Opinion: Cracks in the state’s public pension and health care funds

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IN THE FORTHCOMING debate over revisions in New Jersey’s public pension and health care package, at least one outcome seems assured — those enrolled in the program will be required to make a greater contribution toward their retirement benefits and pay a larger share of their medical-insurance premiums.

While the recommendations made by Governor Christie and Senate President Steven Sweeney differ in several respects, the central point in both recognizes clearly that an increase in employee contributions is imperative to prevent the system from slipping into insolvency.

The pension system is slowly being crushed under the weight of an unfunded liability of $50 billion to $100 billion — depending on whose estimate is believed — while the expense of providing health insurance consumes a greater chunk of government budgets with each passing year.

The ripple effect produced by the precarious state of the pension system was felt two weeks ago when Standard & Poor’s reduced the state’s credit rating a notch, citing as its principle reason the system’s massive unfunded liability. Both the governor and the Democratic leadership were quick to blame one another for the rating agency’s decision, Christie arguing that it was the result of the Legislature’s failure to act expeditiously on his reform agenda and Democrats contending the administration’s failure to make a contribution to the fund last year was at fault.

While there are significant points of conflict between the governor’s and the Democratic leader’s reform agendas, the willingness of both to engage in serious debate over a benefits system clearly in deep trouble is the first step toward reaching compromise.
**Frame of reference**

Christie, who designated pension overhaul one of the three high-priority issues in his State of the State speech, also established the frame of reference for the debate, saying his goal was to rescue the beleaguered system and ensure its stability so it would be able to continue to provide full benefits for current retirees and solidify the financial future for the existing work force.

Gone was the familiar overheated rhetoric bashing public employee unions as greedy obstructionists standing in the way of reform, replaced by a more sympathetic governor concerned about the well-being of government employees and committed to guaranteeing they can rely on their pension benefits upon retirement.

His reforms — an increase in retirement age to 65 from the current 60, raising employee contributions from the existing 5 percent to 8.5 percent of salary, and eliminating automatic cost of living increases chief among them — are crucial, he said, because without them retirees, present and future, will be left with nothing to draw upon.

While Sweeney’s proposal anticipates an increase in employee support, it gives greater voice and responsibility to unions in administering the system and managing its investments. It bases the level of contributions on the fiscal condition of the system and requires employees to pay more to continue to receive a 9 percent benefits increase granted several years ago. Christie’s plan would roll back the increase.

One potential staredown between the two could materialize as early as Tuesday when the governor delivers his budget message to the Legislature. Sweeney has insisted that the administration, as a sign of good faith, appropriate some $550 million as its payment into the fund, while Christie has maintained he will not put money into the system until major reforms are enacted.

**Crafting compromises**

Sweeney has become increasingly sure-footed as his party’s leader in the Legislature, crafting compromises with the governor on such issues as the cap on property-tax-rate increases, major revisions in the binding...
arbitration system to settle contract disputes, and providing greater state involvement in efforts to reinvigorate the casino industry in Atlantic City.

He’s guaranteed that the high-profile successes the governor has achieved will have a Democratic imprint on them, especially heading into the 2011 legislative election season.

At the same time, he hasn’t hesitated to bump heads with the governor over such issues as job creation and economic growth, and taxes on high-income residents.

He’s demonstrated his willingness to take on public employee unions despite the risk of alienating a voting bloc that has been a consistent financial and ballot box supporter of Democratic candidates.

His personal lengthy background in organized labor has enhanced his credibility in matters involving public employee benefits by creating the impression that if he perceives a problem in need of attention, the problem must be a valid one.

In any attempt to come to grips effectively with the pension system crisis, there will be renewed criticism of state government’s failure to live up to its obligations over the years by withholding its annual contributions to the system.

That the state has ignored its responsibility to support the pension fund is undeniable and the anger and frustration expressed by union leaders over that failure is thoroughly understandable.

**Government’s failure, not employees**

Employees, the unions properly point out, faithfully made their contributions year after year; the crisis now faced is a direct result of government’s failures, not theirs.

Valid as this criticism is, harsh reality has arrived in the form of a pension system teetering on the edge of bankruptcy. Assigning blame for past sins accomplishes little toward curing current woes.

The pieces are in place for a compromise and there is in the air a desire to cooperate to achieve significant reforms and rescue a deeply distressed benefits system.
There will most certainly be a cost involved and it will be necessary for the governor and Sweeney — as leaders in the effort — to convince everyone with a stake in the outcome that the cost is well worth the eventual result.