Governmental (i.e., "Public") Pension Obligations

In our Conversation Piece entitled *Who is working for who?* our Editorial Board makes a number of recommendations on re-balancing and correcting (restoring) the relationship between private sector and public sector compensation. This re-balancing needs to be addressed and corrected in order to ensure the long term financial health of the country, and our federal and state governmental units.

Our Editorial Board believes that we have collectively gotten into our current sorry state of financial condition due to our elected officials' blatant mis-use of OPM (Other People's Money). In our other Conversation Pieces, we make specific recommendations on how to go about correcting these wrongs.

The purpose of this Conversation Piece is to first discuss the conceptual issues surrounding "employee benefits" in the private sector and in the governmental sector, and to make recommendation on how to move forward. We The People need to remember that our elected officials are our employees. They do not own their office - they are merely renting it for the Terms that we allow them to rent the position. Accordingly, we should deal with our elected officials in the same way that a private sector employer would deal with their employees – fairly and with mutual respect. It is unfortunate that our Editorial Board, if pressed, would feel compelled to characterize the current employment situation as one where the employer (We The People) have developed minimal respect for the employee (our elected officials). We need to get this fixed.

In order to help restore that mutual respect for our employees, We The People need to re-acquire that feeling that we are getting our money's worth. We need to re-address the compensation that we are paying to our employees, to ensure that the amount is appropriate. Our Editorial Board does not have any specific viewpoints or recommendations regarding the salaries paid to our elected "executive" or "legislative" employees. However, we do have a number of significant issues and concerns in regards to the fringe benefits, and we have some specific recommendations.

Our first concern is that US government employees do not participate in the same health insurance programs utilized by the private sector. This "discrepancy" is one of the many sources of distrust and discontent with our elected employees and the bureaucracies that support our governmental functions. We don't really know why this situation was allowed to happen in the past, but going forward, with the passage of universal health care and the establishment of state healthcare exchanges, this disparity is the first discrepancy that should be eliminated. Any elected official who represents us in Washington DC should be covered through the state health insurance exchange of their home state. US government employees who live within the boundaries of Washington DC should be covered by a similar state health insurance exchange for Washington DC.

Our second (and more significant) concern is in regards to public sector pension benefits. As anyone in the private sector realizes, the defined benefit pension plan has generally been eliminated from the marketplace. This is primarily due to the downside problems associated with trying to maintain a properly funded corporate pension plan on behalf of the company's employees. Accordingly, private sector entities have moved the responsibility of providing for a financially secure retirement to the employees themselves thru a 401K savings plan or through personal IRAs. It is time for this evolution to also occur in the public sector.

Our Editorial Board does not believe that any elected official should receive a pension. They are merely renting their elective office. They should provide for their own retirement (by saving a portion of their compensation) just like employees in the private sector. Please note that we are not proposing that any past promises be rescinded – what we are proposing is that the new rules would be put into place for all newly elected officials who are seeking to rent their elective office in the future. To satisfy past promises, we recommend that the same procedures that are used in the private sector be utilized to quantify (and fund) all past promises (over a specified short period of time, if need be) to people who have been elected in the past, who were promised something under the old rules. Moving forward, the financial management of those (now personal) funds, and the financial risks associated with those funds, should be under the control of the people who earned those benefits in the past under the old rules. This will put these elected employees on the same footing as employees in the private sector. There should not be any new "pension" benefits for elected officials. Ever. Our viewpoint is that if an elected official has faithfully and effectively discharged the responsibilities of their office, they should have been able to establish the necessary credentials and networking contacts while in office, which should benefit them when they return to the private sector after their "rental period" has ended. This is, in effect, their "pension benefit" for their public service. They should not also own a permanent perpetual cash flow stream stemming from their years of public service. It is immoral to push the financial responsibility for such a cash flow stream on to future generations.

This is also our Editorial Board's primary discontent in regards to the public sector employees who are employed by the government bureaucracies. Employees in the private sector are being asked to take personal responsibility for their own financial requirements for their retirement years. It is time to level the playing field with the employees in the public sector.

Our Editorial Board is appalled by the horrendous financial condition of public sector pensions. Not only do we have funding problems with a number of federal pension plans, the problem is even worse at the state and local level. It appears that state and local politicians have learned (too well) the schemes associated with using Other People's Money, and pushing the financial responsibility for current promises on to future generations of citizens. We have provided a link to two reports. The first is a survey of all 50 states, showing the best and worst run states in America. [Embed link here] This report shows the amount of debt per capita, along with the state's budget deficit. Unfortunately, this is a somewhat misleading report, because (like the US government and Social Security) the debt per capita does not includes the liability for public sector employee pension benefits that have not yet been appropriately funded. It is interesting to note that this type of accounting and financial management is not allowed in the private sector.

The second report is a similar report for major cities across the country. [Embed Link Here] The amounts in this report are for unfunded pensions and retiree health plans. Local governmental units are just as guilty in regards to failing to adequately currently fund the promises being made to their governmental employees, including their police force and firefighters. This report by the Pew Charitable Trusts found that 61 US cities had a collective funding gap of more than $217 billion in future pension and health care obligations that they will owe to retiring workers in the future. The only way to prevent the improper use of Other People's Money is to put the personal responsibility for providing for their own financially secure retirement on to public sector employees, the same as for private sector employees.