


Reform Texas public pensions before crisis

 **89° Partly Cloudy**
More weather.
Advanced Search
Search the Archives



Story **Comments**

[Share](#) [Print](#) [Font Size:](#)

0

Be the first of your friends to recommend this.

Posted: Wednesday, June 29, 2011 11:40 am

0 comments

By JORDAN BROWNWOOD

Not too long ago, talk of public pensions induced yawns rather than serious public policy debate.

But with each new analysis documenting the imminent threat these retirement plans' unfunded liabilities pose to state and local governments' finances, the discussion heats up.

Historically, the public sector used the promise of a comfortable retirement as a way to draw skilled workers away from higher-paying private sector jobs. Lucrative retirement benefits and ironclad job security made up for the lower wages.

Now, with the wage gap between the two sectors closing, excessive retirement benefits are unnecessary.

According to the U.S. Bureau of Labor Statistics, the average state or local government employee in Texas earned an annual salary of \$40,024 in 2010, while workers in the private sector earned \$39,832. With government workers now reaping more compensation than their private sector counterparts, taxpayers can no longer afford to subsidize generous retirements.

In Texas, the aggregate funding ratio for public pension funds have dropped to 83 percent, down from 103.6 percent in 1999 and just 3 percent above what is considered actuarially sound. As governments continue to fall short of their overly optimistic 8 percent projected rates of return, declining funding ratios will result in more taxpayer money being allocated to pensions at the expense of more critical government services.

Texas estimates its total unfunded pension liability to be around \$30 billion, which will continue to grow without drastic reform. However, Joshua Rauh of Northwestern University estimates that, when using more realistic accounting practices, the unfunded liabilities are closer to \$181 billion – 514 percent of annual tax revenue.

During the past several years, state and municipal pension systems have implemented changes in the hopes of reigning in ballooning liabilities. Modifications like an increased minimum retirement age and readjusted benefit calculations have bought some time for the plans, but in no way have they gone far enough to keep long-term costs at bay.

Much more significant pension reform will be needed in order to retain solvency and keep the state's pension systems above water.

Public sector defined-benefit pension plans – retirement packages that promise retirees a set monthly income based on an employee's salary history and years of service – are entitlements that transfer wealth from workers in the private sector to public sector retirees.

When pension funds fall short of their expected return rates – as has been the case for the past several years – governments must eventually fill the gap by either increasing taxes or reallocating existing revenue. With public sector workers now making more than workers in the private sector, poorer taxpayers end up subsidizing generally wealthier government retirees.

To significantly reduce the rising expenses of defined benefit pensions and ensure a more equitable public retirement system, the following steps should be taken:

Freeze the current defined benefit pension plan to all new and unvested employees.

Enroll newly hired or unvested employees in a 401(k)-style defined contribution pension plan.

Implement either a hard or soft freeze of the system for vested employees.

Replace current retiree healthcare plans with Health Savings Accounts (HSAs).

A move from a defined benefit to a defined contribution pension system would save state and local governments

Multiple Positions

Houston, Texas
SJC Home Health

Diesel Mechanic

Alvin, TX
GetJobsNow.com

[View More Jobs](#)

SEARCH LOCAL BUSINESSES:

Crosby Apartments Crosby Dining
Crosby Automotive Crosby Doctors
Crosby Banks Crosby Realtors
Crosby Dentists Crosby Storage

More Businesses

[Claim Your Business Listing Today](#)

[Congrats! You are today's Austin iPad2 winner!](#)

[Can you Type? Earn \\$387/Day Working From Home](#)

considerable money over the long term.

These changes would not only shield Texas from an inevitable public pension cost explosion, they would align public sector benefits with those in the private sector and create a more just retirement system.

Jordan Brownwood is a research associate for Texas Budget Source, a website dedicated to promoting financial transparency by state and local governments in Texas.



Congrats! You are today's Austin, Texas iPad winner!



0

Share

Recommend

Be the first of your friends to recommend this.

Discuss

Share

Print

Posted in Opinion on Wednesday, June 29, 2011 11:40 am.

Similar Stories

- Remember the reason for the holiday
- NATO must bear brunt of cost for Libya, not U.S. taxpayers
- Planets of our solar system
- Help make your newspaper better

Most Read

- Featured fugitives of Montgomery County, June 24
- Close coyote encounter inside Loop: what to expect, how to respond
- Busted: Houston, Harris County seize 75+ cases of fireworks being sold online
- Westbury Christian teacher facing criminal charges of touching 2 female students
- Thousands of fish found dead at Woodlands' pond

Welcome to the discussion.

Screen Name or Email

Password

[Forgot?](#)

Login

Or, use your linked account:

facebook

google

yahoo

[Need an account? Create one now .](#)

HOUSTON NEWS	LOCAL COMMUNITIES	MARKETPLACE	SERVICES	MEMBERSHIP		
Home Blogs Photos Calendar Celebrations Obituaries Contests	Storm Center Entertainment HS Gridiron Business Pets Health Weather 101 Houston	Atascocita Observer Bay Area Citizen Bellaire Examiner Champions Sun Cleveland Advocate Conroe Courier Cy-Fair Sun Cypress Sun Dayton News Deer Park Broadcaster East Montgomery Observer Eastex Advocate Fort Bend Sun Friendswood Journal Humble Observer	Kingwood Observer Klein Sun Lake Houston Observer Magnolia Potpourri Memorial Examiner Pasadena Citizen Pearland Journal River Oaks Examiner Spring Observer Sugar Land Sun The Rancher Tomball Potpourri Waller County News Citizen West University Examiner Woodlands Villager	Classifieds Jobs Homes Autos Business Directory Celebrations Obituaries Legals	Help Advertise with us Place a Classified ad Home Delivery Subscription Services RSS Feeds Newsletters Contact Us Site index Careers at HCN	Sign up Log in
		<p>Search</p> <input type="text"/>	<input type="text"/> Search			
<p>Terms of service Privacy statement FAQs</p> <p>© Copyright 2011, Your Houston News, Houston, TX.</p>						