The Future of Public Employee Retirement Systems

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Chapter 16

The New Intersection on the Road to Retirement: Public Pensions, Economics, Perceptions, Politics, and Interest Groups

Beth Almeida, Kelly Kenneally, and David Madland

US state and local pension plans have served as the cornerstone of retirement security for generations of teachers, police officers, firefighters, and other public servants for the last century. State and local governments continue to offer secure pension benefits to some 20 million workers and retirees, or 12 percent of the nation's workforce. As a group, these systems offer a cost-effective way to recruit, retain, and retire the workforce needed to deliver essential public services. But despite the strengths of the system, opposition to state and local pensions has emerged in recent years. Legislatures in several states including Alaska, California, Colorado, and Utah, have considered proposals that would drastically change how public employee retirement systems function. This chapter considers the question of how perceptions, politics, and interest groups—rather than sound economic and policy analyses—are shaping public pensions.

We begin with an overview of how state and local pension systems ensure retirement income adequacy for public employees and discuss how these systems are financed. We contrast the successful model of state and local pension systems with trends in the private sector toward increasing insecurity in retirement. We then turn to a discussion of how the public views pensions and the factors that drive public opinion on this issue. Finally, we examine the role that politics and ideological interest groups are playing in state policymaking and the overall public pension debate.

Public pensions and retirement living standards

Retirement security trends in the United States are troubling. Retirement plan coverage is declining in the private sector, personal savings are nonexistent for most households, and six in 10 Americans are at risk of being unable to sustain their standard of living in retirement (Purcell 2007; Bureau of Economic Analysis 2008; Munnell et al. 2008*b*). But in the midst of this gloomy picture, there is a beacon of light: employees in the public sector are generally well positioned for a secure retirement, and state and local retirement systems stand out as a notable success story.

Traditionally, state and local employees are very likely to have access to at least one retirement plan at work and their primary plan is almost always a defined benefit (DB) pension plan. Three-quarters of state and local employees have a retirement plan, and of these, the majority, 86 percent, were covered by a DB plan in 2004 (Munnell, Haverstick, and Soto 2007). In a typical public sector DB plan, employees earn a benefit based on years of service and career-end salary (usually an average of the final three years' salary). The median benefit for Social Security-eligible public employees is 1.85 percent for each year of service. This means that after working 30 years, an employee would be eligible for a pension that would replace 55.5 percent of final earnings—an amount that, when added to Social Security and private saving, should meet generally-recognized standards of retirement income adequacy.[1] It is important to note that about one-fourth of state and local employees do not participate in Social Security. For these groups, the median pension formula is higher—2.2 percent per year of service—which provides a benefit equal to 66 percent of final earnings after 30 years (Brainard 2007).

Almost all state and local employees also have the opportunity to participate in defined contribution (DC) plans, which in the public sector are known as 457(b) plans and/or 403(b) plans. Most states that offer a DB plan also offer a voluntary DC plan as a supplement, but participation rates tend to be low (GAO 2007*a*). For example, just 6 percent of state and local employees participated in both a DB plan and a supplemental DC plan in 2004 (Munnell, Haverstick, and Soto 2007). Low rates of voluntary participation could reflect the fact that public employees typically make substantial contributions to their DB plans, a fact which will be discussed further in the following text.

In a DC plan, benefits in retirement will depend on various factors including the amount contributed by employer and employee; the length of time funds remain in the account; whether funds are withdrawn; the amount of investment earnings; and the fees charged to the account. In a typical DC plan, there is a high degree of employee direction. The employee must decide how much to contribute (if at all), how to invest the funds, and how to make changes to these factors over time. Well-designed DC plans can be helpful supplements to DB plans, as they allow employees to save additional funds for retirement on a tax-advantaged basis that is in line with their own unique needs and circumstances. But DC plans can be problematic when they serve as the primary retirement vehicle, since workers generally fail to save enough, make poor asset allocation and investment decisions, cash out their accounts when they change jobs, and are reluctant to annuitize retirement wealth accumulated, even when doing so could enhance their well-being (Mitchell and Utkus 2004; GAO 2007*b*).

The state of Nebraska is a high-profile example of a public sector employer that for more than three decades offered a DC plan as the primary retirement plan to a large number of public employees, while it offered other state employees a DB plan. Yet that state found that the DC plan was not adequate to ensure that all workers would have sufficient retirement income, so in 2003 it established a new cash-balance DB plan for employees who otherwise would have had to rely only on the DC. This was done after concluding: 'We have had over 35 years to "test" this experiment and find generally that our defined contribution plan members retire with lower benefits than their defined benefit plan counterparts' (House Committee on Pensions and Investments 2000: 32). These and other research findings suggest that DB plans are a key component of a retirement system that seeks to ensure that employees will have sufficient assets to meet their needs in retirement (Engen, Gale, and Uccello 2005; Munnell, Webb, and Delorme 2006).

Because of their widespread access to DB plans (and in many cases, supplemental DC plans), most workers in state and local government have a good chance to earn retirement benefits that allow them to maintain a middle-class standard of living even after they stop working.[2] Retirement assets per worker in public sector retirement plans are more than two times greater than those in private sector plans (Munnell, Haverstick, and Soto 2007). The median public sector retiree receives a benefit of $22,000 per year. This amount, when combined with other reserves such as Social Security and/or private savings, provides middle-class teachers, public safety workers, and other public workers with the ability to maintain their living standards in retirement (McDonald 2008).

Public pension plans are a fiscally responsible way to finance retirement

The financing of state and local pensions is a shared responsibility between the employer (taxpayer) and employees. This is a key difference between DB plans in the public sector as compared to the private sector. In the private sector, the financing of promised benefits is typically the sole responsibility of the employer. Social Security-eligible public sector employees typically contribute 5 percent of pay to their pension plans, while non-Social Security eligible employees contribute 8.5 percent (Brainard 2009).

This model of cost-sharing is viewed positively by taxpayers, according to public opinion surveys to be discussed in the following text.

State and local pension DB plans tend to be funded rather than financed on a pay-as-you-go basis. Employer and employee contributions to these public pension plans are pooled in a trust and invested. The earnings on these investments help finance the benefits which eventually are paid out (Steffen 2001). In fact, investment earnings pay for the greatest share of benefits earned in public sector DB plans. Over the past decade, almost three-fourths of the funds that have flowed into state and local pension plans have been investment earnings. Only about one-fifth came from employer (taxpayer) contributions, and the remainder came from employee contributions (authors' calculation based on data from US Census Bureau 1996–2006).

Because of their group nature, public sector DB plans create significant economies for taxpayers and employees. Investment decisions in these plans are made by professionals, whose activities are overseen by trustees or other fiduciaries. This is in contrast to most DC plans where individuals often make poor investment decisions, where their inertia subjects their portfolios to acute imbalance, or at the other extreme, where engagement in excessive trading results in 'buying high and selling low' (Mitchell and Utkus 2004; Munnell and Sunden 2004). By contrast, public pension plan managers follow a long-term investment strategy (Weller and Wenger 2008). By pooling assets, DB plans can drive down administrative costs and reduce asset management and other fees (Hustead 2009). Asset management fees average just 25 basis points for public pension plans. By comparison, asset management fees for private 401(k) plans range from 60 to 170 basis points (Munnell, Haverstick, and Soto 2007). Because of these two effects, professional investment management and lower fees, it should not be surprising that professionally managed DB plans consistently outperform individually managed DC plans. One widely-cited estimate puts the difference in annual return at 0.8 percent (Munnell and Sunden 2004). Over a 30-year time period, this would compound to a 25 percent difference in total return.

DB plans create additional economies for participants and plan sponsors by pooling mortality and other risks. Mortality risk refers to the fact that an individual does not know his ultimate life span, which makes it extremely difficult to know exactly how much is needed to be certain that one will not outlive those savings. In a system of individual accounts, each person must accumulate enough saving to last for the maximum lifespan. By pooling the mortality risks of large numbers of people, DB plans need only accumulate assets sufficient to fund the *average* life expectancy. Thus, a DB plan will require fewer assets to be accumulated than a comparable DC plan, reducing costs by 15 percent to 35 percent (Fuerst 2004).[3] By combining the effects of professional management, lower fees, and risk pooling, actuaries have determined that DB plans are much more efficient than DC plans and that they provide pension benefits at a far lower cost (Fuerst 2004; Waring and Siegel 2007). Thus, to the extent that public retirement systems are supported (at least partially) by taxpayer funds, a DB plan design supports the goal of fiscal responsibility (Hustead 2009).

Despite their financial advantages, state and local DB plans have attracted attention from policymakers, researchers, the media, and others in recent years, because average funding levels had been on the decline, and in some cases, because of rising contribution requirements (GAO 2007*a*). As we will discuss in greater detail, DB plan funding levels have become a central focus of interest groups and others who seek to replace these plans with DC plans. Clearly, DB plans' funded status tends to ebb and flow over time with the ups and downs of asset markets, interest rates, and other macroeconomic factors. The funded status—the ratio of existing plan assets to the totality of current and future benefits—of state and local DB plans fell in the wake of the downturn in asset markets at the beginning of the 2000 decade, just as it did for DB plans in the private sector and other institutional investors. Prior to the downturn, public sector plans as a group had reported being fully funded (Brainard 2004). Of course there were exceptions to this general rule; a Government Accountability Office (GAO 2008) study reported that while most plans were soundly funded, 'a few have been persistently underfunded.' It concluded, 'Governments can gradually recover from these [stock market] losses. However, the failure of some to consistently make the annual required contributions undermines that progress and is cause for concern . . . ' (GAO 2008: 26). In other words, regardless of the type of plan (DB or DC), if a plan sponsor postpones paying for it, the bill will grow and become more expensive to pay when it finally comes due.

For a solvent public plan sponsor, it may be neither critical nor particularly important for the DB pension to be constantly 'fully funded.' This is because a DB pension has a long time horizon, since benefits earned by participants in the plan do not have to be paid immediately. As a result, many DB plans take the long view, especially for public DB plans because they are backed by government entities that (unlike private corporations) have a very low risk of insolvency. In this instance, periodic swings in the plan's funded status can be viewed as a normal and expected feature. Cyclical downturns tend to be followed by improvements in asset markets, a phenomenon that economists describe as 'mean reversion' (Poterba and Summers 1988). Indeed, as asset returns have recovered and contributions increased in recent years, the average public plan's funded status has improved. In fiscal year 2006, for instance, the average plan was 85.8

percent funded (Brainard 2007). The GAO reports that 'a funded ratio of 80 percent or more is within the range that many public sector experts, union officials, and advocates view as a healthy pension system' (GAO 2007*a*: 35).

Proper funding may be harder to achieve in defined contribution plans

Some argue that the routine swings in funding that DB plans experience create untenable volatility in contributions for plan sponsors, but this is not necessarily the case. Disciplined funding practices and rules that reflect the going concern nature of DB pension plans can reduce the funding volatility of a pension plan, especially for public sector plans (Weller and Baker 2005; Weller, Price, and Margolis 2006; Giertz and Papke 2007). DC plan advocates also claim that because of the nature of the employer commitment in a DC plan (the employer simply commits to making a contribution rather than promising a certain benefit), such plans are always 'fully funded.' However, it is important to recognize that 'underfunding' *can and does* exist in a DC system, but it takes a different form. That is, when individuals compare the actual level of assets in their DC plan to what would be required to support an adequate retirement, they may find that their retirement needs are seriously underfunded.

From this perspective, the level of underfunding in DC plans is striking. According to the GAO, workers age 55–64 had a median account balance of $50,000 in 2004. If this were converted into an annuity at age 65, such an amount would provide an income of only $4,400 per year (GAO 2007*b*). Moreover, the GAO identified gaps in workers' ability to accumulate adequate retirement assets in DC plans, gaps that do not exist to the same degree with DB plans where participation typically is mandatory. That report concluded: 'DC plans can provide a meaningful contribution to retirement security for some workers but may not ensure the retirement security of lower-income workers' (GAO 2007*b*: 2).

This GAO 401(k) plan study stands in stark contrast to the agency's recent study of public sector DB plans, which concluded that the latter are generally on track to being fully funded. GAO found that the projected fiscal impact of fully funding pension obligations will be modest, so that state and local governments will be able to meet their future commitments with just a modicum of effort: 'Estimated future pension costs (currently about 9 percent of employee pay) would require an increase in annual government contribution rates of less than a half percent' (GAO 2007*a*: 2).

To fill the gap in retirement wealth for DC plans, most researchers estimate substantially larger increases in contribution rates would be required (VanDerhei 2006).

How the public perceives pension plans

Despite the health of public sector DB plans, legislatures in several states including Alaska, California, Colorado, and Utah, have recently considered whether to transition from a DB to a DC-only system. This may be because public policy debates can be driven by perceptions, politics, and interest groups rather than economic factors. We turn next to an evaluation of public opinion on the merits of DB plans compared to DC plans. As we shall show, the public's knowledge base is low; the public is divided about which one of the two systems is better; and judgments about the merits of one type of plan over the other are driven largely by ideological concerns and self-interest.

Low Knowledge Base. The US public does not know much about different types of pension plans. One survey showed that 40 percent of respondents said they have little knowledge of either 401(k) plans or DB plans (Hart Research Associates 2006). Workers also know relatively little about their own retirement plans (Mitchell 1988; Gustman and Steinmeier 1989; Reynolds, Ridley, and Van Horn 2005; Lusardi 2007). Further, a substantial minority of people will not even venture a guess as to the type of plan in place (Reynolds, Ridley, and Van Horn 2005). Perhaps the most striking evidence of the low level of knowledge is that only half of older workers could correctly identify whether they had a DB, DC, or combination plan (Gustman and Steinmeier 2004). As a result, expressed opinions about different types of pension plans should be seen against the very low level of information for most members of the public.

Public Opinion Divided on the Relative Merits of DB and DC. Little research exists about the public's preferences for DB or DC plans (Madland 2007). Available research indicates that, if forced to choose, people are evenly split about the merits of each type of plan. For example, in two nationally representative surveys, one found a slight preference for DBs but the other found a slight preference for DCs. (The question wording appears to explain the difference in the results.) A June 2005 Heldrich Center for Workforce Development at Rutgers University survey (Reynolds, Ridley, and Van Horn 2005) of 800 people currently in the workforce asked whether workers would prefer to receive their retirement benefits 'based on salary and years of service' or based on 'how much money is in the account.' A slight majority (51%) said they would prefer to receive retirement benefits based on salary and years of service, while 37 percent would prefer to do so based on how much is in the account, with 11 percent unable or unwilling to answer. A 2006 survey of 804 registered voters conducted by Hart Research Associates (2006) asked: 'Which is generally the better overall kind of retirement plan for workers—a pension plan or a 401(k)-type saving plan?' A slight majority (52%) answered that a 401(k) is better for workers, while 33 percent said a pension plan is better, with 15 percent unsure or unable to decide. This latter survey also asked what type of retirement plan public employees should have. Results are similarly divided. When asked about 'proposed change from pensions to 401(k)s for public employees,' 47 percent of voters strongly or somewhat opposed the plan, 44 percent of voters strongly or somewhat favored the proposal, and 9 percent said they were unsure.

Public Opinion Driven by Ideology and Self-Interest. Why people prefer one type of retirement plan over another is likely guided by the same forces that drive public opinion on a range of other economic policies: ideology and self-interest. Public opinion research commonly (although not always) finds that self-interest shapes how people think about economic policy questions (Cook and Barret 1992; Hasenfeld and Rafferty 1989; Ponza et al. 1989; Blekesaune and Quadagno 2003). If people believe that a policy will personally benefit them, they are more likely to support it. As a result, we should expect that, for example, government employees would be more likely to oppose switching public DB to DC plans. In fact, public employees should be especially likely to support DB plans because unions and other organizations communicate with them about the benefits of keeping such plans in the face of policy proposals to switch to DC plans. When organizations publicize issues, they prime people to think about the personal costs and benefits of an issue, making it more likely that people recognize their own self-interest and take action (Chong, Citrin, and Conley 2001).

Demographic factors such as age, income, and education, also help determine whether people believe that a given policy is in their self-interest and thus these factors also affect their policy preferences (Hasenfeld and Rafferty 1989; Ponza et al. 1989; Cook and Barret 1992; Blekesaune and Quadagno 2003). Ideology also is often theoretically and empirically linked to policy preferences (Hartz 1955; Schlozman and Verba 1979; McClosky and Zaller 1984; Feldman and Zaller 1992; Hasenfeld and Rafferty 1989; Cook and Barret 1992; Blekesaune and Quadagno 2003; Madland 2007). Americans tend not to have fully-fledged ideologies where every issue position matches a basic principle, and they tend to be rather ambivalent about their ideological leanings (Converse 1962; Free and Cantril 1968; Feldman and Zaller 1992; Hochschild 1981; Madland 2007). Nevertheless, Americans do have ideological leanings toward an individualistic, self-reliant ethic (Hartz 1955; Schlozman and Verba 1979), especially when compared to people in other countries. For example, surveys find that people of other nationalities are more likely to believe the government is responsible for providing a secure retirement, while Americans tend to believe they are personally responsible. A recent American Association of Retired People (AARP) poll found that half of all Americans believe individuals are responsible for themselves in retirement, compared to fewer than 40 percent of British and Germans, and fewer than 20 percent of French and Italians (AARP 2005).

While Americans may be more individualistic than other nationalities, they are not totally opposed to more collective solutions for retirement, supporting a division of responsibility between individuals, government, and employers for retirement savings. When asked in the 2005 Heldrich poll (Reynolds, Ridley, and Van Horn 2005): 'Who do you think should be primarily responsible for helping workers prepare for retirement? Workers, employers or the government?' some 39 percent of those surveyed said workers, 25 percent said employers, and 18 percent said government. Seventeen percent volunteered that all three should be responsible.

A related question in the 2006 Hart poll found similar results. The Hart survey asked: 'Do you personally think that being able to retire with financial security is a right that society should protect for all working people, or a personal goal that people are responsible for achieving on their own?' Forty seven percent of voters answered that retirement is 'a personal goal that people are responsible for achieving on their own,' while 39 percent answered that 'being able to retire with financial security' is a 'right for all working people.' Eleven percent of people surveyed answered 'both'—a choice that respondents had to volunteer on their own.

Ideological leanings would also seem likely to shape people's preferences for DB or DC plans. People who believe that the right way to live in retirement is to depend upon themselves rather than the government or the employer would be predicted to prefer DC over DB plans. A quick comparison of ideology and pension plan preference supports this expectation, and it shows that people who think individuals should be responsible for their own retirement are about 50 percent more likely to prefer DC plans than people whose ideology is not as individualistic.[4]

The expectation that ideology and self-interest influence how people think about DC and DB plans is tested more rigorously in the three regression models presented in Table 16.1 in the following text, using data from the Reynolds, Ridley, and Van Horn (2005) and Hart Research Associates (2006) public opinion surveys. Both surveys were nationally representative. The explanatory variables in each model include age, sex, education, income, union status, employment sector (public or private), the type of retirement plan a person has, and indicators of ideology and political party. Women appear to prefer interventions in the economy (Alvarez and McCaffery 2003) and thus are expected to be more supportive of DB

Table 16-1 Empirical determinants of the public's self-reported preferences for plan type and plan features

	Model Specification 1 Dependent Variable: Support for switching to 401(k) for public employees	*Model Specification 2 Dependent Variable: Preference for a 401(k)-type savings plan*	*Model Specification 3 Dependent Variable: Preference for receiving benefits based on account balance.*
	Coefficient	Coefficient	Coefficient
(Constant)	2.538	0.106	0.020
	(0.243)	(0.540)	(0.152)
Age	0.015	0.032	0.004
	(0.020)	(0.048)	(0.023)
Female	−0.259***	0.033	−0.026
	(0.106)	(0.245)	(0.052)
Education	−0.057	−0.042	0.015
	(0.039)	(0.088)	(0.026)
Income	−0.024	0.039	0.061***
	(0.030)	(0.069)	(0.019)
Union member	0.057	−0.136	−0.141**
	(0.150)	(0.324)	(0.072)
Public employee	−0.396***	−0.501**	−0.124**
	(0.125)	(0.275)	(0.068)
Have 401(k)	0.077	−0.048	0.131*
	(0.124)	(0.296)	(0.095)
Have DB pension	−0.018	−0.926***	−0.327***
	(0.154)	(0.347)	(0.103)
Individualistic ideology	0.201***	0.226**	0.079*
	(0.059)	(0.134)	(0.053)
Republican party support	−0.024	0.096	0.033
	(0.036)	(0.084)	(0.030)
	n=387	n=341	n=287

Notes: Reference category is not having a 401(k) or DB. Significance listed based on one-tailed tests.
* significant at greater than .1
** significant at greater than .05
*** significant at greater than .01

Sources: Authors' analysis of data from Hart Research Associates (2005 and 2006).

pensions. For partisan identification, a concept closely interrelated with ideology, people who identify with the Republican Party are less likely to support economic intervention and thus would be expected to be less supportive of DB pensions (Hasenfeld and Rafferty 1989; Cook and Barret 1992). Members of labor unions are more likely to support policies to ameliorate perceived flaws in the market, both because of their group interest as well as the greater likelihood that union leadership has framed the issue and communicated it to them (Nelson and Kinder 1996; Glasgow 2005). Finally, people's own experience with a DB or DC plan may shape their preferences, with people tending to support the kind of plan they have because they are more familiar with it. The dependent variables measure people's preferences for DB or DC plans for themselves and government employees, as described earlier.

The results indicate that ideology and self-interest are very strong predictors of people's opinions about DC and DB plans. People who believe in an individualistic ideology are much more likely to support DC plans, while people who work in the public sector are less likely to do so. In fact, these two variables—individualistic ideology and working in the public sector—are the only variables that are statistically significant in all three models. The result that ideology and self-interest drive public opinion about retirement plans is robust and holds up in alternative specifications. All other variables that are statistically significant in any of the models—such as women opposing changing public employee pensions to 401(k) plans—are in the predicted direction.

These results suggest that where voters and policymakers are predisposed to a particular ideological viewpoint, they may be swayed as much by political considerations as economic ones when it comes to making decisions about the ideal design of public pensions. Next, we turn to examine how political forces have played out in recent debates about the future of public pensions.

The role of politics and interest groups in the public sector DB debate

Given that there does not appear to be a groundswell of public concern about DB plans, and taking into account the public's lukewarm impressions on retirement plan design, an obvious question arises: Why have public sector DB plans become a political battleground in some states? One explanation is that partisan politics may play a role. Another explanation is that interest groups ideologically predisposed to more individualistic approaches to retirement may have been able to generate enough political momentum to raise the design of public sector pension plans as a public policy issue, despite the overall sound financial footing of public pensions. In this section, we first explore the issue of partisan views on retirement policy. We then provide an overview of some key interest groups that have focused on public pensions and highlight their role in recent state initiatives to convert public sector DB plans to DC plans.

Partisanship and Pensions. There is evidence that politics has been a key factor in recent debates on public sector DB plans. Munnell et al. (2008*a*) statistically examine the question of why some states have adopted DC plans as a primary plan, while others have not. They find that Republican control of the governorship and the state legislature is the greatest single predictor of whether a state made the switch to a DC plan. Other influential factors included union presence and sizeable employee pension contributions, both of which tended to reduce the likelihood of DC adoption. Surprisingly, other factors like lack of Social Security coverage and the plan's funded status did not have a statistically significant effect on whether a plan made a switch to DC. This finding is reinforced in the case studies presented in the following text. In Utah, California, and Alaska, the pension systems were all more than 80 percent funded, yet proposals were made (and in Alaska, adopted) to convert the system to a DC plan.

One explanation for these findings is that Republicans typically support DC plans because employees control the investments. DC plans are consistent with that party's political philosophy of individual responsibility for retirement savings. Thus, when Republicans are in control, changes or attempts at changing the nature of public pensions have been seen (Munnell et al. 2008*a*). However, the results from our analysis of opinion research indicate a paradox; individual Republicans are no more likely to support a switch to DC, after controlling for other factors (see Figure 16.1).

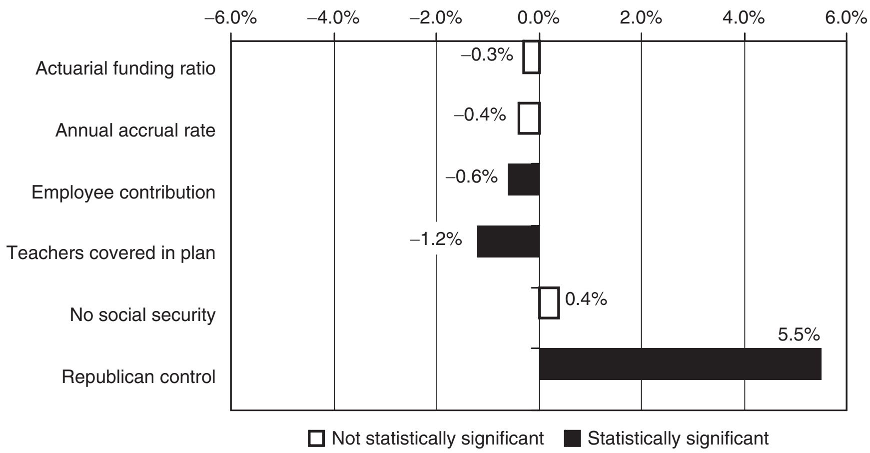

Figure 16-1 Effect of various factors on the probability of introducing a defined contribution plan. *Source*: Adapted from Munnell et al. (2008*a*).

Interest Groups and the Public Sector DB Debate. Another factor that has received less attention from researchers is the role of interest groups in advocating for changes to public pension systems. An interest group can be defined as an organized body of individuals sharing goals and who try to influence public policy (Berry 1989).

Throughout American history, interest groups have played a role in American politics. During the New Deal, the role of business interest groups was seen to influence policies that led to the formation of regulatory agencies. More recently it has been suggested that interest groups are growing too strong: one study showed the number of new interest groups grew 30 percent from 1960–80 (Berry 1989). Another study found a similar pattern, showing that 40 percent of interest groups were founded after 1960 and 25 percent after 1970 (Berry 1989). Both surveys showed that citizen groups were likely to have formed recently and confirmed that the increase is not a function of exaggerated rhetoric about the perils of modern interest groups.

Today's interest groups engage in a wide variety of activities. They may lobby branches of government at the local, state, or federal level. They also may seek to educate the American public or policymakers about issues, but they typically present only their side of an issue, offering facts and interpretations most favorable to their position. They are also active in agenda building: that is, interest groups frequently are responsible for bringing attention to their issue or position. These groups are consistent in pushing government to develop policies that, while advantageous to their own small constituency, do not benefit the broader public (Berry 1989).

In recent years, national and state-based interest groups have become key players in challenging the continuation of public sector DB plans and advocating a switch to DC plans. Tom Lussier, a former Massachusetts state legislator and pension system executive director, provided insight on the evolution of interest group involvement in public pensions. He indicated that, prior to the 1980s, state and local pensions were not on the radar screen of interest groups. But as public DB plans began investing in equities and the assets began to grow significantly, the plans became a target of interest groups active in pursuing anti-tax, free market, and individual responsibility/savings philosophies. These philosophies often did not take into consideration the economic benefits and efficiencies of public pensions (Lussier 2008).

The agenda pursued by these anti-tax, free market groups is perhaps best summed up by Grover Norquist, of the interest group Americans for Tax Reform (ATR). He said of public sector DB plans, 'just 115 people control $1 trillion in these funds. We want to take that power and destroy it' (Dreyfuss 2001: 16). Norquist and his group view public DB pensions as a battleground issue and they have actively planned state-by-state campaigns

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to dismantle public pension plans (Dreyfuss 2001). In recent years, like-minded groups including the American Legislative Exchange Council, Americans for Prosperity, the Club for Growth, the Manhattan Institute, and the Reason Foundation have sought to influence public opinion with reports, briefing papers, opinion pieces, and model legislation advocating DC over DB plans.

American Legislative Exchange Council. Founded in 1973, the American Legislative Exchange Council (ALEC) is a membership association for conservative state lawmakers who share 'a common belief in limited government, free markets, federalism, and individual liberty' (ALEC 2008*a*: 5). The organization generates research, policy papers and model legislation covering various issues before state governments.

In 2000, ALEC published an issue paper which argued that public employees should have access to 401(k) plans (Lathrop and Singer 2000). The paper did not acknowledge that access to DC plans was already widespread for state and local employees. Additionally, ALEC offered model legislation to state legislators promoting DC plans for public employees as a replacement for DB pensions (ALEC 2008*b*). This model legislation was introduced in Florida in 2000; though it was not adopted, the Florida legislature did enact a DC option for public employees (Lathrop and Singer 2000). The sponsor of the legislation, State Representative Ken Pruitt, was awarded ALEC's 'Hero of the Taxpayer' award winner. Pruitt was also nominated by ATR for ALEC's legislator of the year award. An ATR press release said that Pruitt was 'boldly paving the way for similar reforms across the country' (ATR 2000).

Americans for Prosperity. Americans for Prosperity is a Washington, DC non-profit organization that engages citizens to promote limited government and free markets on the local, state, and federal levels. The organization describes itself as working to educate citizens about economic policy and mobilizing citizens as advocates in the public policy process (Americans for Prosperity 2008). The organization has proposed closing down DB plans in favor of DC plans for public employees on the grounds that the latter are 'fairer to employees, employers, and taxpayers—and they do not incur unfunded liabilities' (Poulson 2006). The organization became involved with efforts in Colorado to change the public retirement system from DB to DC, to be discussed in the following text in greater detail.

Americans for Tax Reform. ATR is a national non-profit lobbying organization established to oppose tax increases, founded in 1985 by Grover Norquist. It serves as a national clearinghouse for a taxpayers' movement by working with approximately 800 state and county level groups. In recent years, ATR also has been active in efforts to privatize Social Security (ATR 2008). ATR's former chief economist Daniel Clifton has stated that the organization fully supports moving to a system of DC plans for state and local employees (Clifton 2004). A 2002 ATR policy brief on pension reform argues that states should move aggressively to transfer all state and local employees and schoolteachers from DB to DC plans to 'make full scale pension liberation a reality' (Ferrara 2002). The brief further argues that DC plans allow workers to earn higher benefits than traditional pension plans, save the employer administrative and funding costs, and help public employers recruit the best workers. In practice, DC plans have pitfalls when they are used as a primary retirement vehicle and often provide lower returns for workers, they are typically more expensive for employers for any given level of benefit, and they already are available as supplements to almost all public employees who desire to participate in them, facts not noted in ATR's writings on public pensions. Nevertheless, ATR endorsed DB to DC switch initiatives in California, and its reports were used to justify a successful proposal in Alaska to switch to a DC plan (Broder 2005; Persily 2005*a*).

Club for Growth. Established in 1999, this organization seeks to advance public policies that promote economic growth primarily through legislative involvement, issue advocacy, research, training, and educational activity. Its policy goals include cutting taxes, limiting government spending, and privatizing Social Security. The organization has a related political action committee that makes campaign contributions to candidates running for office, specifically in Republican primaries (Club for Growth 2008). Through its campaign-related activities, the Club for Growth actively supports Republican candidates looking to unseat moderate Republicans that the group deems at odds with its anti-tax, limited government agenda (Dewar 2004).

The Club was a particularly determined supporter of President Bush's 2005 campaign to overhaul Social Security by adding individual private accounts and spent millions to lobby on its behalf (Bailey 2005). The Club for Growth also was involved with the California pro-DC initiative, with a former director advocating for a DB to DC switch (Broder 2005). More recently, as part of its evaluation of candidates vying for the Republican presidential nomination, the group singled out former Massachusetts governor Mitt Romney, praising him for 'proposing to revolutionize the Massachusetts state pension system by moving it from a defined benefit system to a defined contribution system' (Club for Growth 2007: 5).

The Howard Jarvis Taxpayers Association. Founded in 1978, the Howard Jarvis Taxpayers Association is dedicated to the protection of Proposition 13, the California measure to cap property taxes, and the advancement of taxpayers' rights. This includes the 'right to limited taxation, the right to vote on tax increases and the right of economical, equitable and efficient use of taxpayer dollars' (Howard Jarvis Taxpayers Association 2008). This organization in 2005 indicated that it planned to put the DB to DC issue on the California ballot through the initiative process (Associated

Press 2005*b*). In 2007, the organization issued a study asserting that 'California's pensions are getting shakier' (Taub 2007), while the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) disputed the findings. CalPERS called the report 'a highly contrived, biased study that fails to show the big picture' that 'hinged on a "snapshot" view of activity artificially constrained to a period of market downturn and the early stages of its recovery' (Taub 2007).

The Manhattan Institute. Established in 1978, the Manhattan Institute is a non-profit organization that aims to develop policy ideas that foster economic choice and individual responsibility (Manhattan Institute 2008). In a 2003 report entitled 'Defusing the Pension Bomb: How to Curb Public Retirement Costs in New York State,' Manhattan senior fellow E. J. McMahon contended that greater fairness for taxpayers and better retirement benefits for most government employees can be achieved by switching from the current DB pension system to a DC model. McMahon justified the DC approach in part by noting it is used by the vast majority of private companies (McMahon 2003). However, no discussion of the adequacy of these plans in the private sector was attempted.

A 2007 opinion piece by McMahon in the *Wall Street Journal* called into question DB pensions and voiced support for 401(k)-type plans for the public sector (McMahon 2007). A response letter to the editorial by the presidents of organizations representing state and local retirement administrators and trustees called the piece 'remarkably uninformed' about public pensions. In the letter, the signatories noted that the column failed to acknowledge that public pensions collectively are well funded, overseen by capable trustees, and subject to stringent laws, regulations, audits, and public oversight. The letter also noted that the column ignored that DB pension funds generate higher investment returns than 401(k) plans, portability has been built into public pensions, and that when offered a choice, the majority of public employees have eschewed DC plans and elected instead to participate in the DB benefit plan (Hanes and Williams 2007).

Reason Foundation. Founded in 1968, the Reason Foundation is a non-profit organization focused on advancing a free society by developing, applying, and promoting libertarian principles. Reason's Web site indicates that the *Wall Street Journal* says about the Reason Foundation, 'Of all the nation's conservative or free-market policy groups, it may be the most libertarian among them . . . and its ends up having the most direct impact on the actual functioning of government' (Reason Foundation 2008).

In June 2005, the Reason Foundation issued a report entitled, 'The Gathering Pension Storm: How Government Pension Plans are Breaking the Bank and Strategies for Reform' (Passatino and Summers 2005). The report characterizes pension benefits earned by public employees as 'extravagant' (Passatino and Summers 2005: 4), 'exorbitant' and 'unsustainable' (Passatino and Summers 2005: 5), but nowhere references data on actual levels of public pension benefits. It highlights the experience of a handful of examples of public plans that were experiencing significant funding challenges, then generalizes these exceptions to claim, 'Government employee pension systems across the nation are in crisis' (Passatino and Summers 2005: 3). In fact, at the time of the report's publication, public retirement systems were on average 85 percent funded (Brainard 2005). The national association representing state retirement administrators issued a response rebutting Reason's analysis point by point (Brainard 2006*b*). Reason's report urged all governments to shift new employees to 401(k)-style defined-contribution plans, remarking that in addition to purported economic benefits of this proposal, the '*moral* benefit is that it allows employees the freedom to manage their own retirement accounts and invest their own money as they see fit' (Passatino and Summers 2005: 5). More recently the Foundation continues to advocate a switch from DB to DC. In its March 2006 'Budget and Tax News,' the organization again indicated that the public pension 'crisis' has worsened, that taxpayers should worry, and that the problem is nationwide (Summers 2006).

Common Themes. Although each of the interest groups described earlier is a distinct entity, there is overlap in arguments made to support a switch to DC plans. Appeals to the supposed benefits of individual control over retirement decisions are frequent, as are claims that current DB plans are overly generous. Each of these groups also tends to suggest that failing to adopt DCs will result in dire consequences. For example, the term 'crisis' and the metaphor 'time bomb' are used frequently. Despite the fact that many of their claims are at odds with reality, we will illustrate in the next section that these interest groups have been surprisingly successful at creating an audience for their proposals, though it may be limited to those who share their free-market, individualistic ideology. This may be one reason why interest groups have had mixed success in actually achieving their legislative goals.

Recent attempts to convert public DB to DC plans

We now turn to an examination of recent attempts in four states to convert traditional DB to DC plans. We will see that in each case, partisan politics and/or interest groups have had a hand in triggering policy proposals and driving the political debate around public pensions.

Alaska In 2005, Alaska Republican Governor Frank Murkowski signed legislation switching the state's DB pension retirement systems to 401(k)-type DC accounts for teachers and state employees hired after July 1, 2006 (Inklebarger 2005). The DC individual account system is the only retirement plan for public workers, as Alaska's state and local employees do not participate in Social Security. At the time the legislation was enacted, the Alaska Public Employees Retirement System (PERS) provided retirement benefits to about 53,000 workers and retirees such as police officers and firefighters serving the state and 155 municipalities (Brainard 2006*a*). It also impacted the Alaska Teachers Employee Retirement System (TRS) which opened in 1955. In 2005, TRS included about 18,000 active and retired teachers and other education professionals in 57 school districts (Brainard 2006*a*).

The DC measure, introduced by Republican State Senator Bert Stedman, was 'one of the most contentious in the legislature' and one of the main issues during a two-week special legislative session (Inkelbarger 2005). The special session debate—at a time when Republicans controlled the legislature—was characterized as 'a nasty fight' over whether to end pensions for new public employees and teachers (Cockerham 2005*a*: A1). Consideration of the measure coincided with a push by the Bush administration to privatize Social Security. The White House reportedly became engaged in the Alaska pension battle when Alaska Senate President Ben Stevens contacted the White House to report problems securing votes to eliminate the DB system for public employees in Alaska. According to the *Anchorage Daily News*, a White House official phoned several Republican House members 'reminding them that President Bush's vision of Social Security reform is similar to the proposed overhaul of retirement benefits for Alaska's teachers and other public employees' (Persily 2005*b*: A1). The aide reportedly indicated that 'if legislators support the President, and support converting a portion of Social Security payroll contributions to private accounts, then it makes sense they would favor a similar system of individual investment accounts for Alaska public employees' (Persily 2005*b*: A1).

The measure also was reported to have roots back to Americans for Tax Reform. Democrats pointed out that the Senate Finance Committee's report on the pension legislation was 'lifted from a policy brief' by ATR; both the policy brief and the Senate Finance report 'tout the benefits of switching public employees from traditional pension plans to individual savings accounts, similar to the president's arguments for changing Social Security'(Persily 2005*a*: B1). Of the connection, Senate Minority Leader Johnny Ellis said he had the sense that the measure was 'part of a national conservative movement that is detrimental to public employees' (Persily 2005*a*: B1). Senate Finance Co-Chair Lyda Green reportedly denied 'a national political conspiracy,' but also indicated that there was nothing wrong if the committee report came from a conservative Web site saying, 'I'm not going to apologize for it' (Persily 2005*a*: B1).

The House and Senate had separate proposals to address the retirement system at a time when Alaska's public pension funds had prefunded some $13 billion in assets to pay for future costs. Similar to other public retirement systems, funding levels were lower in 2005 due to the market downturn in the early 2000s. The *Anchorage Daily News* reported that Alaska had one of the best-funded retirement systems in the country, and there was 'no good evidence that ending the pensions' would address current funding issues, and calls for more research on the issue (Cockerham 2005*b*: A1).

According to the former Alaska Division of Retirement and Benefits Director Melanie Millhorn, the pension shortfalls were due mainly to rising health care costs and a downturn in investments. The state Office of Management and Budget indicates that in 2001 and 2002, the fund's investments lost about 5 percent of their value. However, from 1999–2001, the medical costs, which were expected to rise between 5 and 6 percent, actually rose between 15 and 20 percent. As Milhorn said, 'If it weren't for rising health care costs, the pensions would be more than fully funded'(Volz 2005).

Meanwhile Sam Trivette, president of the Retired Public Employees of Alaska, also stated that the main cause of the shortfall was the cost of health care, not the pension. 'The pension component is well funded—over 100 percent,' he said. 'It is the health care component that has caused a drag on the systems' (Dillon 2005).

The Senate Finance Committee's bill did not address the funding gap in the retirement system, while the House State Affairs Committee proposal called for addressing the funding shortfall in 2005. With limited time left in the legislative session, some lawmakers indicated a preference to get another opinion and 'work over the summer and fall to see if there is a better answer than a total overhaul' (Persily 2005*a*: B1). Commenting on the failure of the Senate measure to address funding, House Minority Leader Ethan Berkowitz called the process 'an act of political bullying and arrogance' (Inkelbarger 2005).

The pension debate also became ensnarled with other issues. The Senate reportedly was refusing to approve almost a third of the proposed school state aid as a 'tactic to gain school districts' support for rewriting retirement benefits.' The House voted unanimously to reject the Senate's attempt to link school funding to rewriting retirement benefits (Persily 2005*a*: B1). And Governor Murkowski threatened to veto hundreds of millions of dollars in public works projects across the state 'unless the Legislature eliminates pensions for new public employees' (Cockerham and Persily 2005: A1).

As the regular session neared conclusion, Democrats in the House proposed a compromise plan to create an *optional* DC contribution plan for new hires (Volz 2005). The Governor vowed to veto any bill that did not include the Senate's proposal to place *all* new employees into a DC plan. In the final days of the legislative session, the Senate and the House became locked in a stalemate. The clock ran out and a special session was called (Cockerham and Persily 2005). Eventually, the Governor and Republican-controlled legislature secured passage of the DB to DC switch for new hires (Inklebarger 2005).

In an opinion piece published in the *Anchorage Daily News,* former Alaska attorney general John Havelock commented about legislation considered during the special session, including pension reform. He wondered why none of the legislative issues were discussed during the 2005 election campaign, nor included in the Governor's State of the State address, nor part of Murkowski's list of priorities. Havelock concluded that the special session 'illustrates a democratic process out of kilter' (Havelock 2005: B4). He said that 'none of the bills was adopted as a result of widespread urging by voters,' nor were voters urging candidates to reduce retirement benefits for new state employees (Havelock 2005: B4).

Despite enactment of the legislation, the final chapter on Alaska is yet to be written. Because the plan was adopted rapidly and in a single session, important technical questions remain open. More specifically, the law creating the individual account system may not be in compliance with Federal Internal Revenue Service regulations, which would mean new employee plans could lose their tax-deferred status. Additionally, the 2008 legislature is holding hearings on Senate Bill 183, which seeks to reverse the retirement plan legislation passed in 2005 (Burke 2008). The legislature moved toward a return to the DB plan when a Senate committee approved in March 2008 'a bill to reopen a DB plan to new teachers and government employees, and jettison a fledgling DC plan some say is harming the state's ability to attract and keep employees' (Kvasager 2008). Regarding passage of the measure State Senator Kim Elton said, 'We took a significant step backwards when we moved to a 401(k). It's coming home that we have a real problem with defined contribution. It's probably best synthesized in recruitment and retention. We're finding it far more difficult to recruit when almost every other public jurisdiction is offering a defined benefit plan' (Kvasager 2008).

California. In his State of the State address on January 5, 2005, California Governor Arnold Schwarzenegger called for an overhaul of the state pension system. The Republican Governor told the Democrat-controlled legislature that the pension system was 'out of control' and 'threatening our state.' He called for reform that would move new employees from a DB to a DC system that would be ‘fair to employees and to taxpayers’ (Associated Press 2005*a*), a proposal would affect both the CalPERS and the CalSTRS.

Later that month, *The New York Times* reported that the impetus for Mr. Schwarzenegger’s plan was generated by the ‘same anti-tax advocates, free-market enthusiasts and Wall Street interests pushing President Bush’s Social Security initiative.’ The proposal was ‘supported by a number of Republican state lawmakers and is driven by the same ideology behind the effort to transform Social Security’ (Broder 2005: 16). The *Times* predicted that outcome in California ‘will not only have an impact on the state pension system, but will also provide an important marker of public opinion on proposed changes to Social Security’ (Broder 2005: 16).

The initiative was endorsed by Americans for Tax Reform (ATR 2005; Broder 2005). Also supporting the Governor’s proposal was Republican Assemblyman Keith Richman, who drafted legislation and filed the proposal as a ballot initiative. The Governor’s staff indicated that he would campaign for the Richman ballot measure if the legislature failed to act (Wasserman 2005*a*). Also involved in the policy formulation was Stephen Moore, the former director of the conservative Club for Growth and who also was president of the Free Enterprise Fund, an organization dedicated to remaking Social Security. Moore said that the proposal ‘aims toward giving people real ownership and a real stake in how the economy and the stock market perform’ (Broder 2005: 16). Moore also reportedly saw the importance of California in impacting the national agenda, commenting that should the state move from a DB to a 401(k)-type DC system, ‘the nation is likely to follow’ (Broder 2005: 16). Several years later, Moore called for an effort to ‘abolish these anachronistic guaranteed defined benefit pension systems and convert public employees to portable and cost-constrained 401(k)-type pensions’ (Moore 2008).

At the time of the proposal, CalPERS was the largest pension system in the country with some $180 billion in assets for about 1.4 million workers and retirees. CalSTRS was the third largest system with about $125 billion in assets for some 750,000 members (Wasserman 2005*a*). Although the Governor described the plans as ‘a looming train wreck,’ *The New York Times* reported that ‘even advocates of privatization in his own administration say the system is currently sound’ (Broder 2005: 16). Together, the plans are ‘nearly 90 percent funded, a level that most experts consider quite healthy’ (Broder 2005: 16).

Opponents of the plan—which included almost all Democrats in the legislature, state employee unions, and plan trustees—said that the plans had been well-managed and provided critical retirement income for public workers. DB supporters also indicated that the state contribution to the system in 2005 was higher because of a downturn in the market. The state historically had benefited from a strong stock market and 'in some years has had to make no payments into the funds' (Broder 2005: 16).

The backdrop for the debate was quite complex. The Howard Jarvis Taxpayers Association was involved, proposing a ballot through the initiative process. Additionally, State Treasurer Phil Angelides—a Democrat and board member of both CalPERS and CalSTRS—formed a national coalition of state treasurers and pension fund officials to fight the governor's idea. He called the measure 'a major assault on the movement to reform corporate America following a wave of scandals.' Angelides said that the Governor's plan 'is part of a concerted effort to break apart the powerful voices of public pension funds that have stood up for ordinary investors in corporate boardrooms' (Wasserman 2005*b*). Interestingly, a loyalist of President Bush broke ranks and asked the Governor for an alternative to the DC switch. Gerald Parsky, chair of the University of California Board of Regents and chair of President Bush's 2000 and 2004 state election campaigns, said the measure would undercut recruiting and the economy. Parsky said, 'California's economic competitiveness will suffer if we cannot retain the nation's best and brightest faculty' and in today's global economy, 'California's intellectual capital is our state's chief competitive advantage' (LaMar 2005).

By April 2005, Governor Schwarzenegger abandoned his plan to convert the system primarily because public employees successfully leveraged the fact that the DC plan would not provide suitable death and disability coverage to workers, virtually killing the issue (Wasserman 2005*c*). In 2006, the Governor established a Public Employee Post-Employment Benefits Commission to propose ways to address growing pension and retiree health care obligations. The Commission was chaired by Republican DB supporter Gerald Parsky. The Commission issued a report in July 2007 that found that the total statewide pension system was 89 percent funded, and that since 2004, CalPERS and CalSTRS experienced annual returns in the double digits which are significantly higher than their assumed rates of return (LaMar 2005; Post-Employment Benefits Commission 2007).

Colorado. In 2006, the Colorado Public Employee Retirement Association (PERA) found itself facing proposals to convert its DB pension system to a DC system. The *Rocky Mountain News* called the 2006 legislative session 'the most challenging in PERA's 75-year history' (Milstead 2006*b*: 6B). At the time, the governorship was held by Republican Bill Owen, who supported drastic changes to the pension system and a switch to DC plans (Paulson 2006*a*). The legislature was controlled by Democrats.

As a matter of background, the retirement system was established in 1931 by the state legislature. PERA initially provided retirement benefits to state employees only, and then was called the State Employees' Retirement Association (SERA). By the end of its first 10 years, SERA had some 4,000 members, 112 retirees, and about $1 million in assets. For the first 20 years, investments were limited to US government bonds, or state, school, or municipal bonds. The rates of return averaged 2.75 percent (PERA 2008). Today, PERA is a substitute for Social Security for most public employees, and provides retirement and other benefits to nearly 280,000 active and retired employees of more than 400 government agencies and public entities in the state. The system has expanded its range of investments with assets in domestic and international stocks, corporate, government, and international bonds, real estate, and alternative investments (PERA 2008).

The editorial page of the *Denver Post* reported that while PERA was more than 100 percent funded in 2000, the stock market decline that same year left PERA funded at about 73 percent in 2006. This funding level, opined the paper, does not 'add up to a crisis' (Ewegen 2006*a*: E1). According to PERA, the funded status at the end of 2006 was 74 percent with a 15.7 percent return on investment and $38.8 billion assets. PERA's actuary indicated that this funding level is sufficient to pay benefits through the projected actuarial period of 30 years (PERA 2008).

In 2006, there were three major PERA legislative proposals. The first was proposed by House Republican Minority Leader Joe Stengel, which called for placing new public employees in a DC plan. The chief supporter of Stengel's bill was Fix PERA, an offshoot of the Americans for Prosperity Foundation. PERA's executive director testified that the measure was a 'gross overreaction.' A House Committee voted to postpone the bill indefinitely, which essentially defeated the measure (Milstead 2006*a*: 5B).

The failure of the Stengel bill left two major bills. Senate Bill 174 was sponsored by Democratic Senator Paula Sandoval and reflected PERA's proposal to maintain the DB system while taking steps to return the system to solid footing by restoring and accelerating the percentage contributed by employees to a previously higher level. Senate Bill 162 was led by Republican Senator David Owen and supported by Governor Owens. This legislation would have left current employees in the DB system and placed future employees in a DC plan (Paulson 2006*b*). With control of the state government split between a Republican governor and a Democratically-controlled legislature, a compromise solution was reached days before the legislative session concluded. The measure approved by the General Assembly maintained the DB pension system for all employees while restoring the funding level. The *Denver Post* reported that under the compromise legislation 'every new dollar the plan puts in PERA will come from employees, not taxpayers, mostly because employees agreed to contribute an additional 0.5 percent of their salaries into the fund for each of the next six years' (Ewegen 2006*b*: E1). This increase parallels a similar increase in employer contributions previously enacted in 2004. The proposal modified the structure of the PERA Board and also allowed newly-hired employees in higher education to choose either a DC or the DB plan (this provision later was modified to apply only to new employees of the community college system). Democratic Senator Sandoval sponsored the final compromise, which also raised the minimum retirement age for new employees from 50 to 55 (Ewegen 2006*b*).

Also of note was the fact that Fix PERA launched a related ballot initiative campaign. MSNBC reported that the 'libertarian leaning' proposal would have declared an 'actuarial emergency' and replaced the pension with a DC plan. Americans for Prosperity Foundation 'reluctantly withdrew the ballot measure' once compromise legislation was enacted and said in a press release that taxpayers are looking at 'an eventually bankrupt system' (Wolk 2006; Americans for Prosperity 2006).

Utah. In 2007, the Utah state legislature began consideration of a measure to convert the Utah Retirement Systems' (URS) DB plan to a DC system. Such a proposal would have affected 170,000 public employees and retirees, their families, and future workers (URS 2007). It was reported to be one of the 'thorniest issues of the Legislature' (Fahys 2007*a*). At the time, the data available showed the funding level to be at 96.5 percent (URS 2007). The measure was sponsored by Republican Representative John Dougall. He said that his bill would offer a choice 'to employees eager for incentives in a highly competitive job area' (Fahys 2007*b*). At a committee hearing on the bill, Dougall called the initiative 'an idea whose time has come' and an option that employees insist upon having. The lawmaker called it an employee benefit 'that when denied, would drive them to private-sector jobs where they can test their investment mettle' (Fahys 2007*a*).

In Utah, DB plans began for public employees in 1919 with the creation of the Fireman's Pension Fund. Until 1963, there were different plans for different classes of employees. That year, all public employee plans were consolidated under URS. The system began offering DC plans to employees in 1971, which were a precursor to what now are 457 plans that allow public employees to supplement their retirement security with individual savings accounts. In 1981, URS also began offering 401(k) plans for Utah public employees in 1981 (URS 2007).

While the 2000–02 bear market hurt the funding level of many public pension plans, the impacts were not quite so dramatic for URS. Its funded status did decline, but the system was more than 90 percent funded despite one of the most dramatic market fluctuations in history. This can be attributed to the fact that URS did not increase benefits and continued to make actuarially-required contributions during the 1990s bull market (URS 2007).

Utah's public employees' pension fund has grown to more than $17 billion, or nearly double the size of the state's annual budget, and it serves

163,000 people including schoolteachers, judges, police officers, county clerks, lawmakers, and ex-governors. According to the *Salt Lake Tribune*, it is considered 'an asset, the glossy polish on the state's sparkling financial rating' and 'rock solid, fully able to meet its obligations to retirees' (Fahys 2007*a*).

Nonetheless, the *Salt Lake Tribune* reported that a DB switch measure was triggered by 'a conservative Legislature' that was eager to 'join a nationwide trend in business and government.' 'I feel quite comfortable with the choice option,' said Republican State Representative Merlynn Newbold (Fahys 2007*a*).

On February 24, 2007, the *Salt Lake Tribune* reported that new employees of the state Department of Information Technology (IT) Services would choose between a traditional state pension and a 401(k)-style DC retirement plan under a bill passed by the Republican-controlled House. The bill passed was a 'stripped-down version' of the original Dougall legislation intended to move all new hires to the DC system (Fahys 2007*b*). Dougall fended off several efforts to kill the legislation, including one that would have created a year-long study. The original measure eventually was defeated, as was Dougall's proposal to allow new transportation and IT hires to choose which system to join (Fahys 2007*b*).

A cost estimate for implementing the measure suggested that state agencies might have to come up with as much as $18.4 million to deal with the drain on the retirement fund (Fahys 2007*b*). An article reporting on the failed measure drew attention to the fact that Republicans have tended to be more supportive of personal retirement accounts than Democrats, noting that the GOP controls the Utah legislature. The article reported that critics of the bill argued that switching state employees from a DB to a DC plan 'would create the unintended actuarial consequence of starving the DB plan of contributions' (Defined Contribution & Savings Plan Alert 2007).

To summarize recent activities in the states, interest groups have had a significant impact on the debate over state and local retirement plans in recent years. Because of the long-term nature of retirement plans, the ultimate effects of some of these efforts will not be fully felt for decades. It appears that interest groups' pursuit of their ideological goals are a major reason why proposals to dismantle DBs have risen to the forefront in some states, as evidenced in their broad statements and actions in states such Alaska, California, and Colorado. It also appears that in recent years, these interest groups saw an opportunity to gain traction on the issue in light of rising contribution requirements to public plans that were the result of the 2000–2002 bear market. Interestingly, there did not appear to be active interest group involvement in the Utah debate where the funding and contribution levels did not spike during the bear market. Although interest groups managed to create an audience for their positions with politicians who were ideologically aligned, their rather mixed record in passing legislation to effect a switch from DB to DC suggests that these interest groups may be talking past the public voters and unaligned legislators of either party.

Conclusion

This chapter has explored how public perceptions, political dynamics, and interest groups are shaping the US public pension debate and policymaking. Public pensions have been a successful, shared enterprise between public employees and taxpayers. They have successfully met employees' needs for a secure source of retirement income that is adequate to maintain a middle-class standard of living. At the same time, they have collectively met the test of fiscal responsibility expected by the tax-paying public.

Challenges to public sector DBs do not appear to stem mainly from economic considerations, nor public dissatisfaction. Rather, the public has a low knowledge base and is undecided on the issue. But, where individuals do have a viewpoint, it is often driven by ideological or political beliefs. There does not appear to be a groundswell of discontent on the issue of public pension and no demand rising up from ordinary citizens for wholesale changes. Instead, efforts to dismantle public pensions have been tied to partisan politics and organized ideological interest groups. Specifically, while prior research suggests that Republican party control is a strong predictor of whether a state makes the switch from a DB to a DC plan, we find that individual Republican voters are no more likely than Democrat or Independent voters to support such a switch, after controlling for other factors, including an ideological predisposition to individualism.

These findings may help to explain the patterns we observe in the states examined. That is, the switch from DB to DC has not been a response to demands from the electorate, nor a response to economic factors. Rather, partisan politics and ideologically motivated interest groups have been a primary driver behind efforts to dismantle public sector DB pension plans.

Notes

1. VanDerhei (2006) notes that a commonly-used rule of thumb dictates that retirees should seek to replace 75–90 percent of their pre-retirement income to maintain their living standards in retirement.
2. Although most state and local employees have DB plans, it is important to note that 14 percent of state and local employees must rely on a DC plan alone (Munnell, Haverstick, and Soto 2007).

[3] DC plan sponsors could come close to approximating these economies by offering annuity distribution options. In practice, however, most DC plans do not offer annuities (Perun 2007).

[4] Based on cross-tabulations of the data from Hart Research Associates (2005, 2006).

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