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The Ross Retort
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THE "HENRI THEORY" OF CITY EMPLOYEE PENSION FUNDS

Socialist Henri Queuille, French Premiere for a Year just after World War II, quipped that "politics is the art of postponing decisions until they are no longer relevant."

As a dedicated government functionary, having served as minister of several departments before his brief binge at le top, Henri understood the art of passing the franc to the next République.

Henri would have adored La Cité San Diego. Postponing politically charged decisions was perfected, here. Seven decades of City Manager-styled government has permitted City Council Members more buck passing opportunities than could be achieved by a platoon of patrolling deer hunters.

Additionally, voter approved term limits giving council members and the mayor a shelf-life of eight years, makes punting tough budget and politically charged infrastructure improvement decisions to the next regime de rigueur.

Today, after decades of a Henri-like fiscal philosophy called "deferred maintenance," the city maintains a $300 million backlog of infrastructure patching projects, some going back to WWII. These include crumbling sewer pipes, aging libraries, an asbestos walled city hall, weed infested canyons and sinking streets.

Now, the city employee pension fund debacle recently chronicled by *San Diego Union Tribune* reporter Phil Lavelle could make this log jam a permanent state of affairs. The budget is bleeding.

The City's $2.5 billion retirement fund is in such pathetic shape that an anonymous donor left a $100,000 transfusion at the City Manager's door like a bundled orphan on the steps of Notre Dame to ensure that retirees did not lose one of their benefits this year.

If a $720 million pension deficit is enough for heartburn, it is the billion dollars in unfunded retiree health costs that is the ulcer threatening to gobble up the city's anemic general fund—the bank account that pays for public safety, roads, parks and environmental protection.

Some of the problems were caused by the general market downturn that has affected pension funds around the country.

But, a great deal of this crisis stems from a funky system that allowed the city to "defer" retirement plan payments so that the pension fund was not adequately funded up front, and a pay as you go health care package that never did pencil out.

As it turns out, too many city employees are too healthy and living too long. Agreements with city employees to fund and pay out retirement benefits relied on old actuarial numbers.

And so, retirement managers made decisions based on more people dying within the first five years of collecting their retirement benefits than have actually obliged those expectations. According to insurance experts, a difference of a few years in such calculations means enormous amounts of money.

Since 1997 when the former City Council decided to defer retirement payments to pay for other things, like increased salaries, the city accumulated a $100 million debt to the fund.

Last November, the current City Council, in Henri-like fashion, voted to put off fulfilling the pension payment obligation until 2009. By then, the funding gap will have ballooned to over $400 million and the Mayor and half the Council will have gone on to do to other institutions what they did to this one.

Far worse is the state of retirement health care benefits. The premiums were paid by the surplus that used to be generated from a thriving pension fund. Within three years, that money will be gone, leaving the city on the hook for billions in future health care benefits promised retired employees.

Few, including the city employee's unions, paid much attention to their retirement funds' problems when the market was flying and the gaps were more than covered by investments a ten year old could effect.

In fact, the unions apparently preferred to take salary raises in the moment rather than demand the city fully fund their retirement programs for the future.

There was some logic to that approach. By paying higher salaries instead of paying into the fund, the city allowed employees a shot at buying into the housing market which historically rose faster than almost any investment.

The city could issue pension obligation bonds to repay the $100 million it currently owes the retirement fund, the old put it on the credit card method, and renegotiate its health care promises. City employees could also sue.

In any foreseeable scenario, a long straw will go into the general fund, which mostly covers employee salaries and benefits.

C'est vrai, Henri the French socialist would simply raise taxes and create new fees. On second thought, he would defer a decision until at least 2009.