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Rick Perry's Pension Problem -- And Ours

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Texas Governor and presidential candidate Rick Perry is collecting a $92,000 annual pension on top of his salary as governor, according to financial disclosure forms just filed. State law allows government workers to collect retirement benefits while still working if they meet certain age and service requirements. So Texas taxpayers have been paying Perry a salary as an elected official for 26 years, and now they're also paying him a handsome pension benefit. With his salary of $133,000, his total taxpayer compensation is $224,000 annually.

Why should elected officials receive a pension at all? Service in elected office should be temporary, not a career.

But Rick Perry is not the only government official double-dipping on salaries and pensions, nor is his $92,000 pension the one that will bankrupt the taxpayers.

The Perry story reminds me of former Maryland Governor Parris N. Glendening. When he was elected in 1994, Glendening seemed a clean, honest, moderate, technocratic former professor. He might give Maryland big, expensive government, but at least it would be clean government in a state with a long legacy of corruption. Then, a few days after his inauguration, came the news that Glendening and his top aides were collecting tens of thousands of dollars in early pension payments from Prince George's County, where Glendening served as county executive until his election as governor. The windfall was due to Glendening's creative interpretations of rules that gave early pension benefits to government employees who suffered "involuntary separation" from their jobs. Glendening decided that officials not allowed to seek re-election because of term limits, such as the two-term limit on the county executive, had been "involuntarily separated" from their jobs. And he "demanded" the resignations of his top aides a month before he left his county job -- making them also victims of "involuntary separation" -- whereupon he hired them as his top aides in the governor's mansion.

More recently, legislators in 33 states have passed laws that give themselves pension perks that other state workers don't get.

Outrageous as these stories are, they're not going to bankrupt the states. The real pension problem is the massive unfunded liabilities facing taxpayers in almost every state. The Pew Center on the States estimates that states face a $1.26 trillion gap between what they owe in retirement benefits and what they have set aside. Robert Novy-Marx of the University of Chicago and Joseph D. Rauh of Northwestern University find even more breathtaking liabilities

> "Using market-based discount rates that reflect the risk profile of the pension liabilities, we calculate that the present value of the already-promised pension liabilities of the 50 U.S. states amount to $5.17 trillion, assuming that states cannot default on pension

> benefits that workers have already earned. Net of the $1.94 trillion in assets, these pensions are underfunded by $3.23 trillion. This "pension debt" dwarfs the states' publicly traded debt of $0.94 trillion."

Economist Jagadeesh Gokhale also estimates that accurate calculations might add 50 to 100 percent to reported state pension liabilities. Meanwhile, states are resisting proposed new accounting rules that would shine light on their liabilities.

Thomas Frank reported last week in the *USA Today*:

> "Special retirement benefits once reserved for police, firefighters and others with dangerous jobs are now being given to tens of thousands of state workers employed as park rangers, foresters, dispatchers, coroners, even highway laborers, museum guards and lifeguards... Thirty-one states have passed laws since 2000 that expand the range of workers who can retire when they turn 50 or 55 or after working 20 or 25 years, then collect special pensions that will pay some an extra $1 million or more in retirement."

Why do pensions get so lavish? A 2009 study by the Cato Institute argued that in negotiations between elected officials and government unions, nobody really represents the taxpayers. Elected officials are far more responsive to organized interests like unions than to the unorganized citizen-taxpayers. In effect, the principal-agent problem that analysts of the corporation worry about is far worse in government because it is very difficult for taxpayers to control their theoretical agents, the elected officials and appointed managers of government.

Rick Perry should be embarrassed about living so high on the taxpayer hog. Parris Glendening and those legislators in 33 states should be ashamed of how they manipulated the rules in their own interests (speaking of how elected officials don't always serve as the taxpayers' agents). But for the rest of us, the real problem is that multi-trillion-dollar government-employee pension bill that's going to come due.

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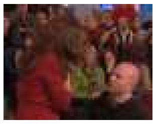
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