# “BUT THE PENSION FUND WAS JUST *SITTING* THERE . . . ”: THE POLITICS OF TEACHER RETIREMENT PLANS

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**Abstract**
The tension at the heart of pension politics is the incentive to satisfy today’s claimants in the here and now at the expense of long-term concerns. Teacher pensions, in particular, pose two challenges. The first is that political incentives invite irresponsible fiscal stewardship, as public officials make outsized short-term commitments to employees. The second is that incentives hinder modernization, as policy makers avoid the politically perilous task of altering plans ill suited to attracting talent in the contemporary labor market. The alignment of the political stars has helped some states and localities to address the first challenge, but far too few have demonstrated a willingness to tackle the second. We illustrate the political dynamics through discussions of pension plans in New Jersey, Oregon, and San Diego, California, and suggest several political strategies that could make pension challenges more tractable and encourage public officials to be responsible fiscal stewards or to revisit anachronistic retirement systems.

 

## 1. INTRODUCTION

In a memorable "Doonesbury" comic strip from the late 1970s, Garry Trudeau's Raoul Duke, serving as general manager of the Washington Redskins, improbably signed star free agent "Lava Lava" Lenny. When asked how he had pulled off this remarkable feat, Duke insisted he had not spent "a penny more than he's worth! I swear it! Besides, the pension fund was just *sitting* there!" (Trudeau 1979).

In this punch line Trudeau captured the tension at the heart of pension politics—the incentive to focus on the here and now and appease today's claimants at the expense of long-term concerns and more dispersed constituencies. Those temptations are rife when it comes to retirement systems in the private and public sectors alike. In the private sector, rules and regulations seek to tame corner cutting and shortsighted behavior, with varying degrees of success. But for public pension funds, including those that cover teachers, the primary safeguard is the self-discipline of public officials and the hope that they will not be unduly tempted by short-term electoral considerations and influential constituencies.

Given the state of public pension funds, these safeguards hardly seem adequate. In 2008, the Pew Research Center projected that state pension plans are $731 billion short of meeting their $2.7 trillion obligation in coming decades (Barrett and Greene 2008, p. 3). *Forbes* reported the systematic underfunding of state pension plans as of 2006–7, with nearly every state plan funded to less than 80 percent of its obligation and many funded to less than 60 percent (*Forbes* 2009). The economic downturn since 2008 has substantially aggravated the situation. PricewaterhouseCoopers estimated in the fall of 2009 that public pension funds would have less than half the necessary funds needed to pay pension benefits in fifteen years (Cho 2009). Meanwhile, Joseph O'Keefe has noted that actuarial studies suggest that contribution rates for public employees are lagging benefit costs, meaning that the problem is due to get worse (Mattoon 2006, p. 2).

Teacher pensions pose two challenges for K–12 schooling. The first is the temptation for irresponsible fiscal stewardship. Pensions are in the business of delayed gratification. Public officials are not, and they often make commitments to employees that outstrip the available funds. The second challenge is that pension arrangements hinder efforts to boost teacher quality by making it more difficult to attract talent in the contemporary labor market. As we will discuss, the alignment of the political stars has helped some states and localities to address the first challenge, but far too few have demonstrated a willingness to tackle the second.

Discussion of teacher pensions has focused on economic and technical questions such as whether pensions are adequately funded, how they affect state and district budgets, and how benefit formulas affect efforts to attract and retain talented teachers. What has garnered less attention is the degree to which unaffordable promises and anachronistic program designs are due to political incentives. Public pension systems inextricably intertwine political considerations with actuarial and technical ones, making it foolhardy to discuss reforms without contemplating how they may be affected by legislative preferences, constituent politics, and institutional arrangements.

The Employee Benefit Research Institute (EBRI) has observed, "Because public employee benefit plans are legislative products, political forces impose a greater effect on their design than economic forces. . . . The interest group activities can usually extend far beyond the public administrators and employees (and their unions and associations) that are directly affected" (EBRI 2005, p. 4). Treating public pension reform primarily as a technical, fiscal, or actuarial exercise is self-defeating because the key decision makers are motivated by political, not economic, incentives.

While officials in the private sector are driven, for better or worse, by investors who keep a fierce watch on profitability, public officials are judged by more ambiguous criteria. Public officials depend on public support; they must marshal votes and win elections, or at least be appointed and supported by elected officials, and must cultivate influential, organized, and attentive constituencies.

Few potent constituencies are attuned to fiscal health or rational benefit systems. Unlike institutional shareholders, voters have little cause to focus on balance sheets or whether public agencies are maximizing productivity.[1] Voters are most concerned with ensuring that taxes are not raised and that state programs that directly benefit them are maintained. Revising existing arrangements, however, imposes costs on a distinct and organized constituency of veteran teachers. Long-time public employees have a great deal invested in existing pension systems. They have contributed to the plans over a period of years, understood their promised pension as a key element of their compensation, and traded the opportunities they might have pursued in the private sector for the security and assurances implied by public employment.

The politics are predictable. Those who stand to lose are typically far more energized, organized, and vocal than any of those who would benefit from reform, making it unpopular and politically perilous for public officials to address funding shortfalls or change retirement rules.

A fiscal crisis like the current recession may flip these political dynamics by making pension costs salient to the broader public and highlighting how lawmakers are compromising the public's interests in order to cater to public

1. For a further discussion, see Hess 2002, pp. 8–14.

employees. Even amid past crises, however, reforms have often yielded more sustainable benefit levels but have stopped short of rationalizing systems for a changing labor market. Addressing the pension challenge, then, is not merely a matter of technical patches but requires understanding both the complexity of the problem and the politics and incentives that shape pension reform.

## 2. WHAT'S THE PROBLEM?

Public pension systems are subject to two key political tensions. The first is that pensions are in the business of delayed gratification. They allow public officials to make promises today while leaving the costs for others to deal with later. As Mitchell and Smetters (2002, p. 103) note, pensions "systematically transfer risk away from early generations and toward later generations . . . favor[ing] current taxpayers, plan participants, and politicians, at the expense of future taxpayers." This is an inducement to shortsighted behavior on the part of politicians who face reelection every few years and can deliver benefits today while pushing off costs until later. A Deloitte Research study has similarly explained, "Public pension policy often suffers from an 'It won't be my problem after I am out of office' mentality. . . . Policy leaders reap political rewards for creating new benefits for public employees or underfunding retirement systems and using the money for other short-term goals" (Deloitte Research 2006, p. 9).

Even better from a politician's perspective, the complexity of calculating the costs and full benefits of pension systems can mask the cost of generous promises. The result is a tendency toward expansive commitments. Roza (2007, pp. 6–7) has found that "teachers' retirement benefits, like their health benefits, are, on average, unusually generous when compared to the benefits received by employees in the private sector." Glaeser (2007) has opined, "Our local governments have pensions that are too high and salaries that are too low, because everyone screams at the prospect of a public servant getting paid a decent wage, but no one who isn't a CPA can figure out how much a benefits package is worth." Glaeser has observed the "strong tendency to load compensation towards non-transparent forms of payment."

The second challenge is that today's defined benefit plans reflect an expectation that personnel will teach in the same state or district for the length of their career. In 2008, thirty states required an employee to work five years to become fully vested in the typical public pension fund, and ten states required ten years of service or more.[2] Pension systems reflect a strict careerist tilt in which educators are penalized for departing before serving twenty-five

2. Calculation is based on National Association of State Retirement Administrators (NASRA) and National Council on Teacher Retirement's (NCTR) Public Fund Survey of the 125 largest public pension funds in the United States (available at www.publicfundsurvey.org).

or thirty years and are penalized for remaining longer (NASRA 2008). In the mid-twentieth century, the teaching force was dominated by women who often had few other options. Between 1965 and 2000, however, there was a 50 percent decline in the likelihood that a new female teacher ranked in the top 10 percent on aptitude tests (Center for American Progress 2009). Today's pension systems are an irksome legacy adopted decades ago and designed for a very different labor market.

Existing pension policies reduce worker flexibility and penalize teachers for moving across state lines or into and outside of schooling. Even teachers who stay in the profession for thirty years but who split their career between two pension plans are estimated to lose up to half their net pension wealth. And, as Costrell and Podgursky (2010) note in their article in this issue, nearly half the pension wealth accumulated by an entering cohort is redistributed to teachers who separate after the age of fifty from those who leave the system earlier. This discourages potential entrants—including talented midcareer applicants—who might not be inclined to commit to a decades-long career in a single job or locale.

Two more flexible models have become increasingly common in recent years: cash balance plans and defined contribution plans. As Costrell and Podgursky explain, cash balance plans have a guaranteed level of benefits that accrue steadily rather than at the end of an employee's career and can be rolled over into an IRA or another employer's retirement plan, should the employee change jobs. The benefits do not change based on age of separation. Defined contribution plans are also portable and flexible, but the burden for investing the funds is on the employee rather than the employer.

Shifting away from today's defined benefit plans to plans that embrace flexibility and portability would reflect broader trends in the American economy. Janet Hansen (2010) notes that 62 percent of private sector workers were enrolled in defined benefit plans in 1979, compared with 16 percent in defined contribution plans. By 2005 those numbers had reversed, with 63 percent of private sector workers participating in defined contribution plans and just 10 percent participating in defined benefit plans. Cash balance plans have become increasingly popular today, including 23 percent of private sector employees but a negligible percent of public employees (Hansen 2010). In other words, most employers are responding to a more mobile workforce by making it easier for workers to enter or exit jobs without putting retirement benefits at risk, but public plans have not followed suit (EBRI 2007).

Matthew Lathrop has noted, "The guaranteed benefit is only good for those who spend a substantial part of their career with one employer. That's an enormous drawback in today's economy" (Blair 2002, pp. 1, 22–23). Furthermore, mobility is not only an increasingly important part of employment but an increasingly important factor for meeting the needs of a shifting student enrollment. Costrell and Podgursky (2009) note that Arizona and Nevada expect a 40 percent increase in student enrollment in coming years, while states in the Northeast expect a decline. Pension plans prevent the teaching force from adjusting to these changing needs. A more flexible and portable model would ease exit from and reentry into the profession and enable the teaching profession to more effectively compete for college-educated talent and to shift alongside student needs.

## 3. PUBLIC PENSIONS AND STATE GOVERNMENT

Most teachers' pensions are included in plans that cover other public employees. In thirty-three states teacher contributions go into a state fund; in the other seventeen they contribute to a separate teacher retirement fund (Lieberman 2000). Many other school districts have their own localized pension plans for teachers. There are currently over 2,500 public pension plans across the country. Ninety percent of state and local workers are enrolled in state-administered plans, with the remainder participating in local plans (U.S. GAO 2007).

As Amy Monahan notes in her article in this issue, pension benefits are protected by a variety of legal limitations—most often including contract and property rights provisions written into state constitutions. Though there are theoretically different degrees of protection and some states, such as California, allow pensions to be modified for an "important public purpose," state courts have rarely found in favor of the state when modification of benefits is sought. As a result, state legislatures have little ability to adjust benefits already promised. Snell (2008, pp. 13–14) has explained, "It is very difficult or impossible to reduce pension benefit packages because of various constitutional and statutory guarantees and judicial decisions. Once granted, a pension is a contractual obligation of the employer, so that in most cases in most states it is impossible to cut the promise of a future benefit, or even to increase the employee contribution to the pension fund." This means that if investments perform poorly, the employer (i.e., taxpayers) must usually make up any shortfall.

State benefit formulas (including eligibility, contributions, and types of payments) are set by the legislature. Locally administered plans are typically governed by local laws. Boards of trustees establish the overall policies for the operation and management of individual funds, governing actuarial assumptions, procedures for financial control and reporting, and investment policy. As creatures of the state, the behavior of pension boards is influenced by how rules are written, how personnel are appointed, and how their mission is defined (Useem and Mitchell 2000).

Pension boards vary substantially in size and composition. NASRA reports that boards range in size from nineteen members (in the Tennessee Consolidated Retirement System) to five (in several states). Some boards are composed entirely of elected officials, others entirely of appointed members, and some entirely by ex officio members, but most include some combination of these (Hess 2005). While some intriguing research has sought to identify correlations between board characteristics and pension outcomes, that work has delivered mixed findings that are far from dispositive (Romano 1993; Mitchell and Smith 1994; Murphy and Van Nuys 1994; Mitchell and Hsin 1997; Chaney, Copley, and Stone 2002; Schneider and Damanpour 2002).

In some cases, pension benefits are not laid out in state or local statute but are negotiated between employers and unions, though the U.S. Department of Labor reports that the vast majority are determined by state legislatures rather than through collective bargaining agreements (Bovbjerg 2008). Moreover, the EBRI has noted, "Even where collective bargaining over benefit issues is allowed, the legislatures generally retain some measure of control" (2007, p. 3).

Legislators naturally prefer to see pension funds capture high returns, allowing them to minimize taxes or divert state contribution dollars to other budget items. If pension investments do not perform well enough to compensate for additional costs, the government must make up the difference. As Hess (2005, p. 193) has explained, "Since these additional contributions typically come from the government's general fund, they compete for funding with other government projects." Given such alternatives, underfunding a pension plan can be an appealing option for policy makers, especially because the complexity of determining future liabilities and adequate funding levels provides public officials with substantial wiggle room.

Actuaries are charged with projecting the future costs of pension benefits and estimating the rate of return that the fund can expect. However, these estimates are widely recognized as malleable, and board members have incentives to prefer actuaries and firms deemed to be team players. By manipulating actuarial assumptions, such as an expected rate of return, a fund can appear more funded than it would be if it used more conservative assumptions. Eaton and Nofsinger (2004) have also suggested that pension funds are systematically more likely to use assumptions requiring smaller government contributions during fiscal downturns in order to mask shortfalls. Indeed, many fear that actuaries routinely underestimate the cost of public pensions by as much as a third (Walsh 2008). Intended safeguards like independent actuaries too often provide a flimsy bulwark against chicanery or political irresponsibility.

## 4. PENSIONS AND PUBLIC EMPLOYEE UNIONS

Two dynamics of teacher union politics dominate public pensions. The first, and most obvious, is that those who are in line for pensions are intensely interested in the contributions they are asked to make, the age at which they become eligible for benefits, and the size of the benefit they will receive. Those who do not stand to benefit—meaning everyone in the state or community who is not a public employee—have little at stake. Even substantial changes to pension systems are unlikely to have more than a glancing impact on any individual taxpayer. Consequently, public officials are presented with an active, organized, and influential constituency demanding generous benefits and minimal costs and opposition that is typically nonexistent or restricted to anti-tax activists or budget watchdogs that lack the votes, network, and resources of the public employee unions.

The second dynamic is the inevitable tension between younger public employees and their veteran colleagues. Newer employees have much less at stake. They are much further from collecting benefits, have contributed little to the system, and consequently face much smaller opportunity costs should they change employers. Moreover, newer teachers are by and large younger and generationally much more familiar with a highly mobile job market than are teachers who entered the workforce two decades ago.

The split between newer teachers and their veteran colleagues shows up clearly, to take one example, in a 2008 Education Sector national survey of teachers. Twenty-six percent of recent hires think that the unions "lean more toward taking care of the needs of veteran teachers," and just four percent think that they favor newer teachers (Duffet et al. 2008, p. 14). New teachers are more likely to favor reforming traditional pay systems than are veteran teachers. DeArmond and Goldhaber (2010, p. 577) find in their survey of Washington State teachers that new teachers are much more likely to favor a defined contribution plan than a defined benefit plan, writing, "Veteran teachers have different pension preferences than new entrants into the profession: compared with newer teachers, more experienced teachers are more apt to say they would invest additional retirement income in a DB plan rather than a DC plan."

The ranks of union leaders are dominated by veteran educators. Given that approximately half of new teachers exit the profession within five years and that the process of establishing rank-and-file credibility typically takes years and requires extended service in a variety of lesser posts, this is no surprise. McMahon (2003, p. 19) summarizes, "The most senior employees . . . tend to wield the most clout within the unions."

Union leaders in education, as in any sector, also place a premium on maintaining solidarity and unity, prompting them to prefer uniform, collective benefit systems and disinclined to accept measures that differentiate employees or create individualized accounts. Given these dynamics, union demands are unsurprising. Union leaders want their members to receive comfortable benefits, want large taxpayer subsidies for those benefits, and want to be confident that the rules will not be changed on employees in the midst of their careers. Given that schools will not shutter due to international competition or pick up and relocate south of the border, teacher unions have little cause to fear the destructive impact of benefits on jobs. Indeed, efforts to reduce class size have led to a 51 percent increase in the teacher workforce since 1980, creating more than a million new teaching jobs even as teacher benefits have expanded (NCES 2008, table 4).

Except in the most extraordinary crises, the steadfast opposition of National Education Association (NEA) and American Federation of Teachers (AFT) affiliates and fellow employee unions has been enough to stifle measures that would scale back benefits, increase employee contributions, or render the existing system more attractive to younger employees. Indeed, while some observers have been trumpeting the need to overhaul teacher pensions since the 1970s, just eleven states and the District of Columbia have adopted any kind of defined contribution alternatives; only four of these have defined contribution plans as their primary plans (Bovbjerg 2008). Hansen (2010) found only two "hybrid" cash balance public pension plans, which have become increasingly popular in the private sector.

The source of teacher union influence on pensions also lies in their numbers, resources, and organization. While union membership in the United States has steadily declined in recent decades, from 24 percent of all public and private employees in 1973 to 12 percent in 2006, public sector unions have gained in strength. Union membership among public sector employees grew from 23 percent in 1973 to 36 percent in 2006 (U.S. Census Bureau 2008). Indeed, with more than 80 percent of the nation's teachers in a union, teaching is the most highly unionized sector in America (McFadyen 2006).

Including teachers and other employees in allied "education, training, and library occupations," the NEA represents a total of 3.2 million members (NEA 2008) and the AFT 1.4 million (most, but not all, of them are teachers) (AFT 2008). Surveying political contributions from 1989 to 2008, the nonpartisan Center for Responsive Politics named the NEA and AFT as two of the nation's twenty "most influential organizations in federal politics," with the NEA ranked seventh and the AFT fifteenth (CRP 2008). In the past eight years, the NEA and the AFT have ranked among the top contributors to twenty-four of the twenty-seven Democrats on the U.S. House of Representatives Education and Workforce Committee.[3] *Fortune* named teachers' unions one of

3. Open Secrets Center for Responsive Politics, database analysis by the authors (www.opensecrets.org).

the twenty-five most influential interest groups in 2008 (Greene and Butcher 2008). In 2007, the NEA spent nearly $30 million on political activities and lobbying (National Education Association 2009), and the smaller AFT spent over $18 million (American Federation of Teachers 2009).

It would be a mistake, however, to think that the strength of the NEA or the AFT primarily lies in Washington. Most observers regard the unions as strongest at the state and local levels, where 90 percent of education spending takes place. Moe (2001, p. 44) has written that at the state level, "[Teachers' unions] monitor all relevant legislation, propose bills, carry out background research on issues, attend committee hearings, keep scorecards on legislators, and bring their formidable power to bear.... On education, teacher unions are the 500-pound gorillas of legislative politics."

Union clout was famously displayed in California in January 2005, when Governor Arnold Schwarzenegger proposed converting public pensions in California from defined benefit plans to 401(k)-style defined contribution plans. He explained that California had promised "state workers more than it should and more than it could," noting that pension obligations had grown from $160 million in 2000 to $2.6 billion in 2005 (Schwarzenegger 2005). Schwarzenegger proposed that pensions for new state workers reflect those for workers without government jobs. He said that if the Democratic-controlled state legislature did not support his proposal, he would put forward a referendum on the issue the following November (Halper 2005, p. A20).

The proposed reforms drew immediate criticism from California's public employee unions (Halper 2005). The *San Francisco Chronicle* predicted, "Labor unions and education groups ... will put up whatever it takes to challenge the governor" (Wildermuth 2005, p. A12). Within weeks of Schwarzenegger's announcement, the California School Employees Association boasted that twenty unions representing 2.5 million members had already formed a "pension protection coalition" (Chan 2005, p. D1).

The union message was carried forth by sympathetic figures like teachers, nurses, firefighters, widows, and orphans who portrayed Schwarzenegger as cruel and out of touch. By spring, the *Los Angeles Times* wrote, "In just a few months, Schwarzenegger has gone from seeming invincibility to a politically precarious state, his approval ratings sagging and his staff plagued by internal scuffles" (Barabak and Salladay 2005, p. A1). In April, Schwarzenegger abandoned the proposal.

## 5. FEW SAFEGUARDS ON PUBLIC PENSIONS

There are few meaningful guardrails to prevent public officials from steering state pension systems into the ditch. As Deloitte Research (2006, p. 6) has pointed out, "There are generally no requirements forcing public retirement plans to fund their pension liabilities. As a result, these plans are funded to varying degrees, including some that are completely unfunded and operate on a 'pay-as-you-go' basis."

Hess (2005) has explained, "Whereas federal law requires private pension plans to meet certain funding levels and insurance requirements, public pension plans do not face such requirements" (pp. 193–94). Private pensions, as Hess notes, are required to comply with the Employee Retirement Income Security Act of 1974 (ERISA), which established minimum funding standards for company-sponsored plans. ERISA, which covers approximately 150 million Americans with more than 679,000 private retirement plans, is beset by its own shortcomings, of course, but that is a subject for another time (U.S. Department of Labor 2009).

Public plans are governed by accounting standards set up by the Governmental Accounting Standards Board (GASB). These standards provide the framework for the annual audits that most governments contract to independent accounting firms, and those audit reports are a key factor in how credit risk agencies evaluate government credit quality. While GASB sets guidelines, however, it has little or no enforcement power and limited incentive to confront the states and localities that contribute to its budget. As a result, pension analysts fret that many states have adopted accounting methods determined more by politics than sound fiscal standards (Cho 2008).

Not infrequently, watchdog organizations and whistleblowers have played crucial roles in creating enough visibility to prompt public officials to address pension issues. In early 2008, the Massachusetts Taxpayers Foundation (MTF) warned that a proposed boost in pension benefits "could cost the state more than $3 billion over the next 20 years" (Viser 2008, p. B1). MTF president Michael Widmer said, "There is no money to pay for this enhanced benefit, regardless of the merits. . . . It's another example of the administration and the Legislature passing a benefit and simply passing the buck to the future taxpayer" (Levenson 2008, p. A1).

Governor Deval Patrick had supported the pension boosts but requested an amendment limiting cost-of-living increases to those whose pensions were below $40,000. The legislature ignored the request, betting that Patrick would not use his veto. "We rolled the dice and we came up empty," said Ralph White, president of the Retired State, County, and Municipal Employees Association of Massachusetts (Viser 2008, p. B1). Widmer of MTF said "The easy decision would have been to sign it and give an added benefit to 100,000 employees. But the state didn't have any money to pay for it" (Viser 2008, p. B1). The exposure and pressure from watchdog groups can awaken public concerns about unaffordable promises and change the politics of pension promises.

## 6. A FAMILIAR STORY: CRISIS . . . AND THEN REFORM

Hansen's article in this issue provides useful examples of states that have been able to improve funding levels and alter the design of their pension plans. Alaska remains the only state that requires teachers to enroll in a defined contribution plan as their primary plan, but Indiana, Oregon, and Washington State have all created hybrid DC-DB pension plans. Florida, Ohio, and South Carolina offer employees an opportunity to choose a DC plan if they prefer. Several other states have made promising steps to alleviate the penalty for leaving teaching or moving across state borders. These useful examples suggest that reshaping pension plans to better fit the contemporary labor market is not impossible. Research on how the politics and conditions in states that have made such substantive reforms differ from states that have not could elucidate steps that might be taken to make such reforms possible. However, the vast majority of states continue to operate with defined benefit plans, and, whether or not they are fully funded, these plans are poorly suited to appeal to a highly mobile workforce. Important lessons can also be learned from states and localities that have modified their defined benefit systems to adapt to changing circumstances.

In examining pension plans in New Jersey, Oregon, and San Diego, it is useful to observe the political tensions at play and how public officials have been able to expand promises while hoping market gains or financial sleight of hand would spare them from making unpleasant choices. As the following brief tales illustrate, the gloom of crisis can alter the political calculus and help public officials muster the will to address the mismatch between promises and resources. These examples cannot predict the fiscal environments, political decisions, or pension reforms in other states, but they can inform the discussion of pension reform by illustrating how politics factors into fiscal decisions and how even celebrated efforts for reform often stop short of addressing an outmoded system.

### New Jersey: "If the pension system is healthy . . . I say give it to them"

In 1997, in an attempt to improve the system's books, Governor Christine Whitman issued $3.4 billion in pension obligation bonds—essentially borrowing dollars to inject immediately into the pension fund by taking on new long-term obligations. The maneuver allowed Whitman to forgo the state's annual contribution to the pension fund and use those dollars to avoid spending cuts or tax increases in an election year (Donohue 1997a). The bad deal was possible only because the state projected an optimistic 12 percent annual return on its investments (Donohue 1997b).

In 1990, a majority of the state's retirement plan assets were in safe, low-yield, fixed income accounts. By 2000, about 70 percent were invested in equities (Kristof 2000, p. 4). The booming 1990s stock market led to a surplus, prompting state and local government employees to push for a benefit boost in 2000—the last year of the dot-com boom. The acting governor, Donald DiFrancesco, said, "The way I look at it, if the pension system is healthy, if we can give them some benefit resulting from the good economy, I say give it to them" (McNichol 2001, p. 13). In 2001, in the midst of a heated election season, the legislature voted to enhance pension benefits by 9 percent. In doing so, it committed $4 billion of the surplus accumulated during the boom years, despite an $8 billion dip the previous year.

The Pension and Health Benefits Review Commission voted 7-0 to recommend that the legislature adopt the pension boost (Donohue 2001). Even though the state's pension funds lost $12.5 billion between June 2000 and March 2001—the entire surplus on which the legislature and pension board were counting—DiFrancesco signed the increased benefits into law in June 2001 (Donohue 2001).

In 2002, newly elected governor James McGreevey proposed an early retirement plan in order to reduce budget outlays. Similar efforts by Governor James Florio in 1992 and 1994 had led to short-term budget savings but significantly increased long-term pension costs (Hester 2002a, p. 1). The bill was nonetheless signed into law on May 31, with Treasury officials conceding the program would cost the state $220 million over the next five years (Hester 2002b). By 2003, the state's once flush pension system was among the worst performing in the nation (McNichol 2003a).

In 2004 local municipalities had to raise taxes to make their contributions to the state pension funds. The East Brunswick finance director said, "Everyone knew this holiday was coming to an end," and he termed the suspension of state payments in 1997 "a classic example of sacrificing the future on the altar of the immediate" (Hester 2004, p. 19). Meanwhile, the McGreevey administration failed to inject the $400 million in 2003 that it was required by law to provide, with the state treasurer explaining the state could not "afford to make the contribution" (McNichol 2003b, p. 21).

Teachers' unions blamed the state for failing to make required contributions. Lawmakers blamed the investment board for underperformance and called for investments in high-yield bonds and real estate (the investments that were doing well in the aftermath of the dot-com crash) (Sanders 2003, p. 21). Meanwhile, McGreevey did not direct any money into the pension fund in 2004, despite the actuary's recommendation that a $1 billion infusion was needed.

After McGreevey resigned in 2004 amid an unrelated scandal, acting governor Richard Codey announced that he would not seek election and pledged to veto any legislation that would enhance retirement benefits without paying for them (McNichol 2005). Codey put aside $337 million in his budget for replenishing the pension system. It was no surprise when the pension crisis emerged as a key issue of the 2005 gubernatorial race (Donohue 2005). Four union political action committees, including the New Jersey State Laborers PAC and the New Jersey Education Association (NJEA) PAC, were among the top ten givers in that year's campaign (Donohue 2005). Democratic nominee Jon Corzine, a former Goldman Sachs executive and U.S. senator, won the gubernatorial election.

After his January 2006 inauguration, Corzine set to work on rehabilitating the state's pension funds. "Make no mistake—our unfunded pension obligation is a real bill," Corzine told lawmakers (McNichol 2006, p. 1). Corzine's proposed $1.5 billion contribution would exceed the total payments that governors had made to the retirement funds over the preceding nine years but amounted to just 70 percent of the amount actuaries deemed necessary.

Corzine convened a special session to examine public worker benefits and cut property taxes, urging legislators to find ways to reduce pension costs. Proposals included raising the retirement age to sixty-two, adding co-payments for health coverage, and rolling back pension benefits by about 9 percent for new employees. Employee unions launched a fierce counterattack, saying that they supported proposals to curtail pension abuses but, in the words of the NJEA, regarded "any reduction in rank-and-file pensions ... to be a non-starter" (Mooney 2006, p. 26). This opposition was important because, noted Senator Gerald Cardinale, a Republican from Bergen County, "Some legislators are so afraid of the NJEA they quake" (Moran 2006, p. 17). Corzine responded by agreeing to negotiate with the unions at the collective bargaining table.

Those Democrats who had backed a reform bill in the face of union opposition felt undercut by Corzine's move to the collective bargaining table. "I think there is a fair amount of frustration on the part of members that they extended themselves, demonstrated courage, and it has not led to where it should, in the short term," Assembly Speaker Joseph Roberts said (Howlett and McNichol 2006, p. 1). The bill that the legislature subsequently passed left most major changes to collective bargaining.

Corzine claimed some modest concessions from public workers' unions in the collective bargaining agreement, exchanging 3–3.5 percent raises over the following four years for a 1.5 percent contribution to health care costs, an increase in the retirement age for new workers from fifty-five to sixty, and a cap on pension payments for some highly paid employees (Howlett and Donohue 2007, p. 13). Returns would be worth close to $1 billion. The various unions approved the contract a few months later by safe margins. "This is a guy [Corzine] who stood up for organizing rights at Rutgers University; who spoke at our rally last summer; who made contributions to our pension for the first time in ten years," said Bob Master, lead negotiator for the Communication Workers of America (CWA) (Donohue 2007, p. 17).

In light of the fact that lawmakers had boosted pensions seventeen times since 1999, Master acknowledged that unions were fortunate to receive 13 percent in salary increases spread over four years and to retain fringe benefits "essentially intact" (McNichol and Donohue 2008, p. 21).

### Oregon: "We've run out of excuses, folks"

In November 2002, the Oregon Public Employees Retirement System (PERS) triggered a panic when it reported a $15 billion shortfall. It had raised eyebrows the previous year when it noted a shortfall of nearly $10 billion. "We've had a sudden and sharp downturn in the markets that's been a big departure from our expectations," said PERS executive director Jim Voytko (Walth 2002a, p. A1). While the immediate problem was the decline in the equity markets, the deeper problem was a decade's worth of dubious decisions by the PERS board. During the 1990s, when the PERS fund consistently blew past the 8 percent expected return mark—returning as much as 20 percent a year—the PERS board did not use the additional revenue to bolster its reserve funds. Instead, it boosted benefits at record rates and without regard to repeated warnings that the system was being exposed to calamity (Walth 2002a).

Oregon's pension system had been regarded as lavish for nearly two decades. A 1990 study by Portland's city auditor found that many workers retired with more take-home income than they earned while working, partly because they could roll in half of their unused sick leave. The official goal of PERS was to provide career public employees with the same net income in retirement, factoring in Social Security, that they had while working (Mapes 1993). In 1994, David Reinhard reported that some financial advisers were telling clients not to bother saving for retirement at all. Advisers felt that "PERS benefits are so generous that it's not necessarily wise for public employees to sock away today's income for tomorrow's retirement. They just won't need the money." Ken Sutherland, an insurance company representative who worked with PERS members, said, "They don't realize how good they have it" (Reinhard 1994, p. D2).

In November 2002, the *Oregonian*'s Steve Duin railed, "We've run out of excuses, folks. At $15.7 billion, the unfunded liability for the Public Employees Retirement System works out to a $4,589 debt for every man, woman and hungry child in Oregon, including those who still have their heads in the sand. Not your problem, you say? Think again. YOUR Oregon Legislature greased the skids of this disaster, screwing up the compensation formulas, guaranteeing 8 percent annual returns, and stocking the PERS board with the government managers and union reps who pushed boom-time profits into retirement accounts instead of rainy-day funds" (2002, p. B1).

PERS officials issued preliminary estimates of the necessary increases in employer contributions the following month, forcing city managers, county officials, and school leaders to confront the budgetary impact (Colby 2002). The *Oregonian* reported, "The growing pension costs will further drain the budgets of state and local governments—including those of school districts, cities and counties—that can't easily raise taxes and are already squeezed by a weak economy" (Walth 2002b, p. A1). When it was reported that Oregon school districts would have to shell out an additional $123 million per year for pensions, an Oregon School Boards Association lobbyist declared, "That's outrageous," and announced the need for dramatic change—pointing to a new study showing that Oregon schools were paying more for employee benefits than any state except Rhode Island (*Statesman Journal* 2002, p. A1). In 2003, newly elected Democratic governor Ted Kulongoski and the legislature did push to reform the system.

Republicans, who controlled the state House, pushed to recast the retirement system into a defined contribution 401(k)-like pension, while Democrats, who controlled the state Senate, objected. A hybrid compromise emerged. Retirees would receive a pension benefit intended to approximate 45 percent of their working salary and would also be required to contribute 6 percent of their salary to a 401(k)-type investment account. Employers could agree to make this contribution in the employees' stead. The plan would cost employers about 8.6 percent of payroll for retirement benefits compared with the 12.5 percent figure that prevailed (Mayer 2003). The legislature also remade the PERS board, demanded up-to-date mortality tables, and eliminated the 8 percent guaranteed annual growth in accounts (*Oregonian* 2003, p. C10).

Because Oregon's plan actually reduced the pension benefits promised to current employees, it came under the inevitable legal challenge from public employee unions. Ultimately, the last hurdle was cleared in 2006 when the U.S. Ninth Circuit Court of Appeals ruled in favor of the state (Hammond 2006). As a result, a deficit that reached $17 billion in 2003 had become a modest surplus by 2008. "It took a lot of political courage because you were really impacting—hurting is the right word—members and retirees," says Paul Cleary, executive director of the Oregon Public Employees Retirement System (Cauchon 2008, p. A3).

### San Diego: "Enron-by-the-Sea"

It is useful to recognize that the issues faced by teachers are reflective of problems endemic to other public pension funds. San Diego is perhaps the poster child of a pension fund run amok, earning the moniker "Enron-by-the-Sea" for its disastrous experience earlier this decade. The system fell from a 100 percent to a 67 percent funding ratio in just ten years, due to substantial benefits boosts for city employees, intentional underfunding, conflicts of interest, and corruption (Passantino and Summers 2005, p. 33). During this time, the San Diego pension fund was managed by the San Diego City Employees' Retirement System Trustees (the Retirement Board), which was composed of thirteen members.

While the market boom of the 1990s allowed San Diego to increase employee benefits in 1996 while reducing the city's contribution to the fund, the downturn in the early 2000s left benefits unfunded. In response to that downturn, however, the city council refused to reduce benefits or offset the losses with increased payments to the pension fund in order to avoid having to trim city services. Instead, the city steadily increased pension obligations, often against the advice of financial advisers and actuaries. In 1997, a trial program had been put in place (it became permanent in 2000) to retain experienced employees. The Deferred Retirement Option Program (DROP) allowed senior city employees to continue to collect their regular salaries and to simultaneously draw retirement pay deposited into special accounts if they agreed to work an additional five years. In 1997, San Diego added a program that allowed employees to boost their retirement pay by purchasing service credits, allowing them to add up to five years more than they actually worked. Objections from the pension system's actuary were ignored (Passantino and Summers 2005).

In 2000, at the height of the dot-com boom, city council members granted themselves a larger pension, lowering the age when members could collect pensions from sixty to fifty-five and boosting the formula used to determine their benefits (Rother 2000). In 2001 they reduced the retirement age again and determined that benefits would henceforth be based on the highest salary earned during an employee's career instead of on the average of their three highest annual salaries (Monteagudo 2001). In 2002, the pension fund lost millions, but Larry Grissom, the city's retirement administrator, said there was no reason to worry: "If we never make another dime in income, we would be able to pay retirement benefits for the next 26 years" (Huard 2002, p. B1).

Seven months later, the *San Diego Union-Tribune* reported the existence of a $721 million shortfall, up from $68 million two years before. Benefit increases approved by the council had driven up the city's payroll costs by 18.5 percent over two years (LaVelle 2002). "Nobody wants to deal with it," said Diann Shipione, a retirement board trustee and critic of the city retirement policy. "It's financially and politically inconvenient" (LaVelle 2003, p. A1). Shipione had warned the mayor and the city council of the problem in 2002. In 2003 she again wrote to city officials and wrote an op-ed calling attention to the underfunding and the board's refusal to acknowledge it.

The underfunding eventually led the U.S. Securities and Exchange Commission (SEC) to rule that the city had defrauded investors in 2002 and 2003 by not disclosing the massive pension deficit. The SEC found that the city had filed "materially misleading" documents and committed securities fraud. City attorney Michael Aguirre launched an investigation, a criminal case was pursued against six members of San Diego's pension board, and Mayor Michael Richard Murphy resigned. In fall 2009 these court cases were still pending, with the verdicts likely to affect whether the city could rescind promises made by those under investigation (Moran 2008).

In the meantime, the city adopted a series of short-term solutions. In 2004 it approved Proposition H, which added seven independent financial professionals to the board of trustees (Hall 2005). The city has implemented financial reporting requirements similar to those used in the private sector (Passantino and Summers 2005). In 2006, San Diego adopted Proposition B, which required voters to approve employee pension benefit increases for the next fifteen years, and the new mayor and the city council agreed to redirect $100 million expected from a new stream of tobacco settlement money to bolster the pension fund (Hall 2006a, 2006b). Standard & Poor's suspended the city's credit rating, barring San Diego from pursuing the popular option of issuing pension obligation bonds. The new mayor, Michael Sanders, developed a payment schedule for the pension plan, which was adopted by the pension board in 2007, to pay off the liability over the next fifteen years (Vigil 2007). However, those promised contributions are now in jeopardy because the pension deficit climbed to $2.55 billion during the market turmoil of late 2008 and early 2009 (Hall 2009).

With legal battles still pending, Sanders is pursuing a hybrid pension system for future city employees that incorporates defined contribution plans (Vigil 2008). San Diego has pursued an array of reforms following its pension debacle, but despite this crisis and the political aftermath, the various reform measures have so far not addressed the structural problems in the pension system.

### Lessons from the Past: New York City

State pension funds in New Jersey, Oregon, and San Diego have been faced with harsh fiscal realities that have predominantly been addressed through patchwork reforms, and with varying degrees of success. New Jersey negotiated some modest reductions in benefit levels for future state employees but left the underlying structure of the pension plan in place. San Diego passed a referendum to ensure that benefit adjustments were reviewed by the public for the next fifteen years but remains locked in court battles. Oregon came the furthest by reducing benefit levels for current employees and establishing a hybrid defined contribution plan. The fiscal crises surrounding each plan led to some reform, but it remains to be seen whether these reforms will last or affect the ability to attract new talent.

Of particular interest on this count is the famous fiscal crisis in New York City. In 1969, Mayor John Lindsay had granted public employee unions very generous contracts to avoid labor unrest. James Beirne surmises, "[Unions] demanded improved benefits, and they got them" (2007, p. 30). In 1975, New York City faced a nearly $2 billion deficit—nearly 17 percent of the city's revenues at that time. Measures to address a near fiscal collapse resulted in better-funded pension plans and effective structures for oversight. But structural reforms to the city's pension plans were elusive (Gramlich 1976).

New York State responded aggressively to the crisis. The state legislature voted to bump employee contributions to 3 percent and capped the final average salary figures used to calculate benefits (McMahon 2005). It also created several entities meant to increase transparency and oversight of the city budget. The Permanent Commission on Public Employee Pension and Retirement Systems functioned to provide research and advice to the state legislature on public employee pension plans. The commission won some early victories in the 1970s when legislation was passed to increase employee contributions to the pension fund—but the commission was abolished in 1992.

In addition, the state established two bodies with much more authority over the city budget generally: the Municipal Assistance Corporation (MAC) and the Emergency Financial Control Board (EFCB, now known simply as the Financial Control Board). In 1975, MAC, which was responsible for restructuring the city's debt and ultimately sold $10 million in bonds to keep it solvent, imposed a wage freeze for city workers, instituted layoffs, and increased subway fare and tuition at the City University of New York—measures that were undoubtedly felt by individual taxpayers. It also required New York City to balance its budget yearly using accepted accounting standards (Dunstan 1995).

Ironically, when MAC struggled to sell its bonds in the aftermath of the 1975 crisis, the city pension funds were eventually pressured into purchasing about $500 million worth. And when the federal government intervened with a bailout, a few conditions were attached—including that the city fully fund its pension plan *and* that up to 40 percent of the assets of the city pension fund be invested in MAC securities. The city pension plans invested additional funds in MAC securities, totaling $2.7 billion (Dunstan 1995). The MAC voted itself out of existence in 2008.

The EFCB was granted the authority to review and veto the city's budget. This board proved to be a useful tool in the city's "good cop–bad cop" negotiations with the public employee unions. “In its infancy, the board ordered hundreds of millions of dollars in city budget cuts, demanded layoffs of thousands of city workers and rejected teachers’ and transit workers’ contracts” (Lipton 2000, p. B1). Former mayor Ed Koch recalls telling the labor unions, “You better make my life easier than you are making it. If not I will just let the Control Board decide your increase” (Lipton 2000). The board failed to maintain its authority, however. In 1986—after three consecutive years of a balanced city budget—the FCB voted to give up its oversight authority and today issues quarterly reports on the city budget.

In the heyday of additional oversight and in the aftermath of a dire fiscal situation, the city pension plan was tweaked for fiscal health, but it has remained intact. Oversight boards exercised useful scrutiny in the following years but were ultimately disbanded or significantly blunted when the city’s fiscal situation had remained stable for several years. It remains to be seen how the city budget will fare without these entities. In 2000, Governor George Pataki signed legislation that expanded pension benefits, including a rollback of the 3 percent employee contributions enacted in 1976 (McMahon 2005). At the time of the increase, pension obligations for New York City totaled $614 million. By 2005, they had hit $2.4 billion. And though New York City reported a budget surplus of $5.3 billion in 2008, the economic downturn in 2009 ate up all but $500. Most recently, Governor David Paterson redirected $1.1 billion from a fund intended for retiree health benefits to meet a gap in pension funding (Pasanen 2009).

## 7. CONCLUSIONS

Reforming public pensions is as much a political exercise as a fiscal or technical one. Addressing persistent underfunding or concerns about structural incentives requires far more than thorough technical analysis—it requires proponents to change the political climate, foster awareness, build support for change, alter political incentives, or design politically workable solutions. Measures intended to rationalize existing practices must be designed accordingly.

For one thing, existing safeguards, such as incorporating independent pension boards and actuarial expertise, too often prove a frail bulwark against irresponsibility. For another, even when public officials have been roused to confront pension problems and have enjoyed some success, as in Oregon, they generally have not gone far enough. They have not reworked retirement benefits in a manner that makes teaching more competitive with other professions in the contemporary labor market or that helps school systems find ways to push out ineffective veterans and retain effective educators after they have maximized their pensions. In fact, many cost-cutting measures exacerbate the inability of existing structures to attract talented employees by raising the retirement age and the number of years needed to become vested in the plan and increasing the contribution levels of new employees to compensate for the fixed contribution rates of veterans.

The preceding analysis suggests that public pension politics is characterized by four simple truths. First, elected officials will always have incentives to emphasize the short term, dictating a need to create institutions that ameliorate that temptation or reward attention to the long term. Second, while the cases cited by Hansen (2010) make clear that a popular groundswell is not necessary for meaningful reform to take place, the cases described here indicate that reform typically will happen when the broad public is stirred and its electoral might is arrayed to neutralize the familiar advantages of the employee unions. Third, legislators and governors rarely accept responsibility for poor stewardship or extravagant promises, especially since they are able to blame pension managers and investments for funding shortfalls. The case of New Jersey illustrates the natural inclination for public officials to shift blame onto investment decisions as a way to divert attention from their own fiscal decisions. Finally, modifying pension systems requires addressing concerns of veterans who will feel cheated out of what they were promised, organizing and selling advantages to younger educators and recruiters, and designing systems that are clearly more responsive to public concerns and to the challenges of staffing schools so as to provide plausible cover to advocates.

Given the political landscape, there are at least three options that pension reformers might pursue to reshape the political context or alter the balance of power. The first is to embrace a "starve-the-beast" strategy. Employee unions entreat legislators to spend any available dollars, suggesting a perverse discipline implicit in funding shortfalls that dampen the urge to ratchet up benefits. John McLaughlin (2004, p. 21) observed of New Jersey's staggering shortfall, "But something else may be at work here. It may be that the state has stumbled on the last, best defense against union demands for more. It's harder to tap into undernourished pension funds than healthy ones."

Two provisos deserve notice here. For one, it is not clear how sustainable this strategy is over the long haul. For another, even when public officials finally bite the bullet on the mismatch between promises and resources, as in San Diego or Oregon, there is little evidence that they have the stomach to address anachronistic pension rules that push out capable veterans at age fifty-five or keep worn-out teachers in the classroom for years past their "sell-by" date. Why? Because while there may be bondholders or voters willing to punish public officials for untenable shortfalls, there are no credit markets, editorial boards, or budget watchdogs similarly attentive to the state's response to labor market dynamics. This leaves the preferences of union veterans largely unchallenged. The stories of "successful" pension reform are tales of fiscal responsibility that do not address the substantive barriers that pension systems pose to competing for twenty-first century talent.

Second, reform requires that proponents change the context of the political debate by agitating, mobilizing, and publicly explaining the costs of current arrangements—and framing debates over policy and practice in terms of the actual costs imposed. This is extraordinarily difficult to do, and the reality is that it typically happens only when a fiscal crisis throws existing policy choices into stark relief. When those moments emerge, reform-minded legislators and advocates have the opportunity to harness public opinion and frame benefit increases as irresponsible, craven, and kowtowing to "special interests." Of course, the effort to manufacture such a moment can fall flat—as happened with Schwarzenegger's effort in California—which is why reformers must use fiscal crises as opportunities for promoting measures to modernize benefits and deliver responsible fiscal stewardship, and not simply settle for makeshift patches that soon allow states and localities to carry on business as usual.

Simple exhortation is unlikely to spur the necessary efforts or render them effective. Today the rewards for public officials who step up and take on pension reform are almost nonexistent; as Scott Porter noted of Corzine's efforts in New Jersey, "Twenty years from now, then you'd start to see some [of the fruits] of this" (McNichol 2007, p. 22). Given that the rewards for pension reform are so out of step with political incentives, it is essential to devise institutions and arrangements that do not depend on self-abnegating public officials to produce sensible reforms or responsible public stewardship. A useful example of this is how H. Ross Perot's 1992 bid for the U.S. presidency led to extraordinary attention paid to the federal budget deficit, which influenced policy choices by the Clinton administration and, most significantly, helped lead to the adoption of new budget rules in Congress that produced budget surpluses in the closing years of that decade. Another example is the Finance Control Board mentioned earlier, which was created and granted the authority to veto New York City's budget in the aftermath of the city's fiscal crisis in the 1970s and brought significant attention to the city budget.

Third, and perhaps most significant, there are tools and institutional innovations that can better enable public officials to make the kinds of difficult choices needed to rationalize existing pension plans or ensure responsible fiscal stewardship. Given the temptation for officials to cater to the demands of active, organized, and influential constituencies even when they may run counter to the public interest, the challenge is to find ways to modify those incentives. One approach, particularly relevant to efforts to promote sound fiscal stewardship, is to craft rules that temper short-term political incentives.

This might include increasing the autonomy and independence of auditors to provide greater insulation from pension boards and legislators. Another might be the creation of a federal or multistate body with the authority to police public pensions and to establish guidelines regarding matters like fund balances and anticipated rates of return.

Adopting such measures would be enormously difficult—since they run contrary to the normal incentives for elected officials—but the important thing is that they are measures that would need to be adopted only once. Afterward, legislators would operate with more barriers against irresponsible behaviors (making it easier to explain “no” votes to interested constituencies) while forcing future officials who wish to make unaffordable promises to visibly and actively challenge these protections. Reformers who use windows of opportunity to enact such measures are not merely solving the current problem but are altering the political calculus going forward.

A similar tack, but one perhaps better suited to pension modernization, is to devise reform packages that insulate the reform minded from the wrath of veteran public employees while appealing to the sensibilities of civic leaders, journalists, and the broader public. One model deserving attention is the way Georgia draws attention to the fiscal impact of new promises and seeks to change the political incentives at play. Georgia’s 1983 Retirement Systems Standards Law requires that any legislation with a fiscal impact on the state pension plan must be subject to additional independent and legislative scrutiny (Hill 1994). In order to even be considered by the legislature, a measure must first be sent to the Office of Legislative Counsel. If the legislative counsel finds that the law has a fiscal impact on the retirement system, it can be passed but cannot be enacted unless it is concurrently funded. A bill may be passed but, if deemed unfunded by the state auditor, the law is “null and void and shall stand repealed” (Hill 1994). Of course, because Georgia’s state auditor is appointed by the governor, the safeguard is far from ironclad (Georgia Department of Audits and Accounts 2009). Nonetheless, this kind of insulation and analysis provides a “cooling-off” period and can create an opportunity to ensure that the costs and implications are fully aired.

Another model is represented by the highly successful U.S. Congress’s Defense Base Realignment and Closure Commission (BRAC), which succeeded in closing more than 350 military installations through a process designed to counter the tendency for legislators to advocate realignment and modernization in theory but to bitterly resist any effort to shutter a hometown base. The key innovation of the BRAC process was that it established criteria for base closures on the front end and then required legislators to vote the entire proposed package up or down. The process meant that officials could no longer lobby to protect particular bases, providing substantial insulation against irate constituents, even as it framed a vote to reject closures as a vote for inefficiency and waste.

Legislators find it enormously difficult to resist the pressure of public employee groups that are unwilling to contemplate even gradual changes to the familiar benefit structure and are fearful that even changes that “grandfather” current employees may sow future splits within union ranks. Framing akin to the BRAC process, in which legislators are voting for a package of provisions to fundamentally modernize and rationalize teacher hiring (perhaps accompanied by heightened pay), could allow reformers to make a “no” vote look like a capitulation to narrow interests while offering a simple up or down vote that legislators could readily explain to the broader electorate as a vote in the public interest. None of this should be taken to suggest that such a path is easy or likely, only that approaches like these offer a more fruitful course than those tried thus far.

The temptation for politicians to see pension funds as just “sitting there” is profound, and Raoul Duke’s jaunty solution—to “charge a little more for hot dogs this year”—will rarely suffice. Moreover, while schools are competing for talent in the twenty-first-century labor market, public officials find the pains of retooling industrial-era benefit systems politically unappealing. Indeed, even the three courses of action we have just discussed to help promote more responsible fiscal stewardships offer little to spur states or localities to shift from defined benefit to defined contribution plans or to revisit the industrial-era pension model. The evidence seems to suggest that the stars are more likely to align for increasingly responsible fiscal stewardship than for labor policy modernization—and the case for optimism on the first count itself is far from rosy. Only time will ultimately tell whether looming fiscal crises, unaffordable promises, and heightened attention to the costs of public pensions will yield a new era in which the electoral rewards for fiscal responsibility and workforce modernization rival those of impassioned claimants.

The authors would like to thank Michael Podgursky and Robert Costrell for initiating a dialogue on teacher pensions, and Jon Forman and Jane Hannaway for their insightful comments on earlier drafts of this article.

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