

Public Pensions in Washington State:

INSURING ECONOMIC SECURITY FOR RETIREES



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Executive Summary

Pensions enable retirees to live out their older years in dignity. In the United States, an employer-provided retirement plan has long been considered an essential complement to Social Security and personal savings to ensure retirees have satisfactory incomes and certainty for household finances. However, public pensions have increasingly come under attack as private sector employers have scaled back their pension offerings to all but the most highly compensated employees, and public budgets have been decimated by a deep recession and anti-tax ideology.

In contrast to some states, Washington has 99% of its public pension obligations funded – the state’s public pensions are in good financial shape. These combined pensions have net assets of \$57.6 billion (as of June 30, 2010), having gained \$5.5 billion in the past year.¹

Washington state’s public pensions provide adequate and appropriate retirement security. The current median public pension benefit is \$18,182 a year. 78% of public pensions are less than \$30,000 a year.² 475,000 workers and retirees are members of these public pension systems – one out of every fourteen residents in Washington state.

Pension benefits result in \$3.5 billion a year in state economic activity, as well as 23,000 jobs. For every dollar contributed by public employers for pensions, over nine dollars is generated in our economy, and through the multiplier effects of consumption expenditures, 40% of those public contributions are returned as tax revenues to public entities.³

Public pensions deliver regular, dependable monthly benefits to retired public servants. This is in stark contrast to the private sector, where half of workers lack any employer-based retirement plan and risky defined contribution plans have become the norm.

Individuals and businesses in Washington and across the country have more money, income and wealth than 30 years ago when public and private sector pensions were strongly supported. To universalize adequate retirement security for Washington residents, and minimize the public costs of care and subsistence income for low-income retirees, Washington should continue to responsibly fund our public pensions and enable private sector employees to participate in comparable pension systems that provide similar certainties of outcome, and, most of all, peace of mind.

The Context: A Patchwork of Pensions

In the United States, retirement income is typically based on some combination of the following systems, along with accumulated savings and assets:

1. Social Security
2. Private defined benefit pensions
3. Private defined contribution plans
4. Public state and local defined benefit pensions

Social Security

Social Security is a universal defined benefit pension, as well as insurance for disabled workers and their families and survivors of deceased workers. Monthly retirement benefits can be drawn as early as age 62, paid for by Social Security payroll tax receipts, the interest on the Treasury bonds held in the Social Security Trust Fund, and, eventually, the surplus of the receipts that compose the Social Security Trust Fund. Currently, the Trust Fund has a surplus of \$2.6 trillion.

Social Security's protections and future benefits are completely portable – and contributions are made no matter where you work. Social Security benefits are also progressive, meaning that lifetime low wage workers will get a greater proportion of their pre-retirement wages in benefits, while better-off workers will receive a higher actual benefit, but a lower proportion of their pre-retirement wages.

Because of these elements, Social Security has enabled the vast majority of people over age 65 to live in dignity above the poverty level, while actually reducing government expenditures (such as low-income housing, nursing home care, and Medicaid) provided to the very poor. The average Social Security benefit is about \$1,200 a month.⁴

Social Security is a strong system, but for a comfortable retirement, workers need pensions to supplement Social Security income.

Private defined benefit pensions

In the private sector, defined benefit pensions were common 30 years ago. These pensions guaranteed a benefit that was calculated from work history and wages. An employee was required to work for an employer for a certain period of time, typically five years, before being entitled to a pension upon retirement (the vesting period). The employer⁵ paid into the retirement fund, and retained the fiscal responsibility to insure those funds were secure.

While the retirement payments were certain for life,⁶ the typical benefit did not include an inflationary cost-of-living adjustment, so the purchasing power of benefits has diminished over time.⁷

Of those employees in an employment-based retirement plan, 62% were in a defined benefit plan in 1978. By 2008, participation had fallen to 7%.⁸ Employers have terminated over 100,000 defined benefit pension plans in favor of defined contribution plans, thereby shifting the risk of retirement funding entirely to employees.

Private defined contribution plans

Defined contribution plans are funded primarily by the employee, out of their earned compensation. Employers can match employee contributions, simply contribute irrespective of employee contributions, or contribute nothing.

The employee, not the employer, is responsible for managing the money in these accounts, and the risk of the account portfolio rests entirely on the employee's

shoulders. The typical account balance lost one-third of its value in the stock market crash of 2008, and has not yet recovered the value it held in 2003.

At year end 2009, the median balance in defined contribution accounts for those who had them was \$17,794.⁹ This would establish a portfolio valued at \$18,000, an annuity income stream at retirement of \$100 a month - **one tenth of the average defined benefit annuity.**

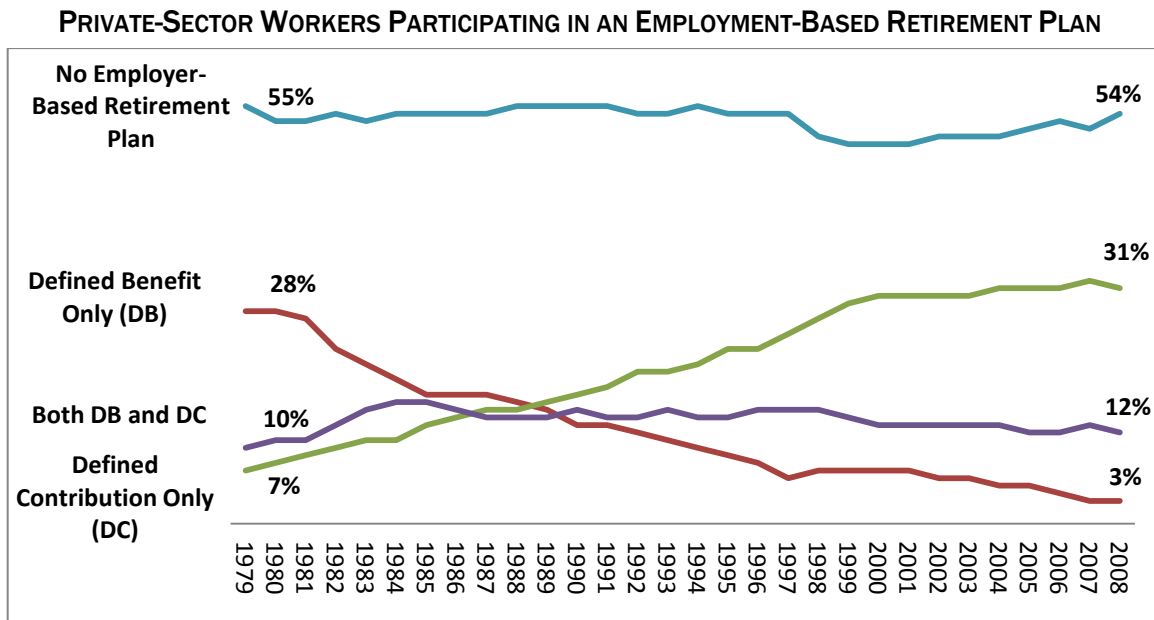
Since 1978, employers have switched from defined benefit plans to defined contribution plans, negating any responsibility or obligation for their employees' retirement security. The number of defined contribution plans has doubled. Of those private sector employees in an employment-based retirement plan in 1978, 16% were in defined contribution retirement plans. In 2008, 67% were in these plans.

Many have no retirement plan at all

Of course, employers can also choose not to offer any type of retirement plan. Currently, 54% of all private sector workers are not covered under a defined benefit pension or a defined contribution plan.¹⁰

The switch to defined contribution plans, the shrinking of pension benefits, and the majority of private sector workers left outside of any plans for retirement savings are part of a great shift undermining a middle class quality of life, diminishing corporate social responsibility, and increasing corporate profits.

While workers witnessed diminishing pensions, corporate profits enjoyed their best year ever in 2010, growing 37% to \$1.24 trillion, with the financial services industry taking \$367 billion of this.¹¹



Source: EBRI, *FAQs About Benefits—Retirement Issues*, Figure 1: <http://www.ebri.org/publications/benfaq/index.cfm?fa=retfaq14fig1>

Public Pensions in Washington State

Beginning in 1937, Washington state developed a network of pension plans to enable financial security in retirement for its public servants, starting with judges, then including teachers, state employees, firefighters, police, social workers, natural resource and parks employees, and other public employees.¹²

Currently there are over 300,000 members contributing to these pension plans in Washington state, 130,000 beneficiaries, and another 45,000 former workers who have vesting rights when they meet the qualifications for retirement. All told, active members, retirees, and other workers with vesting rights make up one out of every fourteen Washington residents.

The Public Employees Retirement System (PERS) and the Teachers' Retirement System (TRS) – Washington's two largest public pension plans – have three different sub-plans. PERS 1, TRS 1, and LEOFF 1 were closed

to new employees as of September 30, 1977. New state employees and teachers can now choose between PERS 2 or PERS 3, or TRS 2 or TRS 3. New police and firefighters participate in LEOFF 2.

Most members of LEOFF are not covered by Social Security. Generally all other public employees in public pension retirement plans have paid into Social Security and are eligible for Social Security benefits.

LEOFF 1 retirees, former police and firefighters, are entitled to health coverage from their former employers - local governments. State and school district employees are eligible to enroll in the state's Public Employees Benefit Board health coverage upon retirement for pre-Medicare coverage and Medicare supplemental coverage (when they become eligible). A very limited number of local government employees are eligible for this health coverage.

WASHINGTON STATE PENSION PLANS BY EMPLOYEES COVERED¹³

Pension Plan	Employees Covered	Number of Employees	Number of Retirees
Public Employees Retirement System (PERS)	State & local govt. employees, elected officials, legislative committees, community/technical colleges, classified employees of school districts, district/municipal court judges, some employees of the Supreme, Appeals, Superior Courts	159,235	74,857
Teachers' Retirement System (TRS)	K-12 teachers	67,388	39,927
School Employees Retirement System	All classified employees of school or educational service districts	52,474	4,629
Law Enforcement Officers' & Firefighters' Retirement System (LEOFF)	All full-time, fully compensated law enforcement officers and fire fighters and emergency medical technicians	17,307	9,454
Public Safety Employees Retirement System	All full-time public safety officers at select state agencies, counties and cities, except Seattle, Spokane and Tacoma	4,340	2
WA State Patrol Retirement System	Commissioned employees of the Washington State Patrol	1,094	831
All Pension Plans Combined	State and local employees	301,838	129,703

Financial status of Washington’s public pensions

Washington’s pension plans are well-funded. In fact, Washington is one of just four states with 99% or more of its combined pension obligations funded. The pension plans that are open and accepting new employees – all the Type 2 and 3 plans – are funded at 118% of future liabilities.¹⁴ These plans include the vast majority of public employees - 286,000 of the total of 302,000 working public servants covered by public pensions.¹⁵

PERS 1 and TRS 1 are the plans now closed that cover public employees and teachers who began employment prior to October 1, 1977. PERS 2 and 3 plans reduced public servant pensions, decreasing the state’s

financial responsibility for its retirees’ economic wellbeing, shifting some risk and increasing the cost of retirement to employees.

Washington state did this in 1977 – over thirty years ago. As a result, Washington is now seen as a leader in responsible public pensions. But it is worthwhile to note that this “reform”, as acclaimed across the country,¹⁶ entails a reduction in pension benefits. The individual retired employee has less money for his or her economic security and quality of life. So the mandated closing of Type 1 plans, with new employees funneled into Type 2 and 3 plans, is not a decrease in total economic costs. This “reform” merely shifts costs to retirees.

THE STATUS OF WASHINGTON STATE PUBLIC PENSION FUNDS, IN MILLIONS OF DOLLARS

	PERS		TRS		LEOFF		WSPRS	All Plans
	Plan 1	Plan 2/3	Plan 1	Plan 2/3	Plan 1	Plan 2	Plans 1/2	
Accrued Liability	\$13,945	\$15,701	\$10,838	\$5,213	\$4,477	\$4,325	\$758	\$ 57,473
Valuation of Assets	\$9,776	\$18,260	\$8,146	\$6,160	\$5,612	\$5,564	\$900	\$ 56,991
Unfunded Liability	\$4,169	\$(2,559)	\$2,692	\$(947)	\$(1,135)	\$(1,239)	\$(142)	\$482
Funded Ratio	70.1%	116.3%	75.2%	118.2%	125.4%	128.6%	118.7%	99.2%

Source: Office of the State Actuary, 2010 Risk Assessment, Main Body Report, p. 13:
http://osa.leg.wa.gov/Actuarial_Services/RiskAssessment/RA.htm

Who pays for public pensions

Public pension benefits are paid for out of trust funds administered by the State Investment Board. Contributions to these trust funds come from employees and their public employers. The rates are recommended by the state actuary, and are established only after review, revision and approval by the Legislature.

Currently, public employees - with the exception of police and firefighters working before October 1, 1977 - are required to contribute between 3.14% and 8.46% of their wages to their respective public pension funds.¹⁷

As with any defined benefit pension, the employers of these public servants, that is, the local and state governments and the citizens who comprise the body politic, also contribute to these trust funds. Their contributions range from 5.31% to 8.62% of employee wages.¹⁸

Pension contributions are paid in advance of the actual retirement date of current employees, building up a trust fund (“pre-funding”) that is invested by the State Investment Board in liquid assets and real estate in global markets. The predicted annual rate of return from these investments is 8%. The actual annual average rate of return

from 1991 through 2010 was 8.23%.¹⁹ With an investment portfolio of \$79.4 billion,²⁰ these trust fund investments generate an expected 75% of total pension income.²¹

How are benefits determined – and are they adequate?

Each plan has a slightly different formulation to determine benefits. Factors include years of service, age of participant, and average final compensation.

Pension benefits are calculated using a formula based on an average of an employee’s highest earning years. In PERS 1 and TRS 1, the average is calculated using the employee’s two highest earning years. In PERS 2 and TRS 2 it is the five best years. For a worker earning \$52,000 before retirement, the increased number of averaged years can drop his or her pension significantly – by more than \$1,500 a year.

The current median public pension benefit is \$18,182 a year, according to the Washington State Treasurer. 78% of public pensions are less than \$30,000 a year.²²

The average annual benefit for all retirees of all these systems combined was \$19,917 in 2009.²³ Compare this to the total necessary annual income from the elder Economic Security Standard in our state.²⁴

How Pensions Work

EXAMPLE: JOE THE GROUNDSKEEPER

Joe, age 60, has worked as a groundskeeper for 26 years. Because of a bad back, Joe plans to retire early at age 62. He is enrolled in PERS 2.

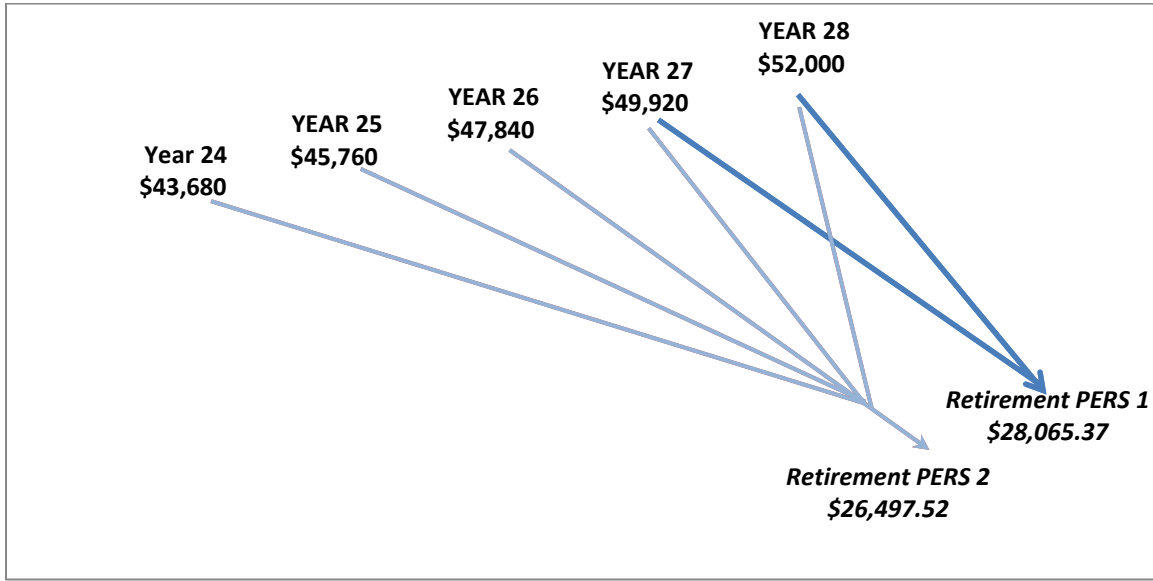
To calculate Joe’s pension benefit:

28	x	2%	=	56%
working years		PERS 2 multiplier		Joe’s pension multiplier
56%	x	\$37,000	=	\$20,720
Joe’s pension multiplier		Average wage of 5 highest-earning years		Pension benefit with retirement at age 65
.724	x	\$20,720	=	\$15,001
Early retirement penalty		Pension benefit with retirement at age 65		Early retirement annual pension
Joe’s monthly pension benefit: \$1,250				

ELDER ECONOMIC SECURITY STANDARD INDEX FOR WASHINGTON, 2010

Average Public Employee Retiree Benefit - 2009	Elder Person (age 65+)			Elder Couple (both age 65+)		
	Owner without mortgage	Renter	Owner with mortgage	Owner without mortgage	Renter	Owner with mortgage
\$ 19,917	\$18,336	\$21,492	\$28,620	\$28,104	\$31,260	\$38,388
Annual Difference	\$1,581	\$(1,575)	\$(8,703)	\$(8,187)	\$(11,343)	\$(18,471)

EXAMPLE OF 5 YEAR (PERS 2) VS. 2 YEAR (PERS 1) AVERAGING FOR PENSION CALCULATION



FACTORS FOR DETERMINING ELIGIBILITY FOR RETIREMENT AND PENSION

	PERS 1	PERS 2	TRS 1	TRS 3	LEOFF 2
Years of service and/or age for retirement	30 years	Age 65	30 years	Age 65	Age 53
Years to vest for minimum pension	5 years	5 years	5 years	varies	5 years
Average final compensation determination	2 years	5 years	2 years	5 years	5 years
% of AFC (times years of service) to determine pension	2%	2%	2%	1%	2%

Cost of Living Adjustments (COLA)

Social Security has an automatic COLA to keep up with inflation. The Washington state minimum wage has an automatic COLA. Retirees on pensions need to be able to keep up with inflation. Recognizing this, the legislature established COLAs for public employee retirement plans in 1989.

Currently Plan 2 and 3 retirees receive a COLA tied to inflation, not to exceed 3%. At retirement, Plan 1 retirees chose either the same COLA mechanism as Plan 2 and 3 retirees, or they get a COLA calculated by years of service times \$1.78. So a retiree who worked for 25 years would receive a monthly COLA of \$44.50, irrespective of final compensation and current retirement income. That averages out to 2.8% of the

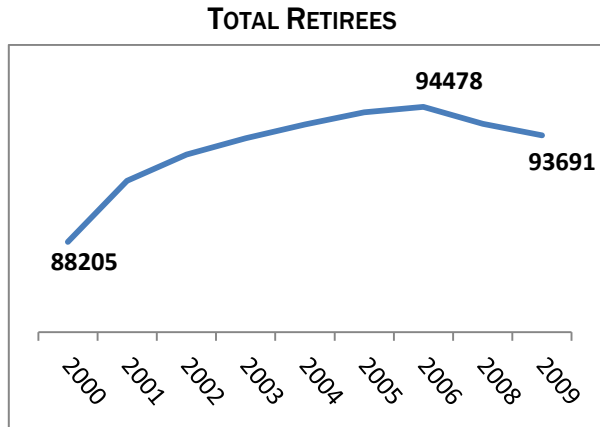
median PERS/TRS 1 retirement benefit. This system is good, as it provides COLAs,²⁵ but has a downside: when inflation exceeds 3%, retirees lose purchasing power.

Current Status of PERS 1 and TRS 1

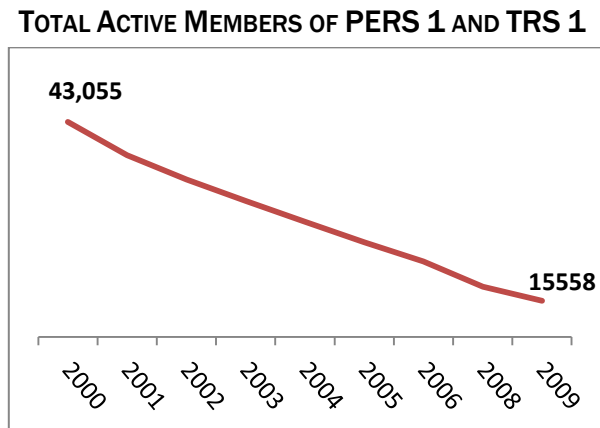
From an annual snapshot, PERS 1 and TRS 1 are doing well. They pay out all benefits to retirees without fail. Their net assets increased in the past 12 months. For PERS 1, net assets, calculated after paying out over \$1.1 billion in benefits, were \$7.6 billion as of June 30, 2010, an increase of \$59 million over the previous year.

For TRS 1, net assets, after paying out over \$860 million in benefits, were \$6.4 billion, an increase of \$90 million.²⁶ Further, the number of retirees drawing pension benefits from

these programs peaked in the middle of the past decade, and will continue to slowly diminish over time. As mortality takes its toll, the cost of pension obligations decreases.



Source: Washington State Department of Retirement Systems²⁷



Source: Washington State Department of Retirement Systems²⁸

However, in the long run both PERS 1 and TRS 1 are underfunded because each year there are fewer active employees paying into these plans as older workers retire. As a result, employer contributions are diminished as well.

Secondly, the state government failed to adequately fund PERS 1 and TRS 1 after these

systems were closed to new employees. This failure to amortize (that is, to gradually pay down through a series of periodic payments) the unfunded liabilities of these plans compounded their underfunded status, especially since timely payments would have been put to work earning money for the PERS and TRS trust funds.

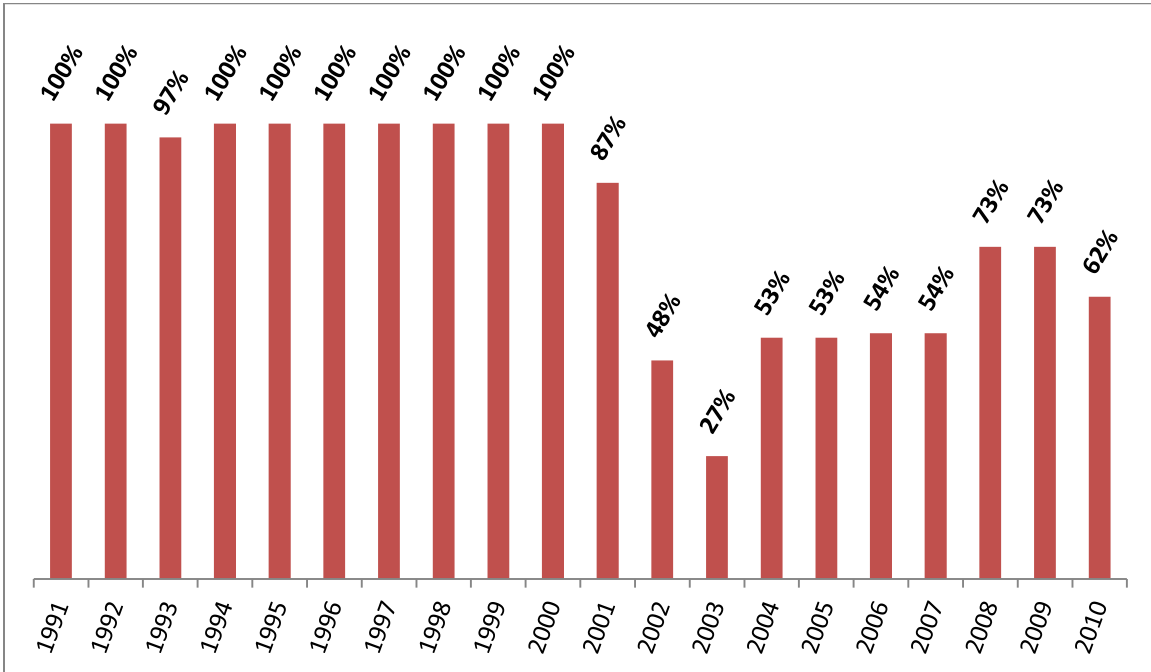
In 1989 the Legislature did agree to a funding formula for setting pension system contribution rates, and stuck to the rules for systematic funding in the 1990's. As a result, by 2000, PERS 1 was funded at 99% of projected liabilities and TRS 1 was funded at 100% of projected liabilities.²⁹

But starting with the 2001 recession, payments into the trust fund fell off to just one-quarter of the recommended actuarial funding. Even during the economic upturn from 2004 through 2007, payments remained at a little more than one-half of the recommended funding.

The stock market boom provided cover and comfort to the Legislature as it underfunded the trust fund in the past decade. Returns averaging 17% from 2004 through 2007 more than doubled the target for growth. But with the advent of the great recession, returns plummeted to -1.2% in 2008 and -22.8% in 2009, wiping out a third of the gain achieved in the previous four years.³⁰

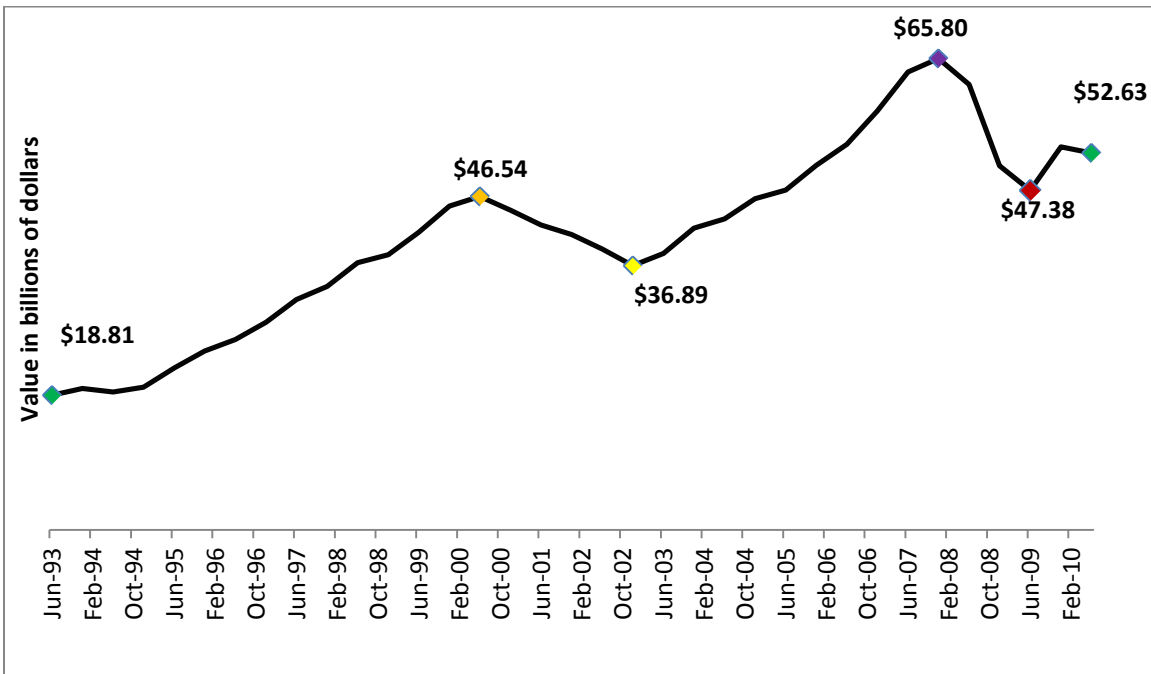
This compounded the systemic underfunding of contributions, resulting in an increasing unfunded liability. As a result of these misjudgments, PERS 1 has assets valued at \$9.8 billion, with accrued liabilities of \$13.9 billion. Its unfunded liability is \$4.2 billion, and its assets cover 70% of its liabilities.

**AVERAGE PERCENT OF ACTUARIALLY DETERMINED CONTRIBUTIONS MADE BY FISCAL YEAR
(PERS, TRS, AND SERS COMBINED)**



Source: Office of the State Actuary, 2010 Risk Assessment, Main Body Report, p.18:
http://osa.leg.wa.gov/Actuarial_Services/RiskAssessment/RA.htm

WASHINGTON STATE INVESTMENT BOARD COMMINGLED TRUST FUND MARKET VALUE ANNUALIZED RETURNS



Source: Washington State Investment Board, CTF Historical Market Values and 1 Year Returns for Fiscal Year and Year End:
<http://www.sib.wa.gov/financial/pdfs/ctfhistorical2.pdf>

What’s the difference between PERS 2 & 3 and TRS 2 & 3?

Between 1995 and 2000, Washington’s Legislature enacted new plans for teachers, other school employees, and state employees. The intent was to establish a hybrid defined benefit/defined contribution system. In doing so, the state’s responsibility for pension payments are cut in half (calculated by 1% per year of service vs. 2%).

Employees are required to contribute to the defined contribution retirement plan, at rates ranging from 5% of compensation to 15%. Employees can direct these contributions into the Washington State Investment Board Total Allocation Portfolio, or into a self-directed portfolio.

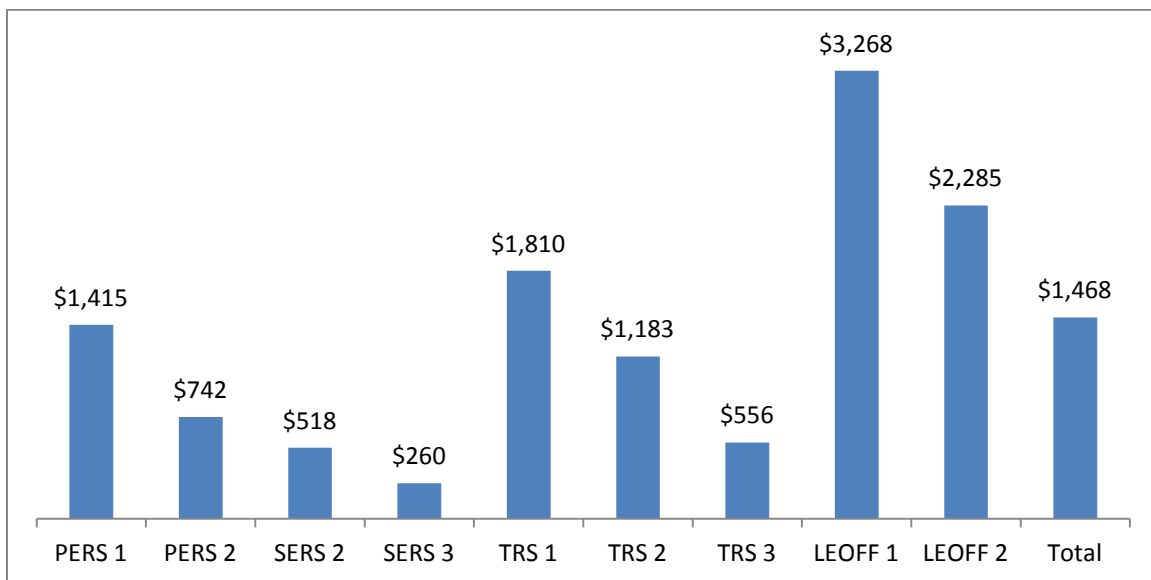
All teachers hired between 1996 and 2007 were required to join Plan 3. Currently, newly hired teachers and other public employees default into Plans 3, but they can affirmatively choose Plan 2.³¹ As of 2009, 85% of TRS 2 and 3 members were covered under TRS 3.³²

The public sector defined contribution plans – much like their private sector counterparts – were extremely appealing when the stock market was doing well. This was even more evident when a “gain-sharing” incentive was in place for Type 3 members.

“Gain-sharing” created a mechanism for lump-sum increases to defined contribution accounts.³³ When the previous four-year compounded average for pension investment returns exceeded 10%, members would get half of the excess in their individual defined contribution accounts.^{34,35}

The Legislature repealed gain-sharing in 2007, and established enhanced early retirement benefits.³⁶ But the stock market crash and the subsequent volatility of the market has decreased the value of individual defined contribution plans. Thus, as employees bear total responsibility for the performance of their defined contribution portfolio, retirement savings are less certain and less dependable.

MEDIAN MONTHLY PENSION BENEFITS BY PENSION PLAN



Source: Merchant, Shawn, DRS Calculations, retirees as of 6/30/09; e-mailed 4/11/2010;
Totals include 4 pension plans with fewer than 1,000 retirees each.

How public pensions benefit Washington economy

Washington’s public pension system delivers \$216 million a month to 130,000 retired employees - almost \$2.6 billion per year. These pension dollars are typically pumped directly into the local economy, as pensioners tend to spend all their benefits where they live.

As a result, each \$1.00 in pension benefits results in \$1.37 in economic activity in Washington state - \$3.6 billion year in the aggregate in 2009.³⁷ When looking only at public contributions, the ratio of cost to economic impact is even more impressive.

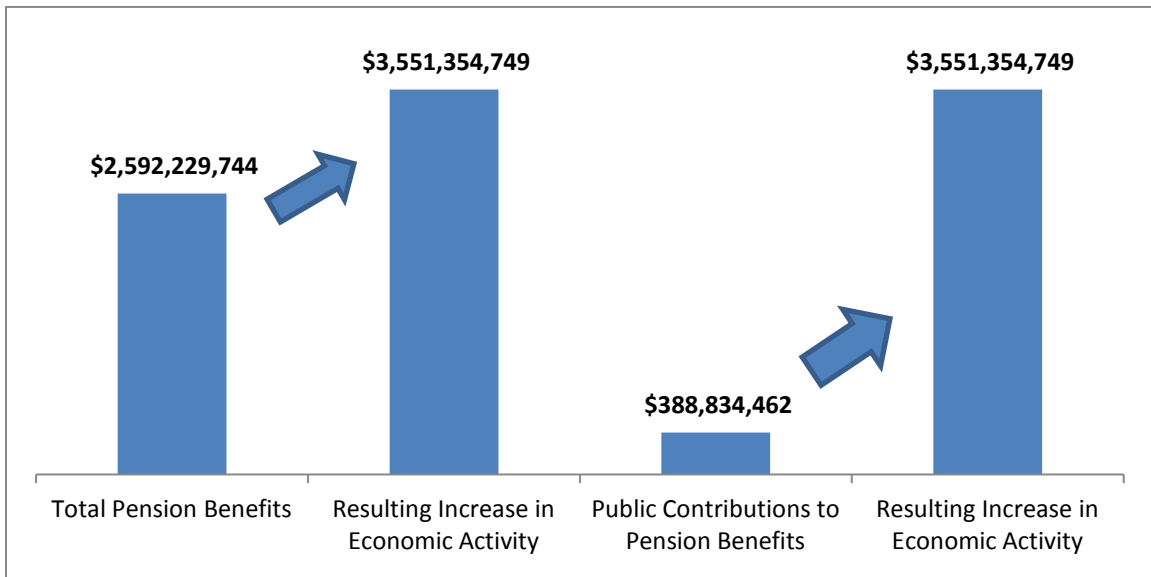
A full 75% of the value of pension benefits comes from investment assets and earnings. Employees pay about 10% of the remainder, while the public contributes about 15%. Thus,

for every \$1.00 in public contributions, there is a \$9.69 increase in economic activity.

The impact of pension benefits on jobs is also significant. In 2006, expenditures from pension benefits supported over 21,000 jobs in Washington state. Direct payments for goods and services resulted in the majority of these jobs, with the resulting employment and consumption effects of these expenditures accounting for further job creation.³⁸

In 2006, the direct and indirect impacts of the expenditure of pension benefits resulted in increased state and local tax revenues of \$149 million. State and local governments in effect earn back 40% of their annual cost of pension benefits, through the transmission of these benefits into local purchases, the economic multiplier effect, and consequent increased tax revenues.³⁹

PENSION BENEFIT IMPACTS ON WASHINGTON STATE ECONOMY, 2009



Multiplier from Almieda, Beth, and Biovie, Ilana, National Institute on Retirement Security, February 2009, "Pensionomics: Measuring the Economic Impact of State and Local Pension Plans, p. 8: <http://www.nirsonline.org/storage/nirs/documents/Pensionomics%20Report.pdf>; monthly benefit calculations from Merchant, Shawn, DRS Calculations, retirees as of 6/30/09; e-mailed 4/11/2010.

Proposals for Washington's Public Pensions

Governor Gregoire's Proposal

In Washington state, Governor Gregoire is proposing to "reform" and "modernize" public pensions for the 21st century. However, the substance of these proposals has the effect of cutting benefits and further shifting costs to retirees. The Governor suggests two significant cuts to pensions:

1. Eliminating the COLA for all PERS 1 members except those who currently receive the absolute minimum. This would be a cost shift of \$860 million in the next biennium and a cumulative \$8.5 billion for the next twenty-five years,⁴⁰ to be borne by current and future retirees. This proposal is contained in House Bill 2021.⁴¹
2. Decreasing benefits for Plan 2 employees with 30 or more years of service who retire before age 65. The sensibility of this proposal is undermined by the fact that current funding ratios for these plans range from 116% to 118%.

However, even if these proposals are passed by the Legislature, they may be nullified by the longstanding court ruling "Bakenhus vs. City of Seattle", which found pension benefits are contractual rights.⁴²

Under that ruling, diminishment of benefits retroactively applied to current workers and retirees could be considered a breach of contract, and therefore may be illegal.

Recently, the Washington Education Association, the Washington Federation of State Employees, and other unions and advocates for public employees sued the state to disallow the Legislature's attempt in 2007 to take away gain-sharing. On September 10, 2010, Judge Richard Eadie agreed with the plaintiffs, prohibiting the repeal of gain sharing. His ruling has been appealed to the state supreme court.⁴³

The State Treasurer's Proposal

Regarding PERS 1 and TRS 1, the sky is not falling, but it is cloudy, thanks in large part to the collapse of the financial markets engineered through the risk-taking of the financial services industry. The most common-sense answer is proposed by State Treasurer Jim McIntire, to establish a fixed payment schedule to pay off the unfunded liability of PERS 1 and TRS 1, with the schedule taking full effect in 2015.⁴⁴

This would enable lower costs to the state in the long run, as investment returns grow and diminish the need for public contributions. But it takes discipline to agree to initial higher payments, while the benefits of this strategy will be realized several years into the future.

Such a policy requires long-term statesmanship based on a fundamental respect for the economic security of retired public servants throughout our state.

Washington's public pension system is not broke. It is healthy and on sound financial footing. However, it does need consistent and appropriate funding. In Washington's current fiscal crisis, legislators and the governor should resist the temptation to pare down pension contributions and benefits.

Instead of cutting pension benefits for working class retirees, the Legislature should examine tax loopholes that subsidize private corporations and individuals while public programs go unfunded.

For example, the legislature could close the tax loophole that Bank of America, Chase Morgan, and other multinational banks exploit - preventing the state from collecting taxes on mortgage interest. Closing this one loophole would net the state \$174 million in the 2011-2013 biennium.

The underlying problem: A revenue system that avoids taxing privileged corporations and residents

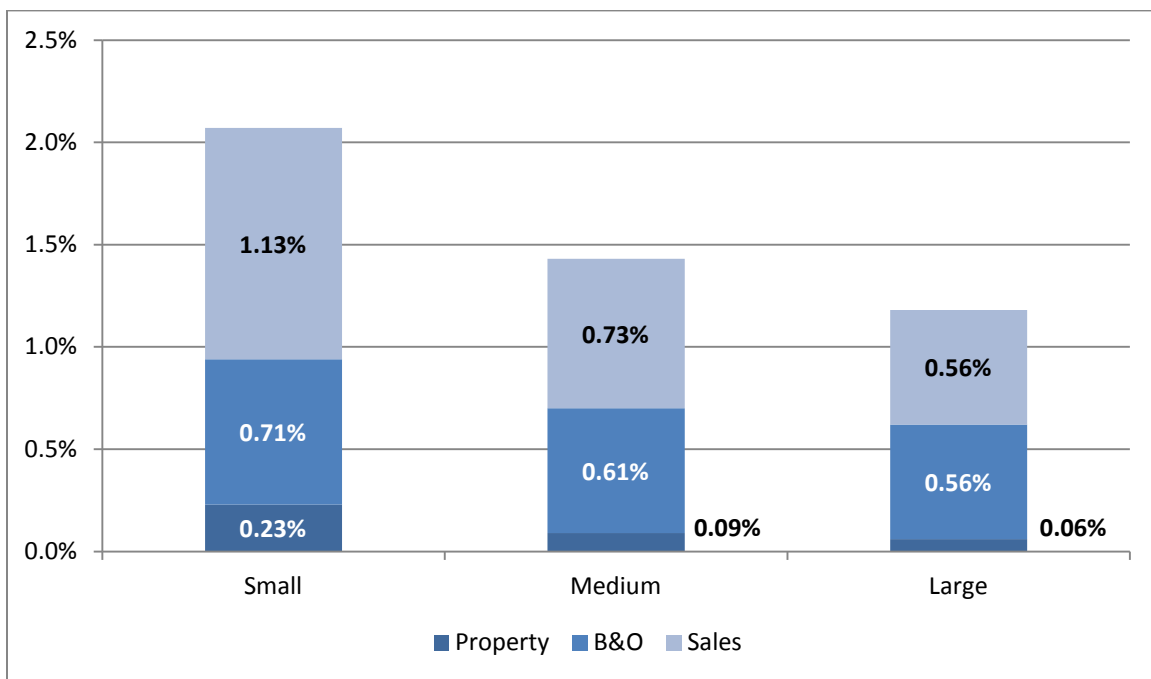
The U.S. tax system is in need of systemic restructuring. The accelerated winner-take-all income disparities have resulted in the top one percent of Americans gaining two times the total income of the bottom fifty percent of Americans, and the top ten percent of Americans gaining half of total personal income.

Washington state's tax system is in even greater need of restructuring. Heavily dependent on the sales tax, and lacking an income tax, Washington's tax structure favors

the very wealthy, and misses much of the revenue needed for public services - from education to health care and pensions. Further, while corporate profits are at an all-time high, small businesses in Washington state pay almost twice as much proportionally in state taxes as large corporations.

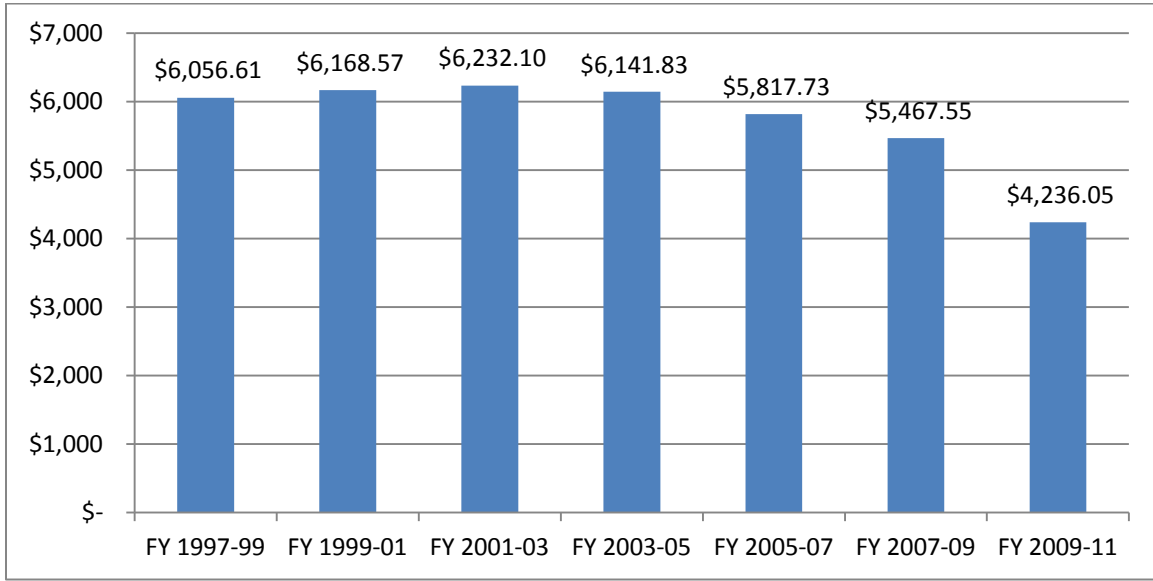
With stagnant wages, stubborn unemployment, and a highly regressive tax system, Washington's general fund revenue has fallen by \$2,000 per capita in the last decade, losing one-third of its value overall. This downward trend is the fundamental problem with which policy makers should be dealing.

STATE TAXES PAID BY WASHINGTON BUSINESSES, AS A PERCENTAGE OF GROSS INCOME, BY FIRM SIZE



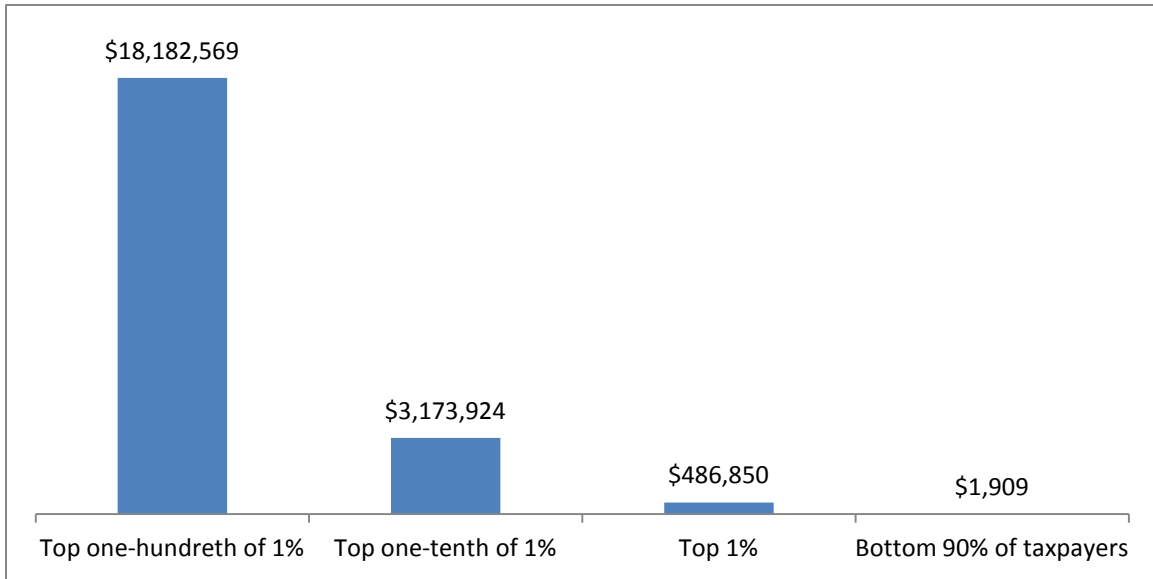
Small firms have less than \$5 million, medium size firms \$5 to \$25 million, and large firms more than \$25 million in annual gross income. Source: Washington Department of Revenue, 2002 data.

WASHINGTON STATE GENERAL FUND REVENUE PER PERSON, ADJUSTED FOR POPULATION AND INFLATION



Source: Washington State Fiscal Information: <http://fiscal.wa.gov/revenues.aspx>

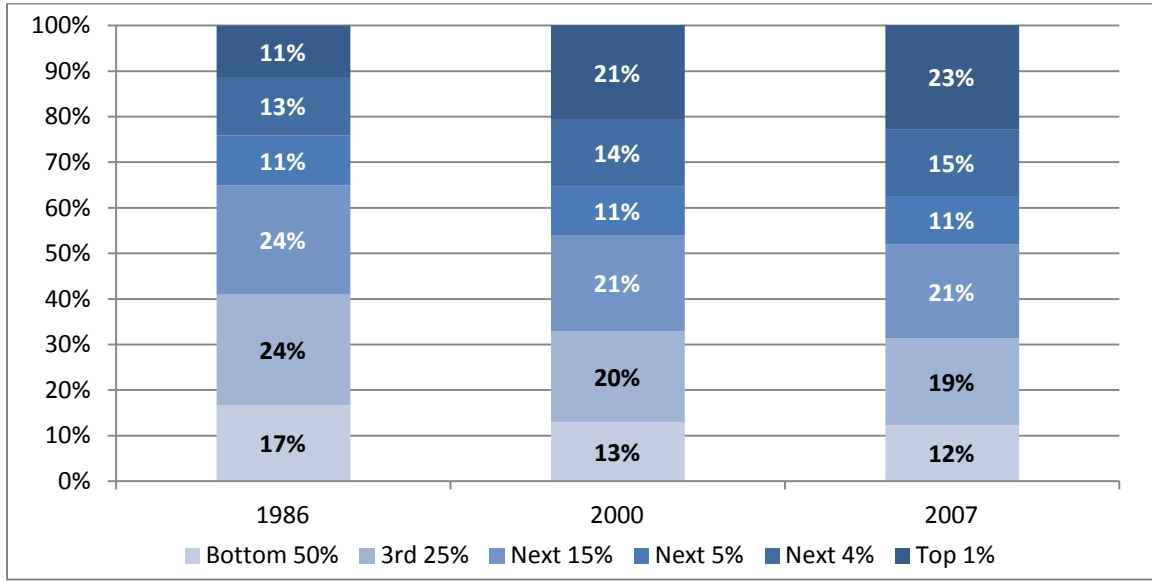
INCREASES IN INCOME, 1997 - 2007, U.S.



Source: 1913 - 2008 Income Tables Saez and Piketty Tab Fig 2008-1 All figures are in 2008 dollars.

Source: "Income Inequality in the United States, 1913-1998" with Thomas Piketty, Quarterly Journal of Economics, 118(1), 2003, 1-39.⁴⁵

SHARE OF TOTAL ADJUSTED GROSS INCOME, BY INCOME GROUP: UNITED STATES, 1986-2007



Source: Internal Revenue Service, Returns with Positive Adjusted Gross Income (AGI).⁴⁶

The High Road: Retirement security for all

Our current public pension system is the envy of the vast majority of states across the country. It is well funded and its retirement benefits are adequate. However, our private pension system is being morphed into a risk-maximizing system for employees, while employers are shedding their costs and dropping contributions for their employees' retirement.

So rather than excuse assaults on public pensions by contrasting these to the decreasing benefits and security in the private sector, let's focus on how to rescue and renew private sector retirement security.

There is a way. It will take some legal work, some creativity, and some guts.

Simply open up PERS 2 and PERS 3 or parallel similar plans to private sector employees. If they choose to participate and contribute as stipulated by the state, then their employers would also contribute as stipulated by the state, at the same proportionate level as public employers.

We don't need to tear down the good. We can and should build upon it, to insure that all retirees live in dignity and security. Public pensions won't make you wealthy. But they can insure a middle class quality of life. Further, public pension systems are a driver for jobs and economic growth – enabling the next generation of Americans to also achieve a middle class quality of life. That is a good thing for all Washington citizens.

Endnotes

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