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Public Employees' Pension Dilemma.

The story has played out repeatedly in recent years. As unfunded pension liabilities rise, financially stressed local governments seek to move employees toward 401(k)-type retirement systems to get out from under crippling long-term commitments, but public employee unions fight to maintain their defined-benefit plans.

As the municipal landscape becomes more fiscally precarious, public employees might want to rethink the traditional strategy.

A couple of decades ago, it was almost unheard of for a municipality to declare bankruptcy. But fast forward to today and Bridgeport, Conn., Detroit and Stockton, Calif., and are just a few of the cities that have descended into bankruptcy. Pension problems even have Vallejo, Calif., which emerged from bankruptcy in 2011, in danger of declaring for a second time.

In Detroit, U.S. Bankruptcy Court Judge Steven Rhodes ruled that pension promises are not sacred in the city's bankruptcy proceedings, and the city's pensioners voted overwhelmingly to accept cuts. The city plans to pay most pensioners 95.5 percent of their promised monthly benefit and eliminate cost-of-living adjustments (COLAs) entirely. Police and firefighters would fare somewhat better; they would get 100 percent of their monthly benefit, but the annual COLAs would be cut from 2.25 percent to 1 percent. Rhode Island and the city of Providence are among other jurisdictions that have gone after COLAs in pension-overhaul legislation.

Given the spate of municipal bankruptcies and the fact that so many of them are pension-related, there's little doubt that moving toward 401(k)-style or defined-contribution plans, in which employers contribute to an employee's pension fund each pay period rather than promising a set benefit upon retirement, would help steady municipal finances. But it's also becoming clear that defined-benefit promises on which municipalities can't deliver don't help workers, who may well be better served by getting their employers' pension contributions through a defined-contribution plan.

Guaranteeing all previously promised pension payouts in return for substantial concessions from new hires is an approach that a number of cities have used to ease their pension problems. Atlanta saved $25 million annually by raising its retirement age for new hires. Lexington, Ky. extended its retirement age and also increased the period new employees have to work before vesting in the city's pension plan from 20 years to 25. And even if those Detroit retirees see their pensions cut and COLAs eliminated, they'll still make out better than new city workers. After 30 years, those new employees' pensions are projected to be worth about 40 percent less in inflation-adjusted dollars than those of city workers who retired in 2011.

The problem with this approach is that future public employees are the ones who would be most hurt by it, and they're not represented when the agreements are being negotiated.

Unfunded pension liabilities are one of the main reasons why municipal finances have become so precarious in recent years, and moving to defined-contribution plans would ease the fiscal pressure on cities. While the switch might not be the first choice for many employees of the nation's most

troubled municipalities, it’s a lot better than facing unilateral benefit cuts after they’ve already retired or as they near retirement.

But for municipalities facing pension woes that are serious but not yet at the crisis stage, it’s tempting to solve the problem by shifting the burden to future employees who have no voice in current negotiations. That option isn’t fair and would make the already formidable task of attracting and retaining top-flight public workers even harder in the future.

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Charles Chieppo | Contributor
Charlie_Chieppo@hks.harvard.edu

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