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States, Cities Win Edge in Pension War With Supreme Court Ruling.

- **Court decision allows public workers to skip union fees**
- **Unions may have less bargaining power with fewer members**

No financial issue has dominated American states and cities in recent years as much as the massive shortfalls in their workers' retirement funds, which have triggered battles between politicians and unions from New Jersey to California and helped push Detroit into a record-setting bankruptcy.

On Wednesday, the U.S. Supreme Court may have given governments a bit more of an upper hand.

The court ruled 5-to-4 that government employees have a constitutional right not to pay union fees, dealing a potentially heavy blow to the economic clout of the labor movement through a decision that affects 5 million workers. That may leave unions with a weaker voice in benefit and pay negotiations and curtail their power at the polls.

State and city pension funds were hit hard by the credit market crisis a decade ago, when stock prices plunged. That's left them with about $1.8 trillion less than they need to cover all the promised benefits, putting pressure on governments and workers to set aside more money to make up the difference.

Such unfunded obligations contributed to bankruptcies in Detroit and Puerto Rico that left bondholders and pensioners squaring off in court. In New Jersey, former Republican Governor Chris Christie fought with the state's labor unions over their benefits for years, even as his failure to make full annual pension payments caused the pension system to fall deeper behind. Illinois's bonds have been downgraded to one level above junk because of retirement system debt that stood at $137 billion by last June.

"The issue with resistance to alter pension agreements is a big one in states with underfunded pensions like Illinois," Daniel Solender, head of municipal investments at Lord Abbett & Co., which holds $20 billion of state and local debt, said in an email. "Up until now it has been unions versus the government on these issues but if workers do not need to financially support the unions and if they can act more independently, it might open the door for more compromises."

Union opposition to pension changes has been a major force in Illinois. In 2013, Illinois lawmakers approved a restructuring of the pension system, seeking to cut cost-of-living adjustments and raise the retirement age for some workers. But unions sued, and the state's supreme court sided with unions, saying it illegally cut benefits protected by the Illinois constitution.

"This is historic win for taxpayers," Governor Bruce Rauner, a Republican, said in a Bloomberg Television interview from Washington. "Taxpayers for too long have suffered from the excessive, unfair costs of the unfair, conflicted relationship between government union leaders and the politicians who they helped elect as well as negotiate with."

While the legal obstacles haven’t changed, the Supreme Court decision could chip away at the resources that unions can bring to such fights. That could help states and local governments seeking to lower salaries and reduce benefits.

“We expect the Supreme Court decision may lower public union revenues, membership, and bargaining power in the 22 states that can no longer allow mandatory fees,” Emily Raimes, an analyst at Moody’s Investors Service, said in a statement. “These developments could change how state and local governments set employee wages and pensions, resulting in a positive long-term impact on government finances.”

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