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John Charles Thomas: Florida faces pension crisis

Benefits for police, firefighters are unsustainable

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John Charles Thomas - My View

With state and local budgets in fiscal free fall, many of Florida's cities are looking at their revenues and expenses to judge how to improve their fiscal responsibility. But when we look at the long-term picture for cities, one issue in particular leaps out as something that could burden city taxpayers terribly in the years ahead.

The trouble stems from a series of laws and other measures that have significantly increased pension benefits for police officers and firefighters and transferred more and more future costs onto city property taxpayers. These unsustainable pension policies for police and firefighters threaten to put Florida's cities on a road to ruin, setting the stage for financial emergencies and 1970s-style fiscal crises.

In 1999, the Legislature passed a pension law that required a major source of pension revenues to be spent exclusively to offer new and "extra" pension benefits for police and firefighters. These "extra benefits" include bonuses such as a lower retirement age, shorter vesting periods, higher cost-of-living adjustments and a "13th monthly check."

The effect of these and other policies has been to massively increase cities' funding liabilities and to create a structural deficit that worsens with every passing year. As a result, many cities are now paying 30 percent, 50 percent, even more of a police officer or firefighter's salary toward funding their future pensions. In comparison, the state typically pays 20 percent to 25 percent of an employee's salary toward the Florida Retirement System.

These "extra" pension benefits already have forced cities to spend $284 million on new pension liabilities since 1999. This represents $284 million that could have gone to provide relief for city property taxpayers.

But the more serious problem is that the pension structure has been rigged so that the long-term cost of the more generous benefits will swiftly and steadily outgrow the funds that the Legislature has designated for them. As the cost of these benefits grows over time, the burden will be a hidden structural deficit for cities that will increase exponentially over time and will fall on cities' property taxpayers.

For example, if there were $100 in available revenues in the first year new benefits were offered, the pension benefits would cost the city just $100. But the system is such that, in the second year, the same $100 would have to cover $105 in benefit costs, assuming that the cost of the benefit increases at 5 percent a year. By the tenth year, cities would face costs of $155 with just the $100 to pay for them. And by the 30th year, cities would face an astounding $411 in pension costs — with only the same original $100 to pay for it.

If this sounds like a crazy system, that's because it is. And as costs multiply each year, city taxpayers will have to pay the difference between pension costs and available pension revenues — a gap that will only expand year by year.

To past Florida leaders, these pension commitments for police and firefighters were easy to promise. For Florida's cities and their citizens, however, these retiree entitlements will be extremely expensive to deliver.

The Florida Legislature must act to correct this imbalance soon, before funding liabilities for public pensions cripple city budgets. If they fail to act, dozens of cities could eventually be in a financial emergency.

For the city property taxpayers who pick up the tab, the result of paying for exploding pension costs could well be rising taxes, crime and urban decay — even as their cities are forced to curtail the critical services that safeguard Florida's quality of life.

Additional Facts

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