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PENSION PERIL

## The Crisis of the Future

Blue model policies aren't only failing the public, they are failing the civil servants intended to benefit from them. *The Wall Street Journal* reports that state and local governments are coughing up a larger and larger share of compensation costs to pay for pensions, cutting into the paychecks of current public employees:

The share of compensation costs paid by state and local governments for defined-benefit plans reached 10%, its highest on record, in September 2016, according a report this week from the Labor Department. That's up from 9.5% in 2015, and 6.3% in the same quarter a decade ago. [...]

For state and local workers, the larger share going to defined-benefit costs comes at the expense of other forms of compensation. In the same period 10 years ago, wages and salaries made up 67.3% of compensation. As of September this year, that had dropped four percentage points to 63.3%.

This trend undermines the ability of state and local governments to invest in their public services by recruiting and retaining high-quality civil servants. For example, according to a report from Bellwether Education Partners we reported on last Spring, teachers could be making an average of 15 percent more if it weren't for the unfunded liabilities that pension funds had accumulated over the years.

Meanwhile, the city of Dallas offers a preview of what might happen as public servants grow worried that they will never see their share of the benefits that are consuming a growing share of public money. *The Economist* reports that the city is facing a "run" on its pension fund by police officers and firefighters, leading the mayor to file a lawsuit to block further withdrawals.

The blue model system, supported by self-dealing union interests and can-kicking politicians, has created a two-tiered crisis of the future: First, by preventing cities from offering competitive wages to current employees, it has diminished the quality of state and local public services. Second, by generating huge unfunded liabilities, it raises the specter of further cuts or even bankruptcy for states and localities in the event of another economic downturn.

Fixing this system will likely require serious adjustments to the way the civil service is organized and compensated, including a shift toward defined-contribution 401(k)-style accounts for retirees. But before that can happen, policymakers need to recognize the current fiscal situation as the crisis that it is.

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