

## **The Cost of Being the Boss: Alameda County Struggles to Meet its Retirement Responsibilities**

America's economic future is not certain. Local and state governments across the country are struggling with an economic crisis that will affect the people and institutions of this country for years to come. President Bush, jubilant about the course of events in Iraq, is shopping around for a new and improved \$550 billion tax cut plan. The U.S. Senate already reduced the tax cut by \$200 billion and it faces strong opposition from Democrats and well-respected Republican legislators. If the tax cut is enacted the federal government will face a \$300 billion plus deficit in fiscal year 2004 and multibillion-dollar deficits for at least the next five years. As local governments study and analyze their budgets in order to cut costs and find revenue sources for the upcoming fiscal year, everything from essential programs and services, equipment, and employee benefits are on the budget table.

In Alameda County one of the major components in the increase of the county budget is workforce expenses. Retirement costs for county employees is \$35.8 million dollars out of the total \$73.8 million expenditure for salary and employee benefit increases. The funding gap of \$112.6 million caused by the questionable recovery of the stock market and economy, declining revenues, limited growth in discretionary funds, and fiscal problems at the state and federal level are further complicated by the decline in return on government investments in the stock market. Revenue from stock market investments is the cornerstone of funding for retirement plans. For public employees who work on the front lines providing essential services to county residents, how local government plans to maintain its promise of providing retirement benefits is a challenging question. In the last four years, the stock market has declined by 40 percent while health care costs have risen an average of 10% per year. At the same time, the cost of doing business in the public sector has risen dramatically.

For Baby Boomers, the 76 million people born in the United States between 1946 and 1964, these fiscal realities will have a significant impact on their retirement plans. According to the Bureau of Labor Statistics, "the percentage of workers age 45 and older will increase from 33 percent of the labor force in 1998 to 40 percent in 2008, [and] of the 25 million people projected by the Bureau of Labor Statistics to leave the labor force between 1998 and 2008, 22 million will be aged 45 years or older and thus will be leaving mostly to retire." Outside of employer administered retirement plans, the Employee Benefit Research Institute concluded that "a 65 year-old retiree without employer-provided health benefits would require \$1.5 million to pay for a lifetime of medical expenses if that retiree lives to 100 [years of age] and costs increases remained current." Where will this retiree save and invest his or her money?

For the public and private sector, the ability to provide retirement benefits can affect the bottom line in more ways than one. Though the economy is still in flux, highly skilled workers in the private sector may seek out other employment opportunities that provide them with attractive benefits. The loss of quality workers compromises a company's ability to compete. If market instability keeps workers at their current place of business, the process of providing retirement may begin to cut into financial reserves. Business

owners may be forced to take out loans, stop capital improvements or dip into the general operating budget to provide benefits. If the state and federal economic picture does not improve businesses will struggle to stay afloat.

On the public side, providing benefits for the current workforce and those who are retired can mean borrowing from the general fund, laying off employees, reducing the scope of benefits or freezing hiring all together. When a private firm experiences financial difficulty, the impact to the community is the loss of revenue. When a county or city experiences these kind of financial difficulties essential programs and services are in jeopardy. Thousands of the most vulnerable members of a community can adversely be affected by the action on the floor of the New York Stock Exchange.