Ohio Government Pensions Should Promise They Won't Seek a Bailout from Taxpayers
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It is becoming increasingly clear that government pensions across America, including Ohio's five major government pensions, are in deep trouble. The combination of low interest rates and increased life expectancy are creating massive funding holes, as multi-decade payouts to retirees and weak-to-negative investment returns drain current and future assets. This dire outcome is not a surprise.

For over six years, Visiting Fellow Mary McCleary and I have provided numerous recommendations on how to reform government pensions. Our recommendations include moving government workers to defined-contribution plans; delaying access to government pensions to mirror Social Security; changing the formula to reflect the entire work-life of government workers, not just the three or five highest paid years; and ending elements of defined-benefit plans that drive the total cost ever higher. Regretfully, Ohio policymakers have refused to adopt any of these reforms.

In a report commissioned by the American Academy of Actuaries and the Society of Actuaries, the practice by government pensions to expect investments to provide an average annual return of 7.5% or higher is heavily criticized. The report notes that bond yields are the "most appropriate" rate to use. Doing so, however, would drive the funding ratio of the average government pensions from 72% down to just 45 percent. As the report highlights, government pensions currently don't have to adhere to the same accounting rules as private pensions have to follow. Sadly, the report is being withheld due to its controversial conclusions.

Because of the need to find higher returns, many government pensions over the last decade have shifted investments from stocks and bonds into hedge funds, which charge much higher management fees and pose substantially higher risks. Pension investments in hedge funds have increased from "5 percent of total assets in 1995 to 24 percent" in 2015. In Ohio, the trend towards higher fee, higher risk hedge funds is shocking.

Specifically, in just five years, the Ohio Public Employees Retirement System increased fees paid to external fund managers from $128 million to $428 million, with hedge funds investments hitting $13.4 billion in 2015. The return on OPERS investments in 2015 totaled a negative 0.03 percent. This horrible return is consistent with the 0.61 percent return earned last year by America's largest government pension, CalPERS. Keep in mind, these meager to negative returns have come during a national expansion. Imagine what the returns will be when America experiences its next recession.

What do government pensions want to do about this serious funding problem?

Hank Kim, the head of the national trade group representing government pensions (National Conference on Public Employee Retirement Systems), issued a response to a Wall Street Journal op-ed on reforming government pensions given the financial hole many government pensions are in. To close the roughly $1 trillion funding gap between government pension promises and assets, Mr. Kim proposed that states and localities "adopt more progressive, broad-based revenue systems with lower rates." In Main Street American terms, that means a net tax hike.

Ohio taxpayers won't know the current state of its five big government pensions until year-end results for 2016 are published. Based on the results from last year and from other government pensions, the news likely won't be good. Ohio's government pensions should pledge now that they won't follow Mr. Kim's advice to seek a bailout by taxpayers in the form of either higher taxes or higher contribution rates from government employers (i.e., taxpayers). As we have previously recommended, there are other, less burdensome, ways to reform government pensions.

Government workers shouldn't be shielded from the economic realities their private sector neighbors face every day. As Peggy Noonan so eloquently said:

> There are the protected and the unprotected. The protected make public policy. The unprotected live in it. The unprotected are starting to push back, powerfully.
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> The protected are the accomplished, the secure, the successful—those who have power or access to it. They are protected from much of the roughness of the world. More to the point, they are protected *from the world they have created.*

Indeed.