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Could Sears Offer Lesson to Government?

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The CEO of Sears says among the financial problems the Illinois-based company is grappling with is long-term pension obligations.

A think tank says it should be a wakeup call for governments to move away from offering defined-benefit plans to employees.

Sears CEO Eddie Lampert said in a blog post last week the changing retail landscape, with an increasing number of online shoppers, is a major issue, but he also said the company's pension payments add to the problems.

"In the last five years, we contributed almost $2 billion," Lampert wrote, "and since 2005 we have contributed over $4.5 billion, to fund our Pension Plans.

"Had the Company been able to employ those billions of dollars in its operations, we would have been in a better position to compete with other large retail companies, many of which don't have large pension plans, and thus have not been required to allocate billions of dollars to these liabilities."

Sears plans to close 78 stores across the country this month. USA Today reported the company has closed 500 stores through May of this year.

Back in 2005 in bankruptcy proceedings, United Airlines won the right to terminate its pension plans and was released from $3.2 billion in pension payments. US Airways also terminated its pension plan through bankruptcy, according to media reports.

Cato Institute's Chris Edwards said it's a clear lesson that growing pension costs lead to big adjustments.

"It causes a certain unpleasant surprise down the road when the costs of these defined benefits plans sore and big adjustments have to be made," Edwards said.

Those adjustments can lead to cuts in services. For the private sector, that could mean store closings. For the public sector, cuts could be to public safety or programs the community demands.

While Edwards said labor unions support pensions, thinking they'll be safer long term, "I think the reverse is true."

“I think these defined-benefit plans create more risks for workers down the road because governments end up getting into trouble and then there’s pressure to cut workers’ benefits,” Edwards said.

He said the government sector should move to defined contribution plans managed by the individual, not politicians.

Illinois has $130 billion unfunded pension liability in its funds. That doesn't include the tens of billions of dollars taxpayers are collectively on the hook for in local government pension costs. What are some ideas to fix that?

State Rep. Robert Martwick, D-Chicago, said the answer is for the state to pay more than it owes.

“We should frontload the pension system because that power of compounding interest can work for you or against you. Better to have it working for you,” Martwick said.

There would need to be higher income taxes on higher earners to raise such revenue, Martwick said, but he said paying more now would save billions down the road.

State Rep. Mark Batinick, R-Plainfield, said there needs to be a pro-growth economy in Illinois to get the revenue to keep pension promises. But Batinick said lawmakers need to stop sweetening the benefits.

“We literally have passed increased benefit, after increased benefit at a time when some of these pension funds are 20, 30 percent funded,” he said. “There needs to be a moratorium on increasing benefits.

Batinick also said the state should immediately offer all government workers access to defined contribution plans.

Others have suggested to change the state constitution to remove the pension protection clause so deals can be reworked, but there hasn’t been an appetite at the statehouse to pass such a ballot question for voters to decide.