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Governors target state pension funds

Such desperate moves will do nothing to stave off bankruptcy, as the case of New York City shows.

The deepening of the Bush depression is creating gaping state budget deficits, at the same time that federal budget cuts are placing greater demands on state governments to provide essential services. Governors, under extraordinary pressure to find new sources of income, have begun looting public employee pension funds to cover deficits. With almost a trillion dollars in these funds, and little political backlash thus far from state employees, the funds are a tempting target.

State officials have watched takeover firms, such as Kohlberg Kravis and Roberts (KKR), help themselves to money from state pensions since 1982. The largest leveraged buyout in history, the $26 billion takeover by KKR of RJR/Nabisco, was backed by a KKR fund flush with more than $3 billion from 11 state pension funds. Governors and their advisers, impressed by the ease with which KKR took the funds, are lining up to get their share.

While states might gain some desperately needed short-term liquidity from the funds, such actions threaten to rob retirees of their futures, especially since many state pensions are underfunded at present. Recent reports show that state and local funds are now carrying $180 billion in unfunded liabilities!

Still, more than one-third of the states have already dipped into pension funds, cut or postponed their contributions, or are devising plans to do so.

For example, Gov. Pete Wilson of California took $1.6 billion from the California Public Employees Retirement System in 1991 to reduce a $14 billion state budget deficit.

In Maine, $27 million was taken by the state from the pension fund, which is 50% underfunded.

Republican Gov. Jim Edgar of Illinois, with backing from the state legislature, took $21 million from five state pension funds. This seizure in Illinois is especially reckless, as its system is 40% underfunded. Though the legislature voted in 1989 to make up the shortfall by 1996, employer contributions (i.e., from the state) since then have fallen short by another $500 million. Not only is Edgar taking money from existing pension funds, he is also cutting back on the state's annual contribution to the fund.

Other states are taking a similar approach. The Vermont legislature shortchanged its retirement system by $18 million in 1991. The state of Texas will withhold $85 million from the teacher retirement system in 1992-93, according to a recent article in *Fortune* magazine. This will increase the unfunded liability of the teacher pension fund to almost $4 billion.

New York State withheld a total of $850 million of contributions in 1990 to teacher pension funds. These "savings" come from a bill passed by the state legislature, under Gov. Mario Cuomo's guidance, which changed the funding procedures of the state, redefining pension reserves as surplus. Cuomo argues that, since it is in the interests of state employees that the economic health of the state improve, it is sensible to take money previously earmarked for retirement funds and use it to build prisons, roads—or, to cut the budget deficit. Cuomo has even proposed that this policy be adopted on the national level.

This idea is not entirely without merit. In a healthy, growing economy, pension funds could be invested in areas of the economy which would assure continued growth, strengthening the economy as well as providing a steadily accumulating fund for future retirees.

However, under present depression conditions, money which is either seized from pension funds or available by skipping scheduled payments to the funds, will find its way into deficit reduction, precisely as the Social Security Fund and the Highway Fund have been misused by the Reagan and Bush administrations.

It is impossible to save governments from bankruptcy by looting pension funds, as was proven by the "Big MAC" plan, hatched by New York City bankers at the time of the city's bankruptcy in 1975. A bankers' dictatorship was established, the Municipal Assistance Corp. (MAC).

Though the city budget was slashed and services cut to convince lenders to buy MAC bonds, the bankers claimed they could not sell them without additional sacrifices from the unions. City workers were forced to give more from take-home pay to the pension funds, while the share the city paid was cut. Then, unions were required to invest 40% of their pension fund assets into MAC bonds.

MAC laid off 25,000 city workers, including police, firemen, sanitation workers, and hospital employees. By these measures, the value of the MAC bonds was protected, and the city was eventually declared solvent. In the process, the city was turned into a hellhole.

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