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Government Pensions: Such a Deal

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Starting in 2007, and especially in 2008, financial markets in the United States and almost everywhere else dipped precipitously. The recovery in 2009 was impressive, but hardly restored the wealth that most investors had lost over the previous two years. Even now, following the 2009 recovery, the stock market is some 25 percent below where it was in 2007.

"Increases in property taxes are proving very attractive to municipalities with retired police and firemen whose retirement funds have declined in value."

For younger earners, the impact has not been especially difficult (as long as they are still working). Over time, it is thought, markets will return to and exceed their previous levels. But the effect on retirees, no longer working and dependent on earnings from their retirement accounts, is another matter. The drop in their accounts has been of great concern to retirees.

Except for one group, that is: retired government employees. Yes, the value of their retirement accounts has fallen, in some cases more than the drop in the accounts of the rest of the country (because of poor investments made by their account managers). But their losses are not irretrievable. After all, they worked for the government—the same government that paid into their retirement accounts by taxing the rest of us. If the government taxed us once, can't it tax us again to replenish government-employee retirement accounts? Yes, it can, and it's doing exactly that.

A recent report notes that "losses in the stock market have weakened city pension funds, forcing cities to increase contributions to those funds."¹ This description of government activities as increasing "contributions" to retirement funds is laughable. These so-called "contributions" come from increased taxes of all sorts. In particular, increases in property taxes are proving very attractive to municipalities with retired police and firemen whose retirement funds have declined in value.

For example, in Illinois (where I reside), pension funding has dropped off to a degree alarming to the incumbent politicians. The towns of Skokie and Evanston, hardly low-income areas, "will have to pay more into public pension funds in 2010 than ever before."² Nearby Glenview—an even more upscale town—is increasing taxes because, as reported by the village's finance director, "increasing pension payments are a main reason that more taxes are needed."³

There is nothing unusual about Illinois. New York, Atlanta and Philadelphia reportedly have been working on increasing property (and sales) taxes to take care of revenue shortfalls.⁴ In Buffalo, "property taxes next year are likely to rise by an average of 10 percent," because of "rising pension fund contributions that municipalities and school district will have to pay to make up for

losses caused by the plunging stock market."⁵ In New York City, the State Comptroller has warned that over 3,000 local governments and school districts will have to increase their "contributions" to the state's "massive public-employee pension fund" to cover a twenty-percent drop in the value of New York's fund.⁶

Several points about this widespread phenomenon merit emphasis.

First, ordinarily, there is no requirement that cities keep the value of retired employees' pension funds at a certain level. Local politicians just do so for, well, political reasons. As a Glenview trustee put it, "I don't like raising taxes either, but I think this is our obligation."⁷ In Illinois, politicians "aren't likely to vote against police and firefighters for fear of the political fallout."⁸

Also, consider the fact that market fluctuations are not the only reason that government employees lose money. Many state retirement funds lose money on their own, independent of market fluctuations—the Retirement Systems of Alabama's investment in golf courses is one example. Such bad investment decisions are made all the time, and governments do not ordinarily restore the money lost. There is no legal obligation to do so.

Nevertheless, politicians claim that you and I should be taxed to maintain or restore the retirement benefits of others whose retirement accounts have fallen in value. Think about that. My retirement accounts have certainly fallen in value in the past two years. I bet yours have also. So, if we're not state or local government employees, where do we go to get back the money we have lost? Nowhere. Who has an "obligation" to replenish those lost accounts? Nobody.

In some areas, the system works in a blatantly self-interested way. Take Baltimore, where the police and firemen pension board recently passed a pension increase that, according to the *Baltimore Sun*, was "whopping," due to "[h]eavy stock market losses."⁹ The city allows policemen and firemen to retire after 20 years, with a pension equal to 50 percent of their salary. So a public employee can retire at age 40, work elsewhere and draw a pension. Even "better," the city gives retired employees a *permanent* pension increase when the city's retirement fund annual performance exceeds a certain percentage, but does not reduce pension payments when the fund loses money—as, of course, it has in the past two years, just as practically every investment fund has.¹⁰ And "best" of all, the Baltimore pension fund is run by those receiving pensions. Its chairman is also the head of the city's firefighters union.

Which brings up a second, important, point. Practically the only way to trump local politicians' attempts at feather-bedding retirement pensions is constitutional rules against raising taxes. Indeed, citizens of some localities have staved off such predation because they are constitutionally protected against tax increases. "For example, Massachusetts limits the rate at which total revenue from property taxes can rise, tying Boston's hands."¹¹

But constitutional constraints on property taxes do not provide ironclad protection. Cities are generally free to raise money in other ways. Increases in various fees, such as parking rates, have served cities well when they could not increase property taxes. "Raising a fee is easier than raising a tax, and raising an existing fee is easier than imposing a new one."¹²

Needless to say, we hear that the increased grab at citizens' wallets is justified because "public

servants" have worked hard. But private-sector workers work hard, too. Moreover, retired government employees are no longer working hard, if they ever did. They are retired.

It is one thing to tax private citizens for fire and police protection from which they benefit. It is quite another thing to tax the current generation to pay those who provided those services to the prior generation. When the value of my retirement accounts declined, I did not look to my children to reverse my losses. Nor, probably, would they have done so had I asked them to. But government doesn't ask. It has the guns; it just takes.

For additional background, see [Pensions](#), by Henry McMillan, [Insurance](#), by Richard Zeckhauser, and [Social Security](#), by Thomas R. Saving, in the *Concise Encyclopedia of Economics*.

Footnotes

1. Pew Charitable Trust, "Tough Decisions and Limited Options," May 18, 2009.
2. *Chicago Tribune Local*, Nov. 5–11, 2009, p. 1.
3. *Chicago Tribune*, Nov. 13, 2009, p. 3.
4. "Atlanta is considering a property tax increase for FY2010 that would raise homeowners' tax bills by 7 percent. In the FY2009 budget cycle, Atlanta lowered the property tax." Pew Charitable Trust, "Tough Decisions and Limited Options," May 18, 2009. For details about New York and Philadelphia, see *ibid*.
5. "New Utility Surcharge Adds to Competitive Plight," *Buffalo News*, Oct. 2, 2009, p. C8.
6. "Towns in Pension Fund Squeeze—Must Pay in More," *New York Post*, March 3, 2009, p. 8.
7. *Chicago Tribune*, Nov. 13, 2009, p. 3.
8. "Pension Laws Cost Suburb," *Chicago Daily Herald*, Jan. 5, 2010, p. 1.
9. "Benefits Too Good to Last," *Baltimore Sun*, Oct. 15, 2009, p. 16A.
10. From 2007 to 2009, the Baltimore city pension fund lost \$777 million. "City of Baltimore OKs \$13.67M Sale of Casino Land," *Daily Record* (Baltimore MD), Oct. 22, 2009, p. 1.
11. Pew Report, *supra* note @, p. 7.
12. *Ibid*.

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