The Fight for Public Pensions

From AFSCME and AFT

Overview
In states across the country, an unprecedented number of proposals have been advanced by governors, state legislatures and “nonpartisan” groups that are trying undermine the retirement security of millions of workers who rely on public pension systems.

In most cases, these public pension-cutting plans are an ideological and political response to several factors:

- The economic crisis of 2008—caused by Wall Street greed and decades of economic policies that stacked the deck against the middle class—created a historic market crash. The investment returns for retirement funds of all types, including public pension funds, suffered greatly.
- As the crisis deepened, unemployment rose and revenues fell, and state and municipal governments found themselves facing steep budget shortfalls.
- Both during flush economic times, when investments performed beyond expectations, and when the economic crisis hit pension funds and revenues, governments failed to make their employer contributions to pension funds. In many states, this failure to make the actuarially recommended contributions, paired with the market collapse, created large debts or “unfunded liabilities” in public pension systems.

Governors and state legislators are using the problems caused by years of Wall Street greed and political expedience as an opportunity to malign and scapegoat America’s firefighters, police officers, nurses and teachers. These tactics are part of the larger strategy of creating divisions within middle-class communities, weakening the labor movement and furthering ideological opposition to traditional pensions and a secure retirement.

On top of retiring generations of working families into poverty, these shortsighted pension-slashing schemes also typically dig a deeper hole for taxpayers and often don’t provide any budget relief to state and local governments for many years to come.

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Best Practices

Reframing the Debate:
Keep it simple, make it personal and inoculate against the opposition.
Approach this fight with the understanding that people know very little about the pension system and are filled with preconceived notions about pensions, so avoid overly wonky and complex messages. In many states, low approval ratings for governors and legislatures present an opportunity to tie the legislation to toxic political figures. Also, understand that the opposition will try to use private sector “pension envy” against you. It is critical to reframe the pension “reform” into an attack that undermines retirement security for all and continues the race to the bottom for the middle class. For example, make it clear that Gov. [X] is playing politics with the life savings of teachers, cops, firefighters and nurses, and attacking retirement security for all middle-class families.

Some suggested messages include:

- Attacks on pensions are just another part of the [Gov. X] agenda. These proposals will hurt working families and raise costs for taxpayers.
- While the governor says this is about fiscal responsibility, it’s really just about scoring political points with his [or her] Wall Street backers. The [Gov. X] agenda will cost taxpayers more while retiring a generation of middle-class workers into poverty.
- While workers have faithfully poured their life savings into their pensions, the same politicians who created this problem by skipping their share of the payments now want to completely shirk their responsibility and break a promise made long ago to the firefighters, teachers and emergency responders who serve our communities.
- Across the country, there is a mounting retirement crisis—an issue that could cripple our economy as the population ages. Ultimately, public-sector defined-benefit pensions serve as a model for broader retirement security. We should be encouraging solutions that allow all workers to retire with economic security, instead of undermining what little retirement security remains.
- Many workers who receive pensions do not collect Social Security, and pension benefits are modest; the average pension is less than $21,000. Gov. [X]’s proposal would retire generations into poverty and force our retired firefighters and teachers onto public assistance programs.
- The defined-benefit pension is the strongest tool governments have to attract and retain their workforce—a workforce that educates the next generation of private-sector employees and maintains the infrastructure necessary to ship goods and services.
- Retiring our teachers and EMTs into poverty won’t make any public- or private-sector workers more secure in their retirement; it will only hurt local economies and continue a race to the bottom for the middle class.

• Instead of cutting pensions for teachers, cops and firefighters, we should focus on ensuring that corporations and millionaires are paying their fair share and finding solutions that promote retirement security for all.

Choosing the Right Messengers:
Make sure teachers, cops, firefighters and nurses are the public face of your campaign.
It’s important we always try to talk about specific occupations—such as nurses, firefighters, law enforcement personnel, teachers and disability caregivers—rather than the abstract category “public employees.” Whether it’s with media interviews, press releases, op-eds or media events, we urge you and your coalition partners to feature the faces and voices of real workers.

Line up third-party surrogates who can serve as key messengers.
Third-party surrogates also can be very helpful in pushing back against false claims by the opposition.
• On the policy front, work with third-party economic validators, where appropriate, to calculate what percentage the opposition’s plans cut pension benefits for public employees. Once that number can be independently verified, brand the politicians’ plan as an excessive [XX] percent pension-cutting plan and avoid referring to meaningless bill numbers.
• Help make the arguments against breaking promises and explaining the economic consequences of retiring workers into poverty by establishing alliances with nonunion groups, including economists, good government/independent watchdog groups, retiree groups and religious groups to further expand the coalition.

Using Research:
Use opposition research to help drive proactive communications strategy and rapid response.
In order to remain on the offensive in these fights, it’s critical for our side to be able to expose the cozy and secretive relationship between politicians and Wall Street-aligned groups supporting pension-cutting schemes. It takes excellent opposition research and an aggressive communications staff.

Expose the hypocrisy of politicians who call on public service workers to sacrifice but do not sacrifice themselves.
It’s important that we undercut their message that these politicians are somehow reformers.
• Work with policy staff and opposition researchers, where appropriate, to hold politicians who support slashing the pensions of teachers, firefighters and nurses accountable, despite the fact they’ve previously supported pay increases for themselves and their top political staff.
• Expose politicians in the states who double-dip on their own pensions.4

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Key Points:
Public employees support commonsense solutions and already have made concessions. Remember, the public is a lot more receptive to a message that public employees support a shared sacrifice approach and commonsense solutions.

- It is clear that many of our states and local governments face difficult budgetary decisions. And there’s no one more interested in the pension system’s long-term solvency than the public employees who rely on it, which is why they’ve already made many difficult concessions.

- This is an issue that can be solved working together, but it’s simply not fair for it to be done disproportionately on the backs of millions of teachers, cops and firefighters, especially at a time when politicians continue to protect tax breaks for millionaires and corporations that ship jobs overseas.

Defined-benefit public employee pensions are not a taxpayer-funded windfall.
The average annual public employee pension is less than $21,000. For many state and local government workers, this modest amount is the only retirement income they will have, since many public-sector workers are not covered by Social Security benefits.

Switching from a defined-benefit pension system to a defined-contribution pension system will make the problem worse.
Most of a plan’s unfunded liability results from a state’s failure to make contributions, resulting in plan underfunding. The deferred cost of underfunding cannot be erased. Moreover, if a state decides to offer new employees a defined-contribution plan only, the state will incur the new costs of maintaining two plans. The cost of closing the old defined-benefit plan can raise costs by hundreds of millions.

As for the new plan, for both plan sponsors and participants, the ongoing costs of administering defined-contribution plans are higher than those of defined-benefit pension plans and deliver inferior investment returns. States end up paying more for less, and workers end up with an insecure retirement.

Trends to Be Aware of in Your State

New players on the scene—Pew and the Arnold Foundation:
Pew Center on the States has had a presence in a number of states, including Arizona, Colorado, Kentucky, Montana, Nevada, Oklahoma and Pennsylvania. While Pew has made statements indicating that they want to work with state legislatures to find the appropriate solutions for each state, it is clear there is only one solution they are advocating: ending the defined-benefit pension system in every state.

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6 Progressive States Network, “No Crisis in Public Retirement Systems.”
Pew Center on the States is working with the Laura and John Arnold Foundation to advocate for cash balance plans in the states. Pew has always prided itself on its nonpartisan work. But now, its alliance with the right-wing Arnold Foundation, which has plans to cripple public pensions, calls into question whether it is truly nonpartisan on the pension issue. The Arnold Foundation, founded by a former Enron executive and led by Dick Armey’s former chief of staff, is well-known to be hostile toward unions and public-sector defined-benefit pensions. The Wall Street Journal described their relationship in a May 2013 article: “The Arnold Foundation, which was founded by John Arnold, a former Enron executive, has partnered with Pew Center on the States to advocate for cash balance plans for state government employees.”

The cash balance plan that Pew and Arnold are advocating for is based on ideology, and not specific state needs or data.

When Pew announced it was embarking on this pension project, it stated that “comprehensive” changes to retirement benefits were necessary and advisable. The project announcement said that Pew intended to address “ballooning costs of pensions and retiree health care” by creating “fiscally sustainable retirement systems”; however, Pew’s plans do little to address these issues.

The Arnold Foundation has expressed a desire to fix “labor market distortions,” whether or not this has been identified as a problem in the state. Instead of analyzing each state on a case-by-case basis, Pew and Arnold come to each state with a predetermined set of policy proposals that fail to address the state’s underfunding and put retirement security at risk.

Pew’s cash balance plan is not based on a reputable actuarial analysis.

Pew has hired October Three to do its actuarial analysis. October Three describes itself as “retirement architects” who market a “patented” cash balance pension system. The firm has very limited public-sector clientele and, as evidenced by its overheated marketing of cash balance systems, is hardly objective. Selecting this firm that has a clear self-interest in promoting a cash balance plan seems inconsistent with Pew’s stated intention of providing unbiased technical assistance to states.

Pay more to get less.

The actuarial analysis for Kentucky’s Senate Bill 2, that state’s pension-slashing legislation that came directly from a Pew recommendation, found that the cash balance plan would cost Kentucky taxpayers an addition $55 million over the next 20 years. An independent actuary noted that the plan is significantly underpriced, and the plan design just doesn’t add up with the cost the bill uses.

At the same time, the cash balance plan would reduce benefits to employees—including a total elimination of the disability and survivor benefits that protect workers and their families from workplace injuries or death.

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**Pew and the Arnold Foundation’s plan do not address existing unfunded liabilities and creates new legacy costs.**
The cash balance plan promoted by Pew and Arnold does not offer any suggestions on paying for existing unfunded liabilities that exist in state pension plans because of systematic underfunding by politicians. The proposed plan also creates new legacy costs, since a cash balance plan does not require that the system be fully funded. There is nothing to ensure that politicians don’t again kick the can down the road and ignore pension obligations.

**Pew and the Arnold Foundation are working behind closed doors to overhaul the public pension systems.**
In Kentucky, representatives from Pew were given unlimited speaking time at legislative hearings and portrayed themselves as independent witnesses without a set agenda. Meanwhile, independent actuaries and public pension advocates were given almost no opportunity to address legislators. These secret dealings were criticized by both sides of the aisle. Pew advocates for transparent policymaking, yet hides behind closed doors when it is the one creating the policy.

**Pew and the Arnold Foundation are playing politics with pensions.**
This debate affects the teachers, cops, firefighters and others that serve as a cornerstone in our communities—which is why it is so important that this debate include the human consequences of any action and address the true costs and benefits. Sadly, political rhetoric has prevented a productive conversation about public pensions moving forward.

It is critical that nonpartisan organizations like Pew present the “pension reform” scenario in its fullest terms, which include retiring a class of workers into poverty, reneging on a contract and adding costs to taxpayers.

**Our Response: Retirement Security for All**

As you know, there is a mounting retirement crisis across the country that could cripple our economies as the population ages.

Ultimately, public-sector defined-benefit pensions serve as a model for broader retirement security. In polling conducted by the National Institute on Retirement Security, 80% believe that all workers should have traditional pensions. Instead of encouraging solutions that allow all citizens to retire with dignity and economic security, Pew and the Arnold Foundation are working to undermine what little retirement security remains.

The pension overhaul that Pew and the Arnold Foundation are promoting is bad policy for teachers, nurses and other public employees—and bad policy for all taxpayers.