



# Rethinking Public Sector Compensation

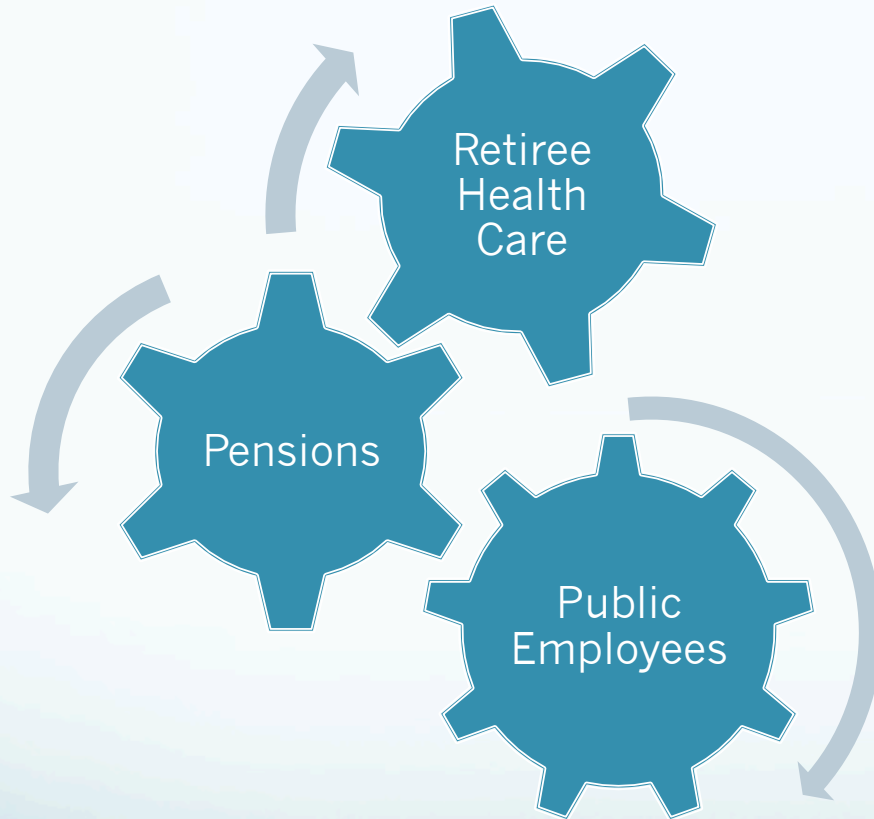
What Ever Happened to  
the Public Interest?

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The Carter Presidential Library and Museum  
June 21, 2012  
7 pm

# A Broken System



The current way we **reward** and **manage** employees is skewed too heavily towards pensions and retiree health care.

# Public Employment

Current system places too much emphasis on:

- Job Security
- Time Served

Rather than:

- Performance
- Innovation
- Entrepreneurial Thinking



# An Unsustainable System

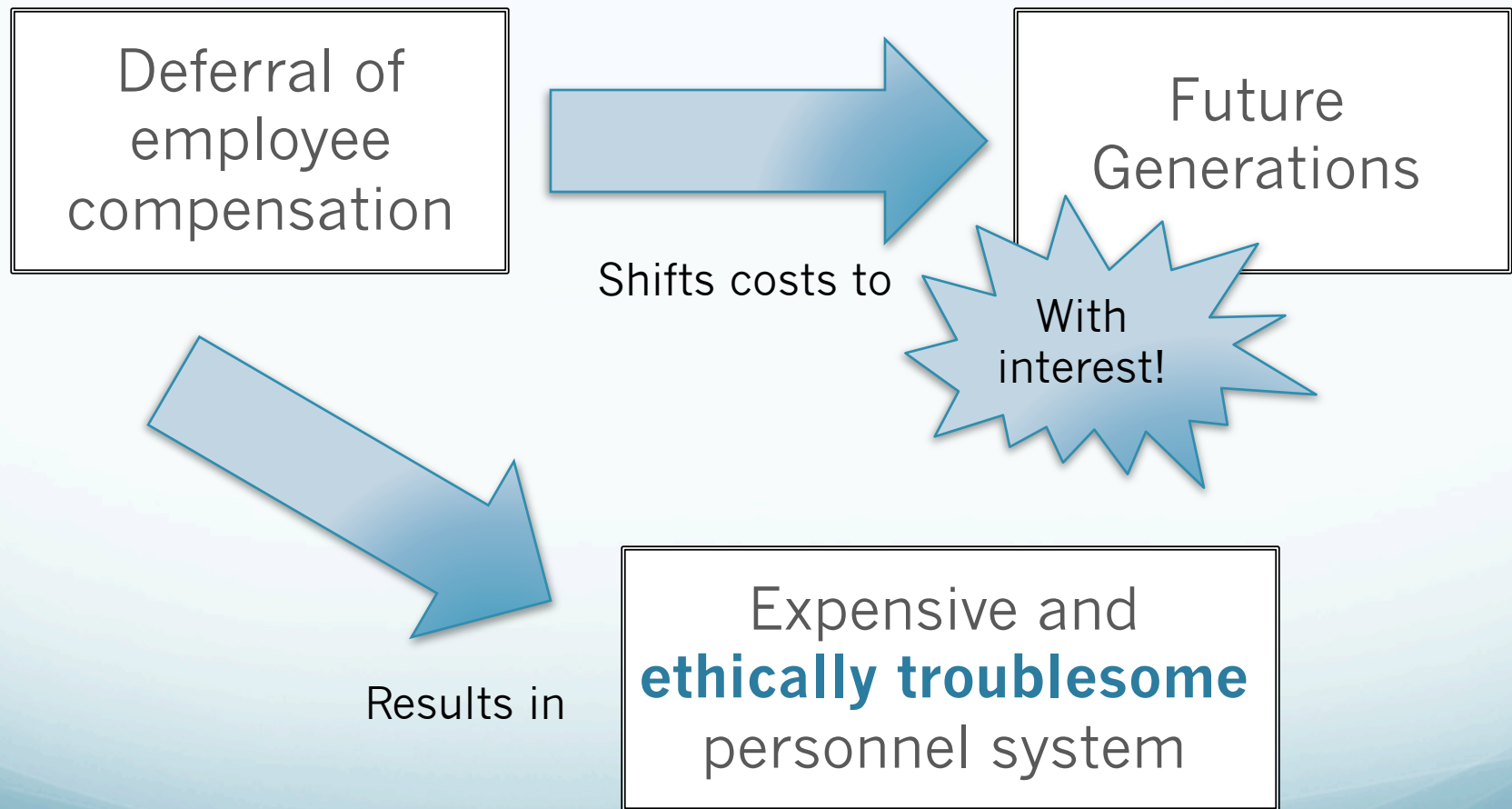
Creates significant challenges for:

- ✓ service delivery
- ✓ efficiency
- ✓ responsiveness



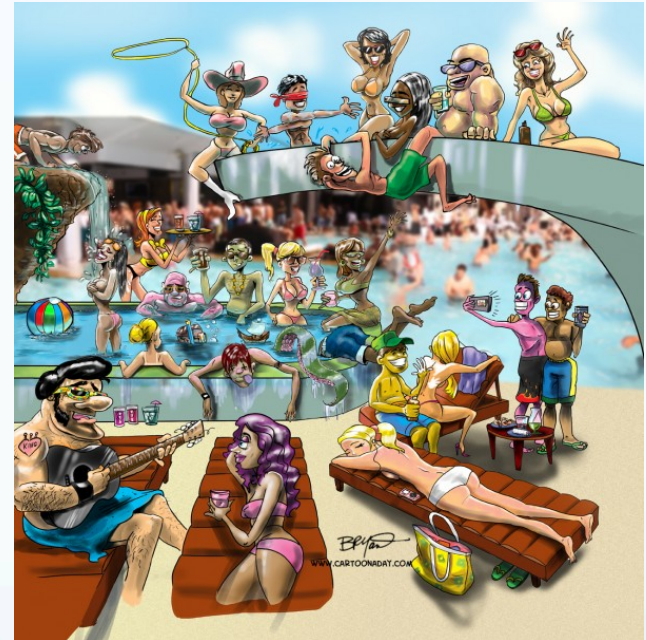


# Employee Compensation



# Pensions Gone Wild!

Estimates place the **unfunded liability** for pensions and retiree health care between \$1 trillion and \$3 trillion!



To put this in perspective if you stack a trillion \$1 bills on top of each other, you can reach the moon and back, **four times!**



\*According to astrophysicist Neil deGrasse Tyson

The typical **public pension plan** assumes its investments will earn average annual returns of 8% over the long term<sup>1</sup>

Actual experience since 2000 has been much less – 5.7% over the last 10 years<sup>2</sup>

<sup>1</sup>Center for Retirement Research at Boston College

<sup>2</sup>National Association of State Retirement Administrators

# State and Local Gov't Accounting Rules

- Governments do not use their investment assumptions to project future asset growth
- Governments measure what they will owe future retirees, in today's dollars
- Private companies have been prohibited from this doing since 1993



# Recent Chapter 9 pension-related bankruptcies

- Vallejo, California – inability to pay pension obligations (2008)
- Prichard, Alabama – inability to pay pensions, especially state mandated increases (2009)
- Central Falls, Rhode Island – inability to pay obligations, especially pensions (2011)



# Cities in California Exploring Bankruptcy

- Stockton – pop. 290,000
- Hercules – pop. 26,000
- Lincoln – pop. 43,248
- Milpitas – pop. 66,790

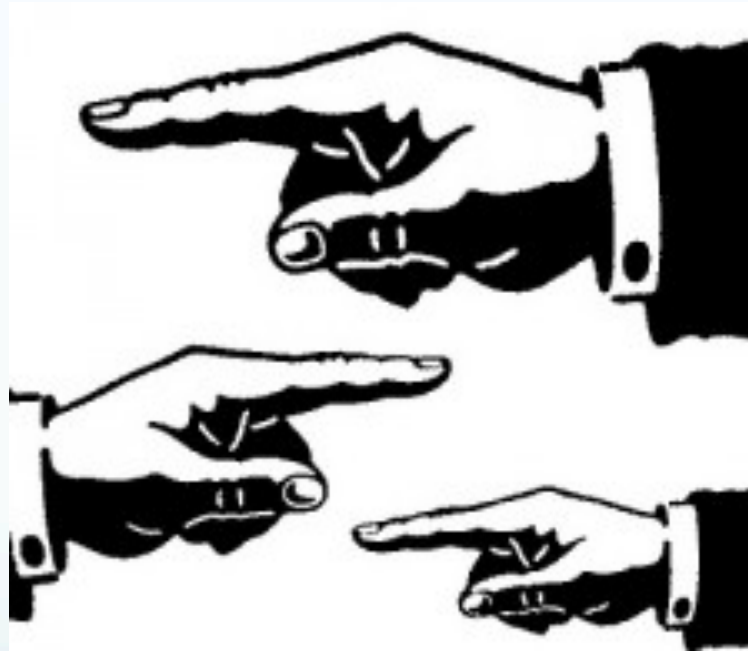




# States where pensions are running out of money

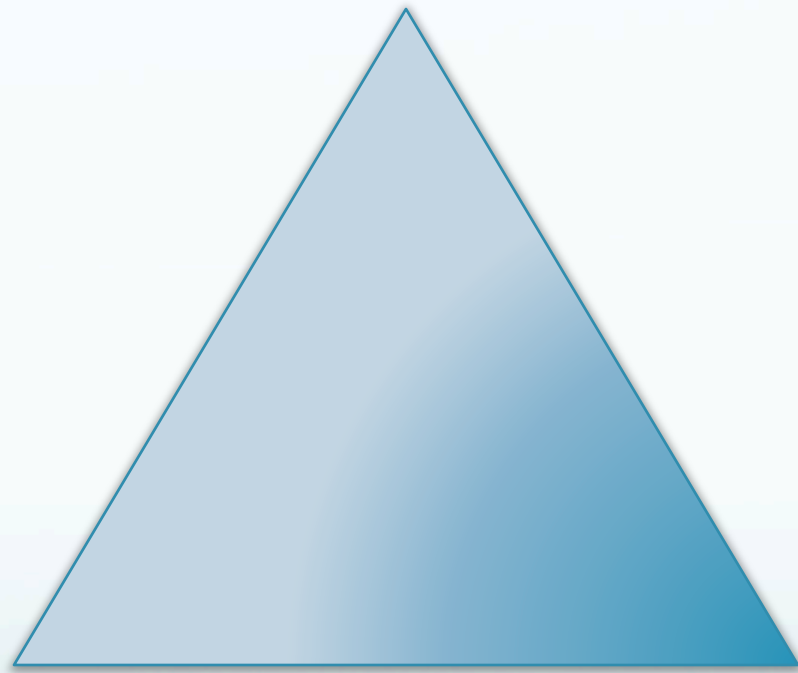
State	Pension Liability	Percent of Pension Funded
Kentucky	\$36 billion	58%
Illinois	\$126 billion	51%
New Hampshire	\$8 billion	58%
New Jersey	\$135 billion	66%
Oklahoma	\$35 billion	57%
Kansas	\$21 billion	64%
Massachusetts	\$61 billion	68%
Colorado	\$55 billion	69%
Maryland	\$53 billion	65%

# Who's to Blame?



# The Iron Triangle

Elected Politicians



Gov't Bureaucracies

Interest Groups

## Public Sector Compensation

Elected Politicians  
(Mayor, City Council/County Commission)

*Funding/Oversight*

**Iron  
Triangle**

*Legislates/Donates or Invests*

**Approve Contracts**

Government Bureaucracies  
(City/County Management)

Interest Groups  
(Labor Representatives/  
Employee Groups)

# Seniority Rules!

Understanding the civil service system...



# Public vs. Private

Who really makes more?



# Public vs. Private cont'd

- Public sector workers at all levels (federal, state, and local) earn **higher wages** and **benefits** than their private sector counterparts





# Public vs. Private cont'd

- However, when comparisons of similar workers are made between the two with regards to education, age, and occupation, most studies show public workers are either modestly over or underpaid.

# The Education Divide

- Most significant factor...
  - *Without* college degrees, employees do **better** working for governments
  - Public employees *with* college degrees do **worse**



# Main Controversy

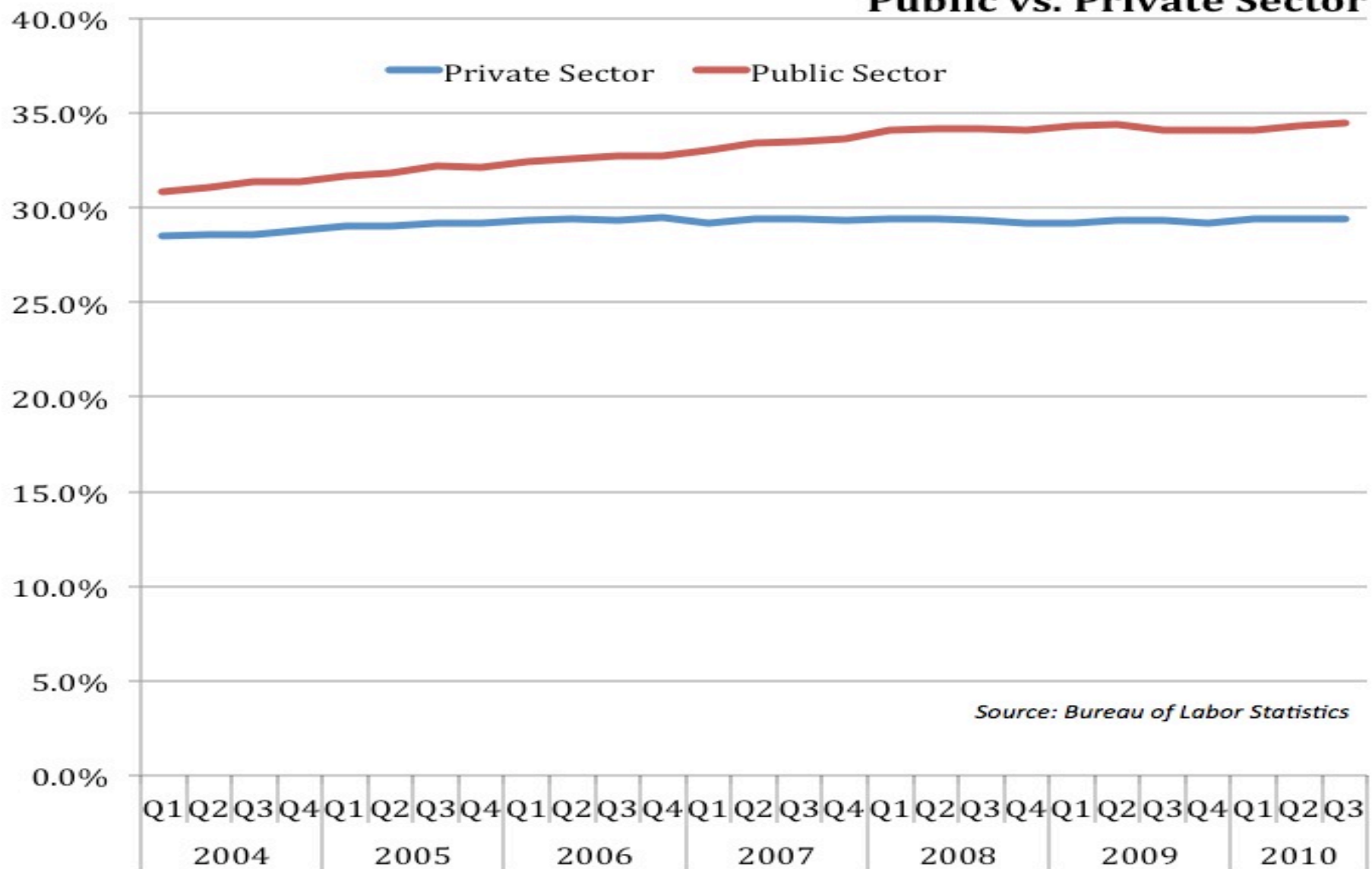
How much to value deferred benefits such as:

- Pensions
- Retiree health care
- Job security



# Benefits Costs as a % of Total Compensation

## Public vs. Private Sector



Source: Bureau of Labor Statistics

# Lifetime Earning

Blue-collar

White-collar

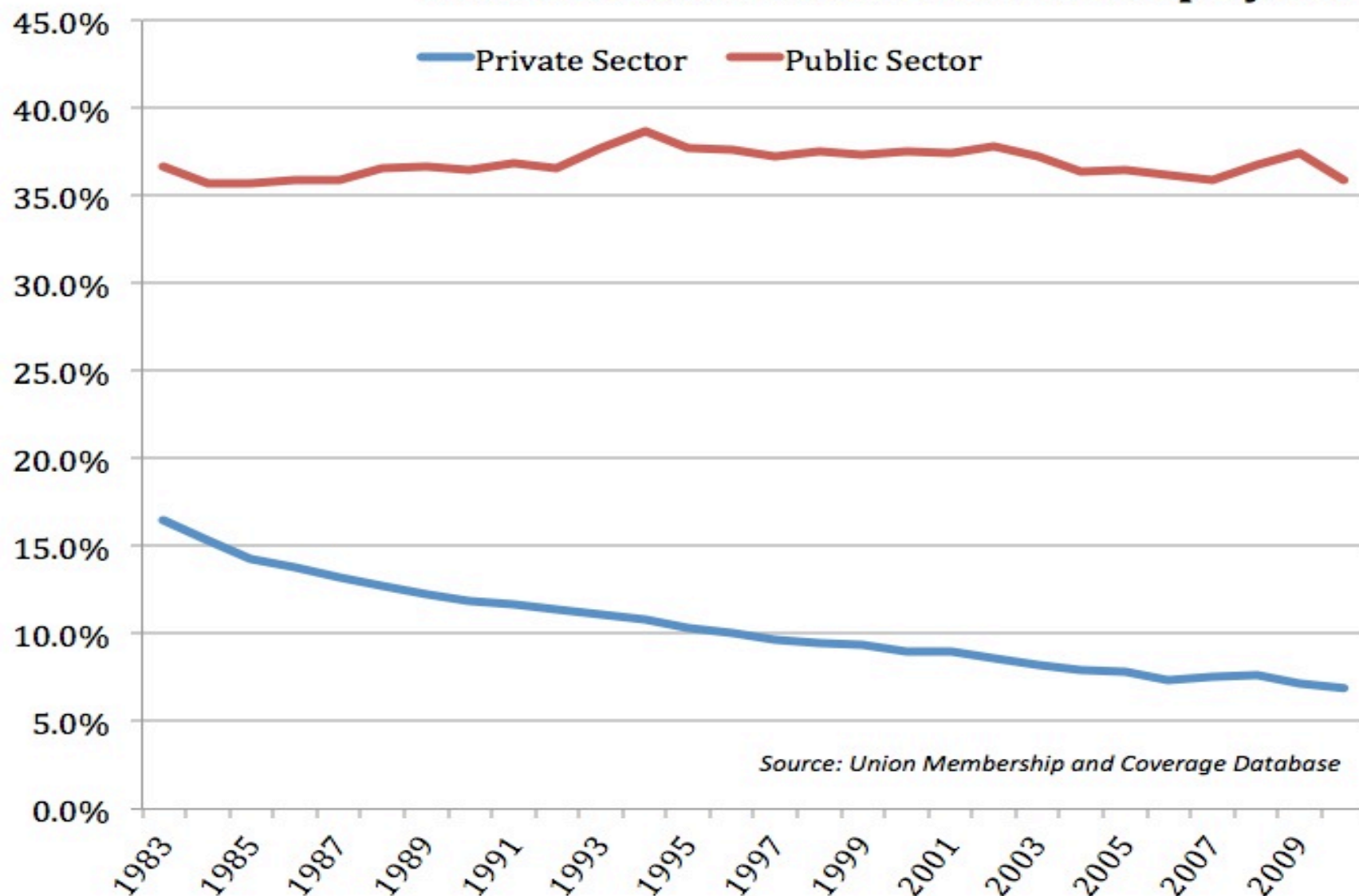


# (Public) Workers of the World Unite!



# Union Membership

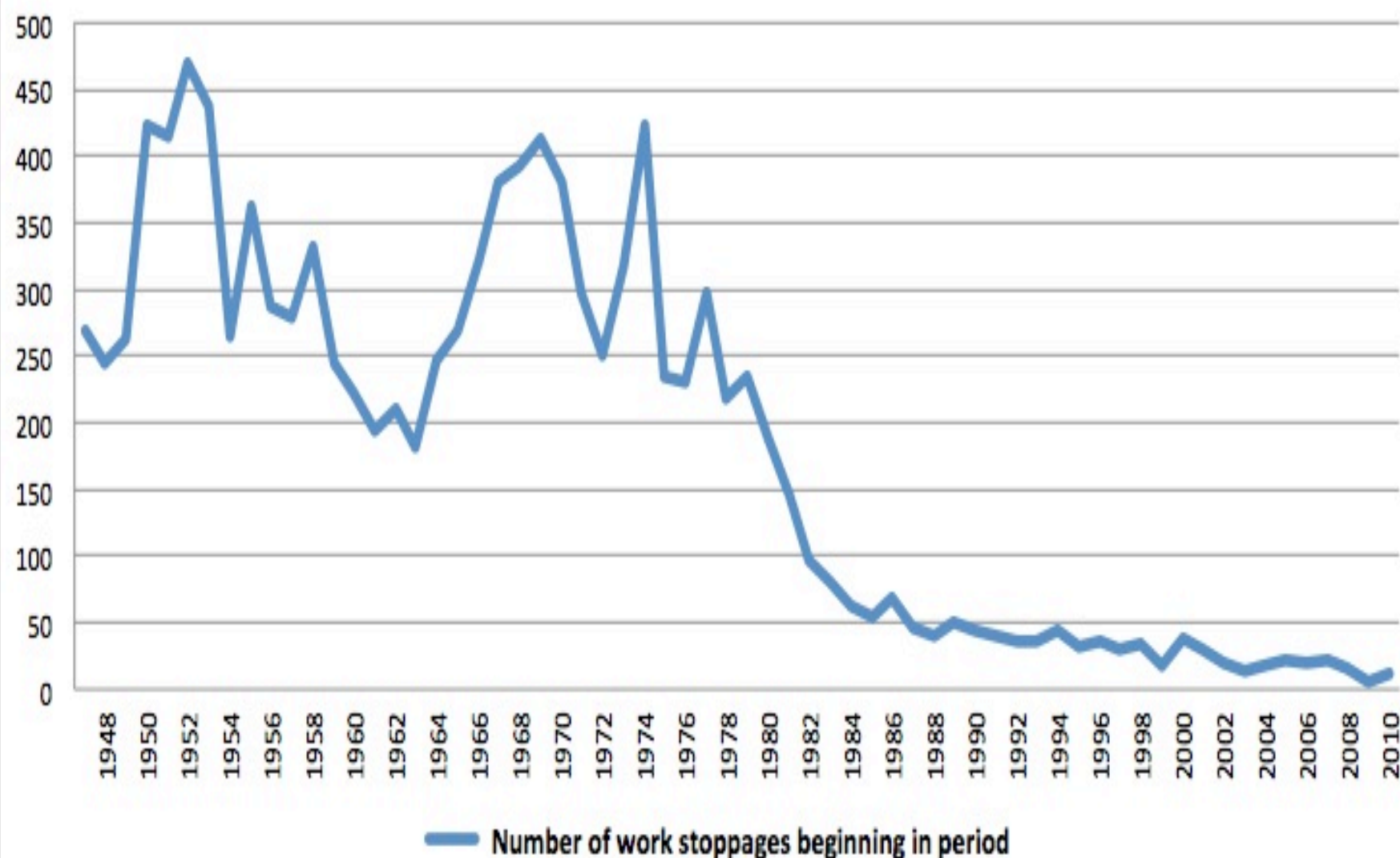
## Public vs. Private as a Percent of Employment



Source: Union Membership and Coverage Database



## Work stoppages involving 1,000 or more workers, 1947-2010



# Standard

- Public employees should be compensated in a manner comparable to their private sector counterparts
- This is consistent with economic and efficiency principles and concepts of **fairness** and **equality**



# Prescription for Reform

- Increased transparency
- Avoiding conflicts and self-dealing in awarding compensation
- Pensions and other post-employment benefits (OPEB)
  - Raising retirement age
  - Eliminating current abuses
  - Increased employee contributions
  - Moving employees to 401k-style or hybrid plans (portability)
  - Moratorium on new benefits until plans are fully funded
  - Fully fund pension and OPEB obligations
  - Independent analysis of benefit costs that outline how the plans will be funded now and in the future
  - Voter approvals of OPEB increases
  - Retiree health care reform

# Prescription for Reform cont'd

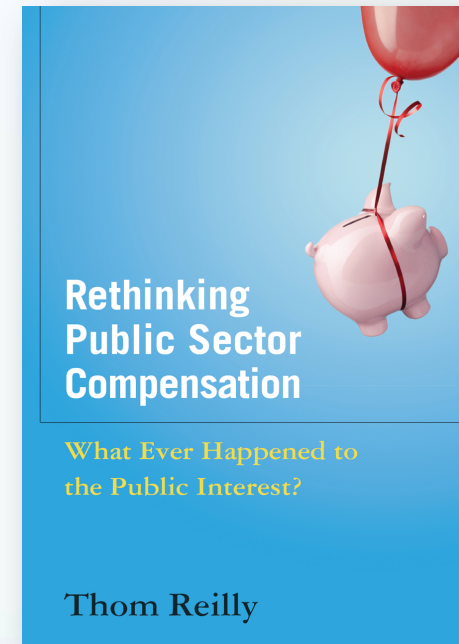
- Civil service reform
  - At will employment
  - Broadbanding
  - Move away from time served compensation to rewarding employees for high performance, innovation and entrepreneurial thinking (bonus structure)

# Prescription for Reform cont'd

- Collective bargaining compensation
  - Subject collective bargaining to open meeting laws
  - Right to work (prohibit compulsory union membership/dues)
  - Prohibit strikes by public workers
  - Do not subject certain deferred compensation benefits (i.e., pensions and retiree health care) to collective bargaining
  - Community members/citizens appointed to collective bargaining teams
  - In lieu of arbitration and when an impasse occurs, allow elected officials or the community to decide

# *Thank you for your time today!*

- For more information, visit [www.rethinkingpublicpay.com](http://www.rethinkingpublicpay.com)



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