Metro's pensions are not the problem
Why Rep. Gerald Connolly's opinion that talk of a pension apocalypse is overblown is right. By: Fredrick Kunkle
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Passengers wait to board a Metro train Feb. 8, 2018, at the Navy Yard-Ballpark station. (Passengers wait to board a Metro train Feb. 8, 2018, at the Navy Yard-Ballpark station. Pablo Martinez Monsivais/AP)

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The next not-so-great ride you take on Metro, you should blame it on the transit agency's unions. Better yet, blame it on those unions' "lavish" pensions.

That's what some politicians and Metro know-it-alls have been saying anyway. But they're wrong.

It's not union wages or pensions that have dragged down the capital's mass transit system, even if the narrative fits a popular notion that big business and its allies have been peddling for years. Saying so will not fix Metro, and carrying out plans to eliminate workers' pensions would ultimately only deepen the region's inequalities.

If anything, talk of a pension crisis — which got going again with this month's U.S. Government Accountability Office report on Metro's pensions — is overblown, Rep. Gerald E. Connolly (D-Va.) said. He said that even with a $2.8 billion liability, Metro's pension system might actually be one of the few things the system has managed well.

"I am not persuaded that we have to radically junk the current pension program, because there is no crisis," Connolly said in an interview. "This is a manageable problem."

First, the problem: Metro is facing a $1.1 billion pension liability, which is even larger if you factor in unfunded health benefits for future retirees. Most of the liability belongs to the fund for Amalgamated Transit Union Local 689, Metro's largest. The ATU represents more than 15,000 people, or about 83 percent of the workforce, nearly three-quarters of whom are African American. (Disclosure: I'm also in a union and serve as co-chair for The Washington Post's bargaining unit.)

The Metro pensions are also defined-benefit plans, which means that the plans are designed for employers to set aside a chunk of money and manage those assets in such a way that retirees receive a guaranteed sum for life. That's different from a 401(k), which is a defined-contribution plan and involves setting aside a chunk of money with the mere hope that it provides enough to sustain a retiree for the rest of his days. More about this in a moment.

An October 2017 report by consultants Aon Hewitt found that the overall percentage of liabilities to assets in Metro's pension funds stood at 79 percent, up from 77. 7 percent, thanks largely to investment gains. ATU's was at 79.8 percent.

And that's not bad. An October 2017 report by Standard & Poor's on the five highest-funded state pensions in the United States found that funding ranged from 87 percent to 98 percent. The overall state median was 68 percent. Closer to home, the Maryland State Retirement and Pension System was at 71.8 percent, and the Virginia Retirement System's ratio stood at a little better than 75 percent.

You don't hear many people calling for those pensions to be phased out for 401(k)s — a "Republican solution," as Connolly has called it.

Enter Rep. Barbara Comstock (R-Va.), who has been among the most vocal in blaming Metro unions for its ills. Comstock is pushing a bill that would condition federal funding on moving Metro employees into 401(k) plans. Interestingly, however, a search of her bill finds no attempt to do the same for members of Congress — or for the federal workforce, who happen to make up a substantial portion of Metro's ridership and receive subsidies to ride. Why not ditch their pensions, too, while she's at it?

Metro board Chairman Jack Evans, who is also a D.C. Council member for Ward 2, has also been critical of Metro's pensions — but guess what he's entitled to when he retires?

It's easy to blame unions for all of Metro's problems. It's also wrong.

Comstock and others who blame labor first for every mismanaged enterprise also keep characterizing Metro's pensions as "outliers." That's the word used in former U.S. Transportation secretary Ray LaHood's comprehensive report about Metro, and it refers to two things: Metro workers contribute less than the national average — 3 percent of their wages, compared to 7 percent for public sector employees — and Metro workers use overtime to inflate the post-retirement payments they ultimately receive. Both these factors can and should be reformed, and Connolly said he supports both changes.

But even taking that into account, Metro's overall labor costs — salaries, wages, fringe benefits — are, to quote LaHood again, "average."

"[A]l WMATA has pension problems, there is no evidence these problems are out of character with the similar challenges faced by many other public agencies," LaHood's report says.

If anything, LaHood's report contains implied criticism of Metro management for adding more service — expansion with the new Silver Line and later hours — even while ridership was declining. Let's not forget, the system also had no form of dedicated funding until recently.

What's more, the blame-the-pensions crowd also overlooks the fact that Metro ceased contributing to the pension fund for eight years. The agency only resumed making contributions after that hiatus in 2006, two years before the biggest economic meltdown since the Great Depression. That's the union's fault?

This is the arbitration decision that's caused some people to wail.

In the last round of bargaining talks, Metro wanted to hold down wages, close the pension to new employees and shift new hires into 401(k)s — a kinder, gentler way of killing the pension and shortchanging future employees. The ATU fought back. Last month, Metro announced that an arbitration board decision requires the agency to increase wages by $82 million, or 1.6 percent a year over four years — which sounds like a lot until you consider inflation is running at around 2.2 percent so far this year. The arbitration board also said employees would have to increase their contributions to health-care costs. But the panel stuck with the status quo on pensions — and that's caused some to howl.

Yet all this talk about phasing out Metro's pensions comes as millions of older Americans are waking up to find that 401(k) plans have not lived up to their billing. The 401(k) was created to supplement the sort of pensions Metro workers receive, instead of replacing them. Now the evidence is piling up on what a disaster this has been for many people who relied on them. Too many Americans are heading into retirement with a small fraction of the savings they need. Last year, Ted Benna, who is considered the father of the 401(k), told the Wall Street Journal that he regretted what he had wrought.

"For a lot of Americans, they are now retirement poor because of this move from defined benefit to defined contribution," Connolly said.

Now we want to add Metro workers to that list. That seems odd in progressive Washington, where many political leaders and other observers who want to wipe out Metro's pensions also decry the forces of "gentrification" and growing income inequality that require taxpayers to boost spending for affordable housing and other social benefits.

If anything, the District should be pushing for new versions of the sort of defined-benefit plans that helped create a middle class, beginning with Metro. The New York Times, for example, pioneered an adjustable pension whose benefit formulas fluctuate in good times and lean times, thereby sharing risks between employers and employees. Instead of pointing at Metro workers and asking, "Why do they still have pensions?" we ought to be asking, "Why don't we have them too?"