"Federation Corner" column
Montgomery Sentinel - November 4, 2010

State underfunds pensions and health benefits
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After the Governor and legislators completed their actions this past April, they had increased various taxes and fees yet again, as they have done every year since they were elected just four years ago. (The first year's income and sales tax increases were by far the worst!) And the state has kicked the underfunded pensions and health benefits "can" down the road again, now to the tune of $33 billion. The solution to this problem could really hurt your wallet and mine.

And now for the understatement of the decade: "We really can't expect to invest our way out of this. The problem is getting worse, and it is too late to address the funding gap of fiscal 2012," according to Mike Rubinstein, Maryland State Policy Analyst, as he spoke before the newly appointed state commission studying pension reform for Maryland this past Tuesday. The commission's interim report is due in December, and final report in June 2011.

The $33 billion unfunded liability consists of two parts: $18 billion that the state owes to current and future retirees for retirement benefits, and $15 billion for retiree health benefits. The amount the state has actually paid in by budget allocation and return on investments represents a 64% funding rate, the commonly accepted index. This rate is very low by most actuarial and government accounting standards.
Rubinstein also stated that this paid up 64% is the lowest percentage since 1980. "And," he said, "it took us (the state) 20 years of really impressive market performance to get back to full funding." It received an occasional budget addition as well from the General Assembly.

Jeff Hooke of the Maryland Tax Education Foundation, a nonpartisan think tank, estimated that Maryland's return on pension investments since 2000 has trailed its regional peers--states such as Delaware, Virginia, and Pennsylvania--by over $3.2 billion. What this means is that if the $3.2 billion is taken from general tax receipts to help balance the pension accounts, there will be $3.2 billion less for schools, the counties, etc.

The Maryland Public Policy Institute gave State legislators a letter grade of D for their performance on pension and retirement liability legislation. In its just completed report on the General Assembly's performance, the legislature doesn't fare much better in seven more areas, and "the overall score comes to a high D." I wonder what they would have given the Governor, since he submitted the last four budgets.

To help balance the last two fiscal years of the Maryland state budgets, the legislature used more than $350 million in stimulus funds from Washington to help plug the pension gap. So, as I see it, Maryland didn't realize much "stimulus" from the stimulus funds; and, there is no more manna from Washington. Plus, it's not like it was free money, as we and our children will have to pay for it in our federal taxes. That funding well has run dry, and the state is facing a shortfall of approximately $1 billion including additional pension liability for fiscal year 2012.

To help solve its budget shortfall, will the State now "kick the can " again down to the counties or will it solve its problems more aggressively as it should have been doing beginning four years ago?

The counties continue to have their own problems. In Montgomery, the portion of pension and health funded liabilities represents a much larger percentage of total liability, approximately 80% vs. the State's estimated 64%. Montgomery has worked at solving or at least minimizing the unfunded pension liability, and currently the funding gap is approximately $753 million according to our independent actuary, Mercer and Co. For the most part, health is self-funded by the County and paid as we go.

Looking forward, given projected tax receipts (including the new outsized energy fee and other increases discussed in my October 14 Federation Corner column on the county budget), I don't see how the County will be able to fund even the additional pension liability accruing this fiscal year. Again, the wage, salary and pension terms of the contracts with the unions are likely to continue to be economically unaffordable and unsustainable. In fairness, those contracts should never have been ratified.

In the past, I quoted statements from various elected officials such as former Virginia Governor Wilder who said that raising taxes and fees should be avoided as it slows and negates economic recovery. And Governor Wilder practiced what he preached while in office. At that time, Virginia's economy began to recover more quickly and robustly than Maryland's, where we opted predominantly for more taxes and fees in the same timeframe and under the same circumstances.

As for local jurisdictions in the region, this past week both Arlington County and the City of Alexandria reported that they are now projecting small surpluses for the current fiscal year. Although they are not yet saying that they are home free, they did initially cut their budgets faster and deeper than Montgomery County in the same timeframe. Fairfax may not be far behind. To be fair, the Commonwealth of Virginia was far more aggressive in controlling its budget than Maryland at the state level. And the economic effects of counties and states do work in tandem.

Let's hope this "can" doesn't get kicked down the road again.

The views expressed in this column do not necessarily reflect formal positions adopted by the Federation. To submit an 800-1000 word column for consideration, send as an email attachment to theelms518@earthlink.net