A Dignified Retirement: Who should write the rules?

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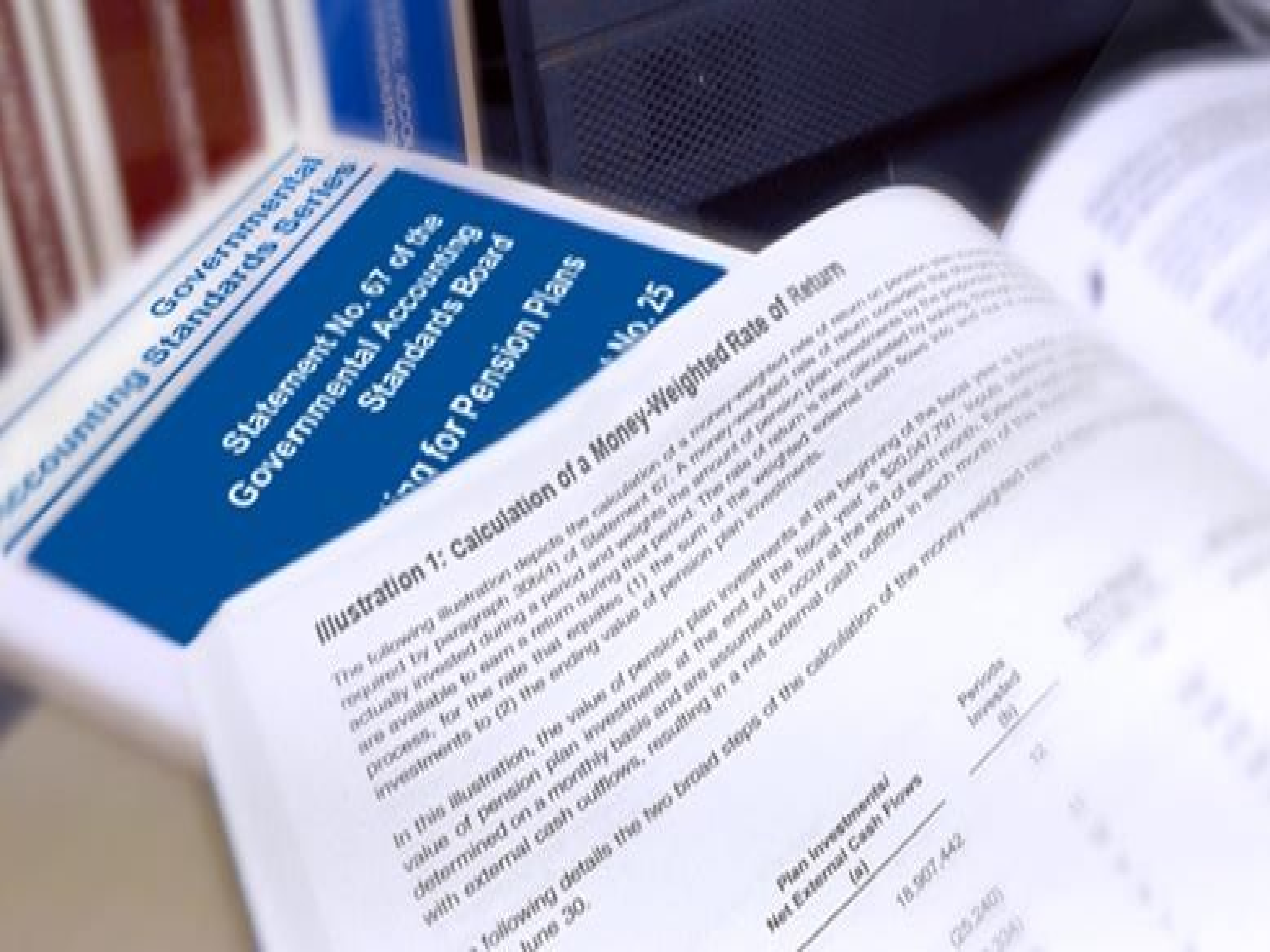
Governmental
Accounting Standards Series
Statement No. 67 of the
Governmental Accounting
Standards Board
ion for Pension Plans
Illustration 1: Calculation of a Money-Weighted Rate of Return

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Why are public pension systems questions of equity?

Equivalently stated: why do we have to bring a racial othering analysis to solving "pension funding crises"?

-Pension systems can be 'owners of debt' and ownership of public debt can be a means of a redistributive practices.

-Popular and political support for the political agenda of attacking pensions (and, in turn unions) & limiting role of government is created through deeply held stereotypes about inadequacy, incompetence, and efficiency that are mapped onto who is a "public employee" and the places served by the public sector.

-Traditionally marginalized groups are more favorably positioned within the structures of public employment

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Pension systems can be 'owners of debt' and ownership of public debt can be a means of a redistributive practices.

The question of who owns public debt is important one if we want to promote redistributive policy.

Since the late 1980s, public pensions have owned less and less public debt and money mutual funds have owned more and more public debt.

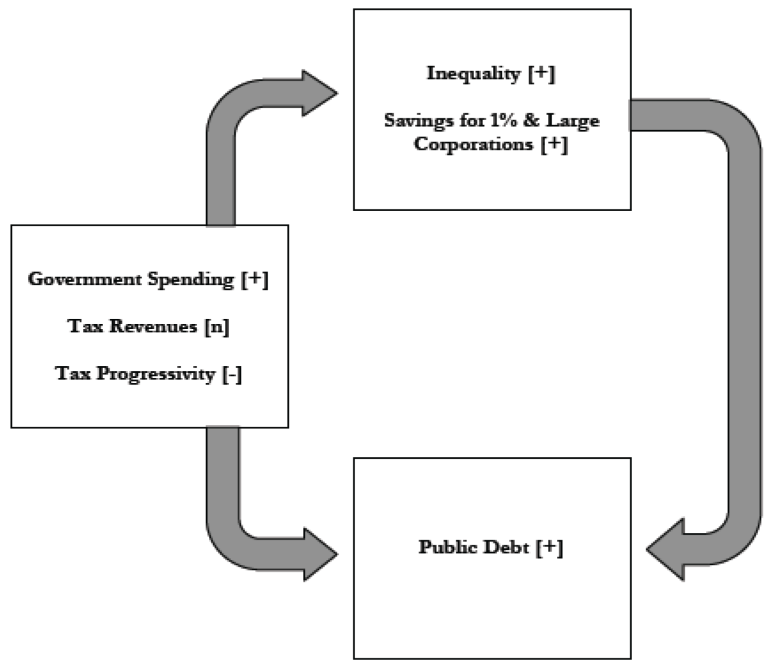

Figure 2 The Logical Sequence of Streeck's Debt State

Note: [+] denotes an increase, [-] a decrease, and [n] no change.

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Political agenda to restrict government role to exclusively insuring private sector & to undermine unions enforced by marrying "public employees" with other groups perceived with deeply held stereotypes

Government, federal, state, and local is progressively restructured such that it's role is increasingly becoming one that provides multiple forms of insurance to underwrite private sector activity

Restricting the role of government since the 1970s and the expansion of former government roles to private for profit and nonprofit sector

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Traditionally marginalized groups are more favorably positioned within the structures of public employment

A robust public employment sector must include robust benefits. The current public sector plays important roles in the employment of Black and African American men and women, and women, in general.

A robust public employment sector can provide important employment opportunities to other groups especially marginalized in the private sector.

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Pension checks will shrink 6.7 percent for 12,000 Detroit retirees beginning in March. Making maters worse, many also must pay back thousands of dollars of excess interest they received.

It’s a bitter outcome of Detroit’s record $18 billion municipal bankruptcy for David Espie, 58, who will repay the city $75,000 in a lump sum while his $3,226 monthly pension is cut by $216.

As retirement costs swallow larger portions of US city budgets, Detroit’s bankruptcy plan resolved a pension crisis with creative strokes, through at a cost to retirees who thought their benefits were untouchable.

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--Chris Christoff, 2/15/2015, Crain’s Detroit Business, “Detroit pension cuts, interest paybacks from bankruptcy prompt cries of betrayal”

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Detroit's original pension obligation estimated at $3.5 billion was one of the key reasons used to justify its historic bankruptcy, the largest-ever municipal filing in the nation. …

In the end, an estimated $7 billion of the city's $18 billion in long-term liabilities was eliminated as part of the city's plan of adjustment. About $1.7 billion of the cuts came from pensions

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--Matthew Dolan, Matt Helms and Joe Guillen, 11/14/2005, Detroit Free Press, "$195M pension payment might derail Detroit's recovery."

tect the public sector to create inclusion

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Important employer for African American men and women, and women in general.

Important employer for economic recovery

Note: the private sector sets the bar low, and we expect and can demand more from public sector employment

u cannot win if the rules work against yo

-Accounting rules promulgated by GASB.

-Mirror rules from private sector.

-Good motivation, bad outcomes.

e nation’s slow-boiling pension crisis

-Large funded liabilities.

-Increasing payments, danger of insolvency.

-National problem: Richmond but also Chicago, Philadelphia, New York State, Illinois, etc.

Problems with the rules

-They insure against things that will not happen.

-They do not insure against things that happen all the time.

-They are poor guides to corrective action.

he numbers sound huge. Are they?

-Size of budgets over time.

-Size of economy.

hat incentives do these rules create?

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-Risk of overfunding.

-Imperfection of feedback.

-Consequences are always years away.

-Closing plan, pension obligation bonds.

Undermine collective security

-Accounting for the cost of an individual is not possible with a pension system.

guments against my argument about the ension funding crisis”

-Kicking the can down the road.

-Intergenerational equity.

-Hidden cost of DB plans.

Potential solution

-Continuation of system payments is an asset.

-Feedback to current year’s budget.

Gratitude

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Thank you.