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This newsletter highlights articles, research, opinion, and other information related to public pension problems and reform efforts across the nation. To find previous editions, please visit <http://reason.org/newsletters/pensionreform/>.

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Articles, Research & Spotlights

Pension Reform **Handbook**: A Starter Guide for Reformers

By Lance Christensen and Adrian Moore, Reason Foundation

Reason Foundation has just released a [pension reform handbook](#) as a comprehensive starter guide for state and local reformers. This handbook aims to capture the experience of policymakers in those jurisdictions that have paved the way for substantive reform, and bring together the best practices that have emerged from their reform efforts, as well as the important lessons learned. By presenting these alongside the general principles and approaches that work to reform public policy, this handbook represents a "what you need to know" starter guide for anyone planning to reform their jurisdiction's pension system.

The handbook begins by outlining the causes of pension problems, before taking the reader through seven pension reform case studies. It offers guidance to policymakers seeking to research their jurisdiction's pension problem, lays out the general principles of reform, and then examines in detail what it takes to build a successful reform effort from the ground up.

To access the handbook, go [here](#).

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Innovators in Action: Randy McDaniel - Advancing Pension Reform in Oklahoma

By Len Gilroy, Reason Foundation

Like many states in the wake of the Great Recession, Oklahoma has faced rising costs and unfunded liabilities associated with unsustainable defined benefit pensions systems promised to public sector workers upon retirement. But unlike many states, Oklahoma policymakers have taken some bold steps in recent years to address these challenges.

A looming pension crisis began to emerge in Oklahoma in the mid-2000s due to a combination of inadequate funding of state pension plans and a ratcheting up of cost of living adjustments to pension benefits. By 2010, the state's pension systems faced an estimated \$16 billion in unfunded liabilities, and the Pew Center on the States ranked Oklahoma in the bottom five of all states in the nation with a 56% funded ratio.

As the chair of the House Pension Oversight Committee and author of HB 2132 and HB 2630, Oklahoma State Representative Randy McDaniel has been the primary architect and champion of Oklahoma's pension reform efforts. Earlier this month, Reason Foundation Director of Government Reform Leonard Gilroy interviewed McDaniel on what prompted him to take on the issue of pension reform in Oklahoma, how he made the case to policymakers and stakeholders, the specifics of the reforms enacted, pension reform challenges and more.

Read the interview with Representative McDaniel [here](#).

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The Truth about Pension Reform for Phoenix

By Adrian Moore and Anthony Randazzo, Reason Foundation

Phoenix's public employee pension system is currently \$1.5 billion in debt and on Nov. 4, voters will decide whether to make significant reforms to erase the debt or stick with the status quo. Opponents of the Phoenix Pension Reform Act claim it will cost taxpayers hundreds of millions of dollars and that similar reforms in other states have been failures. But they've got the facts all wrong.

The ballot initiative is modeled on successful pension reforms in San Diego and other cities that ensure government responsibly funds worker benefits and have dramatically lowered risks to taxpayers. The initiative would shift new employees to a sustainable, well-designed 401(k)-type of pension plan (similar to how most Phoenix taxpayers save for retirement) that would save taxpayers money by permanently ending "pension spiking" by which government workers can artificially boost their annual pension payments to be higher than their final salaries. It would also eliminate a secondary retirement system that has cost an average of \$16.5 million annually the last three years.

Read the rest of the opinion editorial [here](#).

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Ventura County's Pension Reform Setback

By Lance Christensen, Reason Foundation

On August 4, 2014, California Judge Kent Kellegrew took the unusual step of removing a citizen's initiative from the ballot that would have dramatically reformed

pensions for all future employees in Ventura County, California by moving them from a defined benefit pension to a defined contribution retirement. He declared that only the legislature could make the change and that putting an initiative on the ballot would be a waste of public resources. While proponents of the initiative believed that they had the legal right to go to the people - especially since the legislature was not likely to grant such authority in the County Employee Retirement Law of 1937 anytime soon - they decided that it would be difficult to round up the necessary resources to both fight the legal battle and run an effective campaign up to the election in November, provided they were successful in their appeals process.

The reforms were modeled by a 2012 ballot initiative in San Diego, but would have not exempted public safety from the reform. While a majority of the county's supervisors were openly opposed to the reforms and tried several times to delay or even stop the process, they eventually certified the initiative which had an overwhelming number of signatures, and placed it on the ballot. In a contortion of reason over the power of the people, it was a judge who decided that just because the people of Ventura County ratified their pension on the ballot in 1947, does not mean that they can reform their pension system by the ballot.

While there are those who question the sanity of pursuing pension reform in California, there are many reformers throughout the state looking for opportunities in the coming years. It will remain to be seen if governor, legislature or people will have the final say.

To read the full blog post, go [here](#).

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California's Pension Reforms Don't Go Far Enough

By Victor Nava, Reason Foundation

Only in California could a bill that requires 32 years to catch up and fund parts of the California State Teachers' Retirement System's current \$74 billion in unfunded liability be hailed as a major reform.

Yet, Gov. Jerry Brown is doing just that. His latest attempt to cover part of the state's pension shortfall consists of increasing school districts' contributions to teachers' pensions over the next seven years. And this comes on the heels of the California Public Employees' Pension Reform Act of 2013, which Gov. Brown touted at the time as "the biggest rollback" to the state's retirement systems in California history. In reality, Brown's reforms are weak and don't fix the pension mess.

To read the rest of the opinion editorial, go [here](#).

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Update on the Funding of State and Local Pensions: 2013-2017

By Truong Bui, Reason Foundation

A recent paper from the Center for Retirement Research at Boston College looks into the funded status of state and local pension plans and estimates their funded ratios from 2014 to 2017. The paper finds that despite recent strong stock performance, the funded status of those pension plans remained unchanged in 2013, and that even in an optimistic scenario, public plans' funded ratio under the new Government Accounting Standards Board (GASB) standards using a combined discount rate will reach only 76.9 percent in 2017.

To read more about the analysis, go [here](#).

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Public Teachers Fare Better under Rhode Island's New Hybrid Pension Plan

By Truong Bui, Reason Foundation

Critics of pension reform often claim that switching away from traditional defined benefit (DB) pension plans will weaken retirement security and save little money for taxpayers. The [Urban Institute's recent study](#) on Rhode Island's 2011 reform, which replaced the state's DB pension with a hybrid plan, shows a different story. Comparing retirement benefits that newly hired public school teachers will receive under the new hybrid plan with the benefits they would have received under the old DB plan, the study indicates that 78 percent of the teachers, including nearly three quarters of those remaining employed for at least five years, will receive more retirement benefits at age 67 from the new plan than the DB plan. Moreover, two thirds of all newly hired teachers will earn more lifetime retirement benefits, net of employee contributions, under the hybrid plan than the old plan. The new plan will also reduce taxpayers' costs of providing retirement benefits for new hires by one-third.

To read more about the study, go [here](#).

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Pension Obligation Bond Risks

By Victor Nava, Reason Foundation

In July, Boston College's Center for Retirement Research [released a study](#) showing that Pension Obligation Bonds (POBs), a financial instrument used by some state and local governments to pay down pension debt through borrowing, can leave governments worse off financially than they were before issuing the bonds. Cities like Detroit, Stockton, and New Orleans have all been negatively affected by bad POB deals. Places considering issuing POBs in the future, like the Commonwealth of Pennsylvania, should take note that if properly used in limited and specific circumstances, POBs can be a tool for fiscally sound governments or as part of a broader pension reform package for fiscally stressed governments. However, successful POB strategies are more the exception, and not the rule with considerable risks that can quickly sink a city or state.

A POB is a government bond that allows governments to issue taxable bonds with the proceeds of the bond issue going towards paying off all or part of the governments unfunded pension liability. POBs are intended to reduce the pressure on the government's cash position and offer cost savings if the bond proceeds are invested through the pension fund in assets that achieve a rate of return higher than the cost of the bond. Governments can make money off these bond deals if the conditions for arbitrage are realized, but all too often they are not and the results can be ruinous for cities and states.

To read more about the issue, go [here](#).

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Quotable Quotes on Pension Reform

"There's nothing wrong with taking the risk... The risk, however, should be recognized and understood as it is mostly borne by future generations."

-Robert C. North Jr., Chief Actuary, New York City Office of the Actuary

"Today CalPERS got it wrong. This vote undermines the pension reforms enacted just two years ago. I've asked my staff to determine what actions can be taken to protect the integrity of the Public Employees' Pension Reform Act."

-Jerry Brown, Governor of California

"The cost of a pension system includes uncertainty about the future... That some cities have only saved 50 cents for every dollar of benefits promised to members speaks to the danger of keeping these plans open."

-James Hohman, Assistant Director of Fiscal Policy, Mackinac Center for Public Policy

"States like Michigan and Alaska would have lost more from their pension funds had they not started to convert new employees into a 401(k). In fact, without reform, Michigan's unfunded liability would be upwards of \$4.3 billion more. Thankfully, because lawmakers in the Wolverine state acted early, they saved taxpayers those additional costs. Pennsylvania would have also had substantial savings had we followed Michigan's lead."

-Nathan Benefield, Vice President of Policy Analysis, Commonwealth Foundation

"Our research found that most public pension plans were using very high discount rates, which resulted in lower pension liabilities... By using market-based discount rates, we found that most pension plans' liabilities were higher on our adjusted basis than reported"

-Dan Seymour, Moody's Analyst

"Now with another economic crisis of our own making just over the horizon, too much political gamesmanship and the specter of too many oxen of other interests being gored has brought Pennsylvania to this pitiful impasse. The fix - and a long-term fix it had best be - will not be found through daily political squabbling or headline-grabbing. It's in hard choices. Perhaps some of the most difficult financial decisions state officials ever have had to make. Just sit down and get it done."

-The Sentinel editorial staff (Cumberland County, Pennsylvania)

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Contact the Pension Reform Help Desk

Reason Foundation set up a Pension Reform Help Desk to provide information on Reason's work on pension reform and resources for those wishing to pursue pension reform in their states, counties, and cities. Feel free to contact the Reason Pension Reform Help Desk by e-mail at pensionhelpdesk@reason.org.

Follow the discussion on pensions and other governmental reforms at [Reason Foundation's website](#) or on Twitter [@ReasonReform](#). As we continually strive to improve the publication, please feel free to send your questions, comments and suggestions to lance.christensen@reason.org.

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