
Think Public Pensions Can't Be Cut? Think Again.

It's happened several times in just the last few years. With so many systems severely underfunded, it's likely that more government employees will to be blindsided.

As John M. Richardson, a pioneer in the study of system dynamics, once put it, "When it comes to the future, there are three types of people: those who let it happen, those who make it happen, and those who wonder what happened."

That's as good a way as any to describe what has befallen so many of our state and local government pensions systems, now facing a collective funding shortfall of $5 trillion: legislative bodies that let it happen by creating unsustainable pensions, policymakers who perpetuated the problem by not fully funding their plans, and retirees who have been blindsided, wondering what happened, when their pensions have been slashed.

Consider, for example, the nearly 200 retirees of California's now-defunct East San Gabriel Valley Human Services Consortium, an employment and job-training agency known as LA Works, who just had their pensions cut by as much as 63 percent. Who's to blame? Policy leaders who set up the risky pension structure; city governments that didn't keep up with pension payments; and the California Public Employees' Retirement System (CalPERS), which did not alert the workers that their employers had fallen behind on their pension payments until this January, just two months before slashing their pensions. It's hardly surprising that the affected employees are questioning how, after paying into the pension fund for 25-plus years, this could have come to pass.

What's happening with LA Works' retirees isn't a unique situation. CalPERS, whose pension debt stands at $170 billion, just last year drastically cut pension benefits for retirees who worked for the city of Loyalton. Many other cities, and several states, are struggling to keep their heads above water in the face of runaway pension costs.

Think it can't happen to your city? Think again. Detroit, Mich., and Central Falls, R.I., are polar opposites in many ways, but they have one thing in common: Both slashed their retirees' pensions when the cities filed for bankruptcy.

Detroit's was the largest municipal bankruptcy in the nation's history. After the city filed for bankruptcy protection in 2013, thousands of retirees saw their pensions cut by 4.5 percent, their cost-of-living allowances eliminated and their health-care benefits reduced. Just this past October, after much legal back-and-forth, a federal appeals court rejected the retirees' challenge to reinstate their full pensions.

Central Falls cut pensions for its 133 retirees by as much as 55 percent when the city filed for bankruptcy in 2011 (although the state later eased the pain by reducing the cuts to 25 percent for the first five years). At the time of its bankruptcy, Central Fall's pension plan was a staggering $80 million in debt. Retirees who had saved for their entire careers and assumed their pensions were secure suddenly found themselves forced back into the workforce to make ends meet.

The only truly secure guarantee that a public employee has is a fully funded pension system. But that's a guarantee that's likely to become rarer as cities face mounting fiscal strains. Of the nation's 89,000 local governments, some 11,000 have defaulted on bonds at some point in our history. As pension costs continue to escalate, it's nearly certain that the number of defaults will rise. How lucky do you feel? Will your city run out of money?

All public-sector retirees deserve safe and secure futures, not to be reduced to poverty when their pension plans fail them. Retirement benefits should be sustainable and predictable for current and future public employees. To live up to this expectation, governments need to fully fund their plans.

Today's pension crisis may be due to policy decisions made years ago, but it's incumbent upon current policymakers to turn the tide and make their systems sustainable. Public employees and retirees didn't create this mess, and they shouldn't be left wondering what happened when the money runs out.

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