Unfunded Public Liability: Unrequited Self-Love

Unfunded liability is created when an entity, say a state government or a company, promises to pay someone in the future without setting aside the actuarially sufficient amount today to meet those promises later. You can look at unfunded liabilities in one of two ways, either they are empty promises, or a requirement upon others to pay for promises you make.

There is no unfunded liability nightmare raging today in the private sector. Private companies are required to list their unfunded liabilities on their balance sheets. If they have 25 employees or more they are legally required to buy insurance from the Pension Benefit Guarantee Corporation. The larger their unfunded liability is, the higher their insurance payments are. As a result, private businesses aren’t in the habit of making promises they can’t pay for. Those that do, go bankrupt.

Yet the single largest fiscal problem we face today as a nation is unfunded government liability. The unfunded liability of state governments alone (according to [Josh Rauh](http://kelloggfinance.wordpress.com/2011/02/25/unfunded-pension-liabilities-and-gross-state-product/) at Northwestern University) is nearly $2.5 Trillion. That of course is chump change compared to the $106 Trillion of unfunded liability in Social Security and Medicare. The latter number means we have $300,000 worth of unfunded promises made for each person in the US. How did this happen?

First of all, governments are not held to the same accounting standards as the private sector (mistake #1). Apparently, financial transparency and accountability is less important for public than private money. Secondly, governments aren’t required by law to buy insurance for their unfunded liability (mistake #2). They are allowed to cook the books without being held financially accountable for their decisions. It’s an absolute moral failure not to mandate the same level of financial accountability from our governments as we demand from private sector firms.

The interesting thing is that government promises are really promises “of the people, by the people, and for the people”. Baby boomers, as a generation, promised themselves really big pensions and health benefits without putting enough money aside to pay for those promises. I call that unrequited self-love. They loved themselves so much that they made themselves a whole bunch of promises, but not so much that they wanted to make the needed sacrifices to fulfill their promises. It reminds me of the Mama’s and the Papa’s *Glad To Be UnHappy*.

“Fools rush in, so here I am

Awfully glad to be unhappy.

I can’t win, but here I am

More than glad to be unhappy.

Unrequited love’s a bore, yeah,

And I’ve got it pretty bad.

But for someone you adore,

It’s a pleasure to be sad.”

If I promise myself that I’ll lose 10 pounds by July and I don’t do it, who do I get to sue? A promise was made to my body that it would be 10 pounds lighter and it isn’t. It must be someone else’s fault!

It’s fascinating to see public sector employees out protesting changes to their pensions and health packages. This is exactly what you get when you make promises you can’t afford. Someone gets their feelings (and pocketbooks) hurt.

With $106 trillion in unfunded liability, do baby boomers really expect to have free stuff handed to them until they die? They think that because they made promises to themselves that somehow obligates future generations to pay higher taxes and receive fewer government services to pay for their empty promises made to themselves.

Good luck with that. Don’t expect younger generations to automatically keep other people’s promises. People don’t have a moral obligation to pay for other people’s empty promises any more than other people have to pay me reparations payments for me not losing the 10 pounds I promised myself before July.