Press Packet

Public Employee Pension Transparency Act

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The Public Employee Pension Transparency Act

Speakers List
February 9, 2011
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Bill Authors:

- **Rep. Devin Nunes (CA-21)**
  Five-term Congressman from California's 21st Congressional District; Senior Member of the Committee on Ways and Means and Member of the House Permanent Select Committee on Intelligence.

- **Senator Richard Burr (NC)**
  Second-term Senator from North Carolina, former Representative of the 5th Congressional District; Ranking Member Committee on Veterans Affairs, Member of Health, Education, Labor, and Pensions, Armed Services, Energy and Natural Resources, and the Senate Select Committee on Intelligence

- **Rep. Paul Ryan (WI-1)**
  Seven-term Congressman from Wisconsin's 1st Congressional District; Chairman of the House Budget Committee, Senior Member of the Committee on Ways and Means.

- **Senator John Thune (SD)**
  Second-term Senator from South Dakota who also served the state as its at large U.S. Representative; Member of the Senate Committees on Finance, Budget Agriculture and Commerce.

- **Rep. Darrell Issa (CA-49)**
  6 term Congressman from California's 49th Congressional District; Chairman of the Committee on Oversight and Government Reform, Member of the House Committee on Judiciary.

Coalition Supporting Public Employee Pension Transparency:

Grover Norquist, President, Americans for Tax Reform
Tom Schatz, President, Council for Citizens Against Government Waste
Larry Hart, Director of Government Relations, The American Conservative Union
Pete Sepp, Executive Vice President, National Taxpayers Union
Randy Johnson, Senior Vice President, U.S. Chamber of Commerce
Jim MacDougald, President, Free Enterprise Nation
Steve Woods, Senior Vice President, National Federation of Independent Businesses

Bill Text

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[111H6484]

....
(Original Signature of Member)

112TH CONGRESS
1ST SESSION

H. R. ______

To amend the Internal Revenue Code of 1986 to provide for reporting and disclosure by State and local public employee retirement pension plans.

IN THE HOUSE OF REPRESENTATIVES

Mr. NUNES (for himself and [see ATTACHED LIST of cosponsors]) introduced the following bill; which was referred to the Committee on ________________________________

A BILL

To amend the Internal Revenue Code of 1986 to provide for reporting and disclosure by State and local public employee retirement pension plans.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Public Employee Pension Transparency Act''.

SEC. 2. FINDINGS.

The Congress finds the following:

(1) Pursuant to clauses 1 and 3 of section 8 of article I of the Constitution of the United States, the Congress has the authority to condition the continuation of certain specified Federal tax benefits upon State or local government employee pension benefit plans provision of meaningful disclosure under section 4980J of the Internal Revenue Code of 1986, as added by this Act.

(2) State or local government employee pension benefit plans have promised pension benefits to approximately 20 million Americans who are active employees of these entities. An additional 7 million retirees and their dependents currently receive benefits from State or local government employee pension benefit plans. The interests of participants in many of such plans are in the nature of property rights under State law.

(3) State or local government employee pension benefit plans are substantially facilitated by the favorable tax treatment of participants and beneficiaries, investment earnings, and employee contributions with respect to such plans provided by the Federal Government under the Internal Revenue Code of 1986.

(4) The investment of State or local government employee pension benefit plan assets, the distribution of benefits under such plans, and other related financial activities are facilitated through the use of instrumentalities of, and substantially affect, interstate commerce. These activities, which are interstate in nature and have a substantial impact on the national economy, affect capital formation, regional growth and decline, the national markets for insurance, and the markets for securities and the trading of securities of State and local governments.

(5) The financial status of State or local government employee pension benefit plans also has a direct impact on the national markets for insurance and trading of securities of State and local governments.

(6) State or local government employee pension benefit plans additionally have a substantial impact on interstate commerce as a consequence of the interstate movement of participants.

(7) State or local government employee pension benefit plans are becoming a large financial burden on certain State and local governments and have already resulted in tax increases and the reduction of services.

(8) In fact, a recent study published in the Journal of Economic Perspectives found that the present value of the already-promised pension liabilities of the 50 States amount to $5.17 trillion and that these pension plans are unfunded by $3.23 trillion. Another study determined that the total unfunded liability for all municipal plans in the United States is $574 billion.

(9) Some economists and observers have stated that the extent to which State or local government employee pension benefit plans are underfunded is obscured by governmental accounting rules and practices, particularly as they relate to the valuation of plan assets and liabilities. This results in a misstatement of the value of plan assets and an understatement of plan liabilities, a situation that poses a significant threat to the soundness of State and local budgets.

(10) There currently is a lack of meaningful disclosure regarding the value of State or local government employee pension benefit plan assets and liabilities. This lack of meaningful disclosure poses a direct and serious threat to the financial stability of such plans and their sponsoring governments, impairs the ability of State and local government tax-

payers and officials to understand the financial obligations of their government, and reduces the likelihood that State and local government processes will be effective in assuring the prudent management of their plans. The status quo also constitutes a serious threat to the future economic health of the Nation and places an undue burden upon State and local government taxpayers, who will be called upon to fully fund existing, and future, pension promises.

(11) State or local government employee pension benefit plans are affected with a national public interest and meaningful disclosure of the value of their assets and liabilities is necessary and desirable in order to adequately protect plan participants and their beneficiaries and the general public. Meaningful disclosure would also further efforts to provide for the general welfare and the free flow of commerce.

SEC. 3. REPORTING OF INFORMATION WITH RESPECT TO STATE OR LOCAL GOVERNMENT EMPLOYEE PENSION BENEFIT PLANS TREATED AS A TAX EXEMPTION, ETC., REQUIREMENT FOR STATE AND LOCAL BONDS.

(a) IN GENERAL.—Subpart B of part IV of subchapter B of chapter 1 of the Internal Revenue Code of

1986 (relating to requirements applicable to all State and local bonds) is amended by adding at the end the following new section:

"SEC. 149A. REPORTING WITH RESPECT TO STATE OR LOCAL GOVERNMENT EMPLOYEE PENSION BENEFIT PLANS.

"(a) IN GENERAL.—In the case of a failure to satisfy any requirement of subsection (a) or (b) of section 4980J (relating to failure of State or local government employee pension benefit plans to meet reporting requirements) with respect to any plan maintained with respect to employees of one or more States or political subdivisions of one or more States, no specified Federal tax benefit shall be allowed or made with respect to any specified bond issued by any such State or political subdivision (or by any bonding authority acting on behalf, or for the benefit, of such State or political subdivision) during the noncompliance period.

"(b) NONCOMPLIANCE PERIOD.—For purposes of this section, the term 'noncompliance period' means, with respect to any State or political subdivision in connection with any failure, the period beginning on the date that the Secretary notifies such State or political subdivision of such failure and ending on the date that such failure is cured (as determined by the Secretary).

"(c) SPECIFIED BOND.—For purposes of this section, the term 'specified bond' means—

"(1) any State or local bond within the meaning of section 103,

"(2) any qualified tax credit bond within the meaning of section 54A, and

"(3) any build America bond within the meaning of section 54AA.

"(d) SPECIFIED FEDERAL TAX BENEFIT.—For purposes of this section, the term 'specified Federal tax benefit' means—

"(1) any exemption from gross income allowed under section 103 (relating to interest on State and local bonds),

"(2) any credit allowed under section 54A (relating to credit to holders of qualified tax credit bonds),

"(3) any credit allowed under section 54AA (relating to build America bonds), and

"(4) any credit or payment allowed or made under section 6431 (relating to credit for qualified bonds allowed to issuer).".

(b) REPORTING REQUIREMENTS.—Chapter 43 of such Code is amended by adding at the end the following new section:

"SEC. 4980J. FAILURE OF STATE OR LOCAL GOVERNMENT EMPLOYEE PENSION BENEFIT PLANS TO MEET REPORTING REQUIREMENTS.

"(a) ANNUAL REPORT.—For purposes of section 149A, the requirements of this subsection are as follows:

"(1) IN GENERAL.—The plan sponsor of a State or local government employee pension benefit plan shall file with the Secretary, in such form and manner as shall be prescribed by the Secretary, a report for each plan year beginning on or after January 1, 2011, setting forth the following information with respect to the plan, as determined by the plan sponsor as of the end of such plan year:

"(A) A schedule of funding status, which shall include a statement as to the current liability of the plan, the amount of plan assets available to meet that liability, the amount of the net unfunded liability (if any), and the funding percentage of the plan.

"(B) A schedule of contributions by the plan sponsor for the plan year, indicating which are or are not taken into account under subparagraph (A).

"(C) Alternative projections which shall be specified in regulations of the Secretary for each of the next 20 plan years following the plan year relating to the amount of annual contributions, the fair market value of plan assets, current liability, the funding percentage, and such other matters as the Secretary may specify in such regulations, together with a statement of the assumptions and methods used in connection with such projections, including assumptions related to funding policy, plan changes, future workforce projections, future investment returns, and such other matters as the Secretary may specify in such regulations. The Secretary shall specify in such regulations the projection assumptions and methods to be used as necessary to achieve comparability across plans.

“(D) A statement of the actuarial assumptions used for the plan year, including the rate of return on investment of plan assets and assumptions as to such other matters as the Secretary may prescribe by regulation.

“(E) A statement of the number of participants who are each of the following—

“(i) those who are retired or separated from service and are receiving benefits, "(ii) those who are retired or separated and are entitled to future benefits, and

"(iii) those who are active under the plan.

"(F) A statement of the plan's investment returns, including the rate of return, for the plan year and the 5 preceding plan years.

"(G) A statement of the degree to which, and manner in which, the plan sponsor expects to eliminate any unfunded current liability that may exist for the plan year and the extent to which the plan sponsor has followed the plan's funding policy for each of the preceding 5 plan years. The Secretary shall prescribe by regulation the specific criteria to be used for meeting the requirements of this paragraph.

"(H) A statement of the amount of pension obligation bonds outstanding.

"(2) TIMING OF REPORT.—The plan sponsor of a State or local government employee pension benefit plan shall make the filing required under paragraph (1) for each plan year not later than 210 days after the end of such plan year (or within such time as may be required by regulations prescribed by the Secretary in order to reduce duplicative filing).

"(b) ADDITIONAL REPORTING REQUIREMENTS.—For purposes of section 149A, the requirements of this subsection are as follows:

"(1) SUPPLEMENTARY REPORTS.—In any case in which, in determining the information filed in the annual report for a plan year under subsection (a)—

"(A) the value of plan assets is determined using a standard other than fair market value, or

"(B) the interest rate or rates used to determine the value of liabilities or as the discount value for liabilities are not the interest rates described in paragraph (3),

the plan sponsor shall include in the annual report filed for such plan year pursuant to subsection (a) the supplementary report for such plan year described in paragraph (2) of this subsection.

"(2) USE OF PRESCRIBED VALUATION METHOD AND INTEREST RATES.—A supplementary report for a plan year filed for a plan year pursuant to this subsection shall include the information specified as required in the annual report under subparagraphs (A), (C), (F), and (G) of subsection (a)(1), determined as of the end of such plan year by valuing plan assets at fair market value and by using the interest rates described in paragraph (3) to value liabilities and as the discount value for liabilities.

"(3) INTEREST RATES BASED ON U.S. TREASURY OBLIGATION YIELD CURVE RATE.—

"(A) IN GENERAL.—The interest rates described in this subsection are—

"(i) in the case of benefits reasonably determined to be payable during the 5-year period beginning on the first day of the plan year, the first segment rate with respect to the applicable month,

"(ii) in the case of benefits reasonably determined to be payable during the 15-year period beginning at the end of the period described in subparagraph (A), the second segment rate with respect to the applicable month, and

"(iii) in the case of benefits reasonably determined to be payable after the period described in clause (ii), the third segment rate with respect to the applicable month.

"(B) SEGMENT RATES.—For purposes of this paragraph—

"(i) FIRST SEGMENT RATE.—The term 'first segment rate' means, with respect to any month, the single rate of interest which shall be determined by the Secretary for such month on the basis of the U.S. Treasury obligation yield curve for such month, taking into account only that portion of such yield curve which is based on obligations maturing during the 5-year period commencing with such month.

"(ii) SECOND SEGMENT RATE.—The term 'second segment rate' means, with respect to any month, the single rate of interest which shall be determined by the Secretary for such month on the basis of the U.S. Treasury obligation yield curve for such month, taking into account only that portion of such yield curve which is based on obligations maturing during the 15-year period beginning at the end of the period described in clause (i).

"(iii) THIRD SEGMENT RATE.—The term 'third segment rate' means, with respect to any month, the single rate of interest which shall be determined by the Secretary for such month on the basis of the U.S. Treasury obligation yield curve for such month, taking into account only that portion of such yield curve which is based on obligations maturing during periods beginning after the period described in clause (ii).

"(C) U.S. TREASURY OBLIGATION YIELD CURVE.—For purposes of this subsection, the term 'U.S. Treasury obligation yield curve' means, with respect to any month, a yield curve which shall be prescribed by the Secretary for such month and which reflects the average, for the 24-month period ending with the month preceding such month, of monthly yields on interest-bearing obligations of the United States.

"(c) DEFINITIONS.—For purposes of this section—

"(1) STATE OR LOCAL GOVERNMENT EMPLOYEE PENSION BENEFIT PLAN.—The terms 'State or local government employee pension benefit plan' and 'plan' mean any plan, fund, or program, other than a defined contribution plan (within the meaning of section 414(i)), which was heretofore or is hereafter established or maintained, in whole or in part, by a State, a political subdivision of a State, or any agency or instrumentality of a State or political subdivision of a State, to the extent that by its express terms or as a result of surrounding circumstances such plan, fund, or program—

"(A) provides retirement income to employees, or

"(B) results in a deferral of income by employees for periods extending to the termination of covered employment or beyond, regardless of the method of calculating the contributions made to the plan, the method of calculating the benefits under the plan, or the method of distributing benefits from the plan.

"(2) FUNDING PERCENTAGE.—The term 'funding percentage' for a plan year means the ratio (expressed as a percentage) which—

"(A) the value of plan assets as of the end of the plan year bears to

"(B) the current liability of the plan for the plan year.

"(3) CURRENT LIABILITY.—The term 'current liability' of a plan for a plan year means the present value of all benefits accrued or earned under the plan as of the end of the plan year.

"(4) PLAN SPONSOR.—The term 'plan sponsor' means, in connection with a State or local government employee pension benefit plan, the State, political subdivision of a State, or agency or instrumentality of a State or a political subdivision of a State which establishes or maintains the plan.

"(5) PARTICIPANT.—

"(A) IN GENERAL.—The term 'participant' means, in connection with a State or local government employee pension benefit plan, an individual—

"(i) who is an employee or former employee of a State, political subdivision of a State, or agency or instrumentality of a State or a political subdivision of a State which is the plan sponsor of such plan, and

"(ii) who is or may become eligible to receive a benefit of any type from such plan or whose beneficiaries may be eligible to receive any such benefit.

"(B) BENEFICIARY.—The term 'beneficiary' means a person designated by a participant, or by the terms of the plan, who is or may become entitled to a benefit thereunder.

"(6) PLAN YEAR.—The term 'plan year' means, in connection with a plan, the calendar or fiscal year on which the records of the plan are kept.

"(7) STATE.—The term 'State' includes any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, and the Commonwealth of the Northern Mariana Islands.

"(8) FAIR MARKET VALUE.—The term 'fair market value' has the meaning of such term under section 430(g)(3)(A) (without regard to section 430(g)(3)(B)).

"(d) MODEL REPORTING STATEMENT.—The Secretary shall develop model reporting statements for purposes of subsections (a) and (b). Plan sponsors of State or local government employee pension plans may elect, in such form and manner as shall be prescribed by the Secretary, to utilize the applicable model reporting statement for purposes of complying with requirements of such subsections.

"(e) TRANSPARENCY OF INFORMATION FILED.—The Secretary shall create and maintain a public website, with searchable capabilities, for purposes of posting the information received by the Secretary pursuant to subsections (a) and (b). Any such information received by the Secretary (including any updates to such information received by the Secretary) shall be posted on the website not later than 60 days after receipt and shall not be treated as return information for purposes of this title.".

(c) CLERICAL AMENDMENTS.—

(1) The table of sections for subpart B of part IV of subchapter B of chapter 1 of such Code is amended by adding at the end the following new item:

"Sec. 149A. Reporting with respect to State or local government employee pension benefit plans.".

(2) The table of sections for chapter 43 of such Code is amended by adding at the end the following new item:

"Sec. 4980J. Failure of State or local government employee pension benefit plans to meet reporting requirements.".

SEC. 4. GENERAL PROVISIONS AND RULES OF CONSTRUCTION.

(a) LIMITATIONS ON FEDERAL RESPONSIBILITIES RELATING TO PLAN OBLIGATIONS AND LIABILITIES.—The United States shall not be liable for any obligation related to any current or future shortfall in any State or local government employee pension plan. Nothing in this Act (or any amendment made by this Act) or any other provision of law shall be construed to provide Federal Government funds to diminish or meet any current or future shortfall in, or obligation of, any State or local government employee pension plan. The preceding sentence shall also apply to the Federal Reserve.

(b) NO FEDERAL FUNDING STANDARDS.—Nothing in this Act (or any amendment made by this Act) shall be construed to alter existing funding standards for State or local government employee pension plans or to require Federal funding standards for such plans.

(c) DEFINITIONS.—Terms used in this section which are also used in section 4980J of the Internal Revenue Code of 1986 shall have the same meaning as when used in such section.

Background Material

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A Choice for State and Local Governments:

Public Employee Pension Transparency or No More Federally Subsidized Debt

Pursuant to clauses 1 and 3 of section 8 of article I of the Constitution of the United States, the Congress has the authority to levy taxes. This authority includes the ability to establish conditions upon which special tax benefits are granted.

The Public Employee Pension Transparency Act is a tax bill. The legislation conditions the continuation of special tax treatment now afforded by the federal government to certain bonds issued by state and local governments on compliance with certain reporting requirements related to public employee pensions.

No state or local government will be compelled to comply with the provisions of this legislation. Those unwilling to do so will simply forego the special tax benefits they receive for their bonds.

National taxpayers should not be forced to subsidize the debt of state or local governments that refuse to open the books on their true public employee pension liabilities.

No Public Pension Bailouts

The Public Employee Pension Transparency Act prevents any future federal bailouts of state or local public pensions in Section 4(a):

"Nothing in this Act (or any amendment made by this Act) <u>or any other provision of law</u> shall be construed to provide Federal Government funds to diminish or meet any current or future shortfall in, or obligation of, any State or local government employee pension plan. The <u>preceding sentence shall also apply to the Federal Reserve</u>.

Public Pension Transparency

Affirming state and local government sovereignty

The Public Employee Pension Transparency Act is a tax bill. The legislation conditions the continuation of special tax treatment now afforded by the federal government to certain bonds issued by state and local governments on compliance with certain reporting requirements related to public employee pensions.

No state or local government will be compelled to comply with the provisions of this legislation. Those unwilling to do so will simply forego the special tax benefits they receive for their bonds.

The Public Employee Pension Transparency Act does not alter the rights of state and local governments to determine the nature of benefits afforded to their public employees. The legislation does not impose funding standards or any other regulation on these benefits or their sponsors, other than those associated with transparency.

The Public Employee Pension Transparency Act reaffirms state and local sovereignty over their public pensions in Section 4(b):

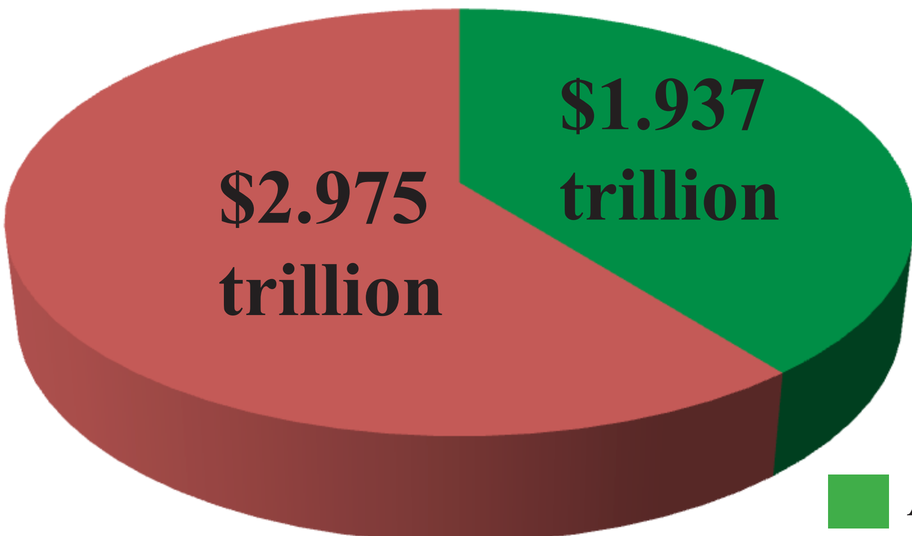
"Nothing in this Act (or any amendment made by this Act) shall be construed to alter existing funding standards for State or local government employee pension plans or to require Federal funding standards for such plans."

HOW MUCH RED INK?

Assets vs. Stated Liabilities

Unfunded State Pension Liabilities Reported by State Pension Plans

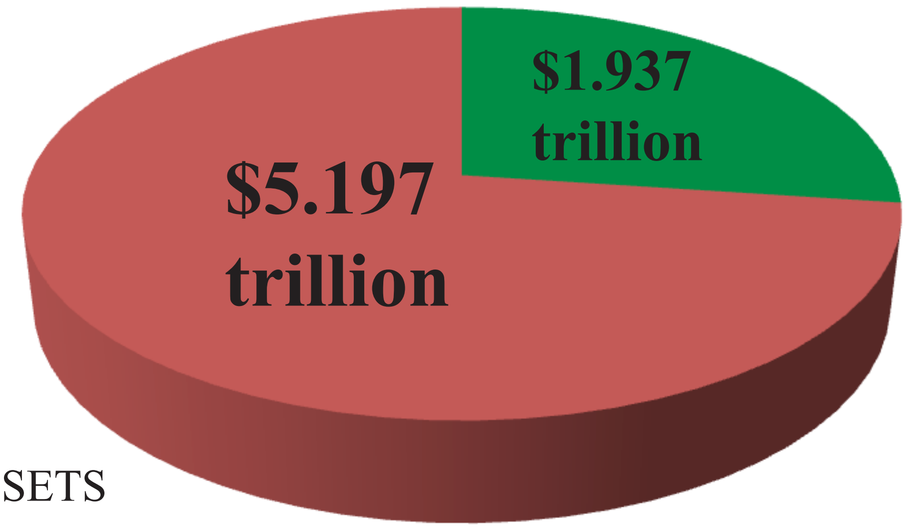
-$1.038 trillion



Assets vs. Likely Liabilities

Unfunded State Pension Liabilities Using More Realistic Accounting

-$3.026 trillion



ASSETS

LIABILITIES

Taxpayers Owe

$11,246

Taxpayers Owe

$32,785

Top 10 Cities
Approaching Municipal Pension Crisis

CITY	UNFUNDED LIABILITY	LIABILITY PER HOUSEHOLD	SOLVENCY HORIZON
Philadelphia	$9.7 billion	$16,690	2015
Boston	$7.5 billion	$30,901	2019
Chicago	$44.8 billion	$41,966	2019
Cincinnati	$2 billion	$15,681	2020
Jacksonville	$4 billion	$12,994	2020
St. Paul	$1.4 billion	$13,686	2020
New York City	$122.2 billion	$38,886	2021
Baltimore	$3.7 billion	$15,420	2022
Detroit	$6.4 billion	$18,643	2023
Fort Worth	$2 billion	$7,212	2023

"The day of reckoning is not as far away as some might imagine..."

PUBLIC PENSION TRANSPARENCY

DETAILS

Throughout the country, pension and public finance experts are sounding the alarm about the approaching insolvency of state and local retirement plans.

Professor Joshua Rauh of Northwestern University's acclaimed Kellogg School of Management said in a March 2010 commentary that "the day of reckoning is in fact not as far away as some might imagine."

In fact, according to recently released data we now know that ten states including Arkansas, Connecticut, Hawaii, Illinois, Indiana, Kentucky, Louisiana, New Jersey, Oklahoma, and West Virginia, will have exhausted their pension funding by 2020.

These insolvency dates are based on generous assumptions concerning the performance of pension plans and are likely the "best case scenario." Yet, despite this alarming information state and local governments continue to use accounting gimmicks to avoid making difficult decisions.

THE FACTS

27 million Americans and counting

Currently there are seven million retirees receiving benefits from state and local government pension plans. An additional twenty million Americans have been promised these benefits.

Trillions in red ink

The Pew Center on the States estimates that state pension, health care and other retirement benefit plans are underfunded by $1 trillion. The Stanford Institute for Economy Policy Research estimates $3 trillion. Experts at the University of Chicago and Northwestern's Kellogg School of Management have estimated $3.23 trillion.

PUBLIC PENSION CRISIS

(year of funding exhaustion by state)

OKLAHOMA	2017	CALIFORNIA	2026
LOUISIANA	2017	ARIZONA	2026
ILLINOIS	2018	WYOMING	2026
NEW JERSEY	2018	NEBRASKA	2027
CONNECTICUT	2018	IDAHO	2028
ARKANSAS	2019	VIRGINIA	2028
W. VIRGINIA	2019	WASHINGTON	2028
KENTUCKY	2020	ALASKA	2028
HAWAII	2020	TEXAS	2029
INDIANA	2020	WISCONSIN	2030
COLORADO	2021	OREGON	2030
MISSOURI	2021	NEVADA	2030
MISSISSIPPI	2021	GEORGIA	2032
NEW HAMPSHIRE	2021	IOWA	2032
KANSAS	2021	TENNESSEE	2032
OHIO	2023	FLORIDA	2033
RHODE ISLAND	2023	NORTH DAKOTA	2033
ALABAMA	2023	NEW YORK	2034
NEW MEXICO	2023	SOUTH DAKOTA	2035
MARYLAND	2023	DELAWARE	2040
PENNSYLVANIA	2023	UTAH	2042
MICHIGAN	2023	NORTH CAROLINA	N/A
VERMONT	2023		
MAINE	2024		
MINNESOTA	2024		
MASSACHUSETTS	2024		
SOUTH CAROLINA	2025		
MONTANA	2025		

** Based on the work of Professors Robert Novy-Marx and Joshua D. Rauh, "Public Pension Promises: How Big Are They and What Are They Worth?"*

Facts hidden from the public

There currently is a lack of meaningful disclosure regarding the value of state and local pension plan assets and liabilities, impairing the ability of taxpayers to understand the financial obligations of their government.

Without change, plans go broke soon

Ten states run out of pension money by 2020, all but eight by 2030. The time for honesty is now.

WHAT DOES THE PUBLIC EMPLOYEE PENSION TRANSPARENCY ACT DO?

Public disclosure of pension liabilities

Sate and local pension plans will report two sets of information to the Secretary of the Treasury which will be made avaiable on the internet for public review.

The first set of numbers will detail current public pension liabilities based on existing accounting methods - methods largely determined by the pension plan itself. The methods and assumptions used in this first set of numbers will also be reported.

The second set of numbers will detail the current pension liabilities but will do so using uniform guidelines. Those guidelines will include more realistic discount rates, as well as controls to assure assets are counted using a reasonable estimate of fair market value.

Failure to be transparent

State and local governments that refuse to report their public pension liabilities will be denied the ability to issue federally tax-exempt bonds. Federal subsidies of state and local debt would remain unavailable until those entities comply with public pension transparency rules.

No bailouts

State and local government leaders and employee unions are already talking about the possibility of a federal bailout of their pension programs. Congress must preempt this effort by making a clear policy statement that the American taxpayer will not bailout state and local governments that have recklessly promised unaffordable benefits to their workers.

Coalition Representatives

Grover Norquist
President
Americans for Tax Reform

Tom Schatz
President
Council for Citizens Against Government Waste

Larry Hart
Director of Government Relations
The American Conservative Union

Pete Sepp
Executive Vice President
National Taxpayers Union

Randy Johnson
Senior Vice President
U.S. Chamber of Commerce

Jim MacDougald
President
Free Enterprise Nation

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AMERICANS *for* TAX REFORM
ATR

GROVER G. NORQUIST

Mr. Norquist, a native of Massachusetts, has been one of Washington's most effective issues management strategists for over two decades.

Mr. Norquist is president of Americans for Tax Reform (ATR), a taxpayer advocacy group he founded in 1985 at President Reagan's request. ATR is a coalition of taxpayer groups, individuals and businesses opposed to higher taxes at the federal, state and local levels. ATR organizes the TAXPAYER PROTECTION PLEDGE, which asks all candidates for federal and state office to commit themselves in writing to oppose all tax increases. In the 112th Congress, 237 House members and 41 Senators have taken the pledge. On the state level, 13 governors and 1249 state legislators have taken the pledge.

Norquist chairs the Washington, DC - based "Wednesday Meeting," a weekly gathering of more than 150 elected officials, political activists, and movement leaders. The meeting started in 1993 and takes place in ATR's conference room. There are now 61 similar "center-right" meetings in 47 states.

Mr. Norquist also:

- Serves on the board of directors of the National Rifle Association of America.
- Serves on the board of directors of the American Conservative Union.
- Serves on the board of directors of The Nixon Center
- Serves as a Contributing Editor to the American Spectator Magazine.
- Serves as president of the American Society of Competitiveness.
- Authored the book *Leave Us Alone – Getting the Government's Hands Off Our Money, Our Guns, Our Lives*

In the past, Mr. Norquist served as:

- A commissioner on the Advisory Commission on Electronic Commerce.
- A commissioner on the National Commission on Restructuring the Internal Revenue Service.
- Economist and chief speech-writer, U.S. Chamber of Commerce (1983-1984).
- Campaign staff on the 1988, 1992, 1996 Republican Platform Committees.
- Executive director of the National Taxpayers' Union.
- Executive director of the College Republicans.

In the words of **Newt Gingrich**, Grover Norquist is "the person who I regard as the most innovative, creative, courageous and entrepreneurial leader of the anti-tax efforts and of conservative grassroots activism in America . . . He has truly made a difference and truly changed American history."

P.J. O'Rourke says, "Grover Norquist is Tom Paine crossed with Lee Atwater plus just a soupcon of Madame Defarge."

Arianna Huffington calls Norquist "The dark wizard of the Right's anti-tax cult"

Mr. Norquist holds a Masters of Business Administration and a Bachelor of Arts degree in Economics, both from Harvard University. He lives in Washington, DC with his wife, Samah and his daughters, Grace and Giselle.

CITIZENS AGAINST GOVERNMENT WASTE

Thomas A. Schatz

Thomas A. Schatz is President of Citizens Against Government Waste (CAGW) and its lobbying affiliate, the Council for Citizens Against Government Waste (CCAGW).

CAGW was founded by the late industrialist J. Peter Grace and late Pulitzer Prize-winning columnist Jack Anderson in 1984 following the completion of President Ronald Reagan's Private Sector Survey on Cost Control (the Grace Commission). A 501(c)(3) nonprofit, nonpartisan educational organization, CAGW works to eliminate waste, fraud, abuse, and mismanagement in government and has attracted more than one million members and supporters nationwide. According to official Office of Management and Budget and CAGW estimates, implementation of Grace Commission and other CAGW waste-cutting recommendations has helped save taxpayers $1.04 trillion.

Mr. Schatz is a nationally-recognized spokesperson on government waste and has been interviewed on hundreds of radio talk shows from coast to coast. He was a regularly featured guest on national television news programs and local news broadcasts. His appearances include ABC's "Good Morning America," CBS's "60 Minutes," Fox News Channel's "The O'Reilly Factor," NBC's "Nightly News," and PBS's "The NewsHour with Jim Lehrer." He was a regularly featured guest on CNBC's "Squak Box" during their "Pork Watch" segment". His editorials on fiscal policy have appeared in publications nationwide, including The New York Times and The Wall Street Journal.

Mr. Schatz has testified numerous times on government waste issues before committees of the United States Senate and House of Representatives, as well as before state and local legislative and regulatory bodies.

During his 26 years with CAGW, Mr. Schatz has spearheaded a development program that has increased the organization's members and supporters from 5,000 to more than 1,000,000.

Prior to joining CAGW in 1986, Mr. Schatz spent six years as legislative director for Congressman Hamilton Fish Jr. and two years practicing law and lobbying.

Mr. Schatz holds a law degree from George Washington University and graduated from the State University of New York at Binghamton with a BA degree, With Honors, in Political Science. He is married to Leslee Behar and has two daughters, Samantha and Alexandra.

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Larry Hart

Larry Hart is the Director of Government Relations for the American Conservative Union and brings 13 years of experience in the legislative and executive branches of government to ACU. In 1999, Hart left government service to form Hartco Strategies, a media relations and political consulting firm whose clients ranged from members of Congress and non-profits to political action committees.

Previously, Hart served on the professional staff of the House Science Committee's Subcommittee on Energy and the Environment for four years after a three-year stint with the Department of Energy. Earlier, Hart was Communications Director for Congressman Dana Rohrabacher of California and, before that, the late Herb Bateman of Virginia. Hart came to Capitol Hill after nine years in radio, working as Operations Manager and News Director for small to medium market stations from California to Virginia.

Following 9/11, Hart became active in efforts to rebuild Afghanistan, serving as pro-bono Executive Director of the Afghanistan-America Foundation, which sponsored housing, education and health projects with private funding. In 2002, Hart ventured into film production as the Executive Producer of "Life After War," a documentary focusing on NPR war correspondent Sarah Chayes and her decision to quit a successful media career to help rebuild a small village near Kandahar. The film was screened on PBS' Frontline/World and the Sundance Movie Channel as well as receiving a special mention on OPRAH.

Hart cut his political eyeteeth while still in high school in Southern California, working with activists to found a Californians for Goldwater chapter in 1961-62. He has served as Campaign Coordinator and/or Communications Director in state and federal campaigns from Rhode Island to Texas and every place in between.

In his formative years, Hart was a child actor and can still be seen by insomniacs watching all-night cable on such classics as "The Real McCoys" and "The Donna Reed Show."

Pete Sepp

As Executive Vice President, Pete Sepp serves as deputy to NTU President Duane Parde. In this role, Sepp has helped to develop the 362,000-member National Taxpayers Union's (NTU) government affairs, public relations, and promotional strategies. Sepp also oversees strategic planning efforts for NTU and its staff. Additionally, Sepp directs and supervises the research and educational operations of the National Taxpayers Union Foundation (NTUF).

He has written and edited numerous policy papers, informational publications, and activist manuals, as well as studies on topics such as Congressional perquisites and citizen-initiated tax revolts. He has testified before Congress on matters ranging from Government-Sponsored Enterprises in lending to Medicare reforms, and has lectured in the U.S. and abroad on issues such as tax administration reform. Sepp is Editor-in-Chief of NTU's award-winning periodical publications, Dollars & Sense.

Sepp has appeared on every major television network, and regularly provides interviews and commentaries to cable channels such as CNN, MSNBC, and the Fox News Channel. He is a frequent guest on radio programs from coast-to-coast, and has been widely featured in print media, including The New York Times, The Chicago Tribune, The Washington Post, The Christian Science Monitor, The Wall Street Journal, USA Today, Newsweek, and Money Magazine. He has also survived two appearances on "The Daily Show" with his professional reputation miraculously intact.

Sepp graduated cum laude from Webster University in St. Louis, MO in 1986 with a B.A. in History and Political Science and with Associate Degrees in Legal Studies and German. While attending Webster he earned a National Merit Scholarship and was the University’s nominee for the Harry S. Truman Political Science Scholarship. Sepp also served as Editor of Perspectives, a local newsletter of political opinion. Before coming to NTU, Sepp served with the St. Louis County Board of Elections and with a U.S. Senate campaign.

Randel K. Johnson

Senior Vice President, Labor, Immigration, and Employee Benefits, U.S. Chamber of Commerce

Randel K. Johnson joined the U.S. Chamber of Commerce on December 1, 1997. As senior vice president, he is primarily responsible for labor, immigration, and employee benefits issues pending before Congress and the federal agencies.

Through consulting with the Chamber's member policy committees and supervising a staff of 11, Johnson determines the Chamber's position and sets strategy regarding a wide variety of issues that fall within the jurisdiction of his division. These include union-driven initiatives such as card check legislation, ergonomics, and blacklisting regulations; pension funding reform and health care; civil rights and wage and hour; and comprehensive immigration reform, including visa and border policy.

Johnson serves on the board of directors of the National Immigration Forum and the Lutheran Immigration Refugee Services agency. He also serves on the Quality Alliance Steering Committee. Previously, he served as a member of the Department of Homeland Security Data Management Improvement Act Task Force concerning border entry and exit issues, the Chicago Council on Foreign Relations Immigration Task Force, the 21st Century Workforce Commission, and the Carnegie U.S.-Mexico Migration Study Group. Johnson testifies before Congress and is widely quoted in the media on employment and immigration issues as a recognized expert in these fields.

Before joining the Chamber, Johnson was the Republican labor counsel and coordinator for the U.S. House of Representatives Committee on Education and the Workforce where he supervised a staff of professionals and was responsible for all employment policy and legal issues before the committee. His work with the committee principally centered on legislative activity under the Occupational Safety and Health Act, the National Labor Relations Act, the Congressional Accountability Act, the Family and Medical Leave Act, the Fair Labor Standards Act, the Civil Rights Act of 1991, and the Americans with Disabilities Act of 1990.

His prior experience includes six years as an attorney with the U.S. Department of Labor where he was the special assistant to the Solicitor of Labor for Regulatory Affairs and the department's liaison to the Office of Management and Budget, primarily specializing in the areas of equal employment opportunity and occupational safety and health. He also served as a lobbyist in the labor relations, immigration, and job training areas with the National Association of Manufacturers; as an attorney with the Department of Labor's Office of Administrative Law Judges; and as a law clerk to a Baltimore city trial judge immediately following law school. Between college and law school, Johnson worked for IBM in Bethesda, Maryland.

Johnson is a graduate of Denison University and the University of Maryland School of Law and received his Master of Laws in labor relations from the Georgetown University Law Center.

Senior Vice President, Labor, Immigration, and Employee Benefits, U.S. Chamber of Commerce

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Rev. May 2010

The Free Enterprise Nation
The Voice of the Private Sector

James E. MacDougald

James E. MacDougald, 67, is the author of the best-selling book, "UNSUSTAINABLE: How Big Government, Taxes and Debt Are Wrecking America". He founded and is president of the nation's first membership/advocacy organization dedicated to representing the broad economic interests of businesses and workers in the private sector, The Free Enterprise Nation. He is a frequent guest on FOX, CNBC, MSNBC, and numerous television and radio talk programs, and was featured in the recent highly-acclaimed 1-hour special, " The Battle for the Future" hosted by John Stossel.

Jim was born in Providence, R.I. and grew up as an "Army Brat" as his father spent a 25-year career in the US Army. Jim attended schools in Germany, Rhode Island, Massachusetts, Puerto Rico, Utah, Maryland, Louisiana and Mexico. He graduated from the University of Maryland. He and his wife, Suzanne, reside in St. Petersburg, FL and have been married for 47 years and have two children and six grandchildren.

Jim spent 17 years in the employee benefits division of Home Life Insurance Company of New York, specializing in group health insurance and corporate pension plans, serving in management positions in New Orleans, Jackson, Miss., Washington, DC and New York. He served as Vice President before leaving in 1982 to establish his own company that specialized in assisting employers in administration and compliance with employee benefits regulations, including COBRA, HIPAA, and 401K administration. The company moved to Florida in 1987. In 1994, the company went public (NASDAQ:ABRX). In 1995, 1996 and 1997 Forbes Magazine named ABR as one of "The Best 200 Small Companies in America". In 1998, Fortune Magazine named ABR as one of the "100 Fastest Growing Public Companies in America". ABR grew internally to 1,000 employees in Palm Harbor, Florida, and added another 500 employees in six other states via acquisitions.

In 1998, just four years after going public with a $40 million market capitalization and $6 million in total assets, ABR had more than $100 million cash in the bank, 50,000+ corporate clients, no debt and a market cap of $1 billion. Every employee at ABR received stock options each year and every employee received significant financial benefit as a result of the company's outstanding performance.

Ceridian Corporation (NYSE:CEN) acquired ABR in 1999. MacDougald stayed for one transitional year and then retired in 2000. MacDougald later invested in and became chairman of the board of Odyssey Marine Exploration, Inc., the world leader in deep-ocean shipwreck exploration. Odyssey subsequently moved to the NYSE (OMR) and later to NASDAQ (OMEX). Odyssey stock increased 1000% during his tenure as Chairman.

Jim has served on the Board of Trustees of numerous non-profit organizations including Academy Prep, USF Foundation, Eckerd College, The St. Petersburg Chamber of Commerce, The Salvador Dali Museum, the St. Petersburg Museum of Fine Arts and The Rays of Hope Foundation. In addition to his role as Chairman and President of The Free Enterprise Nation, Inc., he is currently Chairman of the Board of Trustees of the International Council of the Tampa Bay Region, a trustee of the University of Tampa, and a member of the board of directors of the Special Operations Warrior Foundation.

Steve Woods

As senior vice president for state public policy operations, Steve Woods oversees NFIB's public policy activities in all 50 states. Woods joined NFIB in 1977 and served for 12 years as the state director in New York. After a short stint as the northeastern regional director, he became vice president in 1989.

During his years as vice president, the state public policy department has greatly expanded its role in state elections. Woods led the efforts to endorse governors for the first time in NFIB and to take active roles in referendum and judicial campaigns. The primary grassroots function for NFIB is coordinated through state public policy.

Woods serves as NFIB's representative to a number of associations of state officials, including the National Conference of State Legislatures, the Council of State Governments and the American Legislative Exchange Council. He served as a board member of the National Council of Compensation Insurance, which is the primary rate-setting statistical organization for workers' compensation. He was the private sector chair of the ALEC Commerce Committee. He currently serves on the board of the State Government Affairs Council, an association of managers of state government relations programs. Also, Woods is the chairman of the board of the American Tort Reform.

Prior to joining NFIB, Woods was the executive director of the Schenectady, N.Y., Bureau of Municipal Research from 1972 to 1977.

Woods graduated cum laude from Union College in Schenectady, with a degree in political science. He also holds a master's in public administration from the State University of New York at Albany with a concentration in public finance.

Woods and his wife Kathy reside in Alexandria, Va.

Support Letters

Rep. Devin Nunes
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Center for Fiscal Accountability

The Honorable Devin Nunes
1013 Longworth House Office Building
Washington, DC 20515

Dear Congressman Nunes,

We write to urge your colleagues to co-sponsor and otherwise support your Public Employee Pension Transparency Act. The bill addresses the lack of scrutiny that has allowed state pension funds to run in the red for years, leaving taxpayers with trillions in unfunded liabilities.

Looking to avoid politically difficult but necessary pension reform, states have been borrowing money, issuing bonds, estimating unreasonable returns, and cooking the books to hide their pension liabilities. Your bill would stem this practice and institute sensible reform to put pension funds back on the road to solvency.

Transparency, an important tool in stemming government waste, is an integral solution to the pension problem. Currently, pension fund valuation is based on the expected return of invested assets, rather than the face value of pension payments. This greatly exaggerates the value of pension funds, which are currently estimated to be underfunded by as much as $3.23 trillion.

Public Employee Pension Transparency Act would require accurate accounting practices to calculate the actual liabilities of state pension funds. What's more, these liabilities would need to be disclosed on a website run by the Treasury Department, so taxpayers can become truly empowered as fiscal watchdogs of their state's pension funds.

The bill also addresses the underlying problem of the federal government backstop, taking federal money off the table as a means to close state and local pension budget gaps. This will force states to institute meaningful reform on the public pension crisis. If insolvent pension plans are to be fixed, solutions should originate within statehouses across the nation—not from an artificial infusion of federal dollars

By requiring accurate accounting, disclosure online and certifying the end of federal bailouts, your bill would address the underlying deficiencies that have allowed states and municipalities to be fiscally reckless with their pension plans. Thus, we support the Public Employee Pension Transparency Act and encourage your colleagues to do the same.

Sincerely,

Grover Norquist	Christopher Prandoni	Mattie Corrao
President	Executive Director	Executive Director
Americans for Tax Reform	Alliance for Worker Freedom	Center for Fiscal Accountability

Cc: All Members of the United States House of Representatives

COUNCIL FOR
CITIZENS AGAINST GOVERNMENT WASTE

Thomas A. Schatz
President

January 6, 2011

U.S. House of Representatives
Washington, D.C. 20515

Dear Representative,

Rep. Devin Nunes' (R-Calif.) will soon introduce the Public Employee Pension Transparency Act. On behalf of the more than one million members and supporters of the Council for Citizens Against Government Waste (CCAGW), I urge you to support this legislation.

In December 2008, state governments had nearly $1.94 trillion set aside in pension funds for approximately 20 million active state and local government employees and seven million retirees and dependents who currently receive benefits.

States currently have pension liabilities of $5.17 trillion, which means that state pension plans are unfunded by $3.23 trillion. Local government pension plans are unfunded by $574 billion. Government accounting standards, however, show that states' unfunded pension liability is $1 trillion. The undervaluation is due to the fact that government accounting standards require state and local governments to discount liabilities at an unrealistically high rate of return on their assets. These faulty accounting practices are dangerous and misguiding. Taxpayers who foot the bill for pension funds have a right to know how indebted they are to state and local governments.

Rep. Nunes' bill would require state and local government pension plans to disclose the true nature of their liabilities with the Secretary of the Treasury and to make their financial statements available to the public through a searchable website. State and local governments' empty coffers should not ignored, nor should they become dependent on federal bailouts to ensure the fiscal soundness of their pension plans. Increasing pension fund transparency will make lawmakers more accountable to taxpayers and compel them to deal with the reality of their fiscal crisis.

I strongly urge you to support Rep. Nunes' important legislation. All votes on the Public Employee Pension Transparency Act will be among those considered in CCAGW's *2011 Congressional Ratings.*

Sincerely,

Thomas Schatz

1301 Pennsylvania Avenue, N.W.
Suite 1075
Washington, D.C. 20004
202-467-5300

National Taxpayers Union

February 7, 2011

The Honorable Devin Nunes
United States House of Representatives
1013 Longworth House Office Building
Washington, DC 20515

Dear Representative Nunes:

On behalf of the 362,000 members of the National Taxpayers Union (NTU), I write in support for your "Public Employee Pension Transparency Act," which would provide a much-needed dose of financial transparency for state and local government employee pension plans.

Pension shortfalls, whose fundamental causes predate the slumping economy, are leaving many states strapped for cash and questioning how best to remedy the problem. Estimates of the total unfunded liabilities across all 50 states are staggering: between $1 trillion and $3 trillion. The wide range in those estimates can be attributed in part to obscure government accounting rules, particularly relating to asset and liability valuations. Because states have few real disclosure requirements, they are at grave risk of jeopardizing retirement packages for active and retired employees and putting taxpayers on the hook for unaffordable benefit schemes.

By denying federal tax benefits for bonds unless state and local governments file annual reports on their employee pension plans, your legislation would encourage administrators and lawmakers to confront the grim realities of massive unfunded liabilities. No longer should we allow taxpayers to be kept in the dark and deceived by inaccurate or incomplete reporting on pensions. More extensive reporting of assets, liabilities, and projections of future performance will more thoroughly inform the public about the true cost of pension benefits and allow for a sober-minded assessment of potential solutions.

This bill would provide an important bulwark against a federal bailout of failing state pension systems. By bringing data into the light of day, the Public Employee Pension Transparency Act will encourage honest governance as states and localities tackle their pension challenges. We commend your efforts to increase accountability within state and local government pension plans, for the sake of both beneficiaries and taxpayers, and look forward to helping you enact this critical legislation as quickly as possible. Roll call votes on the Public Employee Pension Transparency Act will be heavily weighted in NTU's annual Rating of Congress.

Sincerely,

Andrew Moylan

Andrew Moylan
Vice President of Government Affairs

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1/25/2011

The Honorable Devin Nunes
United States House of Representatives
1013 Longworth House Office Building
Washington D.C. 20515

Dear Representative Nunes:

The Free Enterprise Nation strongly supports the Public Employee Pension Transparency Act to bring transparency to public employee pension funding. It is in the best interests of both the taxpayer and the public employee to establish a method by which public sector pension funding will be subject to uniform reporting standards, as is the case with all private sector pension plans.

The lack of uniform and consistently applied accounting and reporting standards in public sector pension plans has helped lead to the current crisis in which the solvency of many of these entities themselves is now in question, and the ability to pay promised benefits to current and future public sector retirees is in jeopardy. In the absence of universally applied actuarial and accounting standards, neither the taxpayer nor the public employee can be confident that they have a clear picture of a given plans' solvency and funding status.

Furthermore, many financially-stressed public sector entities are forced to consider eliminating or reducing their pension plan contributions, a step that further increases the likelihood that public sector pensioners may not receive promised benefits. In cases where public sector pensions are guaranteed by law, public sector entities often must terminate needed employees to meet pension obligations for those who have achieved or are near retirement age. The result is that public sector employees are losing their jobs in order to allow the plan sponsor to pay for unsustainably large benefits payments to others.

As many public institutions rely on the sale of bonds to finance ongoing plan obligations, the lack of transparency required of these public authorities has created an environment in which bond underwriters and buyers lack the detailed financial information they need to make informed financial decisions. This has the effect of increasing costs to virtually all public sector entities and to the taxpaying public as all plans, well-funded or not, are greeted with skepticism from the financial markets.

Simply put, the Public Employee Pension Transparency Act will require transparency of public sector pension plans that is consistent with the private sector, will empower the public sector retiree with more accurate information about their promised benefits, will ultimately bring stability to the municipal bond market, and will protect the taxpayer by ensuring more responsible governance of public pension plans.

The Free Enterprise Nation is proud to support this important legislation.

Sincerely,

James E MacDougald

Jim MacDougald
President

February 8, 2011

The Honorable Devin Nunes
U.S. House of Representatives
1013 Longworth House Office Building
Washington, DC 20515

Dear Representative Nunes:

On behalf of the National Federation of Independent Business (NFIB), the nation's leading small business organization, we are writing in support of the Public Employee Pension Transparency Act. This bill will proactively address the pending shortfalls in state and local pension plans and protect small business owners from the costs associated with a failure to address the funding problems in these plans.

States and local governments are set to experience enormous shortfalls due to underfunded public pension plans. The benefit levels of these plans are unsustainable and many plans lack a system to cover such costs. Small business owners believe that these irresponsible fiscal practices must be addressed now.

The Public Employee Pension Transparency Act would provide transparency and accountability for state and local pension plans. First, by requiring a regular report be filed with the Treasury Department and making the information public, lawmakers and citizens will know the status of these plans. Second, a failure to file such a report will mean that the government entity will lose the ability to issue federal tax exempt bonds. Finally, and most important, the bill clearly states the federal government will not bailout underfunded plans.

Small business owners must keep accurate account of their businesses and the retirement plans they offer and government entities should be required to do the same. Bailouts of failed plans will lead to taking on more federal debt and potential tax increases. In fact, over 70 percent of NFIB members in state surveys supported addressing the funding of public employee pensions and 88 percent of NFIB members nationwide oppose the use of federal money to bailout state budgets.

Small business owners strongly believe that federal bailouts must stop and that Congress must begin to get our nation's fiscal house in order. The Public Employee Pension Transparency Act takes a firm stand against more bailouts and would create simple steps to reign in out of control spending.

Again, thank you for introducing this important and fiscally responsible legislation. We look forward to working with you.

Sincerely,

Susan Eckerly

Susan Eckerly
Senior Vice President
Public Policy

AMERICANS FOR
LIMITED GOVERNMENT

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February 8, 2011

The Honorable Devin Nunes
United States House of Representatives
1013 Longworth House Office Building
Washington, DC 20515

Dear Representative Nunes:

Americans for Limited Government strongly supports your effort to create transparency in the public pension system, and prevent future state bailouts due to reckless, unfunded state and local government employee pension promises.

The state and local government pension system is significantly underfunded, but the extent of the problem is hidden through the use of arcane laws designed to mislead the public. Ironically, retired or retiring public employees are the ones who at most risk to be harmed from this current system, as they are often completely unaware of the relative solvency of their pension fund and the possibly devastating effects that they might have on their futures.

The ticking time bomb of public pension shortfalls is exemplified by reports that show unfunded liabilities in all fifty states totaling between $1 trillion and $3 trillion. The very fact that this variation is so wide due to lack of transparency in current government accounting rules makes the primary case for your transparency legislation.

To put the scope of the impact of the pension shortfall into perspective, the $2 trillion variance in estimates of state government pension shortfalls is around 1.5 times our nation's current historically high budget deficit. It is simply inexcusable for public employee pension funds to not have to expose their books in clear, concise fashion so the scope of the problem can be defined, and eventually solved.

Most significantly, your provision wisely goes beyond transparency and puts a halt to attempts by public employee unions to get state and local bailouts if these dramatically underfunded pension funds have recklessly promised and spent taxpayer funds. Your legislation's unequivocal declaration that the federal government won't bailout these state and local big spenders ends the state public employee pension bailout debate before it starts, and you are to be commended for this pro-active action.

We encourage your colleagues to support your legislation and look forward to working with you to increase transparency and prevent federal government bailouts of public employee pension funds.

Sincerely,

Bill

William A. Wilson
President

Please let us know how we can help.

AFP NEWSROOM

Letter of Support: Rep. Nunes' Public Employee Pension Transparency Act

Dear Congressman Nunes,

On behalf of more than 1.5 million Americans for Prosperity activists in all 50 states, I write in support of your bill, the Public Employee Pension Transparency Act, which takes an important first step toward shining a light on the unsustainable and immoral promises that state and local governments are making to their employees.

The country is undergoing a great awakening about the promises that our government is making to current employees, retirees and other citizens in the name of taxpayers and future generations. For too long the country has sat blithely by and endorsed these promises without truly understanding their ramifications or even weighing if the nation was capable of meeting them. That is immoral, it is fiscally unsustainable and it must end.

Horrifically, the true cost of these public pension promises—estimated at $3.3 trillion—is hidden from the American people. It is hidden because those making the promises do not want citizens to know the liabilities' true scale and they do not want the 20 million Americans who have been made these pension promises to know they may not receive what they are relying on. The costs are hidden because the fund managers use unrealistic discount rates to mask the burden future taxpayers will face.

Congressman, your Public Employee Pension Transparency Act is admirable because it begins by stating that the federal government will not rescue of state and local governments that have made promises they cannot keep. There will be no public pension ballouts. Next, by requiring transparent accounting standards and methods your bill will shine a light on pensions' hidden obligations. Finally, by educating the public about the size of the public sector pension promises that are being made in their name your bill continues an important national discussion about the proper role of government and its misuse of power over individuals' future earnings.

Americans for Prosperity is proud to support your legislation, I urge your colleagues to support its passage and I look forward to working with you in the future.

Sincerely,

James Valvo
Director of Government Affairs
Americans for Prosperity

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Bloomberg

U.S. State Bankruptcy Weighed by House Republicans Blocking Aid

By Alison Vekshin - Jan 21, 2011

U.S. House Republicans, emboldened by the majority they won in November elections, want to send a message to U.S. states grappling with soaring pension liabilities: Don't come to us for a handout.

A broader option, being pressed by former House Speaker Newt Gingrich, a potential presidential candidate in 2012, would be to change U.S. law to allow states to file for bankruptcy, giving them more leverage to renegotiate labor contracts.

Closing the door to U.S. aid may further stress states facing more than $140 billion in budget deficits next fiscal year, according to the Center on Budget and Policy Priorities, a Washington research group. Fewer than half of state retirement systems had assets to pay for 80 percent of promised benefits in their 2009 fiscal years, according to data compiled by Bloomberg. They now face the end to federal stimulus payments granted two years ago to help them cope with the deepest recession in 80 years.

"We are not interested in a bailout," Representative Paul Ryan, a Wisconsin Republican and chairman of the House Budget Committee, said at a Jan. 6 forum in Washington.

"Should taxpayers in Indiana, who have paid their bills on time, who have done their job fiscally, be bailing out Californians, who haven't," he said. "No, that's a moral hazard we are not interested in creating."

Representative Devin Nunes of California introduced the Public Employee Pension Transparency Act last month, co- sponsored by Ryan and Darrell Issa of California, that requires more reporting details from state and local pensions and prohibits federal bailouts of states.

Congressional Shift

It's a shift from the previous Congress, where a Democratic majority in both houses passed the $814 billion American Recovery and Reinvestment Act in 2009 to aid states as the recession choked their tax collections.

"We're going to look at state and municipal budget issues, their unfunded and underfunded pension liabilities as well as the impact defaults and bankruptcies of municipalities would have on the bond market," Representative Patrick McHenry, 35, a North Carolina Republican and chairman of the newly formed TARP, Financial Services and Bailouts of Public and Private Programs subcommittee, said in a Jan. 12 telephone interview.

Utah Representative Jason Chaffetz said Republicans have contacted bankruptcy attorneys to discuss ways to change the law to allow states to restructure financial obligations such as debts to retirees. He said it hasn't been decided whether that would mean allowing states to file for bankruptcy.

Chaffetz said he proposed legislation to oppose federal bailouts of pensions.

Warning Shot

"My bill really sends a warning shot across the bows of the states to get their fiscal houses in order," he said. "It's intended to wake up the states, wake up the public, to let them know they can't just run to the federal government to bail them out."

Gingrich said in a November speech in Dallas that he's urging House Republicans to introduce a bankruptcy bill "so that states like California and New York and Illinois that think they're going to come to Washington for money can be told, 'You know, you need to sit down with all your government employee unions and look at their health plans and their pension plans.'"

"Frankly, if they don't want to change, our recommendation is you go into bankruptcy court and let the bankruptcy judge change it," he said.

States were left out of a Depression-era law that lets municipalities reorganize their finances under Chapter 9 of the bankruptcy code. No legislation has yet been introduced to allow states to seek court protection from creditors.

Doubtful Path

It's doubtful any state would pursue such a path, given their ability to raise taxes and the adverse effect that would have on their credit standing, said James Spiotto, head of the bankruptcy practice at Chapman & Cutler, a Chicago law firm.

"There are many other alternatives," he said. "Elected officials would be pursuing those long before pursuing bankruptcy."

Talk of allowing states to declare bankruptcy may affect investors' faith in the general-obligation debt they issue, said Gary Pollack, head of bond trading at Deutsche Bank AG's private wealth management unit in New York.

"One of the reasons we point to them and say that they're great is that they can't declare bankruptcy," Pollack said of general-obligation debt, which is backed by the taxing power of states. "It's just another piece of negative news that muni market doesn't need right now."

Potential for Damage

The suggestion that federal legislation should permit states to declare bankruptcy -- potentially allowing them to default on their bonds or reimburse vendors less than they're due -- "could do considerable damage, and the necessity for it has not been proven," the Center on Budget and Policy Priorities said in a Jan. 20 report. The nonprofit group seeks in part to ensure policymakers consider the needs of low-income families and individuals, its website says.

Meredith Whitney, the banking analyst who correctly predicted Citigroup Inc.'s dividend cut in 2008, stirred concerns in the $2.8 trillion municipal-debt market last month by predicting as many as 100 "significant" municipal defaults reaching "hundreds of billions" of dollars this year.

Investors withdrew $4 billion from municipal-bond mutual funds in the week ended Jan. 19, the most since Lipper FMI began measurements in 1992. It was the 10 straight week of outflows, totaling $20.6 billion since the week ended Nov. 17, according to Lipper, a Denver-based research company.

Republican calls in November for less federal spending resonated with voters angry over the billions of taxpayer dollars spent on financial institutions blamed for causing the financial crisis. Republicans will apply the same argument as they move to prevent states from leaning on the federal government.

Senate Consideration

Senator John Cornyn, a Texas Republican, is considering ways to address state financial woes, "including amendments to the bankruptcy laws," his spokesman, Charles Chamberlayne, said in an e-mail.

"A federal bailout of state governments is not an option," Chamberlayne said. "The public sent Congress a clear message that they were against bailouts in November, and Senator Cornyn heard that message."

Federal Reserve Chairman Ben S. Bernanke told the Senate Banking Committee on Jan. 7 that the central bank has "very limited authority" to assist states.

"We have no expectation or intention to get involved in state and local finance," Bernanke said during a question-and- answer session. "To the extent that there's anyone to look at that, it would have to be Congress."

Representative Nunes, 37, will reintroduce his December bill this month. It would ban the federal government and the Federal Reserve from offering funds to local governments to reduce or meet shortfalls in their pension obligations.

No Bailout

"The federal government will not provide a bailout," according to a summary of the bill.

The bill also would require state and local governments to report their pension-plan liabilities to the Treasury Department and to make the data available to the public. Governments that don't disclose the information would have their federal tax- exempt bonding authority eliminated.

Nunes is a member of the House Budget Committee and the Ways and Means Committee, which deals with taxes, tariffs and other revenue-raising measures.

Republicans hold 242 House seats to 193 for Democrats. Democrats control the 100-member Senate with 53 seats, giving them the ability to block the Nunes or similar proposals, which it would have to approve before it can become law.

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REVIEW & OUTLOOK | JANUARY 22, 2011

THE WALL STREET JOURNAL.

Public Pension Hygiene Act

The first reform step is exposing the true size of the funding hole.

We're so accustomed to misnamed legislation like the Employee Free Choice Act (card check) that it's hard to believe that a welcome proposal called the Public Employee Pension Transparency Act describes what it actually purports to do. To wit, prohibit public pension bailouts by the federal government and expose the $3.5 trillion of unfunded public pension liabilities that local and state governments have obscured.

Most state and local governments currently use their own estimated rate of return on their investments to discount their liabilities. By projecting unrealistically high rates of return, states minimize their unfunded liabilities, at least on paper. Lower unfunded liabilities in turn allow them to reduce how much they and public employees must contribute to their pension funds. Inflated investment assumptions are one reason that public pension funds are unfunded to the tune of $3.5 trillion.

Public pensions typically assume an 8% annual return on average, but over the past five years state pension funds with more than $5 billion in assets have earned only 4.5%. Taxpayers must make up the difference between what the funds earn and what they need to pay retirees. For Californians that is roughly $5 billion this year.

Local taxpayers are already seeing their services whacked and taxes raised to fill these pension holes. University of California students will have to pony up 8% more next year for tuition to offset an expected $500 million in state budget cuts. Illinois residents will soon pay 67% more in income taxes, but taxpayers won't feel the full brunt for another decade when the funds begin running out of money. When Chicago's pension fund goes dry around 2019, over half of the city's revenue will be dedicated to pensions.

In the 1950s and 1960s, many private employers obscured their liabilities the way governments are doing today, though they didn't have a public backstop. Many funds went broke. In 1974 Congress established minimum funding requirements and penalized companies that underfunded pensions. The law also required companies to report and discount their liabilities using a more conservative rate of return.

These changes exploded liabilities and prompted many companies to switch from defined-benefit plans to defined-contribution plans like 401(k)s. While a majority of private workers now have defined-contribution plans, defined-benefit plans remain the norm in government.

Enter the Public Employee Pension Transparency Act, which is sponsored by House Republicans Devin Nunes and Darrell Issa of California and Wisconsin's Paul Ryan. Their bill would encourage governments to switch to defined-contribution plans by revealing the true magnitude of their unfunded liabilities. States and municipalities would have to report their liabilities to the U.S. Treasury using their own rosy investment forecasts as well as a more realistic Treasury bond rate (to be determined by a formula).

This data would make clear how much taxpayers potentially owe and increase pressure on lawmakers to fix their plans. For instance, Illinois estimated in 2009 that it had a roughly $85 billion unfunded liability. Using a Treasury discount rate, that unfunded liability balloons to $167 billion.

Out of respect for state sovereignty, the federal government shouldn't and can't tell local governments how to run or fund their pensions. But the bill doesn't do so and it also doesn't force states to fund their plans using a lower discount rate. States don't even have to comply with the law, though they would forego their ability to sell federally subsidized, tax-exempt bonds if they don't.

The bill may not persuade states like Illinois and California to revamp their pensions, but it will reveal how broken they are—and that's a start.

The Week

■ At least she can console herself that she's still the first female House minority leader.

■ President Obama had a good December in the lame-duck session of the 111th Congress, signing a 9/11 first-responders bill, a new START treaty, and a repeal of the "don't ask, don't tell" policy on gays in the military. The first-responders bill, despite its name, is a slab of New York City pork allowing first responders, Manhattanites, and their trial lawyers to file claims for 20 more years. The START treaty had serious advocates (Henry Kissinger); its critics argued, plausibly, that in the vain hope of making nice with an increasingly post-post-Soviet Russia, it puts us on a path that will limit our missile-defense capabilities. DADT repeal heedlessly burdened a military engaged in two wars. Obama's successes remind conservatives and Republicans that even a weakened president is still the big dog in American politics. Not as big as he was, though. Obama extended the Bush tax cuts in a deal with the congressional GOP that reflected its new clout, and Congress failed to enact DREAM (the amnesty program for young illegal immigrants) and a grotesque $1 trillion omnibus spending bill slapped together by Harry Reid. And starting now, Reid's majority shrinks, John Boehner takes the speaker's chair—and Obama's leash shortens.

■ Congress's repeal of "don't ask, don't tell" removes one of the grounds for a great divorce in American life: the sundering of military service and elite education. In the late Sixties and Seventies, ROTC was kicked off Ivy League and other high-end campuses because of student protests against the draft and the Vietnam War. Since 1993, the Ivies could point to DADT as ongoing justification for the ban. ROTC students at ROTC-less schools are treated as aliens, obliged to do their training at less-bigoted campuses nearby. Gay rights is a fig leaf; the Ivies didn't like ROTC because of misplaced snobbery (ROTC courses were not as rigorous as, say, cultural studies) and sheer pacifism. The separation is mean-spirited, parochial, and an affront to the example of Lt. George H. W. Bush (Yale '48), Lt. John F. Kennedy (Harvard '40), and Gen. Alexander Hamilton (King's College, now Columbia—never graduated because he quit to join an artillery company). May it end soon.

■ As the 2010 census counted more than 308 million people in the United States, it also showed them shifting away from Democratic bastions in the Northeast and toward Republican strongholds in the South and West. States that voted for John McCain in 2008 will gain six seats in Congress as well as six electoral votes in presidential elections. This bodes well for the near-term prospects of the GOP. Republican strength in the states may squeeze more than a six-seat bonus out of redistricting. And if the 2012 election is close, the increase of Texas (four new electoral votes) or the decrease of New York (two fewer electoral votes) could prove decisive. Yet the long-term picture is more complicated. About three-quarters of the last decade's population growth was the result of immigration. In time, these newcomers could tip Arizona, Florida, and Nevada into the Democratic column. For now, at least, one fact is indisputable: People who vote with their feet prefer to live in Republican jurisdictions.

ROMAN GENN

■ Because state and local governments have neither the guts to say no to their rapacious employees nor the testicular fortitude to tax their constituents to make good on their promises to the union goons, they face a pension crisis. A big one: They are more than $3 trillion short, with the states of Illinois and California on the verge of crisis, and large cities, including Pittsburgh and San Diego, teetering on insolvency. Rep. Devin Nunes, a California Republican, already detects the stirrings of a government-employee-pension bailout, and has introduced legislation that will force state legislatures and city halls to clean up their acts and disclose their real liabilities. More important, the bill prohibits the federal government from bailing out insolvent pension funds. That is critical: Questions of local responsibility aside, transferring those liabilities from the states and cities to the national balance sheet would very likely speed up the deterioration of our already limping federal finances, to potentially catastrophic effect. Paul Ryan and

Darrell Issa already are on board, and their Republican colleagues would do well to make passing Nunes's Public Employee Pension Transparency Act a first-order priority in the new Congress.

■ President Obama says his "attitudes" toward same-sex marriage are "evolving." To say that he is telegraphing a flip-flop is to understate the cynicism of the gesture. The truth is that the president's opposition to same-sex marriage has never been anything more than rhetorical. He openly supported same-sex marriage when he was appealing to left-wingers at the start of his political career. While claiming to be opposed to it in subsequent years, he has also opposed doing anything to stop it. Thus when California's supreme court read same-sex marriage into the state constitution, he opposed a ballot initiative to take it out. He opposes the Defense of Marriage Act, which protects states from having to recognize same-sex marriages contracted elsewhere. His administration, in the course of supposedly defending that law in court, has abandoned arguments that courts had previously used to uphold it—and a federal judge cited its weak showing as a reason for striking down the law. So what the president is really saying is that he will stop even pretending to oppose same-sex marriage the moment the polls indicate it is safe to do so. Nobody who has been paying attention needed the hint.

■ Arlen Specter used his last speech in the Senate to decry the "sophisticated cannibalism" now allegedly rampant in the Republican party he abandoned. In particular he condemned Republicans who supported primary candidacies against incumbents. Nobody other than an incumbent can possibly believe that as a matter of principle it is wrong to support such challengers. Did Ed Schultz, the MSNBC host who lauded Specter's speech in a later interview, raise a peep when Ned Lamont challenged Joe Lieberman from the left? But then Specter may not quite grasp what a principle is.

■ Sarah Palin's bracing contempt for Washington's official pieties has brought her into conflict with First Lunchlady Michelle Obama, Surrogate Mother and Scold-in-Chief, over our nation's chubby children. Palin, preparing s'mores during an episode of her reality-television show (which is an odd thing to write about a potential presidential candidate), joked that the gooey treat was "in honor of Michelle Obama, who said the other day we should not have dessert." That brought down the wrath of all Washington's holy, who complained that Mrs. Obama had not literally condemned dessert and that Palin insufficiently appreciates the gravity of the obesity epidemic. But the health of the body politic probably is better served by Palin's salubrious skepticism of government intrusion into p: vate dietary affairs than by the busybody campaigns reflectin as Palin put it, "some politician's—or politician's *wife's*—p: orities." We are more interested in seeing Americans do som thing about big government than in seeing government (something about big Americans.

■ Star quarterback Michael Vick served 19 months in pris for running a dog-fighting ring and brutally killing the lose Since his release he has played two seasons for the Philadelpl Eagles, showing his old prowess, and done volunteer work f the Humane Society. A sad crime; a penalty paid. Preside Obama inserted himself into the story when, in the course o: conversation with Eagles owner Jeffrey Lurie, he commend him for hiring Vick. "It's never a level playing field for priso ers when they get out of jail," Obama said. As ethnic politi Obama's call was needless—black people surely rememt that he is black. As a social lesson, it was pointless. Vick i young specialist who became a wealthy man, and who will main one—not the typical released prisoner. He can put his l back together without cheerleading from the White House.

■ On Labor Day, Democratic gubernatorial candidate Andr Cuomo published an op-ed in the *New York Daily News* th though making many rhetorical genuflections, said what h once been sayable only by New York's conservative thi tanks: "Public employees unions must make sacrifices." A Cuomo has kept up the pleasant surprises post–blowout el tion. "The words 'government in Albany' have become national punchline," he acknowledged at his January 1 inaug ration, a symbolically terse one. "This state has no future if i going to be the tax capital of the nation." He then gave hims a 5 percent pay cut and requested a one-year governme employee pay freeze. Maybe only Andrew Cuomo—a creat of the Albany Democratic-machine/public-sector-union co: plex—can solve the bloated-government crisis that his fathe governorship, seminal in the creation of the union-kickba system that has enabled Democratic ascendance in Alba wrought. We hope Cuomo II will keep his harsh word—l hope rarely triumphs over experience.

■ New York City got 20 inches of snow after Christmas, ma worse by high winds and drifting—and still worse by a tar cleanup that left New Yorkers, especially in the outer b oughs, marooned and furious. The blizzard of '10 hurt Ma Michael Bloomberg's reputation for managerial competen his great strength (he has no others). New Yorkers put up w his unpleasant personality and increasingly annoying hobl horses—bike lanes, trans-fat bans—because he ran the or nary operations of the city well. No more. They may conclu that he spends too much time on national politics to do his j (Time to relabel No Labels "No Plowing"?) The blizzard a crystallized public anger at public-sector unions. A city co cilman, Dan Halloran (R., Queens), claimed that sanitati men told him there had been a de facto work slowdown ' make the mayor pay" for recent layoffs. These were trivi 400 firings and 100 demotions out of a workforce of 6,3 What will the public-sector unions do when real cuts ha to be made, as surely they will (and soon)? Pray for glo warming.

WeeklyStandard.com

States of Crisis

Matthew Continetti
January 24, 2011, Vol. 16, No. 18

As if Congress didn't have enough to worry about, the states are on the verge of a fiscal meltdown. From Albany to Springfield to Sacramento, the bill for decades of profligacy has suddenly come due. A gimpy economy brings in lower revenues for state comptrollers. The bond vigilantes have caught the scent of the states' massive unfunded liabilities. The federal stimulus money that some states used to cover expenses is about to run out. And worst of all, Mitch Daniels can't be cloned.

The good news is that, thanks to recent elections, a slew of pro-business budget hawks now occupy governors' mansions across the country. What's more, even some liberals recognize the magnitude of the crisis. There must be something in the water of the Hudson, because New York Democrat Andrew Cuomo is starting to sound like New Jersey Republican Chris Christie. Cuomo recently delivered a state of the state address that ought to be required reading in every capital. He railed against an out-of-control government, dismissed any tax hike, and extolled the virtues of the private sector. Ronald Reagan would have been proud.

No one wants his state to end up like Illinois, which massively increased personal and business taxes last week to cover a fiscal gap the size of the Olduvai Gorge. But the governors won't easily avoid that fate on their own. State budgets are so dependent on federal dollars that Congress has a role to play as well. What the governors need are federal policies that allow the states maximum discretion to economize and innovate. It's lucky for everyone involved that the governors' interests dovetail with those of the House Republicans.

One of the biggest drivers of state deficits, for example, is Medicaid, the health insurance program for the poor. Medicaid is funded through a combination of state and federal dollars; the poorer your state, the larger the federal subsidy. But those subsidies come with strings attached. The federal government, in the form of "maintenance of effort" requirements, dictates where and how the states must spend Medicaid funds.

Such requirements tie governors' hands when it comes to writing budgets. They also force governors into uncomfortable situations, since the offer of federal money is often predicated on additional spending by the state. As a group of 33 governors put it in a January 7 letter to the president and Congress, "Efforts by the United States Department of Health and Human Services (HHS) to regulate state operations impose greater uncertainty on our budgets for oncoming years and create a perfect storm when coupled with the current state of the economy."

Even absent a crisis in the states, the GOP House would be wise to reexamine Medicaid. So why not begin by suspending or eliminating the maintenance of effort requirements? This would allow the governors greater latitude in shaping their budgets. Congress could also turn Medicaid into a block-grant program along the lines of welfare. That way each state would know in advance how much money it would receive in a given year. A block grant would force state governments to spend the money more responsibly. Feckless legislators and governors would no longer be able to drink from an endless spigot of money originating in Washington.

The federal government doesn't restrict its meddling to health care. There are all sorts of mandates with education and transportation spending as well. Putting fewer conditions on the money the federal government sends to the states would not only help the governors. It would also advance House Republicans' deregulatory agenda. Anything that allows the states to experiment and compete is worth trying. The Davis-Bacon Act, for example, requires states to pay the "prevailing wage" in contracting. In the real world, this forces the states to contract with unions at the taxpayers' expense. Repealing Davis-Bacon would enable the states to save money—or build more highway projects at the same price. It's a good deal either way.

There are also things the federal government can do to make states better bookkeepers. Congressman Devin Nunes of California proposes shining a light on state and local governments' defined-benefit pension plans. His Public Employee Pension Transparency Act would give us a sense of the true cost and disposition of pension funds. Municipalities would have to reveal their (currently hard to find) financial data and disclose their actuarial assumptions. And since state pension fund accounting makes Enron look like a paragon of fiduciary responsibility, the bill would discourage further binges.

Republicans in Congress might also want to revisit the way the federal government subsidizes state borrowing through the tax deduction for municipal bond interest. And Congress could take up the state bankruptcy law proposed by University of Pennsylvania law professor David Skeel in these pages last year. As always, the best solution to debt crises is robust economic growth, so conservative tax, spending, and regulatory policy will help the states too. The opportunities for imaginative and constructive policy are endless. Time to get to work.

END

House Republicans Seek More Disclosure for Public Pension Funds

December 02, 2010, 4:20 PM EST

By William Selway

Dec. 2 (Bloomberg) -- Republicans poised to take control of the U.S. House are seeking wider disclosures from state and city pension funds, whose assets have shrunk because of market declines.

A bill introduced today by incoming House Budget Committee chairman Paul Ryan would force public retirement funds to make annual reports on their financial status and expected liabilities, using uniform assumptions. It also would bar federal bailouts of ailing public pensions.

“We need to ensure that state and local governments are accurate and honest in detailing their financial liabilities, including the cost of pension plans for public employees,” Ryan, a Wisconsin representative, said in a statement.

The gap between assets and what the plans will need to cover the retirement benefits they’ve promised has swelled because of losses suffered since the stock market’s slide two years ago. The deficit has forced higher contributions to retirement funds, putting pressure on localities struggling with a drop in tax collections.

Estimates vary for the scale of the liabilities because pension funds are allowed to adjust assumptions to account for expected investment returns. The higher those expected returns are set, the smaller the reported liability.

Estimates Vary

Because of that, forecasts for the additional sums that public pensions need have ranged from $500 billion to $3 trillion, according to separate studies.

Some funds estimate returns of 8 percent or more. New York City is among municipalities reconsidering such assumptions given the turn in financial markets. The Governmental Accounting Standards Board is also considering revising rules for the way pension liabilities are calculated.

Local governments may oppose the bill. Jeffrey Esser, the executive director of the the Government Finance Officers Association in Chicago, said some studies have overstated the pension liabilities by assuming that the funds earn low returns or skip their contributions.

“It’s just ridiculous,” he said in an interview. “It creates unnecessary paperwork and is just another unfunded mandate on state and local governments.”

The state of retirement funds has drawn the scrutiny of regulators. In August, New Jersey settled claims with the Securities and Exchange Commission that it misled investors in $26 billion of municipal bonds by masking underfunding of its two biggest pension plans, the first SEC case against a state.

The Republican bill would require public funds to spell out the assumptions used in their calculations. It would also require them to calculate the liabilities with formulas based on Treasury bond rates, which would produce a larger shortfall estimate because they are lower than the typically expected investment returns.

Lose Bond Subsidies

Governments that don’t comply with the reporting requirements would lose their ability to sell bonds subsidized by the U.S. Treasury, including tax-exempt securities and Build America Bonds.

Representative Devin Nunes of California, another sponsor of the pension bill, said the regulation is needed to improve disclosure of municipal finances.

“Lucrative pension promises are being made to public employees that taxpayers simply cannot afford,” Nunes said in a statement. “The true level of unfunded liabilities associated with these plans -- perhaps more than $3 trillion -- is being hidden thanks to unrealistic accounting standards.”

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By *David Freddoso*
Created *Dec 4 2010 - 8:05pm*

Public pensions and your right to know

Comments (1)
1803833_0.jpg America's housing and derivatives crises may be behind us, but another ticking time bomb looms just ahead in the many severely underfunded state and local government employee pensions.

Cities and counties alone face an estimated $574 billion in unfunded public pension liabilities, a recent Northwestern University study found. Philadelphia ($9.7 billion in unfunded liabilities), Boston ($7.5 billion) and Chicago ($44.8 billion) are all projected to run out of pension money by the end of this decade. Their problems only compound the multitrillion-dollar problem of unfunded state pensions.

Estimates of the problem's true size vary, because the governments with the biggest shortfalls often try to conceal their dire circumstances. In jurisdictions across America, pension funds attribute unrealistic values to investments and assume unrealistic rates of return. They protect themselves with exemptions from freedom of information laws, or even withhold information despite those laws.

In Illinois, the Chicago Tribune reported last month, public pension funds are specifically exempted from disclosing basic information, such as the values of their investments. In Pittsburgh, the Tribune-Review reports that the city's struggling pension fund has been withholding details even from city councilmen. As of last month, Pittsburgh's pension fund hadn't updated the data on its Web site in four years. Its directors fear that the state will take it and open its books to the public.

"The challenge," says Rep. Devin Nunes, R-Calif., "is that we know it's a problem. But we don't know how big the problem is."

Whether you are a taxpayer or one of the millions of Americans counting on public pension funds for your retirement, it is in your interest to know how badly each public pension system is underfunded. Indeed, you have a right to know, because your money is at stake. This growing problem could lead to massive benefit cuts or even more massive tax increases in your city or state. The problem will never be solved unless everyone understands it.

So how do you force states and municipalities to be open and honest about their pension liabilities? Nunes thinks he has the answer, and Reps. Paul Ryan, R-Wis., and Darrell

Issa, R-Calif., agree. Last week, the three introduced the Public Employee Pension Transparency Act, which would use what leverage the federal government already has to force a truthful disclosure of public pension liabilities.

Every year, America's smaller governments issue bonds that have an advantage over other forms of debt. Provided that the issuers meet all of the criteria under federal law, interest from these bonds is exempted from federal taxes. This augments the after-tax yield of state and municipal bonds, making them compare more favorably with other conservative investments, such as corporate bonds. This indirect subsidy from Uncle Sam to local governments comes to about $40 billion annually.

Nunes' bill, in addition to barring future pension bailouts by federal taxpayers, simply adds a requirement for state and local governments that want to issue tax-exempt bonds. Unless they hand over complete information on the health of their pension funds to the U.S. Treasury Department, they won't qualify for the treasured tax exemption. You want to borrow money and build that new school or town square? Then show us your books.

The bill directs the Treasury Department to post the information online. Citizens will be able to make an apples-to-apples comparison of the health of the nation's many pension funds, using realistic and uniform rates of return.

Nunes' bill isn't a solution to the coming pension crisis, but it is a very good first step. "At least it gives us something to fight for," he says. He acknowledges that the bill won't pass the House until next year -- he's just proposed it now in order to give it some early attention and drum up support. And even in the new, more Republican Congress, it is unlikely to overcome the Senate's 60-vote hurdle. What's more, President Obama could veto it, especially if public-sector unions feel threatened by the proposal's ban on bailouts.

But when a problem reaches the trillion-dollar level, political pressure has a way of solving it. Government transparency is not, or at least should not be, a partisan issue. And after this recent election, American voters don't seem eager for yet another bailout.

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"The point of this is to smoke the rats out of their holes. What is the total amount of pension debt? No one really knows."

-- *Rep. Devin Nunes (R-CA), sponsor of a bill to require state and local governments to disclose the details of their pension funds, interviewed by the Wall Street Journal.*

Economists warn that there could be a $3 trillion bailout bomb in America's government pension funds, and incoming House Republicans are looking for a way to diffuse it.

Reps. Devin Nunes (R-CA), Paul Ryan (R-WI) and Darrell Issa (R-CA) want to force pension funds to disclose their assets and liabilities under the Freedom of Information Act as part of a preemptive effort to head off potential bailouts.

The danger is that bad investments in places like California and New York, where political mischief in selecting investments has been alleged, could leave states unable to fund their lavish obligations to retirees.

Nunes, Ryan and Issa are suggesting that governments that want the right to float bonds in order to borrow money ought to have to disclose their books.

It sounds like dry stuff, but put this in your future file. The fight will draw in not just the government unions that benefit from the pensions but the politicians who have helped steer big public money into questionable investments with supporters and patrons.

Thanks to today's Power Play crew: Wes Barrett, April Girouard, L.A. Holmes, Heidi Noonan, and Whitney Ksiazek

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WSJ.com

RETIREMENT PLANNING | DECEMBER 5, 2010, 7:57 P.M. ET

Pension Woes Prompt GOP Move

By MICHAEL CORKERY

The new Republican House leadership, whose party benefited in November from public antipathy toward the bailout of banks, is moving to avoid a federal bailout of state and local pension funds.

Congress has little authority over, or responsibility for, state and local public-employee pensions. But with pension liabilities increasingly stressing state and municipal finances, the prospect that the problem will end up in Washington's lap has some academics and politicians urging that the federal government move preemptively.

View Full Image

Associated Press

In New Jersey, concerns about cuts in public pensions have led to a rise in retirements this year.

The latest wrinkle: A bill introduced last week by three prominent House Republicans to deny states and localities the ability to sell tax-exempt bonds—the lifeblood for many governments—unless they report their pension-fund liabilities to the Treasury Department. The federal tax-free status of interest on municipal bonds helps generate demand for the bonds and lowers government borrowing costs.

The goal, the congressmen say, is to get a better handle on funding woes of public pensions, which they say are not always forthcoming about the true extent of their financial exposure.

For decades, the federal government has regulated corporate pension funds and a federal agency, the Pension Benefit Guaranty Corp., can bail them out.

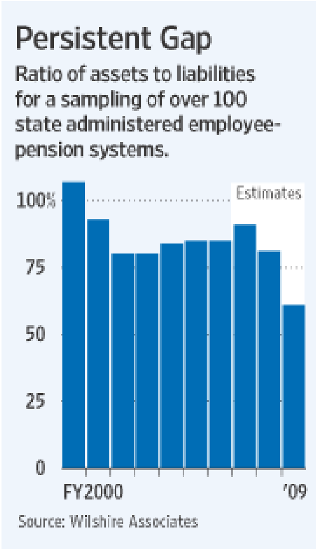
But there is no such federal backstop for state and local employee pensions. Some argue that Washington would be hard pressed to ignore a pension plan if it threatened a major government insolvency.

"The point of this is to smoke the rats out of their holes," said Rep. Devin Nunes of California, who introduced the bill. "What is the total amount of pension debt? No one really knows."

The bill's co-sponsors are Paul Ryan of Wisconsin, expected to chair the House Budget Committee, and Darrell Issa, likely chair of the Committee on Oversight and Government Reform.

Critics say such reporting strictures would trample states' rights, which are often most fiercely guarded by Republicans. "Accounting is primarily the states' responsibility, and states are sovereign," said Kinney Poynter, executive director of the National Association of State Auditors, Comptrollers and Treasurers.

The actual amount of pension debt turns on a subject that for years has been a wonky sideshow: pension accounting.



Many economists believe that state and local pension-fund obligations are underestimated, but the degree of underfunding is a matter of debate. Joshua Rauh, a professor at Northwestern's Kellogg School of Management, who was asked by Mr. Nunes's office for help on the bill, has said the states have a combined $3 trillion in unfunded liabilities. Others have called his assumptions too conservative and his dire predictions about pension funding overblown.

Keith Brainard, research director of the National Association of State Retirement Administrators, estimates the unfunded liabilities of states to be more like $750 billion.

States themselves have been making a variety of moves to try to address the issue, including raising the retirement age for new workers and curtailing annual cost-of-living adjustments.

The bill proposes that pensions estimate the size of their liabilities based on an average of certain U.S. Treasury bond rates. That approach would create a much lower so-called "discount rate" than public pensions currently use. Many large pension plans use a discount rate near 8%, which is based on their expected rate of return on their assets. Many corporations use a discount rate of about 6%.

The lower the discount rate, the higher the liabilities—and the bigger the problems appear. Mr. Rauh, for example, has argued that pension funds are using what are in essence unrealistically high discount rates.

Mr. Brainard called it "nonsensical" to propose more conservative accounting for governments than corporations, which have a higher probability of going out of business and of not being able to pay their debts than governments that can levy taxes.

The bill attempts to sidestep questions of federal authority by setting up an incentive—or some might say punishment—mechanism for adherence. Mr. Nunes justifies the reporting requirement by saying taxpayers deserve to know the true picture regarding pension funding.

"This is a first step in trying to put some pressure on the states and limit the exposure to federal taxpayers before it comes to a bailout," said Mr. Rauh of Northwestern.

Still, rather than using the federal tax code as a threat, Mr. Rauh suggests using it as a "carrot" to compel states to change their pension systems. In a recent paper, he proposed expanding tax subsides to states and local governments if they would agree to begin offering 401(k)-style pensions—a less costly option than the current defined-benefit plans.

If they make the change for new employees, Mr. Rauh proposes that they be allowed to issue tax-subsidized bonds to fund legacy pension liabilities.

Write to Michael Corkery at michael.corkery@wsj.com

The Washington Post

Pension reality check

Wednesday, December 8, 2010; A18

STATE AND local government spending stands at 12.6 percent of U.S. gross domestic product - the highest share ever. To be sure, this largely reflects the recession, during which state and local spending has been growing more slowly than it did earlier in the decade while GDP has been falling or stagnant. Still, long-term state and local financial commitments, above all for pensions and health-care benefits of public employees, are driving much of the cost. And since states have to balance their budgets, spiraling employee compensation threatens to crowd out the provision of public services such as education, recreation and road maintenance.

Getting states, counties and cities back on a sustainable budget path is primarily their own responsibility. But federal policies can help - or hurt. At the moment, Congress is considering one of each type. On the helpful side, a trio of Republican members of the House - Paul Ryan (Wis.), Darrell Issa (Calif.) and Devin Nunes (Calif.) - have proposed a bill that would require all state and local governments that issue federally tax-exempt bonds to file accurate annual reports of their pension liabilities with the Treasury Department.

Public-employee pension funds are notorious for understating their liabilities through the use of vague projections and rosy investment-return assumptions. This proposal would force pension funds to show what they would earn if invested only in super-safe Treasury securities - a reasonable point of comparison given that pension benefits are usually guaranteed by law. And the bill would declare that the federal government is not liable for covering state and local pension fund shortfalls, another incentive for such plans to enact reforms.

Unfortunately, the Senate is about to take up a measure that might compound the financial predicament of state and local governments. Pushed by Majority Leader Harry M. Reid (D-Nev.), the Public Safety Employer-Employee Cooperation Act would require all states to give police and fire unions "adequate" collective bargaining rights - as determined by the Federal Labor

The Washington Post

Pension reality check

Relations Authority. Unions could sue states deemed "inadequate" in federal court. Mr. Reid is trying to get this measure through the lame-duck Congress as a reward to the firefighters' union, which backed his reelection campaign. But it also enjoys support from several key Republicans.

We share the sponsors' high regard for first responders. But this measure would trample long-standing state autonomy in public-sector labor relations, to no obvious national purpose. Of the 10 states with the lowest violent crime rates in 2008, three did not require collective bargaining for police and one, Virginia, forbids it for all public employees.

The bill could disrupt the law in both Virginia and Maryland, the latter of which lets counties decide whether and how to bargain with employees. The predictable result would be higher costs for employee contracts or legal bills - or both - at precisely the moment when cash-strapped states and localities can least afford them.

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San Diego's Tough-Love Pension Proposal

Mayor Jerry Sanders wants new employees to use 401(k)-like pension plans

By Christopher Palmeri

After San Diego voters rejected a budget-balancing half-cent sales tax increase last month, Mayor Jerry Sanders unveiled what he calls a radical idea: He'll ask voters to eliminate the city's traditional defined-benefit pension plans for new employees, offering them 401(k)-like savings accounts instead. "We saw the private sector go through this," the 60-year-old Republican says. "Government will have to relook at how we do stuff as well."

Falling tax revenue and poor pension fund investment returns have put a squeeze on cities from New York to San Jose. Many are cutting services and laying off employees to meet rising retiree costs. States are struggling, too; Illinois may even issue bonds so it can make pension fund contributions. The pressures may lead more mayors to explore the 401(k) option. "This approach will certainly receive some attention," says Christopher Hoene, research director for the National League of Cities.

There are already signs investors are growing weary of cities' weakening finances. Interest rates on top-rated, tax-exempt bonds have risen by nearly one-third since September. Cities may have more trouble borrowing under legislation proposed on Dec. 2 by Republican Representatives Devin Nunes (Calif.), Darrell Issa (Calif.), and Paul Ryan (Wis.). Their bill would bar cities and states from issuing tax-exempt bonds if they don't use more conservative return projections that could result in higher estimates of pension liabilities. "Lucrative pension promises are being made to public employees that taxpayers simply cannot afford," Nunes said in a Dec. 2 statement.

Defined-contribution plans such as 401(k)s, where employees bear the risk of poor investments, are a rarity in the public sector. Only 17 percent of government workers have such accounts, about one-third the number in the private sector. Says Chuck Reed, the mayor of San Jose, which is also considering cutting pension benefits to new employees: "San Diego is the leader, the bleeding edge."

America's ninth-largest city, with nearly 1.3 million people, San Diego earned the nickname "Enron by the Sea" in 2004 for a pension fund scandal that led to the resignation of its mayor and a half dozen city officials. Sanders, who had retired as the city's police chief, was elected in a special 2005 contest. The following year the city settled Securities and Exchange Commission charges that it had committed securities fraud by underreporting pension liabilities.

Even after closing a $179 million deficit this year, San Diego faces a $72 million budget gap for the fiscal year beginning July 1 and has a $2.1 billion unfunded pension liability. The city has trimmed costs by eliminating 1,400 of its 11,000 employee positions, closing some public restrooms at the beach and ending police horse patrols in scenic Balboa Park. Sanders says his proposal will save the city money, though he doesn't have an estimate yet.

Sanders is hardly a rebel, though he has surprised voters before. Three years ago, in a tearful news conference, he said he would no longer oppose gay marriage, revealing that his adult daughter, Lisa, is gay. "He's a bridge builder," says Brian Adams, a political science professor at San Diego State University. "He's trying to find some sort of consensus way out." Michael Aguirre, a Democrat and former city attorney, questions whether the mayor is going far enough. The city should declare bankruptcy and then renegotiate current employee contracts in court, he says.

Others criticize Sanders for excluding police and firefighters from the 401(k)-like plans on grounds that it'll hurt recruitment. After 26 years as a police officer, he collects a $90,000 city pension on top of his $94,000 mayoral salary. "He's the ultimate double-dipper," says Steven Kreisberg, director of collective bargaining at the American Federation of State, County, and Municipal Employees. The mayor notes that his current salary is not counted toward pension benefits. Michael Zucchet, general manager of the 4,000-member San Diego Municipal Employees Assn., says the measure, which could come up for a vote as early as 2011, is unnecessary. He says the city has already eliminated retiree health-care coverage, reduced its maximum pension payouts, and cut in half pension fund contributions for new employees. "We've been cutting for five years," Zucchet says.

The bottom line: *With pension costs soaring in San Diego, Mayor Jerry Sanders wants voters to approve a 401 (k)-like plan for city workers.*

Palmeri is a reporter for Bloomberg News in Los Angeles.

December 9, 2010

Accounting for Public Pensions

By FLOYD NORRIS

A generation ago, when Ronald Reagan was president, the accounting rule makers forced American companies to come clean on the cost of the pension plans they were promising to employees. That decision, perhaps more than any other, heralded the eventual demise of defined-benefit pensions for employees of American companies.

Now something very similar may be in store for public sector employees, thanks in part to the Republican victories in last month's Congressional elections.

Forcing companies to account in a reasonable manner for their pensions was a contentious issue at one time. Companies feared it would slash reported profits, and they preferred a system where the only expense they had to count was the money the company actually put into the pension plan. Roger Smith, then the chairman of General Motors, came to a hearing of the Financial Accounting Standards Board to denounce the idea. G.M. argued that such accounting would violate its agreement with the United Automobile Workers union, an argument that seemed to perplex the accountants.

The rule adopted was far from perfect, but it forced companies to estimate the cost of pension benefits being accrued each year. Companies were allowed to "smooth" the numbers by phasing in market changes in the values of pension fund assets, so there was reason to complain that the figures could be misleading. But the principle was established.

Today, not nearly as many companies offer defined-benefit plans to new employees. It is far more common to see a company that has stopped allowing workers to accumulate new benefits, even though companies are still liable for benefits earned before plans were changed or closed. The accountants forced companies to confront the risks they were taking — in effect guaranteeing that pension fund investments would grow — and the companies decided the risks were too great.

As a result, a part of the safety net that previous generations took for granted became far less secure. Workers now tend to have defined-contribution plans, like 401(k)'s, to which they and their employers contribute. The worker chooses the investments, and bears the consequences when they go up or down in value.

That fact almost certainly contributed to the severity of the 2007-9 recession and the slowness of the recovery that has followed. Far more Americans than ever before had a direct stake in the stock market, and the sharp fall in stocks meant that their retirement plans had to change. The number of people over 60 with jobs is up 10 percent over the last three years while the number of jobs held by people under 60 has fallen by 7 percent.

The stock market has regained most of the lost ground since then, but many 401(k) plans have not benefited. Many people reduced their stock market investments at precisely the wrong time. Mutual funds that invest primarily in American stocks have suffered net withdrawals of $90 billion since the stock market hit bottom.

As companies moved away from defined-benefit plans, most cities and states did not follow. One reason for that may have been that the Government Accounting Standards Board — the public sector equivalent of FASB — has done much less to force good disclosures, or comparable ones.

Having limited information available can obscure problems, but when concerns arise, a lack of good data can have the opposite effect; people assume the worst.

Estimates of unfunded pension liabilities can be breathtaking. Two economists, Robert Novy-Marx of the University of Rochester and Joshua Rauh of Northwestern, put the figures at $3 trillion for state governments and almost $600 billion for municipalities. Those figures are far greater than official government figures, and are highly dependent on interest rate levels, which can and do fluctuate. They may be too high, but there is no way to be sure of that.

Some people say the 1974 passage of the Employee Retirement Income Security Act, known as Erisa, led to the demise of private pension plans because companies for the first time really had to honor pension promises. But the trend did not pick up steam until the accountants forced disclosure of real numbers. Most state constitutions have long barred cutting public pension benefits that have been earned, but that fact alone did not force change.

This week, three Republican members of Congress, led by Representative Devin Nunes of California, a senior member of the Ways and Means Committee, proposed legislation to force states and cities to report pension fund liabilities on the same basis, and to force them to disclose market values of assets. The bill would not even allow smoothing, so the state of pension funding will seem volatile as markets rise and fall. Such volatility could be reduced by putting more pension money into bonds than stocks, but doing so would force governments to admit they were likely to earn less on investments, and thus need to put even more money into pension plans.

The congressmen would not like to have it said they are forcing anything. The bill gives local governments a choice: they can report the way the members want them to report, or they can give up the ability to issue tax-exempt bonds. That is, of course, no choice at all.

Introducing a bill is not the same as passing one, but this may be an idea whose time has come. There is rising concern over the state of local government finances, and governments may be forced to make better disclosures if they simply want to issue new bonds.

Disclosures are likely to lead to growing pressure to rein in pension costs, even though that will be resisted by public employee unions, which often have considerable political clout.

Even assuming legislatures want to act, doing so is not easy, in part because of state constitutional provisions. Governments could follow corporate precedents by treating new employees differently and by stopping existing employees from accumulating new benefits. But that may not be enough to stem the flood of red ink, particularly in cities and states where pension fund contributions have been deferred to avoid cuts in other spending.

Some abuses can be stopped, such as the practice of allowing retiring employees to work hundreds of hours of overtime in their final year, and then counting that pay in determining the pension payment, which is often based on a percentage of annual pay. It is not clear how many abuses there are, but the publicity given to some of those that do exist has damaged the image of, and public sympathy for, public employees. There is also a widespread suspicion that mayors and governors have agreed to excessive pension benefits, often as a substitute for pay increases, simply because the bill would be paid by some future administration.

Companies have the option of going bankrupt and getting the Pension Benefit Guaranty Corporation, a federal agency, to take over their obligations. The P.B.G.C. can then reduce payments on larger pensions. But it is not clear what will happen when cities go bankrupt, in part because there are not that many precedents, and states apparently cannot file for bankruptcy at all. Of course, the fact a state cannot file in bankruptcy court does not mean it cannot go broke.

There has been talk of shared sacrifice, in which employees accept lower benefits, taxpayers pay more and bondholders also take hits. You can argue that is what happened in New York City a quarter of a century ago, when some bondholders were forced to extend maturities.

But widespread expectations that such a thing was possible could drive up borrowing costs for all localities, making their fiscal problems that much worse.

In the end, I suspect ways will be found to abrogate some pension promises. But even if that does not happen, the trend away from defined-benefit pensions is likely to affect most younger public employees, as it already has their counterparts in the private sector. The retirement safety net will thus become a little more frayed.

Pensions&Investments

Battle lines form over public plan disclosure

Source: Pensions & Investments
Date: December 13, 2010

Brendan Hoffman/Getty Images

Reacting: Rep. Devin Nunes' bill is in response to 'very alarming warnings.'

Business and taxpayer groups and representatives of local governments and unions are squaring off over what is expected be a major legislative brawl next year concerning a bill that could force public pension plans to disclose their finances to the U.S. Department of Treasury.

"The first step to recovery is admitting you have a problem, and from our perspective that means truth in budgeting," said Leslie Paige, a spokeswoman for Citizens Against Government Waste, a Washington-based advocacy group that targets government mismanagement and inefficiency. "We think state and local government pensions are in even worse shape than they appear to be, and part of the reason for that is that underlying assumptions on how well they're going to do in the market are based on inflated returns on investments."

"There's an anti-defined benefit ideology driving some of this," countered Keith Brainard, Georgetown, Texas-based research director of the National Association of State Retirement Administrators. "Some of these critics want to terminate public pension plans and replace them with 401(k) plans."

The legislation, which has the backing of key House Republicans, also would bar the federal government from bailing out public plans and would deny a federal tax exemption for bonds issued by governmental entities that don't comply with the new disclosure requirements.

Promote reforms

Proponents contend the enhanced disclosures — which would require use of new actuarial assumptions that could dramatically expand the size of liabilities for many public plans — are needed to promote reforms of financially troubled public pension funds.

"The demand for transparency isn't coming from Congress; it is coming as a result of very alarming warnings by well-respected analysts across this country," Rep. Devin Nunes, R-Calif., who introduced the bill in the House on Dec. 2, said in an e-mailed response to questions. "If we ignore these warnings, we will have learned nothing from the subprime mortgage crisis."

Representatives of state and local governments and unions counter that the bill, the Public Employee Pension Transparency Act, amounts to an all-out assault by the federal government on state and local government autonomy.

“It's a terrible proposal, and we're obviously going to oppose it,” said Mark McCullough, a spokesman for the Service Employees International Union, Washington.

Opponents also contend the measure could raise the burden on taxpayers by lowering the discount rates public plans use to calculate their liabilities.

“Inaccurate and inflammatory descriptions of the state of public pensions and unnecessary calls for federal intervention are unwarranted and only serve to confuse the public and unduly alarm state and local government retirees,” said a Dec. 8 statement issued by a coalition of local government groups, including the National Association of Counties, the National League of Cities and NASRA.

But representatives of taxpayer groups say the legislation's reporting reforms are needed to ensure the public has a more accurate understanding of the size of obligations that could eventually fall into their laps.

“Our members are concerned that ... they'll be asked to pay for it (underfunding), both through higher corporate taxes and higher individual taxes,” said Aliya Wong, executive director of retirement policy for the U.S. Chamber of Commerce, Washington.

The reforms also could put public plans on a more equal footing with corporate plans, Ms. Wong said. “While many private employers have had to cut their benefit packages, the government has not,” she added.

One of the bill's key provisions would require public plans to use a discount rate based on Treasury bond rates that are now in the 3% to 4.5% range. While corporate plans use a discount rate based on a blend of high-quality corporate bond rates determined by Treasury, now around 5.5% to 6%, many public plans use a discount rate of 8%. A lower discount rate results in larger liabilities, meaning that a plan's government employers would have to contribute more into the plans in the short term.

Using the lower Treasury-based rates called would present a distorted picture of the liabilities by tying them to current interest rates, NASRA's Mr. Brainard said. “It results in an exaggeration of liabilities by several times,” he said. “It would cause extreme volatility in funding levels and costs.”

Mr. Brainard said the combined total unfunded liability of state and local public plans using an 8% discount rate, based on the long-term expected return on investment for public plans, is about $750 billion to $1 trillion.

Joshua Rauh is an assistant professor of finance at the Kellogg School of Management, Northwestern University, Evanston, Ill. Using Treasury rates for the discount, Mr. Rauh calculated the combined total unfunded liability of state pension plans at $3 trillion and the total unfunded liability of municipal plans at $574 billion.

Mr. Rauh said in an interview that discounting the liabilities at 8% assumes incorrectly that an 8% return can be assumed without risk. “You only get a return of 8% if you take risks, and (these are) risks for which taxpayers bear the downside,” he said.

As to the bill's attempt to bar a federal bailout of public pension funds, critics say the plans are not seeking or anticipating such assistance.

“This is a pure scare tactic,” said the SEIU's Mr. McCullough.

“There is no federal backstop for public pensions, nor are public pensions asking for such a backstop,” added Lisa Lindsley, director of capital strategies for the American Federation of State, County and Municipal Employees, Washington.

“People who are feeding this rumor have another agenda,” Ms. Lindsley continued. “They would like to see government services drastically reduced at all levels of government.”

Hard to resist

Mr. Rauh, however, said a bailout could be hard to resist, even if barred by legislation, because the federal government, “in all likelihood” would consider the states too big to allow them to fail.

In article by Mr. Rauh and Robert Novy-Marx, an assistant professor of finance at the University of Chicago Booth School of Business, the professors encourage states to close defined benefit plans to new workers, shifting those new employees to defined contribution plans, with the federal government rewarding the move by giving cooperating states a tax subsidy on the issuance of bonds for DB plan funding.

“What this (tax subsidy) would be doing is spending a small amount of money now to avoid a massive bailout in the future,” said Mr. Rauh, who provided advice on the drafting of the Nunes legislation.

Allen R. Gillespie, chairman of the $24 billion South Carolina Retirement System Investment Commission, Columbia, said he agreed with the legislation's suggestion that the 8% discount rate that South Carolina and many other public plans are using is probably unrealistically high.

Nonetheless, Mr. Gillespie said the Nunes legislation goes too far on other fronts, particularly in what Mr. Gillespie sees as its promotion of a shift of public plans from a DB to a DC model — and in its attempt to tie the discount rate to Treasury returns.

“Going all the way to Treasuries would go too far — and going all the way to DC fails to recognize the social benefits of mortality risk sharing” offered by defined benefit plans, Mr. Gillespie said. “What we should be looking at is going to some sort of hybrid that uses features of DB and DC plans.”

While nothing is expected to happen on the bill now, Andrew House, a spokesman for Mr. Nunes, said the legislation will be reintroduced early next year after the new Congress begins. Mr. Nunes is a member of the House Ways and Means Committee.

Mr. House said he believes the bill will have no problem winning approval in the House, and some lobbyists agree with his assessment. But the prospects for the bill's passage in the Senate, where Democrats have retained their majority, are considered far less likely.

Whatever its outcome, the measure will have an impact.

“Even if it doesn't pass, it starts the conversation and raises awareness,” said the Chamber of Commerce's Ms. Wong.

How to fix the pension mess

By Edward L. Glaeser

December 16, 2010

CAN THE federal government help states solve their pension problems? Earlier this month, three Republican congressmen— Paul Ryan of Wisconsin with Darrell Issa and Devin Nunes, both of California — proposed an innovative approach to promote transparency in state and local pension plans. If their bill becomes law, then bonds issued by states or localities that fail to plainly report their pension obligations will lose their federal tax-exempt status.

Our public pension problem is a fiscal tsunami in waiting. Economists Robert Novy-Marx and Joshua Rauh estimate that “the present value of the already-promised pension liabilities of the 50 US states amount to $5.17 trillion,’’ and that “as of December 2008, state governments had approximately $1.94 trillion set aside in pension funds.’’ That leaves a horrific $3.23 trillion shortfall. This problem also exists for municipal pension plans, which Novy-Marx and Rauh estimate have a $574 billion funding shortfall.

They also estimate that in mid-2009 Massachusetts state pensions had $32.7 billion in assets and a liability of $86.9 billion for pensions already promised. These numbers imply that the state system is only 38 percent funded, which is far below the state’s official estimates. The key difference is that states typically assume that their portfolios will earn an 8 percent return, while Novy-Marx and Rauh instead estimate future returns using the Treasury bond rate.

The bill also requires that pension funds assume Treasury rate returns, which makes some sense because pension funds only beat the Treasury rate by taking on extra risk. That risk is ultimately borne by taxpayers. Our recent asset market bust certainly suggests that 8 percent is overly optimistic, which makes underfunding worse than official figures suggest.

How did we get into this mess? The problem is not that state workers are overpaid, but that they receive too much of their compensation in generous pensions and too little in current compensation. This pro-pension tilt reflects the ease with which pension liabilities can be understated on the balance sheet.

When a city or state pays its workers more today, those costs enter immediately as spending. When a city or state offers more generous pensions, those costs get hidden because governments don’t typically set aside enough money to cover pension costs. By assuming that pension funds will earn extraordinary returns, it looks like pensions cost taxpayers far less than they actually do. This ability to obfuscate creates a strong incentive to skew compensation away from current wages toward future pensions.

It’s not just taxpayers who lose from this arrangement; public employees also suffer. Policemen and teachers are hardly rich and plenty would rather get more cash up front. The system ensures that they only get to see the fruits of their labors when they retire.

The transparency bill understands that unobservability lies at the heart of the pension problem and tries to make pension costs more obvious to everyone. It is a good, creative bill that Congress should support, but true pension reform must go further. Defined benefit plans should be replaced with defined contribution plans for new employees. The costs of contributing to defined contribution plans are immediately apparent, which is one reason why so many private companies have switched from defined benefit to defined contribution plans. To ensure a minimum retirement income for public workers, they should also enter the Social Security system.

Although the transparency bill could have required states and municipalities to switch to defined contribution plans in order to receive tax exempt status on their bonds, it would have required a breathtaking transfer of power from states to the federal government. This week’s big legal news — the Virginia attorney general’s victory against a federal mandate to buy health insurance — is a reminder that courts don’t always look kindly on aggrandizement of federal power. It is probably wise that the bill requires only transparency, not a wholesale change in the structure of state pensions.

Yet looking ahead, if Massachusetts wants to preempt future, more intrusive federal attempts to ensure state pension system solvency, it should begin the transition from defined benefit to defined contribution plans today.

Edward L. Glaeser, a professor of economics at Harvard University, is director of the Rappaport Institute for Greater Boston. His column appears regularly in the Globe.

December 17, 2010

Expose the Public Pension Mess

By Gary Jason

It seems that many members of the incoming Congress are mindful of the looming tsunami of unfunded state and municipal worker pension liabilities, not to mention the impending insolvency of cities and even states (such as California, Illinois, and New York). A recent estimate put these unfunded public employee pension liabilities at as much as *$3.574 trillion*. As frightening as that estimate is, it is probably unrealistically low. First, it doesn't include the ancillary costs of retired public employees, such as subsidized health care and other perks. Second, state and municipal governments are, alas, still not held to the same high accounting standards to which private industry is held.

This has moved some recently elected Republicans to initiate discussions about how to prevent the federal government from being stuck with the liability tab. After all, these liabilities are entirely the result of boundless public employee union greed -- greed unchecked by city and state political figures, because those politicians are elected with union money.

An exemplary bill introduced by Reps. Devin Nunes (R-CA), Paul Ryan (R-WI), and Darrell Issa (R-CA) would take away the federal tax-exempt status for bonds from any state or municipality that doesn't report openly its pension-fund liabilities. This bill would help provide accounting transparency and honesty in state and municipal bond sales to consumers, just as Sarbanes-Oxley is intended for publicly traded corporate stock sales.

You would think that this proposal would be an ethical no-brainer, one that would appeal to all people who support transparency of government and integrity in accounting of both parties. But you would be wrong. For example, the executive director of the National Association of State Auditors, Comptrollers and Treasurers, one Kinney Poynter, objects that "[a]ccounting is primarily the states' responsibility and states are sovereign." But this appeal to states' rights is feeble on its face: the federal government isn't trying to force the states to deny exemption from *state* taxes on the interest from state and municipal bonds when there is no transparency in the accounting of pension-fund liabilities. It is only telling the states that it will deny *federal* tax exemption from the interest on such bonds. Surely the federal government has the right to stipulate the conditions under which it grants federal tax exemption.

Unfortunately, the American public is as yet not generally aware of the vastness of the problem posed by unfunded liabilities created by these lavish pension and health plans. So the Republicans are well-advised to pass legislation that will, in the bracing words of Rep. Nunes, "smoke the rats out of their holes" -- i.e., make these hidden liabilities visible.

But as useful as the Nunes/Ryan/Issa proposal is, I think it can be strengthened by adding a further provision. I suggest that their law additionally require states and municipalities issuing bonds to make public the names, pension amounts, and departments of high-pension government retirees -- say, those receiving pensions of over $100,000 a year. My suggestion is prompted by news that various groups trying to get access to such information are being stonewalled by public employee pension funds.

This fight pits organizations such as the California Foundation for Fiscal Responsibility, the Manhattan Institute, and a group of Ohio newspapers against various municipal pension funds. For example, the California Foundation for Fiscal Responsibility has sued the San Diego County retirement fund to get the latter to release the names of retired county employees receiving $100,000 or more in annual pensions. The Foundation has applied for access to records on dozens of occasions, especially focusing on the pension fund behemoths CalPERS (the California Public Employee Retirement System) and CalSTRS (the California State Teachers Retirement System). CalPERS has over 9,000 employees receiving $100k or more in pensions; CalSTRS has over 3,000.

Considering the fiscal crises besetting California cities and other municipalities (including San Diego) and the state government, and considering the scandalous pensions that have come to light in recent months, disclosure of exactly who is earning outsized pensions would seem warranted. Consider just two examples. The first is the city administrator of tiny LA suburb Bell (the aptly nicknamed 'Ratso' Rizzo), who is eligible to receive over $600,000 a year for life from CalPERS.

Second is the case of Lonnie Franklin, Jr., who has been receiving a nice disability pension (for a shoulder injury suffered while collecting trash) from the City of Los Angeles for nearly twenty years, during which time he managed to murder ten women **--** presumably not using his injured shoulder!

No doubt stories such as these could be found in the records of pension fund agencies in New York, Ohio, and most other states.

The pension funds are fighting the release of this information. They argue that identifying the names and pension amounts of retirees will subject these people to "identity theft, home invasion, or other fraud," in the words of Brian White, chief executive of the San Diego County retirement system.

But this concern is risible. The information we are talking about here would give identity thieves little to exploit. Nobody is asking for the retirees' social security numbers, bank account information, or anything of the sort. As to home invasion, anybody receiving a hundred grand in retirement is no doubt living in a pretty pricey neighborhood, one in which all of the homes are already bound to be known by potential burglars and home invaders.

And we should remember that the level of disclosure here is much less than what campaign finance laws *already* require of even the smallest donors to political campaigns.

Of course, any state or municipality that feels these transparency demands are excessive would be free to refuse to comply. But the federal government would be equally free to refuse tax-exempt status for the bonds issued by that state of municipality.

Gary Jason is a contributing editor to Liberty and a philosophy instructor.

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The Washington Post

A remedy for beggar states

By George F. Will
Sunday, December 26, 2010;

The nation's menu of crises caused by governmental malpractice may soon include states coming to Congress as mendicants, seeking relief from the consequences of their choices. Congress should forestall this by passing a bill with a bland title but explosive potential.

Principal author of the Public Employee Pension Transparency Act is Rep. Devin Nunes, a Republican from California, where about 80 cents of every government dollar goes for government employees' pay and benefits. His bill would define the scale of the problem of underfunded state and local government pensions and would notify states not to approach Congress like Oliver Twists, holding out porridge bowls and asking for more.

Corporate pension funds are heavily regulated, including pre-funding requirements. A federal agency, the Pension Benefit Guaranty Corp., copes with insolvent ones. By requiring transparency, the government gave the private sector an incentive to move to defined contributions from defined-benefit plans, which are now primarily luxuries enjoyed by public employees.

Less candor, realism and pre-funding are required of state and municipal governments regarding their pension plans. Nunes's bill would require them to disclose the size of their pension liabilities - and the often-dreamy assumptions behind the calculations. Noncompliant governments would be ineligible for issuing bonds exempt from federal taxation. Furthermore, the bill would stipulate that state and local governments are entirely responsible for their pension obligations and the federal government will provide no bailouts.

Nunes's bill would not traduce any state's sovereignty: Each would retain the right not to comply, choosing to forfeit access to the federally subsidized borrowing that facilitated their slide into trouble.

Those troubles are big. A study by Northwestern University's Kellogg School of Management calculates the combined underfunding of pensions in the all municipalities at $574 billion. States have an estimated $3.3 trillion in unfunded pension liabilities.

Nunes says that 10 states will exhaust their pension money by 2020, and all but eight states will by 2030.

States' troubles are becoming bigger. Hitherto, local governments have acquired infusions of funds from federal budget earmarks, which are now forbidden. Furthermore, states are suffering "ARRA hangover" - withdrawal from the American Recovery and Reinvestment Act, a.k.a. the 2009 stimulus. With about $150 billion for state and local governments, it raised the federal portion of state budgets from about a quarter to a third. Also, in 2009 and 2010, states and localities borrowed almost $200 billion through the ARRA's Build America Bonds program, under which Washington pays 35 percent of the interest costs. Republicans, in another victory over the president in negotiations on extending the Bush tax rates, extinguished that program, which they say primarily produced more public-sector employees.

There are legal provisions for municipalities to declare bankruptcy. Some have done so. As many as 200 are expected to default on debt next year. There are, however, no bankruptcy provisions for states. Some who favor providing such provisions say states are "too big to fail," and under bankruptcy, judges could rewrite union contracts or give states powers to do so, thereby reducing existing pension obligations. Unfortunately, government-administered bankruptcy of governments might be even more unseemly than Washington's political twisting of the bankruptcy process on behalf of General Motors and Chrysler, including the use of TARP funds supposedly restricted for "financial institutions."

Oliver Twist did not choose his fate. California, New York and Illinois - three states whose conditions are especially parlous - did. And in November, each of these deep-blue states elected Democratic governors beholden to public employee unions.

San Francisco is spending $400 million a year on public employees' pensions, up from $175 million in 2005. In November, San Franciscans voted on Proposition B, which would have required city employees to contribute up to 10 percent of their salaries to their pension plans, and to pay half the health-care premiums of their dependents. Michael Moritz, a venture capitalist, says: "A typical San Francisco resident with one dependent pays $953 a month for health care, while the typical city employee pays less than $10."

San Francisco voters defeated Proposition B. If they now experience a self-inflicted budgetary earthquake, there is no national obligation to ameliorate the disaster they, like many other cities and states, have chosen.

People seeking backdoor bailouts hope that the fourth branch of government, a.k.a. Ben Bernanke, will declare an emergency power for the Federal Reserve to buy municipal bonds to lower localities' borrowing costs. This political act might mitigate one crisis by creating a larger one - the Fed's forfeiture of its independence.

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