

OUR EDITORIALS

Retirement reform

Lawmakers should adopt Senate version of teacher retirement incentive to save more money

State lawmakers now have two versions of teacher retirement legislation and will try to craft a compromise in a conference committee made up of House and Senate appointees. This must be done carefully. While each version has its good points, the Senate approach represents true reform and should heavily influence the final product.

A Senate Fiscal Agency side-by-side analysis of the two bills shows why. The Senate proposal, sponsored by Sen. Jud Gilbert, R-Algonac, would save less, \$211 million, in the 2011 budget year, but bring \$2.8 billion in cumulative savings from 2011 through 2020. The House plan would save more up-front, \$768 million in 2011, then become an increasing cost for five years in a row and finish with savings totaling just \$754 million over the 10-year period.

The question becomes one of political philosophy. Should the state go for maximum savings or can it afford to save less to reward teachers?

Under the House version, which sweetens Gov. Jennifer Granholm's proposed buyout plan, the pension incentive would be higher to encourage as many as 39,000 of them to retire. Starting in the next budget year, remaining teachers would be assessed 3 percent of their salary toward their traditional pension plans.

Teachers whose years of service and age totaled 80 would be eligible. Most would be replaced by younger teachers with lower compensation.

Assuming 70 percent of eligible employees took the buyout, the House version would add to school costs from 2012 through 2016 as all those new retirees collected enhanced pensions and used their retirement health benefits. The added cost would be \$33.8 million in



Granholm

2012 and rise to \$407 million in 2015 and 2016 before producing annual savings again — of \$300 million a year — from 2017-2020. Net savings over a decade: \$754 million.

The Senate version isn't a buyout, although it might prompt some teachers to retire. By charging teachers 3 percent of pay toward their pensions from now on, it would save about \$211 million next year and that would rise as high as \$363 million in 2020, for cumulative 10-year savings of \$2.8 billion.

Underlying the debate is a problem similar to the one that auto companies have with their legacy costs. Funding of teacher pensions and health care currently costs about 16.5 percent of annual school district budgets, or \$360 per pupil.

Without changes, that's projected to climb steadily, according to the nonpartisan Citizens Research Council of Michigan, which notes that school spending pressures are growing at a 4.7 percent annual rate but tax revenues supporting schools are only growing 3 percent. Lawmakers should opt for a compromise that more closely resembles the Senate's proposal. The state faces a budget shortfall exceeding \$1.5 billion in 2011 and can't afford to reward retiring teachers with a substantial bonus.

Nearly \$1 billion of that shortfall is structural. It will continue to hamper Michigan's recovery until state leaders come to grips with government's unaffordable spending patterns and enact reforms.

