

Column: Preparing for the 'pension tsunami'

* Mary Z. Connaughton and Charles Chieppo

Moody’s Investors Service estimates that total U.S. state and local government pension unfunded liability will reach $1.75 trillion this year, and the commonwealth is hardly immune from this alarming trend. The Massachusetts Teachers Pension Fund pays out more than $2.6 billion in annual benefits and has barely half the money it needs to meet its long-term obligations. Many of the commonwealth’s more than 100 local pension systems are in a similar condition, and the MBTA Retirement Fund is worse.

This isn’t just a nightmare for the commonwealth, local governments and state taxpayers; more than 10 percent of all adults in Massachusetts are members of these various systems.

Employees were promised that if they performed public service, a significant portion of their overall compensation would come in the form of a defined benefit pension. The deal was that the workers would contribute part of their wages and the commonwealth or local governments would make up the difference between employee contributions and the cost of funding their pensions. That amount would be based on a variety of assumptions, including mortality rates, pension fund investment returns and length of service the workers would provide.

Whether you’re a public employee or retiree, or just a taxpayer, the state of state and local pensions in Massachusetts impacts you, so Pioneer Institute has created a website that will allows people to educate themselves about this critical issue. [Masspensions.com](http://siteencore.com/cnhi/crossvillechronicle/loading.html#rotftwetu=aHR0cHMlM0EvL3QuY28vUXRoYndNTWY4ZQ%3D%3D&ibothsahtrtd=aHR0cCUzQS8vbWFzc3BlbnNpb25zLmNvbS8%3D&shtlp=aHR0cCUzQS8vd3d3LnNhbGVtbmV3cy5jb20vb3Bpbmlvbi9jb2x1bW5zL2NvbHVtbi1wcmVwYXJpbmctZm9yLXRoZS1wZW5zaW9uLXRzdW5hbWkvYXJ0aWNsZV84Mzg3MWM4Ni02ZDA2LTU5ZGYtOTBjYy01ZTgxZGYzZTdlYTIuaHRtbA%3D%3D&otisu=aHR0cCUzQS8vc3RhdGljLmNuaGlvbmxpbmUuY29tL2NuaGkvc2l0ZXMvc2FsZW1uZXdzL2xtcy5odG1s&x=0&y=0&w=1536&h=826&t=14938968937831&tokenID=Q1K0CFD39CWQQURSCHH89IA7436RFLOMEZI&s=c2l0ZWVuY29yZS5jb20%3D) grades systems based on the number of years they have left before achieving full funding. It includes measures like a fund’s assumed rate of return, asset allocation and investment performance based on the most recent publicly available data. It also shows the number of active and retired members in each system.

Because its pension plan won’t be funded until 2031, the City of Salem received a ‘D’ grade on our MassPensions site.

Over time, state and local governments have routinely decided to fund more immediate priorities and failed to live up to their responsibility to adequately fund their pension plans.

Despite the promises made, future government leaders were left to figure out how to fund the pensions. Part of the financial challenge is a result of past liabilities. Many jurisdictions enacted plans to pay down unfunded liability over time, but when things got tight and budgets need to be balanced, they extended the funding schedules or used inflated assumptions in an attempt to mask the problems.

You can revise assumptions based on a higher anticipated rate of return on pension investments, but you can’t make those returns materialize. Similarly, you can push out the time by which a fund is expected to be fully funded, but doing so is like an interest-only mortgage; reducing short-term cash outflow, but costing taxpayers more over time.

Based on the assumptions in place at the time, the average Massachusetts public pension plan was just over 70 percent funded at the end of 2008. Thanks to factors like adopting more realistic investment assumptions, that percentage was barely above 60 percent at the end of 2015. That translates to a collective statewide unfunded liability of over $49 billion — nearly 25 percent more than the commonwealth’s annual budget.

In 2015, public pension plans in Massachusetts spent close to $400 million on management, consulting and custodial fees. Far from a light at the end of the tunnel, there now appears to be a pension tsunami hurtling toward our shores.

As citizens, we must make it known that such imprudence will not be tolerated. Never again should a pension funding schedule be extended - and overall costs dramatically increased - to balance a current operating budget.

As is the case in so many areas, putting off necessary action on public pensions exponentially increases the magnitude of the problem. [Masspensions.com](http://siteencore.com/cnhi/crossvillechronicle/loading.html#rotftwetu=aHR0cHMlM0EvL3QuY28vUXRoYndNTWY4ZQ%3D%3D&ibothsahtrtd=aHR0cCUzQS8vbWFzc3BlbnNpb25zLmNvbS8%3D&shtlp=aHR0cCUzQS8vd3d3LnNhbGVtbmV3cy5jb20vb3Bpbmlvbi9jb2x1bW5zL2NvbHVtbi1wcmVwYXJpbmctZm9yLXRoZS1wZW5zaW9uLXRzdW5hbWkvYXJ0aWNsZV84Mzg3MWM4Ni02ZDA2LTU5ZGYtOTBjYy01ZTgxZGYzZTdlYTIuaHRtbA%3D%3D&otisu=aHR0cCUzQS8vc3RhdGljLmNuaGlvbmxpbmUuY29tL2NuaGkvc2l0ZXMvc2FsZW1uZXdzL2xtcy5odG1s&x=0&y=0&w=1536&h=826&t=14938968937831&tokenID=Q1K0CFD39CWQQURSCHH89IA7436RFLOMEZI&s=c2l0ZWVuY29yZS5jb20%3D) is a tool taxpayers can use to tell their elected leaders that when it comes to this issue, procrastination and the additional costs it creates are no longer acceptable.

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