RESOLUTION 29

Protecting Public Employees' Retirement Security

Submitted by International Association of Fire Fighters

"We can't solve today's problems using the mindset that created them."

ALBERT EINSTEIN

A **SOCIETY IS BEST JUDGED** by how it treats its elders. One of the labor movement's greatest gifts to American workers was the creation of pension and social insurance programs that afford seniors the ability to retire with dignity and a measure of financial security.

History may glorify the entrepreneurial spirit of the robber barons of the gilded age, but the epoch was not gilded for all Americans—particularly ordinary workers. The fortunes of the robber barons were built by the exploitation of their workers.

Early in the 20th century, workers and the nascent trade union movement began demanding that pension plans be instituted to protect older workers. During that harsh time, the term "retirement" applied only to privileged, ordinary workers who were cast aside when they became aged or disabled. Long-time employees who were no longer able to function were discharged, if they were lucky, with a customary gold watch and the company's best wishes. They were left dependent upon the generosity of their family, neighbors or church.

In 1935, the federal government recognized that it had a responsibility to ensure that citizens who spent their lives working to support and raise their families, pay taxes and fight for their nation should retire with an income that allowed them to remain self-sufficient and out of poverty. In one of the New Deal's most notable accomplishments, the Social Security Act was passed by Congress and signed by President Franklin Roosevelt.

The concept of Social Security is very simple. Both employers and employees would contribute to a fund that would ultimately pay a retirement benefit to workers when they reached a pre-determined age. Social Security would also provide benefits for spouses, disabled workers and dependents under some conditions. The system would be structured to pay benefits based on the amount of contributions paid in by an employee. Those workers who contributed more would receive more. To ensure that the benefit kept pace with inflation and afforded retirees a consistent standard of living, it was wisely indexed to wage growth.

Over the years, Social Security has paid benefits to tens of millions of American families and has succeeded in allowing ordinary workers to enjoy a secure and dignified retirement.

But, for reasons both political and legal, not all workers were included under the Social Security umbrella. State and local government employees were legally prohibited from participating in the system until 1950. Employees covered under the Railway Labor Act were also excluded from the system. Fortunately, in the public sector, employees began the fight for defined-benefit retirement programs long before the establishment of the federal government's Social Security program. They enjoyed modest success.

As a result, after the enactment of Social Security, state and local government employees began an earnest drive to improve their own defined-benefit retirement programs to substitute for Social Security coverage they were denied. Today, while many public employees have the option of participating in the system, more than 25 percent of all public employees are not covered. For certain classes of employees the percentage is far higher. Seventy-five percent of all firefighters are not in the system.

Similar to Social Security, the public employee defined-benefit plans are funded by a combination of employer/employee contributions. Unlike Social Security, in most of these plans, assets have accumulated for the sole purpose of providing benefits to plan participants. These assets have not been diverted for other uses. The average combined contribution to these plans is between 15 percent and 20 percent of payroll. They practice sound and diversified investment and accounting practices and are governed by boards of trustees.

Currently, there are over 2,000 public pension funds with total assets topping $2 trillion. Each year, they pay out over $110 billion in benefits to over 6 million retirees, disabled public employees and surviving spouses. It is estimated that public employee retirement systems account for 2 percent of the nation's gross domestic product. For the past 70 years, public retirement systems have served the needs of their participants and government plan sponsors.

Regrettably, both Social Security and public retirement systems are under attack. While Social Security faces long-term economic challenges, it is not in a crisis. A measured approach to address solvency issues is needed. Attempts are under way to privatize the system and slash benefits for future generations of retirees and disabled workers. These efforts are attempts to solve problems using the same mindset that created them and they must be defeated. The AFL-CIO is proudly leading the fight against these callous assaults on Social Security.

Several economists and anti–public-employee politicians are advocating forcing noncovered workers into the Social Security system. This approach is unfair and produces a false economy. A study conducted by the Segal Co. estimates that forcibly including noncovered public employees into the Social Security system would cost state and local governments *$25 billion* in just the first five years of inclusion and would only extend the solvency of the Social Security Trust Fund by two years.

The results would be cataclysmic for state and local governments, employees and the 2,000 public retirement systems. Forcing both the public employer and employee to each contribute 6.2 percent of payroll would create a financial crisis. Jurisdictions are in budgetary crisis. Policymakers would be forced to decide whether to fund necessary public services or divert funding from current retirement system obligations. A reduction in services jeopardizes public safety and a reduction in retirement fund contributions would undermine the solvency of those systems and jeopardize current and future benefit obligations. Additionally, most workers can ill afford to have an additional 6.2 percent of pay deducted from their checks. As a result, the AFL-CIO and all its affiliates must stand by their brothers and sisters in the public sector and oppose mandatory Social Security coverage for current and future public employees.

Based on the foregoing, the International Association of Fire Fighters submits this resolution:

WHEREAS, the federation and labor have stood with private-sector workers and their unions in both single and multiemployer pension plans by waging a gallant battle to protect benefits, it must put forth a similar effort to protect the benefits of public employees; and

WHEREAS, recognizing these daunting challenges, the delegates assembled at this Convention of the

AFL-CIO are resolved, that the AFL-CIO oppose any attempt to impose mandatory participation in Social Security for noncovered current and future employees;

THEREFORE, BE IT RESOLVED, that the federation will convey its opposition to congressional leadership and members of the Senate Finance and House Ways and Means Committees; and

BE IT FURTHER RESOLVED, that the federation will oppose any attempt to convert state or local defined-benefit retirement plans into defined-contribution models; and

BE IT FINALLY RESOLVED, that the federation will advise all state federations and central labor councils to monitor any attempts through legislation, referendum or other tactics to terminate, convert or otherwise diminish public-sector defined-benefit programs and report any such activity to the Legislative and Public Policy Department of the AFL-CIO.