New Jersey, New York part of a national trend

# Northeastern US states seek to cut public worker pensions

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The attack on Detroit city worker pensions as part of the municipal bankruptcy scheme is only the most extreme example of a nationwide assault on the retirement programs for all public sector workers. The assault on public worker pensions is being mounted in the adjacent states of New Jersey, Pennsylvania and New York.

In New Jersey, Republican governor Chris Christie has reneged on a 2011 deal worked out with the Democratic-controlled legislature in which state workers were subjected to benefit cuts, including raising the minimum retirement age from 62 to 65, and freezing annual cost-of-living adjustments, in return for a promise by the state to gradually increase its contributions to the pension system. These increased contributions would merely restore the previously established rate, which had for years been underpaid in order to fund tax breaks for the rich and other wealth transfers from the working class.

The New Jersey public employee pension system was last fully funded in 2002. The subsequent shorting of contributions by the state, combined with the loss of revenue due to the 2008 financial crisis, has created a major gap between the current assets of the system and the projected amounts it must pay to retirees in coming years. In 2010, the shortfall reached $53.9 billion, reduced to $36.3 billion by the 2011 deal. Subsequent partial contributions by the state have now increased the underfunding total to $52 billion.

Earlier this year, the state budget experienced a significant revenue shortfall. In order to fill that gap, Christie looted $900 million originally allocated to the state employee pension fund. The Governor then announced that, despite the 2011 bipartisan agreement that was supposed to resolve the pension crisis, which he had promoted and signed into law, the pension system deficit now represents a critical danger for the state's long-term financial stability and that the only way to address this problem was through significant benefit cuts. The governor slashed $1.57 billion from a required payment for the public worker pension fund in the 2014-2015 state budget.

Christie has spent much of the summer touring the state under the banner "No Pain, No Gain," saying that the current system is unsustainable and announcing his intention to cut public worker pensions. He has explicitly rejected the idea that taxes could be raised to meet the obligation to restore funding to the system. In addition to benefit cuts, Christie has proposed a shift to "defined contribution" or 401(k)-type pension plans, under which risks are shifted to the employee.

Contrary to claims that public pensions in New Jersey are unreasonably expensive, the reality is that before the financial crisis benefits were near the national average. Since then, New Jersey has substantially reduced costs. Employee contributions were increased from 5.5 percent to 6.5 percent of annual salary (8.5 percent to 10 percent for police and fire), plus an additional 1 percent increase to be phased in. The cost-of-living adjustment (COLA) for current and future retirees was eliminated—roughly equivalent to a 20 percent benefit cut. New hires suffered even greater cuts. Benefits for current New Jersey employees are now significantly below the national average and employees pay most of the costs. The primary cause of the crisis is not benefits, but the failure by the state to make required payments into the system.

Nevertheless, bond rating agencies have already cut New Jersey's ratings since Christie first took office in 2010 and are threatening to make additional cuts, making borrowing more expensive unless the state "reins in" public pension costs.

The crisis in New Jersey's public pension system is part of a national trend, and the specifics in this state serve to illustrate the utterly callous and self-serving practices engaged in by financial institutions and their political representatives, which have put the retirement savings of public employees in grave jeopardy.

As a recently published study by Pando reveals: "The Christie administration has been spending record amounts of taxpayer money on corporate subsidies at the exact same time as he claims New Jersey doesn't have enough money to make required public pension payments." Research reveals that hundreds of millions of dollars in tax breaks and subsidies have been given to corporations, many of which have, in turn, made substantial contributions to Christie's election campaigns.

Mirroring another national trend, significant amounts of New

Jersey public pension money have been moved to risky investments in Wall Street "private equity" funds. These include Blackstone, Third Point, Omega Advisors, Elliott Associates and The Carlyle Group. As a result, the fees paid by the state to financial managers have tripled, amounting to a quarter of a billion dollars.

Furthermore, despite the claims that allowing such firms to manage the state's pension funds would increase revenue, over the fiscal years 2011 to 2014 the state's income from these investments has been below the national median for similarly sized pension systems.

In response to significant public opposition to his proposals, Christie has appointed a study commission to explore ways of cutting pension costs. The panel, hand-picked by the governor, consists of financial and corporate notables. The outcome of the study is a foregone conclusion. The establishment of the commission is intended to provide some slight political cover, while at the same time allowing Christie to maintain his "tough on pensions" image for what appears to be an increasingly likely bid on his part for the Republican presidential nomination next year.

Similar attacks on public employee pensions are being mounted in Pennsylvania, immediately west of New Jersey, across the Delaware River. There, parallel factors, including investment losses and state underfunding, have created a $50 billion shortfall in the funds needed to pay projected retiree pensions. The Republican governor, Tom Corbett, has stated that filling this gap would be an unacceptable burden on "taxpayers." Instead he proposes to reduce the size of the lifetime pension guarantee for future hires, lengthen the time until workers qualify for pensions, and institute a 401(k)-style plan that shifts the risk to workers. Varying but similar proposals have emanated from the state legislature.

The pension issue was left unresolved in the current budget, which included steep cuts in social services. The legislature returns in mid-September and is expected to take up the issue again. As with New Jersey, bond agencies have threatened to downgrade Pennsylvania's rating, leading to higher borrowing costs if pension costs are not reduced.

Public pension costs are also seen as a problem to the east, in New York. While revenues for both the city and state systems have increased significantly in recent years due to the inflation of stock prices on Wall Street, on which New York relies heavily for tax revenue, long-term projections are decidedly negative.

The underlying problem of underfunding exists here as well. The *New York Times* reports, "From 1999 to 2012, for example, the plan for general workers fell to just 63 percent funded from 136 percent."

Due to growth in total investment revenue, the city has been able to raise its contributions to the retirement funds, but this has not kept up with overall obligations to retirees, and the gap is widening.

Here too, pension funds have shifted to supposedly higher return but riskier investments, with significant increases in fees and lower than expected revenues. (See: "New York's Mayor Bloomberg calls for assault on public worker pensions")

The pattern of underfunding of public employee pensions is endemic across the country. A study by the Center for Retirement Research at Boston College, published this past June, reports that state and local government pensions have at least $1.1 trillion less than they need for promised retirement benefits.

In a separate report, the hedge fund Bridgewater Associates released the results of a "stress test" on American public pension plans, indicating that 85 percent of all plans will go bankrupt within 30 years unless their average rate of return increases to 9 percent, a totally unrealistic expectation. Bridgewater expects the rate to be closer to 4 percent, at best.

The progressive shift from "defined benefit," or traditional pensions, which were once the norm, to "defined contribution," or 401(k)-like schemes, has been unfolding for decades in the private sector. By 2011, only 35 percent of Fortune 1000 corporations had active defined benefit plans, while most public workers still had such plans. However, according to the National Institute on Retirement Security, 45 percent of working-age households own no retirement account assets of any kind.

A recent report by Moody's indicates that public pension funds have significantly higher "risks" than those of private corporations. In other words, governments lag behind corporations in their assault on worker pensions, a process known as "derisking," i.e., shifting retirement costs entirely to the workers.

The Center for American Progress concludes that, "the typical 401(k) fees—adding up to a modest-sounding 1 percent a year—would erase $70,000 from an average worker's account over a four-decade career compared with lower-cost options."

The cumulative effect of derisking by private employers and increasingly by public employers will be a return to conditions similar to those of the 19th century, when workers had little or no economic security in their old age. According to the Center for Retirement Research, half of all US households will be unable to maintain their standard of living in retirement.