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Reporter Michael Fletcher’s attack on San Jose’s retired public employees (In San Jose, generous pensions for city workers come at expense of nearly all else, Feb. 25) is as offensive as it is just plain wrong. Worse, it omits relevant facts that would present a far different view of the picture in San Jose and elsewhere.

Fletcher asserts the source of the city’s financial problems is “gold-plated pensions” for city workers. He later points out that the average retiree receives $2,600 a month. That’s $31,200 per year – hardly generous or “gold-plated,” especially since many of those retirees do not receive Social Security. And since California has the highest cost of living and the most progressive income tax, that’s hardly enough to live in “relative comfort” and certainly does not constitute the “startling injustice” that Fletcher claims exists “in San Jose and across the nation.”

Fletcher bemoans San Jose’s “quandary” – city workers have a retirement plan but more than half of private-sector workers don’t – as though it is somehow municipal employees’ fault. NCPERS research in California shows that small employers don’t offer them because plans available from the financial firms are too expensive and/or carry too heavy an administrative burden.

Yet he condemns the primary effort to address that quandary – the California Secure Choice Retirement Savings Trust Act. State Sen. Kevin de Leon’s proposal – which became law in 2012 pending a feasibility study – would cost taxpayers nothing, would cost employers the token amount associated with any payroll deduction and carries no administrative burden. It would be financed entirely through private-sector worker contributions.

Most importantly, it would not, as Fletcher erroneously reports, require the state to guarantee an investment return. That return would be modest, and it would be guaranteed through private insurance – so no cost to the state, no risk to taxpayers.

Fletcher dutifully reports that financial services firms don’t like California Secure Choice because “government is intruding on their turf” – and their potential profits.” While he quotes several people from the financial services world, he failed to ask them the important questions: why haven’t they designed a retirement plan that small businesses can afford? Why don’t they actively pursue lower-income private sector workers with individual retirement savings products?

The answer: there’s no appreciable profit in either market. They just don’t want anybody else serving them.

Most damningly, Fletcher overlooks the fact that while public pension plans – like all institutional investors – were hit hard by the Great Recession, the vast majority have made a robust
recovery and are solidly funded. California’s biggest public pension plan, CalPERS, has recovered its entire loss from the recession, benefitting from double digit annual returns on its investments.

The few public pension plans still in trouble typically are in jurisdictions whose legislatures have failed to make their required contributions, even in boom times. San Jose did make its pension contributions. But its pension board significantly reduced the plan’s assumed rate of return, thereby driving up costs. The sharp spike in city payments for “retirement benefits” Fletcher cites is due in significant part to the city’s decision to start prefunding its OPEB – for Other Post-Employment Benefits or, more practically, retiree health care – instead of continuing to fund it on a “pay as you go” basis. Significantly, California’s auditor has found that San Jose Mayor Chuck Reed has used “unsupported” figures to exaggerate his pension cost claims.

Meanwhile, city employees are doing their part – agreeing to a 10 percent pay cut and to start paying seven percent of their wages into the OPEB.

We agree there is a “startling injustice,” but it’s resulted from private sector employers abandoning traditional defined benefit pensions in favor of 401(k)-style defined contribution plans. Defined contribution plans were designed to encourage personal retirement savings in addition to pensions, not instead of them. The sad truth is that many people don’t have access even to defined contribution plans. Of those who do, many do not save enough. And only a precious few have the investing knowledge and acumen to get the most for their money.

Attacking public pension benefits only threatens the security of covered retirees in a race to the bottom. The solution is to make retirement security accessible to all Americans, public and private sectors alike. California Sen. de Leon’s Secure Choice proposal aims to do that in his state. U.S. Sen. Tom Harkin’s USA Retirement Funds proposal aims to do that on a national level. And NCPERS’ own Secure Choice Pension proposal provides a blueprint for states, or groups of states, to do that for their private sector workers.

Enough of the rancor and fingerpointing. It’s time to stop mining our retirement security dilemma for political advantage and get down to the business of solving it. The financial security of our aging population and our nation’s economic wellbeing depend on it.

About NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public sector pension funds, representing more than 550 funds throughout the United States and Canada. It is a unique non-profit network of public trustees, administrators, public officials and investment professionals who collectively manage more than $3 trillion in pension assets. Founded in 1941, NCPERS is the principal trade association working to promote and protect pensions by focusing on advocacy, research and education for the benefit of public sector pension stakeholders.