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Battle brewing over Texas public pensions

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Texas could be gearing up for its own Wisconsin-style grudge match over public employee benefits.

A group of high-powered Houston business leaders is starting a statewide campaign to overhaul retirement for future teachers, firefighters, police officers, judges and other state and local government workers.

"I think the state needs to get the hell out of this (pension) business completely," said lawyer Bill King , who is forming Texans for Public Pension Reform with others from the Greater Houston Partnership, an über-chamber of commerce with business members representing $1.5 trillion in assets.

Taxpayers bear too much risk on behalf of public employees by providing them a guaranteed retirement that most private sector workers don't get, King said.

But advocates of the public pension system say there are ways to eliminate or reduce risk without doing away with the program.

"They don't have to destroy a system that works," said Keith Brainard, research director of the National Association of State Retirement Administrators.

He said government pensions provide retirement security for millions of Texans in a cost-effective manner for taxpayers. Research by the Center for Retirement Research at Boston College shows that professionally managed pension funds produce better investment returns than 401(k)s and cost less to administer.

King said the campaign is in its infancy, and its specific goals are still being developed. It's not clear how the campaign will get involved in next year's elections or the 2013 legislative session, but King said he is confident the campaign will soon make pensions an issue for lawmakers.

King said he would support a constitutional amendment eliminating public pensions in the state and moving all government employees to retirement accounts akin to 401(k)s. Legislators would have to approve such an amendment on the ballot when they convene in 2013.

With a pension, also known as a "defined benefit" plan, the employee and employer both contribute to a professionally managed pooled investment fund. Upon retirement, the worker draws a monthly check until death. The average annual annuity in the Employees Retirement System of Texas is around $17,500.

The alternative "defined contribution" plan puts the risk on the employee to invest the money. The account is portable for the worker, but there is no guarantee of income throughout the retiree's lifetime.

King, the son of a union pipefitter, said he was disappointed with the anti-worker tenor of the Wisconsin battle over collective bargaining rights. This campaign, he added, is not intended to bully public employees.

It's about being honest with the next generation of workers that, while current workers are legally assured of their pension, taxpayers will not be able to afford to continue such a rich benefit in the future, King said.

Pension fund leaders from across the state see no good intentions in the Houston initiative, and earlier this month they created Texans for Secure Retirement to protect the guaranteed retirement benefit for public workers.

"When there are rumblings, you sit up and take notice," said Bill Miller, a prominent Austin political consultant and lobbyist representing the employee pension groups.

Miller said he doubts that pension reformers will be able to make it a major issue in next year's legislative elections. But if they do, he said there are 2 million public pension members in Texas who will stand up and take notice.

"I'm not picking a fight, but I'm not backing off from one, either," Miller said.

Talmadge Heflin, former House appropriations chairman, agreed that it is probably too late for the pension reform group to be a major force in the 2012 elections.

But they could make waves during the 2013 legislative session, said Heflin, who has advocated for similar reforms as director of the Texas Public Policy Foundation's Center for Fiscal Policy.

"It's about time that people around the state start paying attention," Heflin said.

Texans for Public Pension Reform developed from King's interest in the City of Houston's pension liabilities. He said he was shocked when he started looking at the city's books to prepare for a possible run for mayor in 2009.

He started writing about a series of public policy issues in a frequent op-ed column in the Houston Chronicle, casting a critical eye on the city's pensions in several pieces in January.

Houston's three pension plans "are gobbling up an ever larger share of the city's budget but continue to be underfunded by billions of dollars," King wrote.

Indeed, the city's obligation to the municipal worker pension fund, for example, ballooned from 10 percent of payroll in 2000 to 50 percent in 2004 in the wake of a flawed financial analysis that underestimated the cost of improved benefits.

The most recent analysis found the fund had 63 cents for every dollar needed to cover its long-term obligations. Houston taxpayers are responsible for those obligations if the fund can't pay the tab.

"One of the fundamental questions in the impending debate will be whether it is appropriate for the taxpayers to continue to assume these risks for public employees," King wrote in a January column.

At the Greater Houston Partnership, King found others who shared his concern about the implications of pension obligations to taxpayers.

Patrick Oxford, chairman of the law firm Bracewell & Giuliani LLP, and Jeff Moseley, the head of the

Greater Houston Partnership, have joined forces with King to get Texans for Public Pension Reform off the ground.

Oxford served as a campaign chairman for U.S. Sen. Kay Bailey Hutchison's failed gubernatorial bid last year.

The campaign is separate from the official business group, but it grew out of their concerns over the Houston pension conditions, said Micah Hirschfield , vice president of communications for the Greater Houston Partnership.

"If it's a local issue in Houston, they ought to keep it a local issue in Houston," said Andy Homer, director of government relations for the Texas Public Employees Association, which has not been approached about joining the counter-effort.

The state pension funds should not be dragged into this fight because they're in good financial shape, Homer said.

Both the Employee Retirement System of Texas and the Teacher Retirement System of Texas have more than 80 cents for every dollar needed to pay their long-term obligations , a level considered to be a benchmark of a strong fund. The state funds also have tight restrictions on contributions and benefits.

There are about 1,800 public retirement systems in Texas, the vast majority of which are small cities and counties that pool their resources for investment purposes. The big cities, however, have mostly set up shop on their own and have separate plans for police, firefighters and other municipal workers.

Given the large number of plans in Texas, Brainard said, the state "has been striking in the relative absence of abuse and pension problems."

Where there have been problems, Brainard said, they have been in the big-city pensions. Those plans have fewer constraints on increasing benefits than do the state systems.

The sentiment that pensions are unsustainable gained traction across the country after the 2008 financial market collapse sank the value of funds everywhere. State and local governments failed to cover $660 billion of their $2.94 trillion in pension liabilities last year, according to the Pew Center on the States.

In 2010, eight governors made pension reform a key campaign promise with the aim of cutting government spending and appealing to tea party supporters.

Yet not one has scrapped pensions this year in exchange for a 401(k)-style system, said Stephen Fehr, a researcher with the Pew Center on the States.

The problem is that states can't save money anytime soon by doing away with pensions.

In fact, it costs more in the midterm because taxpayers must contribute more to cover the benefits accrued by retirees and current workers because new workers would no longer be chipping in to the pension, Fehr said.

When a Texas Senate committee looked in 2008 at a similar pension conversion, the committee found no compelling reason to do so.

The state's Pension Review Board at the time estimated the combined contribution from the state and employees to the Employees Retirement System of Texas would have to rise from around 17 percent of payroll to as much as 30 percent if the pension were closed to new people.

In 30 years, the contribution rate would climb beyond 80 percent .

Nevertheless, King argues that finally wiping clean the public pension liabilities is worth the higher costs now.

"It will require sacrifices in city services and higher taxes than would otherwise be necessary," King wrote. "But at least the number will be finite, unlike in our current predicament."

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