MESSAGE FROM THE PRESIDENT

President's Message | John Kistler | APR 2015

What do Detroit, San Bernardino, Stockton and Vallejo California all have in common? The governments of these cities have all filed for bankruptcy due to a combination of stalled revenue growth and an extended period of years when expenses kept rising at an unsustainable pace.

“Who are America’s fastest-growing class of millionaires? They are public sector employees and federal bureaucrats, who, unless things change drastically, will be paid something near their full salaries every year – until death – after retirement in their mid-50s. That is equivalent to a retirement sum worth millions of dollars.” (Forbes, 6-28, 2010, p. 21).

The connection between the insolvency of a number of American municipalities and their pension liabilities is direct. It is driven by the fact that most state and local governments provide defined benefit pension plans for their employees. With a defined benefit plan the employees are promised a future payment linked to their salaries. The state or municipality assumes ALL the market risk. This seemed somewhat reasonable when states and municipalities were growing and taking in a steadily increasing amount of tax dollars. But the great recession and a period of stagnant income at best (the middle class hasn’t seen any real increase in income in decades), coupled with dismal market returns during various cyclical downturns, showed the risk that governmental leaders had assumed on behalf of the taxpayers and their use of the “people’s money”.

Unfortunately the problem is not going away anytime soon - for a variety of reasons. One is that most people are living much longer now. A second is that the long bull stock market of the 1980’s and 1990’s is very unlikely to repeat itself. A third problem is that the funding gap is so large. Some estimates put the funding gap for state pensions alone at over $3 trillion. This is due in part because states generally fund benefits as they accrue, while essentially ignoring the actual, much greater, future pension liability issue.

The Taxpayers’ Association certainly does not have the entire solution to the public sector pension problem, but we do know that we do not want Indian River County or its Cities to face the type of problems that San Jose, California, has recently had to deal with. San Jose was the richest major city in the country, a high tech paradise. But roughly over the past decade it has shed 25% of its workforce, including 20% of its police department, mostly to cover soaring retirement costs.

Here at the Taxpayers’ we can however offer some helpful suggestions that may put us on the right path. First, when the private sector was faced with grave financial problems because of its pension liabilities it swiftly moved to defined contribution plans. The public sector should immediately do the same. This should make the second suggestion easier to implement. Make public pensions more portable, thereby treating short and long-term public employees more equitably. Third, make the true costs and generosity of government pensions more transparent. Let the public know just how big the pension liability actually

is and clearly articulate the assumptions behind the stated liability. In other words – The taxpayers can handle the truth and it is the responsibility of their elected representatives to give it to them.

Implementing these suggestions may not immediately solve our public pension problem, but it may help us to better understand it, and therefore put us on the path to a fiscally conservative solution that best serves both our taxpaying citizens and our public sector employees. This further protects future generations who choose to call our beautiful County and Cities "Home". We look forward to working both now and in the future with our local governmental officials in trying to achieve this objective.

John Kistler, President, Taxpayers' Association of Indian River County