From: Lance Christensen
Sent: 10/16/2014 2:05:40 PM
To: Haley, Nikki
Cc:
Subject: Reason Foundation Pension Reform Newsletter, October 2014

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Reason Foundation

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/ <http://click.email.reason.org/?qs=36a8125375812dc9b8073db68caa01db7eae2ee4a6cf1bb11e340d5bc05f8ee67ca4c099182372eb>.

In This Issue...

Articles, Research & Spotlights

• Best Practices in Pension Reform

• Interview: How to End the Public-Sector Pension Crisis

• Pension Reform Handbook: A Starter Guide for Reformers

• California Public Pension Cuts Ties with Hedge Funds

• Stockton's Bankruptcy: California Public Pensions Put on Notice

• Podcast: Prospects for State Pension Reform

• The Public Sector Ponzi Plan

• Connecticut's Pension System: "Born Broke"

• Pennsylvania's State Employees' Retirement System: Does the Defined Benefit Plan Benefit Public Employees?

• State Pension Funding Review

Quotable Quotes on Pension Reform

Contact the Pension Reform Help Desk

Articles, Research & Spotlights

Best Practices in Pension Reform

By Lance Christensen and Adrian Moore, Reason Foundation

A recent report <http://click.email.reason.org/?qs=
36a8125375812dc9139ce2cb2d48af11ca921c5df494b006e5d21146727e8f798e

3d21955d714ac9>at Reason Foundation assesses the lessons learned from various efforts to reform public employee pensions in jurisdictions across the United States. It draws on the experience of policymakers, officials and campaigners in Michigan, Alaska, Utah, Rhode Island, San Diego and San Jose to outline a series of best practices that will equip a willing and motivated pension reformer with the tools he or she needs to bring about substantive change.

This document is largely an excerpt from our Pension Reform Handbook: A Starter Guide for Reformers, published in July 2014. It also captures the experience of several jurisdictions that have successfully navigated reform, as spotlighted in our series of case studies, which can be found at Reason.org <http://click.email.reason.org/?qs=36a8125375812dc9f0fb735661dfefeb62fceb66938006b466058965f253a1ec91a1899618b98c83>.

To read the report, go here <http://click.email.reason.org/?qs=36a8125375812dc9338bfcc0f65cfbddc86e15c308ae7686d508dd4dbc37130ba5e8b475c3e51fcd>.

» Return to Top

Interview: How to End the Public-Sector Pension Crisis

By Adrian Moore, Reason Foundation

In an 8-minute interview <http://click.email.reason.org/?qs=

36a8125375812dc9535c1921de5e388f290be7d51818ee637a2246254797473af 9b199344be7651c>, Adrian Moore <http://click.email.reason.org/?qs= 36a8125375812dc90578578f70b815813a9e99dd5648616d63b3cfaf740ee86548 6601b64d1e03df>, vice president of policy at Reason Foundation, talks with Reason TV's editor in chief Nick Gillespie <http://click.email.reason.org/?qs= 36a8125375812dc9c3d9aa7b552e10f76726107762e95303ad36433e6464a8d11 37cde5223c5b984>about the public pension crisis. Moore starts with the debt numbers: "Optimistic scenario: it's $1 trillion dollars in unfunded liabilities... Much more realistic scenario: you're looking at $2 trillion to $4 trillion."

Moore then explains how important it is for states and cities to pay the annual required contributions. Not setting aside these required contributions each year creates unfunded liabilities, which compound at the assumed discount rate. "Places like New Jersey are not putting that money aside. They're essentially saying 'we'll have to make up for that in the future without the interest earnings.' So it's a compounding debt," says Moore.

In the interview, Moore lists three kinds of problems that get states and municipalities into pension trouble:

- Not making pension contributions that are supposed to be made,
- Assuming an unrealistic rate of return,
- Ratcheting up pension benefits to unsustainable levels.

To read more about the interview, go here <http://click.email.reason.org/?qs= 36a8125375812dc9de4c45f5c17909baab6b34c7c428f931b6e0ed1cf0 da2cbfc537535084e95951>.

» Return to Top

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 <http://click.email.reason.org/?qs=36a8125375812dc98ad42cfb7eba15935ea9ea7f3f874e9d69936a88f8704bec75da0e26b1d24896>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 his or her 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 <http://click.email.reason.org/?qs=36a8125375812dc99efb49e304856fb758c012481650ad791daef1fe26f80d6c6308eebd94dc8bcb>.

» Return to Top

California Public Pension Cuts Ties with Hedge Funds

By Victor Nava, Reason Foundation

Last week, the California Public Employees' Retirement System (CalPERS), the largest public pension system in the U.S., announced that it's going to divest its assets from hedge funds. The move to withdraw about $4 billion of CalPERS $299 billion in total funds <http://click.email.reason.org/?qs=36a8125375812dc9308b874b6a663e5a6ac56400b68851152ca24bc0b58db82a9a37a799ea5df8b0> is the result of years of poor performance from hedge funds that come at a steep cost and with substantial risk. What led so many U.S. pension funds to invest in hedge funds in the first place? The answer is a long history of unrealistic expectations and mismanagement on behalf of the state government.

CalPERS' foray into the world of hedge funds has not only been plagued with scandals <http://click.email.reason.org/?qs=36a8125375812dc90472a66885875f7800d016db688a95532d14ec6c44382d7be06aa5bfe1c2918c>, it has been a disappointing investment. In 2013, CalPERS paid $135 million in fees to hedge funds and generated a rate of return of 7.1 percent. Over the last 10 years, the annualized rate of return on its hedge fund investments has been a mere 4.8 percent. CalPERS turned to hedge funds back in 2002 <http://click.email.reason.org/?qs=36a8125375812dc9b6a9bea0ce0a94241a40b877b4c89b847671548c80cb4264ecb439feb7395156>as the result of the growing cost of public employee retirement benefits and the high assumed rates of return that pension funds are expected to generate on an annual basis. In some states and municipalities, these expected rates of return can be as high as 8 or 9 percent. In California, CalPERS currently assumes an expected rate of return of 7.5 percent, down from an 8.25 percent expected rate of return in 2003. CalPERS' actual rates of return on total investments since 2003 have failed to meet expectations, averaging 6.68 percent.