Pensions, Politics, and the New Jersey Education Association

By Mike Lilley  October 2016

Key Points

- New Jersey’s state-run retirement system is among the worst in the US, ranking New Jersey last among the states in long-term fiscal solvency.
- The New Jersey Education Association’s (NJEA) political power led to the state’s pension crisis because it influenced pension legislation and kept responsibility for pensions at the state level.
- The NJEA now wants to pass a constitutional amendment that would stick New Jersey taxpayers with the $95 billion consequences of the failed pension system.

“Protecting and enhancing members’ pensions and benefits has been Job Number One for NJEA since 1896.”
—NJEA President Joyce Powell, 2006

The New Jersey Education Association has lived up to President Joyce Powell’s words in 2006. Just ask the New Jersey Senate President—and ex-gubernatorial hopeful—Stephen Sweeney. Like many states, New Jersey is in the middle of a severe pension crisis. Nationwide, a recent Pew Charitable Trust study estimates that state-run retirement systems currently have more than $1 trillion in unfunded pension liabilities, but New Jersey’s problems are among the worst. Only Illinois’ and Kentucky’s public pensions are in worse condition.¹ Yet the NJEA wanted to freeze New Jersey’s failed pension system by passing a constitutional amendment that would obligate the state to fund its massive liabilities without any reform and regardless of the fiscal consequences to the state.

When Sweeney dared to defy the NJEA in 2016 by refusing to have a vote on the amendment until he could pass it in a fiscally prudent way, the NJEA threatened to withhold political contributions to Democrats statewide until the amendment was passed. The NJEA has since run anti-Sweeney ads and held public protests where it vowed political revenge. True to Powell’s words, the NJEA is once again using its political muscle for its own special interests and trying to stick New Jersey taxpayers with the bill.

How big is the bill? Under new, more realistic accounting standards, the total amount of the state’s unfunded pension liabilities is $95 billion ($160 billion if health benefits are included).² The entire state budget is $35 billion. This is why the Mercatus Center ranks New Jersey dead last among states in long-term fiscal solvency and why New Jersey has the second-lowest bond rating of any state (above only Illinois).³ Passing the amendment without any reform would condemn the state and its citizens to a bleak future.

TheNJEA’s Clout

How did New Jersey get into this situation? The NJEA would have you believe the state is at fault
for failing to fund the pensions. It is true that the state has paid only a fraction of the required amounts, but the NJEA is not some innocent bystander.

New Jersey’s broken pension system is a direct consequence of the NJEA’s enormous political power. Clearly pleased with the exercise of that political power, NJEA President Michael Johnson said in 1998: “Our excellent pension system [is] the result of hard-fought legislation and politics.”

The bottom line is that public pensions are political creations. All their features are determined by political decisions. And no political power in the state comes close to the NJEA. The NJEA dominates the political playing field from Trenton all the way down to the smallest school district.

Recent analysis by New Jersey’s Election Law Enforcement Commission (ELEC) found that from 1999 to 2014, the NJEA spent $57 million on political activities such as political contributions, lobbying, and independent expenditures—more than twice the amount of the next biggest spender. At the school-district level, where the NJEA long dominated the stand-alone, low-turnout elections, ELEC reports that from 2000 to 2010, the NJEA was the largest spender, accounting for 36 percent of all money spent (and more than 50 percent in key election years). No other group even comes close.

But even these outsized numbers do not capture the magnitude of the NJEA political operation. They do not account for the in-kind contributions of the thousands of NJEA “volunteers” who staff campaigns and get out the vote in every district in the state, whom the NJEA tout as its most coveted asset. Nor do they account for UniServ, a 112-strong cadre of political professionals, with 22 field offices statewide, which helps local unions organize get-out-the-vote efforts to pass school budgets. And they do not fully account for the NJEA’s communications and government-relations divisions, both of which are heavily involved in political activities.

Lastly, they do not account for NJEA’s Pride in Public Education campaign (Pride). Pride began in 1994 after almost half of local schools’ budgets were rejected. Its political purpose was stated clearly by former NJEA President Barbara Keshishian: “NJEA built a statewide Pride in Public Education campaign around [school] budget elections.” That hard political purpose is cloaked in the soft garb of community-outreach events with lots of pictures of smiling kids and parents, but the NJEA fully admits that Pride is a statewide public relations effort to give schools a positive image in their communities and thereby encourage “yes” votes on school budgets. According to NJEA records, since its inception, the NJEA has spent $153 million on annual Pride campaigns.

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So the real numbers on NJEA political spending are much higher. From 1999 to 2014, the NJEA spent a combined total of $655 million on this array of political tools—that is $44 million a year. While not all the $655 million went to political ends—the NJEA does not break this out in detail—it is a more realistic reflection of the NJEA’s clout. And it still does not account for its armies of volunteers.

With this kind of money, the NJEA generally got what it wanted on pensions. After Governor James Florio and other Democrats crossed the NJEA in 1990 by shifting responsibility for teacher pensions to local school districts, the NJEA endorsed 46 Republicans and three Democrats and put its full muscle behind flipping the legislature in the ensuing 1991 legislative election. The result: the NJEA was credited (and credited itself) with turning a Republican minority into a veto-proof Republican majority. The pension shift was postponed and ultimately repealed. Neither the Democrats nor the Republicans forgot.

Predictably, given the NJEA’s clout, pension and benefit enhancements passed with strong, bipartisan majorities over the course of many administrations and legislatures. Fatefully, in 1997, NJEA lobbied for and won the nonforfeitable right to promised pensions, which passed overwhelmingly. As a result, 89 percent of current teachers are protected from any reduction in their pensions, vastly complicating reform efforts (including those by Governor Chris Christie in 2010 and 2011).
Politicians were so eager to please the NJEA that in 2001, when Republican Acting Governor Donald DiFrancesco and the legislature were running for reelection, the legislature rushed to pass a 9 percent increase in all teachers’ pensions. To do this, lawmakers reached back to 1999’s peak asset valuations to grab an imaginary surplus, even though they knew the 2001 dot-com-busted asset values were billions lower. The bill passed with one dissenting vote. The NJEA, fully willing to deplete pension assets that should have been used to protect against the inevitable market downturn (which was then occurring), crowed that it was “one of the most significant legislative accomplishments in NJEA history.”

**Choices Have Consequences**

Up until the Great Recession and the advent of Christie, the NJEA was able to construct the pension system it wanted and fought every attempt at reform. Importantly, the NJEA fought hard to keep teacher salaries negotiated at the local level while pensions that were based on those salaries remained with the state. Districts were thus freed from the full consequences of their salary structures, and the unions negotiated step and ladder salary schedules and seniority privileges, which ensured that salaries inexorably climbed over long careers.

At the state level, the NJEA worked to have teacher pensions based on the last, highest-salary years, which meant that these pensions were systematically underfunded. Indeed, Christie maintains that the average teacher puts in $195,000 over the course of a 30-year career and gets back a total of $2.6 million in benefits. The 2005 Benefits Review Task Force, created by Acting Governor Richard Codey to analyze New Jersey’s pension and benefit system, reached a similar conclusion.

The only thing the NJEA did not receive was full funding. Politicians, keenly focused on self-preservation and presented with the choice of pleasing the NJEA or keeping taxes down, did both—they gave the NJEA what it wanted on pensions but did not spend the money to fund them. Sure, the NJEA made a lot of noise at rallies and in the press, but until recently, the NJEA never punished lawmakers for not funding pensions the way it punished them for trying to shift pensions to local districts, cutting state education aid, or reducing benefits. Instead, during the time that pensions were being shortchanged, both incumbents and NJEA-endorsed candidates were elected at extremely high rates.

In the end, the NJEA wanted a system in which it could negotiate ever-increasing teacher salaries at the local level free from the competing demand of funding the pensions that were based on them. Of course, had teacher pensions been the local school districts’ responsibility, increasing pension costs would have crowded out education spending (and teacher salary hikes) or required higher property taxes. That is a situation the NJEA did not want and fought vigorously to prevent.

But this choice has consequences. Local districts must balance their budgets without the fiscal shenanigans available at the state level, so they have been more diligent about funding their pension obligations to police and firemen. These pensions are therefore in better condition than teacher pensions. But the NJEA chose for the state to handle teacher pensions, and for many years, state policymakers gave the NJEA what it wanted without paying for it.

Yet few people from New Jersey understand how dire the resulting situation is. Christie’s pension-reform efforts captured headlines, but for the most part they could affect only new employees, not the 89 percent of teachers protected by the 1997 law. Moreover, the amounts required to adequately fund current pension liabilities even after Christie’s reforms are simply unsustainable. As the New Jersey Pension and Health Benefit Study Commission found, the state would need to spend $4–6 billion every year for the next 20 years to close the funding gap. That is more than 12 percent of the current $35 billion budget, which is money the state does not have. Yet that is what the NJEA wanted to lock into the constitution.

This brings us back to the battle between the NJEA and Sweeney. Having used its political might for decades to exploit the system for its own interests, the NJEA wanted to stick New Jersey taxpayers with the $95 billion consequences by enshrining this broken pension system in the state constitution. As he did with the 2010 and 2011 pension reform laws, Sweeney defied the NJEA and stood up for the citizens of the state. So the NJEA vowed revenge on Sweeney and announced it would
become heavily involved in the 2017 Democratic gubernatorial primary to elect “better leaders” than Sweeney. After exiting the race, Sweeney is now an ex-gubernatorial hopeful. The NJEA is now free to help elect a politician who will do its bidding and pass the amendment, perfectly encapsulating the root cause of New Jersey’s pension crisis.

About the Author

Mike Lilley served for four years as the executive director of Better Education for New Jersey Kids, a super PAC dedicated to electing reform-minded leaders. He is a Princeton graduate and long-time New Jersey resident.

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