



Fix pensions with 'buyback'

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So now Pennsylvania's growing public employee pension problem is Gov. Wolf's to solve. Some estimate the gap could be as much as \$65 billion in the next few years, with city governments facing a \$7.7 billion gap of their own.

The deficits have prompted calls to cut benefits, but workers and their unions reply that these promises were made in good faith - and written into contracts. It's hard to disagree. Also hard to dispute are the concerns of state residents who point to an already heavy tax burden that makes it hard to provide for their families, let alone public employees. Finally, there are those who worry that essential services could be cut in any pension fix.

Can Pennsylvania address this problem without raising taxes, cutting services, or breaking promises? It's possible, if an initiative in Illinois is any indication.

In 1998, Illinois lawmakers voted to raise teachers' pension accrual rates, which meant teachers would earn higher benefits for their subsequent years of service. The legislation also gave teachers the opportunity to increase their accrual rates for previous years in exchange for a relatively small one-time fee. For most teachers, the option was a tremendous bargain, made even more appealing by generous terms for the fee's payment and because teachers could exercise the option at any time. Yet despite the terms, strong publicity, and the chance for a bigger payoff in the long term, a large number of teachers declined the offer.

Essentially, teachers decided they would prefer to have a little more money today rather than a lot more money in retirement.

In terms of pension policy and incentives to change, Illinois was offering its teachers the wrong type of compensation. The teachers clearly wanted more wages today rather than a lot more retirement income in the future. This was a missed opportunity. Over time, Illinois could have made its teachers happier and lowered its overall labor costs by paying more wages but reducing pension amounts.

Assuming that many Keystone State public employees have preferences similar to their Illinois counterparts - and research suggests this would be the case - Pennsylvania policymakers have a very rare opportunity to benefit some people without inflicting a cost on others.

Harrisburg should create a program that would allow individual state and local public employees to voluntarily sell back some of their pension benefits in exchange for cash. If engineered correctly (perhaps using an auction mechanism), the overall savings to taxpayers could be very large, even if the state has to borrow money for the payouts.

If this program were implemented, everyone would win. Workers who sign up would get more immediate compensation, while non-participating members would see no change in their retirement benefits. The long-term pension cost to taxpayers would be reduced, and lawmakers would be under less pressure to cut government programs.

The new governor, state legislators, and union leaders should consider this option if they are serious about addressing the commonwealth's pension crisis.

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