Written by Bob Adelmann on April 28, 2011

# States' Pension Woes Worsening

According to Pew, the shortfall is at least $1.26 trillion (with a t), but could approach $5 trillion depending upon rate of return assumptions. Because of the precipitous decline in revenues in 2009, states were able to pay only $73 billion into their plans when their actuaries said they needed to contribute $115 billion. In 2008, states made contributions of $72 billion, when they needed to contribute $108 billion. So while states continue to underfund their pension plans, the shortfall is growing more quickly than they can contribute.

Actuaries and other pension experts recommend that states fund at least 80 percent of their future liabilities. Anything less than that puts their ability to keep those promises at serious risk. Pew says that on the average, across all the states, their pensions are funded at only 78 percent. And 31 states fall well below the 80 percent safety threshold.

A closer look at the study indicates that while the pension funds are in awful shape, promises to pay healthcare benefits to retirees are much worse. Pew calculates that the states have promised to provide $635 billion of benefits in the future, but have put aside only $31 billion to pay them. Nineteen states have put aside nothing, and are just paying out healthcare benefits from their general funds on a day-by-day basis. This is called "pay as you go," which, translated, means "we stop paying when we run out of money."

Perhaps Pew's most important conclusion is that pension and healthcare obligations are simply running away from the states' abilities to pay them. In 2000, for instance, states had to pay just $27 billion to fund fully their promises. In 2009, that requirement grew to $68 billion, an increase of 152 percent in just nine years.

Some states are beginning to address the issue, albeit in a very gingerly manner, and meeting great resistance. Massachusetts, for instance, has funded only 68 percent of its pension liabilities, and was able to make only 66 percent of the recommended minimum payment this year. Surprisingly, given the perception that Massachusetts is highly Democratic and heavily influenced by unions, lawmakers in the state House voted earlier this week to remove from the unions their power to negotiate over their healthcare benefits. According to House Speaker Robert A. DeLeo, if the measure passes the Senate, the state will save $100 million: "By spending less on the health care costs of municipal employees, our cities and towns will be able to retain jobs and allot more funding to necessary services like education and public safety." The unions, however, are not going quietly into the night. As Robert J. Haynes, president of the Massachusetts AFL-CIO exclaimed,

> It's pretty stunning. These [House members] are the same Democrats that all these labor unions elected. The same Democrats who we contributed to in their campaigns. The same Democrats who tell us over and over again that they're with us, that they believe in collective bargaining, that they believe in unions.

We are going to fight this thing to the bitter end. Massachusetts is not the place that takes collective bargaining away from public employees.

In Detroit, Michigan, an arbitrator ruled that the city could start reducing the pensions being earned by its police lieutenants and sergeants. The report by the arbitrator noted that while Detroit's "official" unemployment rate was 28 percent, only 37 percent of the city's residents actually had jobs. The population had shrunk by 25 percent in the last 10 years, property values had declined, tax revenues had shriveled up, and even after draining its reserves, cutting overtime for its employees, offering property-tax amnesty to deadbeats, selling off public assets, and allowing casinos to open, Detroit was still in financial freefall. After hundreds of hours of testimony, and a report of 35 pages, the final result was insignificant: The city would be allowed to reduce the rate at which lieutenants and sergeants earned pension benefits from 2.5 percent of their salary per year to 2.1 percent. Wrote Thomas W. Brookover, the arbitrator,

> The severity of the City's pension problem is readily apparent from the fact that, even with these projected cost reductions, the City's funding obligations to the PFRS (Police and Fire Retirement System) would still exceed the average contribution of [the City's] counterparts [Cleveland, St. Louis, Pittsburgh, Baltimore, Philadelphia, and Chicago] by 26%.

While other states and municipalities struggle to close the shortfall with strategies ranging from reducing future benefits for future workers, raising retirement ages, requiring greater employee contributions to the plans, and rolling back COLAs, it is clear that these initial efforts will not slow the tsunami of accelerating costs of promises made. After reviewing the Pew study, Gary North noted:

> The finances of over half the states are therefore in freefall. The politicians face organized voting pressure from [the] public employee labor unions. These voters will resist any attempt to avoid paying off their members' pensions.

The Pew study confirms the immense size of the wave of entitlements that is roaring up the beach of the states. Inability to make major reductions now will simply guarantee the defaults on many if not most of those promises. Even though many state employees will stop receiving their checks and municipal bond holders who have loaned money to the states and cities will lose most of their investments, taxpayers will remain eternally on the hook for promises made by former politicians now long and comfortably retired.