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OHIO NEWSPAPERS INVESTIGATION

GOOD AS GOLD

›› Taxpayers are being asked to cover dramatically rising pension costs for government employees. Some are balking, given the state of the economy and the escalating costs of their less-generous private-sector benefits.

By James Nash | THE COLUMBUS DISPATCH

At a time when budget cuts are forcing Ohio schools to lay off teachers and cities to raise taxes, eliminate jobs or both, one expense government leaders have not cut is pensions for their workers. ¶ The pension cost to local governments in Ohio now stands at $4.1 billion a year. If current trends continue, pension costs will grow by $604 million to $768 million during the next five years, according to a Dispatch computer analysis. The costs are directly related to the size of government payrolls, which continue to grow across Ohio.

On top of that, two of the five public-pension systems are asking taxpayers to dig deeper to cover funding shortfalls, potentially adding $400 million to the tally by 2020. All told, the taxpayer tab easily could top $5 billion a year by the middle of the decade.

Those tax dollars will help ensure that retired teachers, police officers, state workers and other government employees receive retirement benefits that many of their private-sector counterparts can only envy — although direct comparisons are difficult.

Retirement incomes for the most experienced government employees top out at 88 percent of their active-duty pay. Unlike most private-sector workers, whose retirement is driven by the strength of the stock market and 401(k) plans, government employees' pensions are guaranteed.

In addition to higher average retirement incomes, government retirees in Ohio also enjoy government-sponsored health care, can retire as young as 48 for police officers and firefighters, and have the opportunity to "retire" and collect a full pension while going back to work, often at full pay for doing the same job. Such "double-dippers" were paid more than $741 million by the State Teachers Retirement System last year and $240 million by the Public Employees Retirement System, records show.

In Toledo, even the mayor is a double-dipper.

Since starting his current term in January 2006, Mayor Carty Finkbeiner has drawn his annual salary of $136,000 in addition to a state pension he qualified for after two decades in elected and unelected positions. He leaves office Monday.

Because he already is receiving a Public Employees Retirement System pension, Toledo taxpayers have paid $75,221 into an annuity as an additional retirement fund for Finkbeiner. Some are questioning whether the budgets of local governments can handle higher premiums, given that libraries, schools and cities are receiving less tax revenue.

Increases in pension costs will mean cuts elsewhere, warned John Mahoney, executive director of the Ohio Municipal League, which represents cities.

"I can't pay that and still employ 1,700 police officers," he said. "I can't do it. The money's just not there."

Historic shift

For decades, nearly all government workers have been in traditional pension plans that pay fixed amounts at retirement — usually calculated as a percentage of their highest annual salaries multiplied by years of service.

At the same time, private employers have moved away from such defined-benefit plans. In 1974, 71 percent of private retirementplan assets were in defined-benefit plans. By 2008, that number had decreased to 24 percent, according to the nonpartisan Employee Benefit Research Institute, although some private employers still offer a combination of defined-benefit and 401(k)-type plans. Despite that historic shift in the private sector, many government leaders say the public pensions are all but untouchable.

"The goal should be to continue the defined-benefit plan," said state Rep. Todd Book, a Portsmouth Democrat who leads the Ohio Retirement Study Council. "It's good for the employees of the state. It's also good for the economy of the state. You have retirees pouring billions of dollars into the economy."

But with pension-plan investments faltering in a rough economy and costs increasing because Ohio's pension funds also pay for retirees' health care — a benefit not mandated by state law — taxpayers might have to pour millions more into the retirement systems just to keep them afloat.

The State Teachers Retirement System and the Ohio Police & Fire Pension Fund currently are in violation of state law requiring them to have enough money to cover their pension obligations for 30 years. Thus, they are asking school districts, cities, counties and other local units of government to contribute more toward employee retirements. (They are asking more of the employees, too.)

Under the proposed changes, a full 29 percent of teacher salaries — 16.5 percent from school districts and 12.5 percent from teachers — would go toward pensions. And 37 percent of police and fire employee salaries — 25 percent from municipalities and 12 percent from employees — would be earmarked for retirement income.

The increase doesn't sit well with some private-sector retirees, who have watched their own plans all but vanish.

"I think it's ridiculous," said Larry Rausch, 71, of Lancaster, who retired from a sales job at Sears in 1998, before the owner of Kmart bought the retailer and slashed retirement benefits.

"I don't know how they can expect guys like me to pay their retirement."

Many government retirees say pensions are part of their compact with their employers and, by extension, the public.

"We're trying to get away from calling it taxpayer money to calling it deferred compensation," said David Parshall, a retired Southwest Licking Schools science and math educator who heads a statewide group of retired teachers.

Donna Seaman, who retired in 2002 from a 30-year career as a teacher and elementary principal in Shelby City Schools in northern Richland County, sees both sides of the issue. School districts are hardpressed to absorb increases in retirement costs without harming educational quality, yet teachers have come to rely on their pensions, said Seaman, whose daughter is a teacher.

"I don't expect that they will be able to have the same comfortable retirement that we have now — not that it's that comfortable," she said. "I'm very concerned about the stability of the system."

In some parts of Ohio, cities and schools pick up part or all of their employees' share of retirement costs, increasing the cost to taxpayers.

Columbus, for example, absorbs the full 10 percent city-employee share of retirements — at a cost of $43 million a year to the city. Faced with a budget crunch, Columbus officials are attempting to scale back that benefit.

Cities and the state might not have a clear path to reduce retirement benefits, however. In late December, a group of retired Cincinnati employees sued to block the city from reducing health benefits.

Cincinnati, which maintains a municipal pension system separate from the state's, said that even its reduced health benefits would be better than those of most private employers.

Status quo a no-go

The requests for more money from local governments by the State Teachers Retirement System and the Ohio Police & Fire Pension Fund are expected to go before state lawmakers early this year.

But there's already resistance to sacrificing textbooks, police cars and staffing levels today for the long-term security of retirees tomorrow. For some, it's politically unpalatable to benefit government pensions by heaping additional taxes onto people who have seen their own private-sector retirement plans slashed.

"Does the public-sector pension plan meet the expectations of the taxpayers who pay the bills?" asked Sen. Keith L. Faber, R-Celina, also a member of the Ohio Retirement Study Council. "I think it's very difficult to ask the taxpayers to pay more money to support the systems."

Rep. Lynn Wachtmann, a Napoleon Republican who also is on the panel, dismissed as outdated the argument that government employees deserve better retirement packages than their private-sector peers because they earn less pay.

"The taxpayers of Ohio who are footing the bill for all of this in the end need to realize how generous the public-pension systems — all of them — are compared to privatesector retirement plans," Wachtmann said. "Most of our privatesector employers would go bankrupt if they had to pay the kind of money into employee retirements that our public-sector employers do."

Wachtmann is one of nine voting members of the Retirement Study Council, which is composed of three state senators, three representatives and three appointees of the governor. It considers changes to the state's five public-pension systems and makes recommendations to the legislature.

So far, the panel is not discussing the idea of following the private sector into 401(k)-type plans. But Tom Ash, lobbyist for the Buckeye Association of School Administrators, said the idea is being floated informally in some circles. He labels it a non-starter.

"Our goal is going to be to preserve the defined-benefit plan because, as a matter of public policy, we think it makes sense," Ash said. "How do we do that is the question."

House Speaker Armond Budish, D-Beachwood, acknowledged that the pension systems have "significant issues" with funding but said the state should strive to protect benefits for retirees.

Few local government officials are chafing at how much they already contribute to employee pensions, but they're not thrilled with the prospect of an increase.

For example, Parma Superintendent Sarah Zatik said her school district could ill afford raising payments for retirees. The largest suburban system in the Cleveland area has cut $6.5 million from its $150 million budget and slashed 50 high-school teachers since voters rejected four tax-increase requests in a row, most recently in November.

But underscoring the political sensitivity of the issue, Zatik wouldn't say whether existing retirement costs are too high. If she backs the pension plans, a district spokesman explained, the district would take heat from residents angry about the costs. If she suggests trimming the plans, she would alienate teachers already facing cuts.

The Municipal League's Mahoney said his group will fight the proposed increases in pension costs.

"They want to take both police and fire up to 25 percent of payroll," he said. "In these times, well, good luck with that. There will be a prolonged and interesting discussion … about all the changes everyone is talking about."

Indeed, politically powerful labor unions representing government workers figure to be influential players in the debate. They reject the idea of a fundamental crisis in the pension funds, saying the funding shortfalls can be remedied with a few tweaks — raising retirement ages here, boosting contributions from employers and employees there — and by counting on investment markets to rebound.

Ohio pension systems are relying on year-over-year investment growth of 7.5 percent to 8.5 percent.

"All classes of investors suffered during the market decline of 2008 — the largest downturn in 70 years," five unions representing the majority of government workers in Ohio said in a joint statement. "The longterm strategy and design of our retirement systems smoothes gains and losses over a longer period of time, so (defined-benefit) plans are better able to reduce volatility. The same cannot be said of (definedcontribution) plans."

But the assumption of average 8 percent investment growth — without which the pensions might have to come back and ask for more tax money or slash benefits — seems overly rosy, said Leo Kolivakis, a pension consultant and writer.

"They're trying to inflate their way out of this problem," Kolivakis said.

AFSCME Ohio Council 8, OCSEA AFSCME Local 11, the Ohio Education Association, the Ohio Federation of Teachers and Service Employees International Union District 1199 say it would be folly for government employers to follow the lead of private companies into less-secure 401(k)-type retirement plans.

The unions cited statistics from the National Institute on Retirement Security that 357,234 retired government workers in Ohio received a total of $8.41 billion in benefits from state and local pension plans in 2006, with most of that sum going back into the state's economy via purchases of medications, cars and other products and services.

"These dollars are vital to fuel Ohio's economic engine," the unions said.

That argument is less persuasive among private employers. In 1996, investments in 401(k)-type definedcontribution plans overtook traditional pensions, and the trend has accelerated since then, according to the Employee Benefit Research Institute.

The consulting firm Watson Wyatt reported in October that the value of retirement benefits as a proportion of income had declined from 7.8 percent in 2002 to 6.9 percent in 2008 among the 183 corporations it surveyed. Much of that decline was attributed to companies switching from guaranteed pensions to defined-contribution plans.

In contrast, retirement benefits account for at least 14 percent of payroll for all of Ohio's locally funded public pensions — topping out at 24 percent for firefighters in the Ohio Police & Fire Pension Fund.

Book and other defenders of public pensions say that government employees trade lower wages for more generous retirement plans.

But that's not necessarily the case. According to U.S. Labor Department statistics, there is virtually no difference between private-sector and public-sector pay in Ohio.

But there is a difference in the willingness of private employers to take on the risk of having to bail out pension plans if investments go sour or costs increase sharply, said Alan Glickstein, a senior retirement consultant for Watson Wyatt.

Still, traditional pension plans actually generate more bang per investment buck because of the economies of scale of handling billions of dollars in retirement assets for tens of thousands of retirees, Glickstein said. Traditional pensions can offer the same level of benefits at 30 percent less cost than 401(k)-type plans, he said.

"It's almost impossible for a pension plan to be less efficient," Glickstein said.

Leaders of all five state pension systems say they're committed to maintaining retiree health care and full pension benefits over the long haul, even if some of the terms become less generous.

Michael Nehf, head of the State Teachers Retirement System, said keeping pensions for teachers is "extremely important." The alternative is welfare for some of his retirees.

The other major school pension system is taking a different approach. The School Employees Retirement System, which represents nonteaching employees such as bus drivers and cooks, is not asking school districts to contribute more toward its employees' retirements, which average $879 a month — far lower than their counterparts in the other state pension systems and below the federal poverty level. Some of the nonteaching employees are part-time workers.

Forcing school districts to boost their contributions invariably would mean cutbacks elsewhere, such as eliminating busing, said James Winfree, executive director of the School Employees Retirement System.

"We understand the financial stress that school districts are under," he said.

Dispatch reporter Doug Caruso, (Cleveland) Plain Dealer reporter Patrick O'Donnell, and (Toledo) Blade reporter Tom Troy contributed to this story. Dispatch Public Affairs Editor Darrel Rowland performed the data analysis.

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DISPATCH PHOTO ILLUSTRATION

Public-pension projections

Even by the most optimistic projection, Ohio's state and local governments will need to come up with more than $600 million in additional money by 2013 to pick up the tab for public employees' pensions. That assumes the payments increase by the same percentage over the next five years as they did over the past five. The total would reach nearly $770 million if spending continues to increase by the same amount as 2008 alone. The figures do not include the employee share that some local governments pay for, nor proposed rate increases in the systems covering teachers and police officers/firefighters.

LOCAL GOVERNMENT SHARE

FUND	2008	2013, WITH MOST OPTIMISTIC PROJECTIONS	2013, IF SPENDING INCREASES BY THE SAME AMOUNT AS 2008	RANGE OF POTENTIAL INCREASES
Ohio Police & Fire Pension Fund	$402 million	$467 million	$480 million	16.2% - 19.5%
Public Employees Retirement System	$1.840 billion	$2.186 billion	$2.232 billion	18.8% - 21.3%
School Employees Retirement System	$437 million	$489 million	$514 million	12.0% - 17.6%
State Teachers Retirement System	$1.467 billion	$1.614 billion	$1.688 billion	10.0% - 15.0%
TOTAL	$4.146 billion	$4.751 billion	$4.914 billion	14.6% - 18.5%

Note: The retirement system for the State Highway Patrol is not included because local governments do not fund it.
Source: Dispatch computer analysis of data provided by state pension systems

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