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Sunday Reflections

Fred Barnes: Public-sector employees are the new fat cats

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Sunday Reflections Contributor
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John Edwards was right. There are two Americas, just not his two (the rich and powerful versus everyone else).

The real divide today is, on one side, the 20 million people who work for state and local governments and the additional 3 million who've retired with fat pensions. On the other, the rest of us, about 280 million Americans. In short, there's a gulf between the bureaucrats and the people.

New Jersey Gov. Chris Christie, a Republican, puts his fight with teachers and their unions in roughly those terms. He says there are "two classes of citizens in New Jersey: those who enjoy rich public benefits and those who pay for them." The teachers want to keep a pay raise and continue to pay a minimal share of their retiree benefits.

According to the U.S. Bureau of Labor Statistics, state and local government salaries are 34 percent higher than those for private-sector jobs. OK, that's partly because government workers tend to have white-collar jobs. Benefits, 70 percent higher for these workers, are the real rub. And benefits for government retirees are the most flagrant.

They've become a national scandal, a fiscal nightmare for states, cities, and towns, and an example of unfairness of the sort liberals routinely complain about but are mostly silent about just now.

Let's start with horror stories of pensions run amok.

o In Contra Costa County, Calif., the final salary of one fire chief, 51, was $221,000. He was given an annual, guaranteed pension of $284,000. Another chief, 50, whose final salary was $185,000, got a pension of $241,000. Credit the Contra Costa Times with uncovering this.

o Christie cited two tales in February when he declared a state of fiscal emergency in New Jersey. One retiree, 49, paid "a total of $124,000 towards his retirement pension and health benefits. What will we pay him? $3.3 million in pension payments and health benefits." A retired teacher paid $62,000. She'll get "$1.4 million in pension benefits and another $215,000 in health care benefit premiums over her lifetime."

o In New York, a pensioner in the state retirement system received $641,000 in state payments in a single year. He was a triple dipper. He had a pension of $261,000, the highest in the state. He had a post in the state university system in which he made $280,000. And he was paid $100,000 a year as a consultant for the agency from which he'd retired, the teachers retirement system.

o Except for new hires, state workers in New York can retire at 55 with guaranteed benefits to which they contribute only in their first 10 years of work. They pay no state income tax on their pensions, and overtime is counted in computing the size of pensions. "Compared with the average New York worker, state and local government employees receive the gold standard of pensions," the Syracuse Post-Standard said last year.

o Also in New York, the retirement system is riddled with lucrative pensions for retirees who were fired or convicted of crimes related to their state jobs. Former Comptroller Alan Hevesi, who once ran the state's $154 billion pension fund, was found guilty of defrauding the state. Yet he's got a pension of $104,123.

o In California, 9,111 retired government workers have pensions of more than $100,000. One retiree draws an annual pension of $509,664. Among retired teachers, 3,065 receive more than $100,000. One gets $285,460. Pensions for retired state workers and teachers will rise 2 percent this year, though Social Security recipients aren't getting any cost-of-living increase. The increase in California isn't tied to inflation.

o The city of Vallejo, Calif., declared bankruptcy in 2008, largely because the payroll for police and firefighters, and their pensions and overtime, consumed three-fourths of the budget. City employees could retire at 55 with 81 percent of their last year's salary guaranteed as pensions. In bankruptcy negotiations, however, Vallejo officials declined to reduce current pensions.

The lofty pay scales and benefits for government workers -- as compared with those in the private sector -- suggest the idea of "public service" isn't what it used to be. Once, taking a government job meant a sacrifice in pay and benefits. No more.

Most bureaucrats have secure, recession-proof jobs with automatic salary increases, paid leave and lavish benefits, notably in retirement. And they get to retire earlier than private-sector workers.

Christie has asked, Is this fair? The answer is no.

But if you happen to think it is fair, I'd advise you to click on the Web site pensiontsunami.com. It's operated by one person in California who daily posts fresh examples of pension abuse across the country.

Lack of fairness isn't the biggest problem with exorbitant pensions. The pension explosion has created a fiscal crisis in many states, cities and towns across the country, California being the worst off. Not only are pensions for government workers a perilously unfunded liability for many states, their soaring cost is causing sharp cuts in other programs.

"Paying for those pension promises is already crowding out funding for higher education, for parks, and for other areas like health care ... and that crowding out is only going to get worse," California Gov. Arnold Schwarzenegger said last week in touting a pension reform plan. "In California, we had the Internet bubble, we had the housing bubble, and I see in the very near future a public pension bubble."

He's not exaggerating. State pension funds have gone up 2,000 percent in the past decade. The unfunded pension debt in California is $500 billion, according to a new study by Stanford University's public policy program. It's seven times greater than the state's general obligation bonds, says Schwarzenegger adviser David Crane.

A staggering pension shortfall "is not just [in] California," Crane told me. "It's every state." Nationwide, unfunded retirement benefits are $3.2 trillion, according to Chris Edwards of the Cato Institute. On top of that, he estimates the unfunded debt for the health coverage of state and local government retirees is $1.4 trillion.

At least 17 states have either enacted or looked into cost-cutting pension reforms in the past two years, says Ed Mendel, a pension expert in California. In Illinois and New York, both with large unfunded liabilities, the rules governing pensions have been tweaked, though solely for new government employees.

Only Alaska, Michigan and the District of Columbia have adopted the obvious long-term solution to the pension mess: putting new workers in 401(k) defined-contribution plans rather than defined-benefit plans. The switch would save billions. Even Virginia's new, conservative governor, Bob McDonnell, declined to do this for new state workers, instead requiring them to pony up 5 percent for a traditional pension. (Current Virginia workers pay nothing.) But hope lies in the state with the worst pension situation. Meg Whitman, the likely Republican nominee for governor of California, says she would make the switch for new state hires.

Fred Barnes is executive editor of the Weekly Standard, from which this is adapted.

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