We didn't break it. Why should we pay for it?

TOUGH-LOVE PRESCRIPTIONS FOR DEALING WITH UNFUNDED TEACHER PENSIONS

John Bury, a pension fund consultant, reported that Connecticut's teacher pension system is underfunded and facing a $10.8 billion long-term shortfall. In 2016, only 35.5% of the Connecticut State Employees Retirement System was funded. Most experts agree that a fiscally sustainable system should be at least 80 percent funded. The Wall Street Journal reported that the state has only half of what it needs to pay the retirement benefits negotiated with its unions.

Governor Daniel Malloy announced a proposal to have Connecticut towns start covering one-third of the annual teacher retirement costs. The interim school superintendent in Brooklyn, CT, estimated that they would have to eliminate 15.5 teaching positions and five non-teaching positions from their elementary and middle schools to cover the cost. A town official in Colchester had an interesting response to Malloy's proposal: "We didn't break it. Why should we pay for it?"

Connecticut is not the only state that has negotiated generous pensions and benefits for teachers and other public employee unions. It is also not the only state that has failed to properly fund the pensions. Seven years ago, the Manhattan Institute examined 59 teacher and public employee pension funds and discovered that the plans' unfunded pension liabilities totaled about 933 billion dollars!

F.D.R. predicted this mess.

In a letter to a union official, President Franklin Roosevelt wrote, "All Government employees should realize that the process of collective bargaining, as usually understood, cannot be transplanted into the public service. It has its distinct and insurmountable limitations when applied to public personnel management."

The founders of the labor movement viewed unions as a vehicle to get workers more of the profits they help create. Government workers, however, don't generate profits. They merely negotiate for more tax money. When government unions strike, they strike against taxpayers. F.D.R. considered this "unthinkable and intolerable."

Roosevelt also said that it is "impossible to bargain collectively with the government." Consider the dangerous conflicts of interest inherent in government collective bargaining:

- The state administration wants to get re-elected. Teacher and public employee unions' support are both coveted and necessary to assure re-election.
- Teachers' unions collect dues from members and use them to fund Political Action Committees (PACs). Politicians involved in contract negotiations can be influenced by hefty PAC contributions.
- This in turn creates a situation in which state and union negotiators are motivated to sacrifice fiscal responsibility in exchange for generous benefits and onerous liabilities – and unfunded benefits and liabilities at that.

Have they negotiated in good faith?

Connecticut has failed to properly fund teacher pensions for years. It is obvious to anyone who looks at past and recent state budgets that insufficient funds were deposited in the pension plan, year after year and contract after contract. But state and union negotiators continued to agree to pensions and other benefits that both sides knew were not being funded.

Consider this example: It's both an election year and time to negotiate a contract with the teachers. The administration wants to get re-elected and the teachers want to get a munificent raise after years of little or no pay increases. The politicians want the PAC money and votes; the union negotiators want to keep the membership happy.

The state offers a new plan that will pay teachers salaries of $1 million per year, effective January 1, 2020. The union gladly agrees to the offer and the contract is signed.

On January 1, 2020, the state has no money to pay the $1 million salaries. They knew they didn't have the money when the contract was signed. They knew they would not have the money when it was due. And the teachers' union negotiators knew the state didn't have the money when the contract was signed. And they knew the state would not have the money when the raises were due.

Both sides failed to negotiate in good faith. Both sides agreed to a benefit that was not there and that was not funded – and they knew the money was not there. So what happens on January 1, 2020?

The teachers do not get the $1 million salaries – not because we do not love and respect our teachers; but because there is no money to pay the overly-generous salaries and there never was. The negotiated contract was fraudulent.

Where do we go from here?

Governor Malloy and other politicians are looking for creative ways to increase revenues to cover expenses and budget shortfalls. He has proposed that local communities pick up the tab for one third of the annual teachers' retirement costs – even though they had nothing to do with the creation of all the unfunded liabilities. Doubling the deposit on returnable bottles and cans, legalizing marijuana and allowing wine to be sold in grocery stores have also been proposed.

Such proposals will never be enough fill the $10.8 billion shortfall in the pension fund. There's no money to pay the pensions. There never was any money to pay the pensions.

So, tragically, the teachers must accept lower pensions than those that were negotiated. Overtime income can be eliminated from pension calculations. Current teachers can be required to make higher contributions to their pension plans. Perhaps the retirement age and/or years of service required for pension eligibility can be raised.

Either that or some of them may receive no pension at all – not because we don't love and respect our teachers; but because there's no money to pay the generous pensions and there never was.

These may appear to be cold-hearted prescriptions for dealing with the problem. But Connecticut residents didn't break it; why should we pay for it? Most – if not all – of our teachers hold graduate degrees. They were all more than capable of reading annual state budgets and seeing that their pension plans were not being adequately funded. Like private sector workers and self-employed individuals, the teachers could have set up IRAs and savings plans to provide for their retirement years.

If they didn't do so, why should taxpayers pick up the tab for their failure to plan properly?

We didn't break it. Why should be pay for it?

Notes

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