Devos to Legislature: Time to End School Pensions

September 29, 2016

The Mackinac Center has pushed for years to shut down the state pension system, but pressure has been building. Giving substance to rumors of a push during the next lame duck session, Amway President Doug DeVos announced to attendees at the West Michigan Policy Forum that ending public employees' pension benefits is the No. 1 public policy priority.

Killing pensions and replacing them with 401k-type plans allows investment firms to make billions managing them. Central to this plan is the need to convince the public that the cost of these pension plans is bankrupting cities and states.

This is a nation-wide attack, led by Enron billionaire Tom Arnold, whose Arnold Foundation is flooding right wing think tanks across the nation with funding to do this work. The Enron meltdown cost public pension funds $1.5 billion in losses.

Ramping up for this attack, the Center has published 179 pension articles so far this year, most focusing on the system's underfunding and always recommending only one solution: privatization. Little attention is paid to the cause of this underfunding (the 2007 stock market crash and its very slow recovery). Only "the sky is falling" prose followed by the usual business-enriching recommendations.

MACKINAC CENTER FOR PUBLIC POLICY

State Policies Created School Pension Pain

The only real solution is to close public pensions to new employees

Posted by James M. Hohman on September 29, 2016 at 1:00pm

Pension costs are forcing tough choices on Michigan's school districts. Their problems are caused almost entirely by state policies, so the solution must come from the state.

A Republican bill package (HB 5218 and SB 102) would do this by converting your pension to a 401k-style retirement plan. That means the only thing that is certain about your retirement is that some unknown amount of money would be invested every pay period. What's left when you retire depends entirely what happens in the stock market.

Writing about this, Mackinac Center staffer Anne Schieber said:

In a defined-contribution plan, government would be forced to place those retirement payments immediately into an account that was owned by the employee. Employees and taxpayers would no longer have to cross their fingers that retirement funds will be there in the future.

Never one to let the truth get in the way, Schieber fails to state the obvious: pensions are much more dependable to retirees than 401k plans. If you want to worry about whether you can retire on a specific date, invest your entire retirement in the stock market.

The most likely form these bills will take is [to force only new employees into defined contribution plans]. That would clearly be only a first step, the Mackinac Center would follow through on closing the pension system whenever it can summon the votes.

But this first step serves their ultimate goal: when fewer and fewer employees pay into the system the underfunding grows every year, followed by the inevitable cries to close the entire system.

Converting the state pension system into a defined contribution system is not a new idea. Shifting all the risk to employees has been the objective since Governor Snyder took office in 2011. Within months, he had begun work, starting with new hires in local government, as well as state employees. In 2012 he moved on to school employees.

But there was a problem, a big problem. Thanks to years of underfunding; the 2008 economic crises and its slow recovery; and the growth of on-line and charter schools resulting in fewer and fewer people paying into the system (not an accidental result); the MPSERS unfunded liability has grown.

Again, this is a good thing if you're trying to privatize the whole thing: As MIT Professor Noam Chomsky said:

That's the standard technique of privatization: defund, make sure things don't work, people get angry, and hand it over to private capital.

Years ago, the legislature hired an outside consulting firm, The Segal Group, to:

> … evaluate the existing Hybrid plan and the impact of implementing a defined contribution plan for all new hires.

The results were not pretty. Segal found:

> ➤ The MPSERS Legacy plan unfunded accrued liability must addressed. Currently, the unfunded liability is being amortized over a 25-year period. If the existing plan were closed to new members, with new hires entering the DC plan, the closed group's active payroll would decrease resulting in the need to accelerate contributions. This study projects the required employer contribution for transition costs to be approximately $4.5 billion over the first ten years (see Chart 9).

The Mackinac Center has to move quickly. As the economy recovers and the stock market with it, the MPSERS unfunded liability crisis will begin to subside, and with it, the sky-is-falling need to convert.

Read the entire study yourself: