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The Search for Consensus on Public Pension Reform.

What Arizona has done shows what's possible when all of the stakeholders look for common ground.

It's always a big deal when policymakers, labor and management come together and find meaningful solutions to contentious fiscal issues, especially when those issues involve public pension systems. As unfunded pension liabilities continue to skyrocket across the nation, reaching at least $2 trillion, consensus among stakeholders for reform should no longer be the exception but the rule of thumb. And we need to look no further than Arizona's sweeping overhaul of its statewide public-safety pension system to see how it can be done.

Arizona's Public Safety Personnel Retirement System (PSPRS) was on a downward trajectory, with $12.7 billion in liabilities and only $6.2 billion in assets. The plan's debt has been mounting for years due to factors that included poor investment performance and an unsustainable cost-of-living formula structure. Further, reforms that were enacted in 2011 are being challenged before the state's Supreme Court. So it's a good thing for the state's public safety workers and taxpayers that state Sen. Debbie Lesko and other legislators decided to act before it was too late. And they did it thoughtfully by making it a bipartisan effort and including the PSPRS, firefighters' and police officers' associations, and local governments.

Major provisions of the Arizona reforms include replacing the broken cost-of-living formula structure with a traditional Consumer Price Index-based calculation for employees and retirees; offering new workers a choice between a defined-contribution plan and a traditional defined-benefit pension plan; and requiring new employees and their employers to share equally, 50/50, in retirement account costs. Without immediate changes, Arizona's pension debt would have continued to escalate, with every downturn in the market putting the system at risk of collapse.

Unfortunately, it's not only Arizona that has found itself in this predicament. The vast majority of America's public pension systems are houses of cards built on risky holdings such as stocks, hedge funds and real estate. Unbalance just one piece of the structure and the houses collapse. We can see this scenario already playing out across the country as many state and local governments face service cuts and tax increases due to tremendous pension debt.

Today's pension crisis is due to policy decisions made years ago by legislative bodies that created unsustainable systems, lulled by years of a bull market into thinking they could increase benefits based on unrealistic and risky market expectations. But bull markets don't last forever. When the bottom falls out, taxpayers are left to pick up the shortfall.

If pension systems were set up with less risk (as they once were), more sharing of that risk and lower return expectations, then the real cost of retirement benefits would be more apparent to everyone. So while the recent market downturn isn't fully to blame for the funding crisis we face today, it is exposing our pension systems for what they are.

History shows that as government pension plans face insolvency, policymakers tend to increase taxes and/or pull funds from important public services, such as education, public safety and transportation, to pay down pension debt. In Arizona’s case, to help make up the shortfall, required employer contributions to the plans increased by as much as 145 percent over the past few years, exceeding 60 percent of payroll in many jurisdictions throughout the state.

Growing pension costs are also threatening the long-term solvency of public employee retirement plans, putting at risk these workers’ hard-earned benefits. As with all workers, public employees should be able to count on every dollar in benefits that they’ve earned and not have to watch their futures go down the drain because of unsustainable pension systems. We have seen enough municipal bankruptcies to know that pubic employees and retirees suffer in that process.

Today’s policymakers didn’t create the mess they find themselves in, but they can certainly take a page from Arizona’s playbook and begin turning the tide to make their systems sustainable. While it’s easy to kick the can down the road for another day, if policymakers don’t get control of the public pension crisis now the ramifications will be dire not only for public employees but also for the public they serve.

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