial necessity" for the Legislature to make a change. To Meredith Williams, executive director of the Public Employees' Retirement Association, the state's pension fund, the answer is pretty simple. "If something didn't change, we would have run out of money in the foreseeable future," he said. "So no one would have been paid anything."

Meanwhile, [Gary R. Justus](#), a former teacher who is one of the lead plaintiffs in the case against the state, asks taxpayers in Colorado and elsewhere to consider an ethical question: Why is the state so quick to break its promises?

After all, he and others like him served their neighbors dutifully for decades. And along the way, state employees made big decisions (and built lifelong financial plans) based on retiring with a full pension that was promised to them in a contract that they say has the force of the state and federal constitutions standing behind it. To them it is deferred compensation, and taking it away is akin to not paying a contractor for paving state highways.

And actuarial necessity or not, Mr. Justus said he didn't believe he should be responsible for past pension underfunding and the foolish risks that pension managers made with his money long after he retired in 2003.

The changes the Legislature made don't seem like much: there's currently a 2 percent cap in retirees' cost-of-living adjustment for their pension checks instead of the 3.5 percent raise that many of them received before.

But [Stephen Pincus](#), a lawyer for the retirees who have filed suit, estimates that the change will cost pensioners with 30 years of service an average of \$165,000 each over the next 20 years.

Mr. Justus, 62, who taught math for 29 years in the Denver public schools, says he thinks it could cost him half a million dollars if he lives another 30 years. He also notes that just about all state workers in Colorado do not (and cannot) pay into [Social Security](#), so the pension is all retirees have to live on unless they have other savings.

No one disputes these figures. Instead, they apologize. "All I can say is that I am sorry," said

Brandon Shaffer, a Democrat, the president of the Colorado State Senate, who helped lead the bipartisan coalition that pushed through the changes. (He also had to break the news to his mom, a retired teacher.) “I am tremendously sympathetic. But as a steward of the public trust, this is what we had to do to preserve the [retirement](#) fund.”

Taxpayers, whose payments are also helping to restock Colorado’s pension fund, may not be as sympathetic, though. The average retiree in the fund stopped working at the sprightly age of 58 and deposits a check for \$2,883 each month. Many of them also got a 3.5 percent annual raise, no matter what inflation was, until the rules changed this year.

Private sector retirees who want their own monthly \$2,883 check for life, complete with inflation adjustments, would need an immediate fixed annuity if they don’t have a pension. A 58-year-old male shopping for one from an A-rated [insurance](#) company would have to hand over a minimum of \$860,000, according to Craig Hemke of [Buyapension.com](#). A woman would need at least \$928,000, because of her longer life expectancy.

Who among aspiring retirees has a nest egg that size, let alone people with the same moderate earning history as many state employees? And who wants to pay to top off someone else’s pile of money via increased income taxes or a radical decline in state services?

If you find the argument of Colorado’s retirees wanting, let your local legislator know that you don’t want to be responsible for every last dollar necessary to cover pension guarantees gone horribly awry. After all, many government employee unions will be taking contrary positions and doing so rather loudly.

If you work for a state or local government, start saving money outside of the pension plan if you haven’t already, because that plan may not last for as long as you need it.

And if you’re a government retiree or getting close to the end of your career? Consider what it means to be a citizen in a community. And what it means to be civil instead of litigious, coming to the table and making a compromise before politicians shove it down your throat and you feel compelled to challenge them to a courthouse brawl.

“We have to do what unions call givebacks,” said Mr. Lamm, the former Colorado governor. “That’s the only way to sanity. Any other alternative, therein lies dragons.”