Policy Highlighter
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State Employee Contracts, Unfunded Liabilities Unsustainable

Already put-upon taxpayers face a future fiscal tidal wave thanks to generous state employee contracts and unfunded healthcare and pension liabilities. Even as Governor Gregoire repeatedly talks about the dire condition of the state's economy—"the worst recession since the Great Depression"—she refuses to declare a fiscal emergency and require union contracts to be renegotiated. Meanwhile, majority party lawmakers, rather than getting spending under control, are busy considering a myriad of tax increases.

State Employee Contracts
In the midst of an economic downturn, a $2.8 billion budget deficit and a dismal unemployment rate, the bottom line is the current level of state employee salaries and benefits is unsustainable.

Approximately one in five workers in this state is a government employee. According to the Bureau of Economic Analysis, these employees earn nearly $19,500 more per year, per worker in annual salaries and benefits (excluding pensions) than the average private sector employee. The state covers all but 12 percent of health insurance costs for state employees. That's a good deal for public workers, but it means the other 88 percent of state worker health benefits are paid by taxpayers. By comparison, private sector employees typically pay around a quarter to a third of their health insurance premiums.

Let's take a look at three specific examples: state employees' health care, retirees' health care and state pensions, all of which are ticking fiscal time bombs.

Quick Summary

- *Washington state faces a bleak fiscal future due to employee contracts and unfunded health care and pension liabilities.*
- *Unfunded retiree health benefits are reported between $7.9 and $10 billion.*
- *It will take 10 to 20 years for Washington state's pension system to recover losses.*
- *The Legislature should declare a fiscal emergency and renegotiate union contracts.*

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For more information, visit www.effwa.org or call 360-956-3482. The Evergreen Freedom Foundation is a private, non-profit, public policy research organization in Washington State. Our mission is to advance individual liberty, free enterprise, and limited and accountable government. We do not accept government funds.

State Employee Health Care

In December 2009, the State Insurance Commissioner Mike Kreidler advised the governor that the Health Care Authority, which oversees the state's seven health care programs, had lost a quarter of a billion dollars. In fact, he stated that if the HCA were a private company under his jurisdiction, "the HCA would be subject to receivership proceedings, potentially mandatory."

Also in 2009, to balance the budget, the Legislature assumed a 3 percent rise in medical and dental costs per year. In fact, the actual increase was 10 percent, mostly from greater usage.

How have state leaders responded the situation? Governor Gregoire wants another $100 million from the General Fund to bail out the HCA. The Senate recently introduced its budget, including a $39.4 million bailout of the HCA. The House is proposing to allow agencies to operate with cash deficits as long as the deficit will be liquidated by June 30, 2011. This means agencies may operate in the red until it is convenient for legislators to address the problem with a supplemental budget, which would likely be after the 2010 elections.

Retiree Health Care Benefits

Financial services company Credit Suisse reported that Washington has an unfunded retiree health care liability of $10 billion. Pew Center on the States pegs that same figure at $7.9 billion.

These are not contractual benefits, like pensions, but they are promised benefits, and they are accruing obligations, which the next generation will have to pay.

Pensions

The state pension system is faring even worse. State Actuary Matthew Smith has warned that unfunded pension problems have grown due to "delayed and suspended contributions, increased benefits and investment losses." He went on to recommend "a shift in focus to identifying, measuring and managing retirement system risks. Without such a plan to manage these risks, the retirement systems as we know them may not be sustainable."

Aside from a general decline in the value of Washington state pension funds, budget realities and political preferences combined to produce a perfect storm. Legislators skipped payments to the state's pension fund for the fiscal years ending in 2003, 2004 and 2005. They also chose to ignore Smith's recommendation that the state recognize longer lifespans for state employees.

Further compounding the problem, the Washington State Investment Board risked more of its pension portfolio—25 percent—on private equity than on any other major state plan. In 2007, the private equity market began to falter, and $154 billion worth of leveraged buyouts were pulled.

In 2009, the Legislature decreased contributions to the pension system in response to decreased revenue caused by the economic downturn.

The result? Because of the drop in pension investments, Smith is projecting "a 30 to 40 percent drop in funded status." He estimated it will take 10 to 20 years to recover the investment losses. This includes tripling contributions from all employers (including school districts) and the state General Fund for the next twelve fiscal years. (See the chart on the following page.)

Projected Employer Contributions		
(Dollars in Millions)	GF-S	Total Employer
2009-11	$661.0	$1,739.6
2011-13	1,357.4	3,429.1
2013-15	1,887.9	4,765.7
2015-17	2,321.2	5,866.1
2017-19	2,730.8	6,922.6
2019-21	$3,008.3	$7,582.6

Note: Excludes LEOFF 2.

The Solution

Taxpayers should not be continually forced to fund overly-generous state employee salaries and benefits, especially in the context of an economic downturn and budget crisis.

During her December 2009 press conference presenting her state budget within existing revenues (read: no new taxes), Governor Gregoire said unions would sue if she tinkered with state employee contracts. However, Washington's collective bargaining laws allow labor agreements to be modified in the event of a significant revenue shortfall.

RCW 41.80.010(6) states: "*If after the compensation and fringe benefit provisions of an agreement are approved by the legislature, a significant revenue shortfall occurs resulting in reduced appropriations, as declared by proclamation of the governor or by resolution of the legislature, both parties shall immediately enter into collective bargaining for a mutually agreed upon modification of the agreement.*"

The unions may negotiate how the savings are achieved (salary or benefit modifications, furloughs, lay-offs, etc.) but the savings themselves are non-negotiable if a fiscal emergency is declared.

Because the governor has refused to reopen contracts with state workers, it's up to the Legislature to act.

The Legislature should declare a fiscal emergency and immediately renegotiate employee salaries and benefits.