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John Arnold: The Most Hated Man in Pensionland.

The billionaire philanthropist has vowed to secure retirement for public employees. So why do so many public employees despise him?

John Arnold wasn't a pension guy.

The billionaire financier, who made a fortune in the stock market before retiring at 38, hadn't ever really been interested in public retirement plans. But in early 2009, just months into the global financial crisis, Arnold began seeing a flurry of news articles about public pension funds collectively losing billions in the stock market crash. Assets had plummeted, causing unfunded liabilities to shoot up. Cash-strapped governments couldn't afford to fix the shortfall, and the longer they delayed putting more money in their pensions, the worse the problem would get. In short, it was a policy nightmare.

Arnold became intrigued. "The fact that you could go in one year from having a system that was well-funded to having a major gap — that affected me," he says. He started digging and found a book called Plunder: How Public Employee Unions Are Raiding Treasuries, Controlling Our Lives and Bankrupting the Nation, by conservative writer Steven Greenhut. As the title suggests, the book is an anti-union take on public pensions that details the misdeeds of the system's bad actors — public employees who game the system and wind up with pensions that are equal to or better than what their working salaries had been. Reading that book, says the now-43-year-old Arnold, "just made me mad."

Plenty of other people have gotten mad over the same thing. But Arnold, whose net worth is pegged somewhere near $3 billion, realized there was something he could do about it. He and his wife had just started a foundation they hoped would help governments make decisions based on evidence and data to produce concrete, measurable and lasting improvements to society. Over the nine years since it was started, the Laura and John Arnold Foundation has supported a range of initiatives, from education and criminal justice policy research to programs that bolster scientific research integrity by trying to replicate the findings of studies. He and Laura have signed on to the Giving Pledge, Warren Buffett and Bill Gates' challenge to wealthy individuals to give away the majority of their money to philanthropic causes. To date, the Arnold Foundation has given away nearly $700 million.

As he learned more about the challenges plaguing public pensions, Arnold started donating money to help study possible reforms. Initially, his foundation doled out relatively small grants of less than $200,000 to think tanks and nonprofits. Then in 2012, it awarded nearly $5 million over three years to the Pew Charitable Trusts to support its Public Sector Retirement Systems project. In total, the foundation has given $9.7 million to Pew to study pensions through 2019. All told, the Arnold Foundation has now directed nearly $28 million to fund pension policy research. John and Laura have also personally donated millions more to pro-reform political candidates and ballot initiatives, such as a failed 2014 measure in Phoenix that would have moved city workers to 401(k)-style plans. The measure was backed by $1 million from the Action Now Initiative, which is bankrolled by Arnold.

All of that has made Arnold public enemy No. 1 among lots of government workers and union leaders, many of whom see any threat to change pensions — no matter how small — as something to be feared and fought. “When people hear of an effort to get rid of pensions,” says Bailey Childers of the National Public Pension Coalition (NPPC), which is supported by unions, “the source is almost always John Arnold.”

For those who despise Arnold, it’s easy to paint him in an unflattering light. He made his first billions as a trader for the energy firm Enron. After the company imploded in bankruptcy and scandal in 2002, Arnold walked away unscathed. (He himself was never accused of any wrongdoing.) He then started a hedge fund that became one of the most successful energy trading funds in history, even as America was plunging toward the Great Recession. Along the way, Arnold, who lives in Houston, bought a place in the city’s tony River Oaks neighborhood, a three-acre plot that included a turreted red brick home built in the 1920s by two famous Houston architects — a rare cultural and architectural gem in a sprawling city with few historic preservation protections. It soon became clear Arnold intended to raze the home and replace it with a sleek modern house. Residents protested in front of the property; preservationists met with Arnold but say he was indifferent and condescending. He ultimately tore the house down.

Sometimes the vilification of Arnold can get personal. A recent video produced by the NPPC shows a man sitting poolside, sipping a tropical drink. “John Arnold may have retired in his 30s,” the announcer quips. “But the rest of us can’t. And we won’t be able to retire at all unless we fight back against his efforts.” In 2013, the progressive-leaning Institute for America’s Future released a report called The Plot Against Pensions: The Pew–Arnold campaign to undermine America’s retirement security — and leave taxpayers with the bill. It accused the Arnold Foundation of being “run by conservative political operatives and funded by an Enron billionaire.” The same year, Rolling Stone’s Matt Taibbi described Arnold as “a dickishly ubiquitous young right-wing kingmaker” and “a lipless, eager little jerk with the jug-eared face of a Division III women’s basketball coach.”

Arnold may be a lot of the things his enemies say he is. But at a time when many people believe the public retirement crisis has become untenable, Arnold also might just represent governments’ best shot at ensuring their public pensions can endure.

There are basically two ways to look at the current pension problems in this country. The first is how unions see it, as a string of broken promises.

Back in the ’90s, stock market gains helped fuel pension investment growth so much that by 2001, the average pension was fully funded. That meant the money it had in assets would grow through investment returns to eventually cover the pensions promised to current workers and retirees. That’s when many governments got too comfortable and made two fatal mistakes: They stopped regularly paying their annual pension bill, and they boosted retirement benefits for workers.

Even in the best of times, those were financially questionable decisions. But then the first baby boomers began to retire. Every day, there were fewer people paying into the pension system and more people taking money out of it. By 2005, the average pension was just 86 percent funded. Then came the financial crash: In 2008 and 2009, pension funds saw roughly one-quarter of their assets disappear. Meanwhile, governments grappling with major budget shortfalls skipped pension payments to make ends meet. Unfunded liabilities grew even larger. Around 2012, government budgets and the stock market began recovering, and pension funding levels stabilized. But as a whole, pensions haven’t regained any ground. They have remained around 73 percent funded, on average, for the past four years. (Of course, that doesn’t describe the path of all pension plans. New York state’s plans are more than 90 percent funded, while Wisconsin’s retirement system is fully funded.)

If governments had only kept up their end of the bargain and continued to responsibly fund pensions, most experts agree that today's troubled systems would be in far better shape. For unions, then, the argument is simple: Lawmakers must step up and pay more into the pension funds now, be it by raising taxes or finding some other source of revenue, to make up for their predecessors' broken promises.

But that's not the way Arnold sees it. For him and many others, the current situation isn't a question of failed promises or unfair policies. It's a math problem.

Arnold is a mathematics whiz whose remarkable skill with numbers had enabled him to develop new option-pricing models for oil and gas trading while at Enron. The same understanding of systems and figures fueled the unmatched growth of his hedge fund, Centaurus Advisors. At heart, Arnold is a data nerd. He doesn't just want to understand what is going to happen next, he wants to know why. So when he first began looking into public pensions, what he found didn't make sense to him. Here was a system that forced governments to shoulder all the risk for paying out pensions in the event of a market crash, but offered no immediate repercussions for governments that chose not to fund their obligations like they were supposed to. Everyone had skin in the game, but there was no referee. "It seemed like an issue," he says, "where every actor involved had an interest in the system [but] there was no objective voice that was really the voice of the next generation and of fiscal stability."

Arnold began zeroing in on places where the math — thanks to lawmakers' inaction over the years — simply wasn't viable anymore. That included places like Kentucky, which had habitually skipped its pension payments for years and had less than one-third of the assets it needed to meet its promised pension benefits. Or San Jose, Calif., where retirement costs were eating up nearly a quarter of the city's budget. Plans such as these, in which previous lawmakers had ignored a problem to the point of threatening a system's stability, were prime candidates for the kind of data-driven and evidence-based policy change the Arnold Foundation supports. "That's the kind of conversation we want to facilitate," says Josh McGee, the foundation's pension expert and vice president of public accountability. "This is an issue that folks on the ground are struggling to figure out, and they often don't have the resources. The fundamental piece we need to solve this problem is understanding the data."

In 2012, the foundation financially supported two major efforts in those places that have become indicative of its approach since then — either providing research assistance directly to lawmakers or funding the efforts of a like-minded research partner. Kentucky lawmakers, after receiving research assistance and advice from Pew, promised to increase funding to the state's public employees' plan while creating a cash balance plan for new employees. The latter shifted much of the future pension investment risk away from the state, a major theme of reforms the foundation's money tends to support. In San Jose, voters approved a ballot measure that included cuts to retiree health care and eliminated bonus payments to retirees when the pension fund had a good investment earnings year.

These approaches have now been repeated in dozens of places across the country. Funding from the foundation has also gone to think tanks and research institutes that produce public pension literature. Some of these are advocates — the libertarian Reason Foundation has received more than $3.5 million for pension research, for example — but many of them are not. Boston College's Center for Retirement Research, for instance, receives Arnold funding to maintain its well-regarded and widely used databases on pension fiscal health. The Nelson A. Rockefeller Institute of Government recently published a series of papers, funded by the Arnold Foundation and Pew, warning of the increasing risk involved in current pension accounting and investment practices.

Sometimes the foundation and unions actually find themselves on the same side. In Arizona last year, for example, voters approved a ballot measure that reduced cost-of-living payments to retired police and firefighters; the measure had received support from both the foundation and organized labor. More often, however, the foundation's money assists groups that want to press through with plan changes after union negotiations have failed. In San Jose, former Mayor Chuck Reed said city officials negotiated for months with the city's 11 unions, even bringing in state mediation services. (Reed now works for the advocacy group Retirement Security Initiative, which receives Arnold funding.) "When we got down to it, there were three or four of them that were almost to the point of getting to an agreement, but they didn't want to be the first and be out in front of crossing other unions," he says. "So ultimately they never agreed to anything."

As a result, unions feel railroaded by the kinds of overhauls backed by Arnold. Although the foundation's partners like Pew and Reason say they want input from all stakeholders when they are consulting on pensions, public employee buy-in isn't a requirement. "Obviously labor organizations are an essential part," says Pew's Greg Mennis. "We just try to focus on the fact of the numbers … to bring the analysis to light and educate stakeholders what it means."

Policy papers funded by the foundation tend to focus on changes to pension systems that shift risk away from the government and taxpayers, and toward the public worker. For instance, a 2012 white paper written by McGee lays out principles for creating a new pension plan. The paper outlines what's wrong with the current system — insufficient government contributions, lower-than-expected investment returns and unpredictable retiree costs — and then offers five potential solutions. None of the solutions propose keeping the traditional pension structure, and four of them would partially or fully incorporate a 401(k)-style plan for workers.

Those kinds of ideas, in combination with the Arnold Foundation's fealty to data and numbers, have led many people to perceive the group as anti-union and set on eliminating pensions. "Pension reform is more than a math problem — it's not simply solving for X," says Vijay Kapoor, an independent consultant who has no connection with either the foundation or unions. Kapoor advocates a mediation approach to pension reform that requires agreement and sacrifice from all parties. "These are human beings and this is their retirement," he says. "Any actuary can run a scenario where you can make the numbers work. But the question is, how do you get a comprehensive solution that actually addresses the problem? To do that, you need buy-in from everybody."

All the unions' vitriol against Arnold suggests a larger-than-life villain, a fast-talking conservative Wall Street tycoon in a $3,000 suit and slicked-back hair. In reality, he's much more boring. He's a soft-spoken and thoughtful policy wonk. He and Laura give money to causes on the political right and left — charter school networks as well as Planned Parenthood — and they once hosted a fundraiser for Barack Obama at their home. Arnold's Twitter feed consists mostly of dry policy observations and the occasional wry joke. In January he tweeted, "Did everyone have a relaxing two months between the end of 2016 and the start of the 2020 campaigns?" He's reserved and private about his personal life. He doesn't smile much in photos. He says he likes to blow off steam with his three kids, all under the age of 10, but when pressed on what he does for fun, he hesitates. "Probably shouldn't put that in print."

Much of the focus on the foundation and on Arnold himself comes from the fact that he's one of the very few outside players in an arena where unions have long held sway. Arnold says the vitriolic nature of the attacks against him, while surprising at first, are now a badge of honor. "If we were not being effective in these conversations," he says, "then we'd be getting ignored."

To public employees, the insinuation from outsiders — especially billionaire outsiders — that pensions need to be fixed is practically a personal affront. Workers didn't get us into this mess, they say. Political leaders did, through years of neglect and underfunding.

That may be true, say Arnold and others, but so what? The focus should be on how to fix things going forward, not on casting blame about how we got here. Politicians aren't likely to start throwing significantly more money at pension funds any time soon. States and cities, Arnold believes, must look at where the numbers are heading and at least explore some other possible reforms. Doing nothing is not an option.

Arnold doesn't just preach to others about living by the data. When his physician recommended that he begin taking anti-cholesterol medication, he wanted to know if there was solid research to show that the medicines actually helped and why. His doctor's response was frank. "We don't know what the marginal value of taking them is," he said. "But we do know that people who don't take them are dead."

John Arnold took the medicine.

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