



# Public Pension Funding: The Organized Labor Perspective

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# Public Employee Unions

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- Represent nearly 40% of the workforce
- Politically potent in many states
- Philosophically, Unions like DB plans
- We also like Social Security
- Pensions are part of compensation
- The public sector is different than the private sector
- We care about public services and how they are funded and delivered



# Public Pensions Press State Budgets

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- S&P Study (released last week)
- Public Pensions underfunded by \$284 billion in 2004
- 84% funded as of June 30, 2004
- Illinois state plans are underfunded, however: only about 61%



# What is behind the perception of a public pension crisis?

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- Private sector “spill over”
- Privatization ideology (Social Security)
- Public sector pretty well funded overall
- Some exceptions make big headlines
- National media discovered the issue



## Now, we're in the news

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CBS Evening News (1/13/06):

“Government employers are starting to say they can't meet their pension obligations either – not without some help from taxpayers – and it is a problem that is waiting to explode across the country....Nationwide, state and local government pensions are under funded by more than \$450 billion....Illinois, the worst off of all, (owes) \$39 billion.”



# GASB 43 and 45 Around the Corner

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- These pension liabilities are going to look small compared to PEBOPs!
- Private sector was slashing retiree health benefits, used FASB as an excuse to accelerate the trend.
- Reality: GASB 45 does not create one penny of new liability, nor does it require pre-funding.
- Still, we have a problem...how will we pay for health care in the United States?



# POBs helped mask Illinois' Structural Deficit

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- Illinois has underfunded state pension systems since at least 1982
- FY 1996 funding law flawed: the “ramp” perpetuated underfunding and set a target of only 90% of liabilities
- Revenue growth 1997-2001 masked the problem
- Bottom fell out in 2002-2003
- POBs plugged the hole
- Still with us (notwithstanding Rod’s claims!)



# Pension Funding part of a larger picture

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- The issue is how we pay public employees...how we pay for public services
- Antiquated tax structures predominate
- Narrow sales tax bases typical—we have a 1930's tax base with a 21<sup>st</sup> century economy!
- Flat rate income tax
- Hodgepodge of loopholes and exemptions
- That's why we don't fund the pension systems!



# 25% of public sector outside Social Security System

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- In Illinois, TRS, SURS, and most others don't participate in Social Security
- Only SERS and IMRF participate
- Other public employers don't pay the 6.2% FICA tax
- In this context, many public pension systems are a bargain for the employer

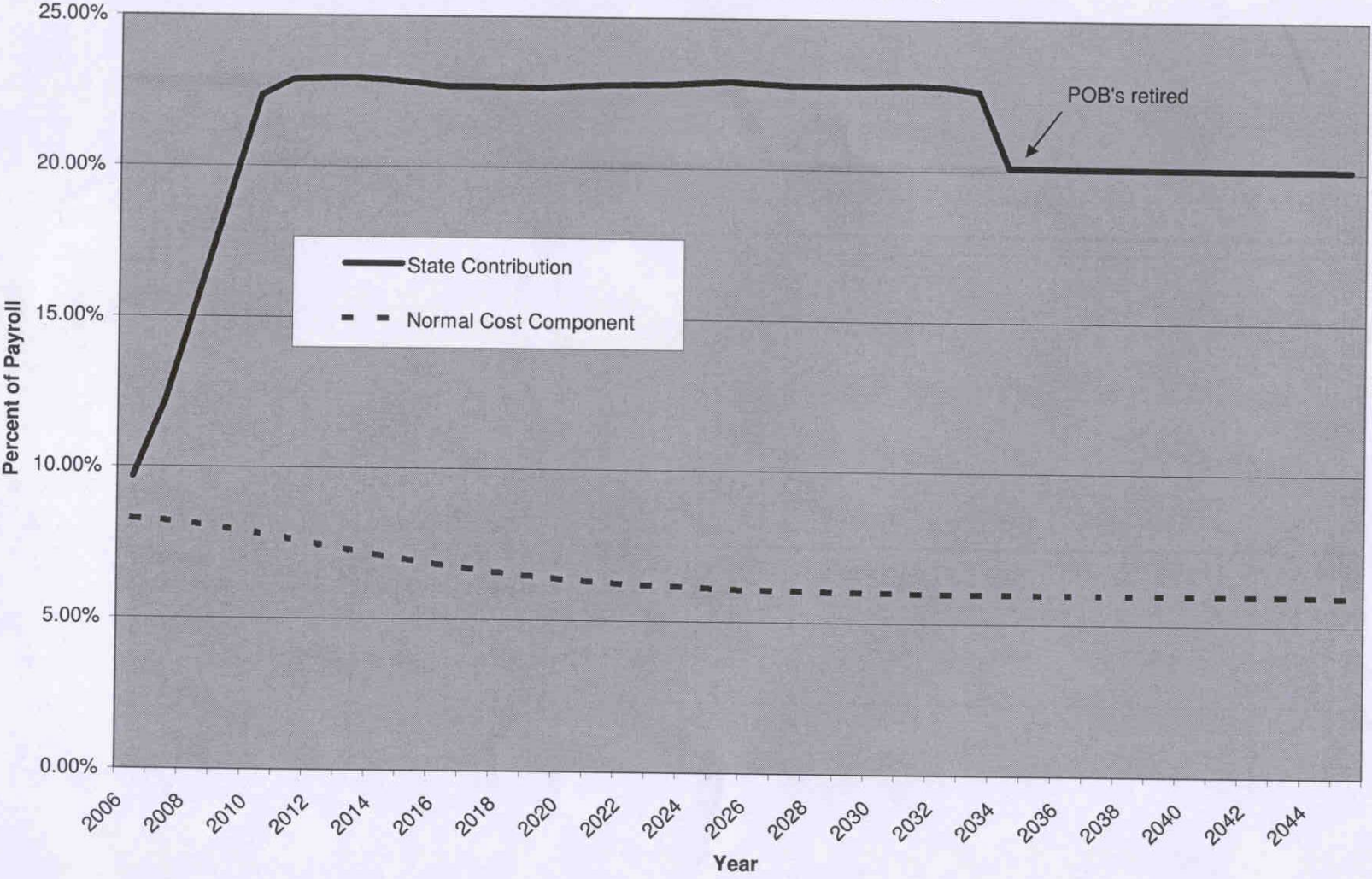


# Are these pension benefits too expensive? In Illinois:

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- Employees make major contributions
- Blended numbers, FY 2006
  - Normal Employer Cost: 8.28% of pay
  - Social Security for State workers, not TRS or SURS
  - State blended rate this year: 9.67%
  - At this rate, Illinois falls behind in 2006

State Contribution Components as % of Pay





# Where we have to go by 2011

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- Blended numbers, FY 2011
  - Normal Cost: 7.64%
  - Past Liability Payment: 15.25%
  - SB 27 Requirement: 22.89%
  - Payment for historic underfunding “costs” the state twice as much as earned pension benefits going forward!



## Long run alternatives:

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If it is hard to find the dollars now to fund public pension systems, how much harder will it be under a pay-as-you-go system?

It is not a question of if, but when are we going to:

- Raise (or re-allocate) revenues
- Break promises to current employees & retirees



# What about cheaper tier for new hires?

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- Labor opposed to lower tier for new hires
- Abusive practices must be reformed
- Labor is opposed to mandatory DC plans, skeptical of DC options
- The real question: what sort of retirement program(s) do we need to attract and retain a quality workforce?
- The 3-leg stool is still a sturdy structure!



# The future for public pension funding in Illinois looks bleak

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- Lack of leadership from both political parties is depressing
- The “pledge”
- The structural deficit
- The health care crisis (GASB 45)
- Demographics
- Political polarization



# Conclusion: public sector union perspective

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- We fight to protect our members standard of living.
- Our members care deeply about their retirement plans.
- Our members are upset about underfunding.
- Unions are pragmatic. And, we are united!
- The funding problem won't be addressed without the adoption of sound, sensible public policy.
- We're in this for the long haul!