

EDITORIALS

Reform pensions

Financially and politically, public retirement systems have become unsustainable

Those in control of Ohio's generous public pensions must take steps to bring them in line with the private sector retirement plans on which most taxpayers rely; otherwise expect a taxpayer revolt.

The work of Ohio's eight largest newspapers, published Sunday, makes the need for action clear. The "Good as Gold" package of stories produced by the Ohio News Organization outlined the stark realities of the state's public pension systems.

Already, local governments spend \$4.1 billion per year to pay for pensions, yet some public pension systems are headed for insolvency and want taxpayers to contribute more.

The four major systems include more than 708,000 current state employees, teachers, police and firefighters, plus about 631,000 who no longer are in those jobs but still have money in the system. The plans pay benefits to about 384,000 retirees and beneficiaries. Collectively, they suffered \$32 billion in investment losses in 2008, with the largest hit, \$22.8 billion, from the Public Employees Retirement System.

The Ohio Retirement Study Council recommends that school districts, which now are required to pay 14 percent of teachers' salaries to the State Teachers Retirement System, increase that by half a percentage point per year, starting in 2016, until the contribution reaches 16.5 percent in 2020. The council suggests that cities and townships, which now pay 19.5 percent of police salaries and 24 percent of firefighters' salaries to the Ohio Police & Fire Pension Fund, raise the contribution for police to match that of firefighters and then raise both to 25 percent.

These changes could raise the taxpayers' tab for public pensions to \$5 billion per year.

The council also recommends asking more of public employees, such as higher contributions from them as well as later retirement ages and slightly reduced payouts, but public employees will fight those remedies.

They should understand that workers throughout the private sector already are facing those very measures.

Moreover, most private-sector workers rely on defined-contribution plans, in which the eventual retirement payout depends on how well their investments perform over the years. Public pensions, also known as defined benefit plans, guarantee a set amount of income to retirees. Public pensions now face shortfalls because their investments have not grown enough to support promised pension payouts.

Of course public employees prefer the security of a defined benefit pension, but it's unfair to expect taxpayers to make up the difference when economic conditions don't support such guarantees. Especially when most taxpayers do not enjoy such security themselves. At some point, public pensions should move to the defined-contribution model.

Another factor squeezing public plans stems from the plans' voluntary decisions in the 1970s to provide health-care coverage for retirees too young to qualify for Medicare. The pensions have no legal obligation to pay for

health care, but public-pension managers say they're determined to maintain it, even though the cost is becoming crippling.

But if public employees weren't allowed to retire so much earlier than everyone else, they wouldn't need pension-provided health care.

To cover increasing health costs, public pension plans have dramatically increased retirees' health-care premiums, so much that some retirees have gone back to work in other jobs in order to get affordable health-care coverage.

The public-pension model no longer is sustainable. In an earlier time, the relatively rich public benefits — some employees paid little or nothing toward their pensions, and some could retire as young as 48 — were justified by the idea that government workers were paid less than private-sector employees. But that hasn't been the case for a long time, and yet the generous pensions remain.

Expecting hard-pressed taxpayers to shell out more to prop up the status quo is unreasonable and politically dangerous. Reform is overdue.