

Case #13: Working into the Golden Years

According to Economics professor Robert Clark, the “fundamental reform in public sector pensions”¹ will be an unavoidable task in the next decade. State and local governments have consistently underfunded their pension plans, creating a \$3 trillion shortfall. In fact, the pension deficit of all U.S. states combined is “equal to a quarter of the gross federal debt.”² The need for reform is unquestionably urgent. However, policy makers are divided on how to allocate the burdens of the public pension debt.

Since pensions are a transfer of income from one generation to another, one possible solution would involve higher taxes. In effect, working-age adults would have to take a pay-cut to provide for retired citizens. A second solution would be to “bring all new state...workers into Social Security,” thus ameliorating states’ responsibility for future retirement payouts. The downside of this alternative is that the Social Security system is also facing economic strain. In 2011 it ran a cash deficit—the first time this has happened since 1983.³ This occurrence is a harbinger of the situation that might unfold once the baby-boomers retire and begin to collect Social Security benefits. Given that people are living longer, federal pension schemes might also be underfunded. Another option would involve reducing retirement benefits and/or raising the retirement age to 70. Those skeptical of the latter solution claim that it would unfairly burden “those in physically demanding jobs, those in poor health or in low-income groups whose life expectancy hasn’t gone up much.”⁴ Some of these harms could perhaps be mitigated by offering disability and supplemental income programs.

However, advocates of raising the retirement age face opposition from yet another quarter: in many states, workers’ pension rights are sacrosanct and protected by law.⁵ One such case is that of school teachers in the state of New York, who may retire and begin to collect a lifetime pension of \$60,000 a year at the age of 55.⁶ Given our current life expectancy in the U.S., such a pension scheme needs to be generously funded to pay for, perhaps, a 40-year long retirement.

Opponents of pension reform argue that changing current pension schemes would be not only legally burdensome but also morally problematic. As Democratic Chairman John S. Wisniewski declared regarding proposed changes to pension benefits in New Jersey, “[t]his is a very simple argument: It’s about keeping a promise...; we all learned at a very young age that a promise is a special thing, and when you give your word, you keep your word.”⁷

¹ Chris Farrell, “‘Pension Envy’ Vexes Underfunded Public Workers,” Bloomberg, <http://www.bloomberg.com/news/2011-01-12/pension-envy-vexes-underfunded-public-workers-commentary-by-chris-farrell.html>, January 12, 2011.

² Philip Coggan, “Falling Short,” The Economist, <http://www.economist.com/node/18502013>, April 7, 2011.

³ “70 or Bust!” The Economist, <http://www.economist.com/node/18529505>, April 7, 2011.

⁴ Jeanne Sahadie, “The Red-Hot Debate over Raising the Retirement Age,” CNN Money, http://money.cnn.com/2010/08/02/news/economy/social_security_retirement/index.htm, August 2, 2010.

⁵ “Sharing the Burden,” The Economist, <http://www.economist.com/node/18502041>, April 7, 2011.

⁶ Joel Klein, “Scenes from Class Struggle,” The Atlantic, <http://www.theatlantic.com/magazine/archive/2011/06/the-failure-of-american-schools/8497/> (online title: “The Failure of American Schools”), June 2011.

⁷ Jason Method, “NJ Democrats’ Leader Wants Pension Promises Kept,” Asbury Park Press, reprinted at <http://blogs.app.com/capitolquickies/2011/04/26/wisniewski-wants-millionaires-tax-state-to-find-a-way/>, April 26, 2011.