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How a Transit Workers' Pension Plan Jumped the Tracks.

The Denver-area union blames privatization, but the causes for its retirement fund's troubles are familiar ones that run deeper.

Start with the public-transit industry, where employees often pay next to nothing toward their pensions and federal law provides them with up to six years of full pay and benefits if they're laid off, then add what have become the usual public-sector pension sustainability problems, and the result is a particularly toxic brew. That's the case in Colorado, where 1,670 Denver Regional Transit District (RTD) employees and retirees just got some very bad news about their local pension fund.

A consultant's study found that the \$200 million Amalgamated Transit Union 1001 (ATU) pension fund was more than 100 percent funded in 2002, but problems became apparent the following year. By 2008 it was down to 86 percent funded, and last year, in the aftermath of the financial crisis, the pension stood at less than 50 percent. Gabriel Roeder Smith & Co., which conducted the study, says the fund is on course to be fully depleted in 2032.

ATU members currently contribute 3 percent of their salaries to the pension fund, and the RTD kicks in 8 percent. Under the terms of a deal signed last year, the RTD's contribution will rise to 12 percent for the next two years, then to 13 percent through 2017. The transit workers' contributions will rise to 4 percent for the next two years, then to 5 percent. Even then, the contributions will be far less than what is needed to stabilize the fund.

Some blame privatization for the problem. A 1988 state law required the RTD to contract out at least 20 percent of its bus service, and today private companies operate about half the service. The president of the ATU local, Julio Rivera, said 800 bus operators who would otherwise contribute to the union retirement fund now work for two private operators. "If not for privatization, all of our members would have a pension and it would be in a much better shape," Rivera told the Denver Post.

But those 800 bus operators who aren't contributing to the pension fund also won't collect from it. Taxpayers deserve the best service at the lowest price regardless of whether a driver works for the RTD or a private company. Requiring a portion of the service to be privatized may well be unwise, but Rivera's comment leads one to wonder whether he believes the RTD should be run to benefit customers and taxpayers or members of his union.

A closer look at the ATU pension's problems reveals all the usual suspects. Making pension contributions subject to collective bargaining inevitably results in insufficient employee contributions. Then there are classic public transit-employee perks, such as allowing vesting in the pension plan after just five years on the job and making employees with at least 20 years of service eligible for full retirement benefits at age 55. A state law that took effect in 2011 will require new employees to work 10 years before vesting and increase the age for retiring with full benefits to 60, but with life expectancy on the rise, many retirees still will be collecting for a very long time.

The plan's investment strategy may also be less than optimal. In a very good year for markets, the

pension fund for RTD's salaried employees achieved investment returns of about 20 percent last year, while the ATU plan returned 14 percent. (One thing the ATU plan does get right is its assumed rate of return. Unlike so many public-pension plans that paint an overly rosy picture by assuming unrealistic annual investment returns, ATU assumes a more reasonable 7 percent.)

If public employees want to remain the last bastion of traditional defined-benefit pensions, they're going to have to make the contribution and benefit changes needed to make those plans sustainable. Perhaps RTD board member Natalie Menten said it best: "The fact that RTD employees are paying only 4-5 percent versus the taxpayers' contribution at 12-13 percent should be a wake-up call to voters, taxpayers, union members and public-transportation users."

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