



# Spread Too Thin: New York's Robin Hood Pension Scheme

## Stick with the Program, or Get Lost in the Weeds

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August 7, 2014

Scarcely a day goes by without more bad news about public-sector pensions. This week, we witnessed the *New York Times* share the dramatic revelation that the city's pension system is grossly underfunded, and poses a threat to both future retirees and taxpayers alike.

The promised pensions for current and future workers amount to tens of billions of dollars more than the assets in the city's retirement programs. Moreover, the plans have systematically overestimated the rate of return on pension fund investments and excessively discounted the true costs of the future benefits.

But we should have known all of that already. Vats of ink have been spilled talking of the doom and gloom burden that future pensions will place on taxpayers and retirees. Trillions will be needed to cover the already-promised obligations from pensions, Social Security, and other programs. While few comprehend the sheer magnitude of the problem, the general understanding that cities, states, and the federal government are spending beyond their means is broadly agreed upon.

**Table 4**  
**The Federal Government's Fiscal Imbalance under *Baseline* Policies, Beginning-of-fiscal-year Present Values**  
**(in billions of constant 2012 dollars)**

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Social Insurance Fiscal Imbalance</b>	64,853	65,352	66,710	68,112	69,534	70,961	73,180	75,458	77,775	80,146	82,564
Future Imbalance	67,826	68,308	69,640	71,020	72,428	73,846	76,061	78,345	80,655	83,007	85,397
Trust Funds	2,973	2,956	2,930	2,908	2,894	2,885	2,881	2,887	2,880	2,861	2,833
<b>Rest of Government Fiscal Imbalance</b>	-10,502	-10,233	-10,339	-10,502	-10,641	-10,687	-10,994	-11,257	-11,460	-11,619	-11,742
Future Imbalance	-23,603	-24,368	-24,937	-25,324	-25,555	-25,692	-25,987	-26,211	-26,394	-26,521	-26,597
Liabilities to the Public	10,128	11,179	11,668	11,914	12,020	12,120	12,112	12,067	12,054	12,041	12,022
Liabilities to Trust Funds	2,973	2,956	2,930	2,908	2,894	2,885	2,881	2,887	2,880	2,861	2,833
<b>Federal Fiscal Imbalance</b>	54,351	55,119	56,371	57,610	58,893	60,274	62,186	64,201	66,315	68,527	70,822

Source: Author's calculations.

Source: *Spending Beyond Our Means*, Jagadeesh Gokhale. (Cato Institute)

What is interesting about the *Times* piece is that it highlights a growing problem with how programs are administered. Most new government projects start out with some kind of simple goal. In this case, the goal is to provide pensions for retired city workers. That is it. Problems arise when some see an existing program as a means to achieve other governmental or social goals.

As the *Times* piece states:

“In May, Comptroller Scott M. Stringer announced he would try to commit \$1 billion to smaller investment firms led by minorities and women, despite research showing that initiatives geared toward emerging firms make it harder to achieve top investment returns.”

This changes what had been a relatively simple goal into one where different goals are at odds with each other. What is the best tradeoff between return on investment and investing in female or minority-led firms? Which goal wins out?

This story is by no means exclusive to pension plans. Indeed, it is even more prominent in areas such as affordable housing.

Even the most publicly minded individuals are compromised. In Portland, Oregon, a private developer of low-income housing has been stifled by a myriad of rules that attempt to remedy numerous problems of varying importance (although his cost-effectiveness still puts developers who receive taxpayer funding to shame). He faces mandates that range from above-average salaries for his workers to arbitrary

environmental settings for basic amenities, such as the square footage of rooms and the number of electrical outlets. All add to the cost of building affordable housing, yet all attempt to achieve goals that have nothing to do with putting a roof over the heads of low-income families.

While it is easy to recommend that any given government program facing such challenges should simply be shut down, it is rarely practical to do so. Short of that, stripping programs of their excess goals benefits both the original aim of the program and the secondary goals that have since been added.

This removes contradictions, which place a drag on the original goal. In the case of the New York pensions, it would increase the return on investment.

Moreover, if the secondary goals of a given program are important enough to be addressed in legislation, they should have their own stand-alone program. This not only allows the program to target its goal, but increases the transparency of the system as a whole.

When current programs seek to address a variety of social goals simultaneously, it is rarely clear which goals take priority. However, when a government program exists to address a single issue — without crossover — like the aforementioned affordable housing, people expect it to do just that.

Too often, we observe a hodgepodge of miscellaneous public goals under the the guise of one, entrenched program. Not only does this impede the streamlining of government, it muddies which benefits are available to any individual. The US federal government has hundreds of duplicative programs, with differing eligibility criteria, spread across dozens of agencies with hundreds of websites and thousands of forms to fill out.

All these issues could be solved by shifting to a system of programs with simple, few, and transparent objectives. If the government wishes to subsidize something, they should simply subsidize it and be done with it. Here is something that both advocates of further program cuts, and the recipients of program benefits can agree on.