Taxpayers take the hit for expensive state pension plan

By Wayne Hoffman

State lawmakers last week very nearly fumbled on an issue with massive implications for taxpayers. It happened Wednesday when the House State Affairs Committee voted 13-5 to reject a proposal to block a 1 percent cost of living increase for retirees on the state's pension program, the Public Employees Retirement System of Idaho. The lawmakers on the committee were ill-informed about the severity of the pension program's ongoing financial issues. After learning the full scope of the problem, the panel came back the following day, reversed course and agreed to block the cost of living increase.

The vote threw a spotlight on an issue seldom discussed around the Statehouse. PERSI had a $3 billion unfunded liability as of July 1, 2009, due to investment loses and insufficient contributions relative to benefits.

The pension fund has bounced back somewhat since last summer, thanks to a resurgence in the stock market, but the unfunded liability is still at roughly $2.6 billion -- the size of the entire state general fund budget.

Public employees and taxpayers funnel nearly 17 percent of combined government payrolls into PERSI. Of that amount, taxpayers contribute 10.44 percent. Here's where the pain comes in: According to PERSI's independent actuaries, the state would need to increase both employee and employer contributions in order to keep the fund solvent under state statute.

"The current contribution rates are not sufficient to pay the interest accruing on the (unfunded liability). This does not meet the 25-year amortization period limit required" under Idaho law, Robert Schmidt, Mark Olleman and Geoff Bridges wrote in their report to the PERSI board last summer. A contribution rate increase of more than 4.5 percent, they calculated, would solve the problem. Such a rate increase would come at a cost of more than $127 million just this year to be borne by employees and taxpayers, with the bulk being subsidized by the latter.

Stopping the state's 33,000 retirees from receiving a 1 percent cost of living increase on their pensions aspires to just scratch the surface of the problem. Rejecting the increase would potentially reduce the unfunded liability by a mere $60 million. But some folks might consider $60 million real money, and they'd be right. Moreover, the state's pension system is in better shape than some others across the country, but the fund's hurting-but-better than-the-rest financial condition comes at great expense to taxpayers. Forcing taxpayers to subsidize employee retirement programs to the tune of 10.4 percent of public payrolls a year is unsustainable. Private sector retirement contributions are nowhere near as unsparing. It is because the PERSI retirement benefits are overly generous and the necessity to be actuarially sound that taxpayers pay so much. And because the payment by taxpayers is insufficient to get the job done, taxpayers will at some point in the very near future be asked to pay out even more. (The actuary recommends the state pay 12.99 percent of payroll).

A smarter approach would be to convert the state's defined benefit plan to a defined contribution system -- where the state is contributing a set percentage to each employee's retirement investment, and it's up to each employee to maintain the fund. If that course of action isn't obvious yet, it soon will be, especially if taxpayers are asked to take another bullet for the state's retired public employees.