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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 originating from or aggregated by Reason Foundation. To find previous editions, please visit <http://reason.org/newsletters/pensionreform/>
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Articles, Research & Spotlights

Millennials & Pensions - Do They Know Public Pension Systems Need Reform?

By Lance Christensen, Reason Foundation

After the midterm election results, there has been a lot of talk about the young people who didn't turn out to vote. And the conventional wisdom has been that since they helped elect President Obama twice, they'll continue to help elect

Democrats. But what about all that debt piling up on their backs?

The non-partisan Legislative Analyst's Office predicts \$340 billion in debt, deferred payments, pension costs and other liabilities will be on California's balance sheets for years to come. Gov. Jerry Brown's latest budget dedicates just over \$10 billion to pay down this debt, barely making a dent in the problem.

In total, taking the public statements of all the state systems at face value, the California defined benefit pension system had \$142.7 billion in unfunded liabilities in 2012 (the figure for 2013 is not available as CalPERS has not provided the data). The aggregate funded ratio for the whole system in 2012 was 77 percent, compared to 90 percent in 2003. In 2013, the state only paid 65.6 percent of their aggregate annual required contributions.

While state government retirees collect handsome guaranteed pensions, young taxpayers will foot the bill. This has particularly serious ramifications for the millennial generation, who are sinking under the weight of public debts and obligations made by people years before they were even born.

To read the full article, go [here <http://click.email.reason.org/?qs=07acae87e45c165c531a5c6b0514b915e76b5caa59b12ab9e1084f748bace13e>](http://click.email.reason.org/?qs=07acae87e45c165c531a5c6b0514b915e76b5caa59b12ab9e1084f748bace13e)

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10 Things the New GOP Congress Should - and Can! - Do

Editorial Staff via Reason Magazine February 2015 issue

There's something about holding the reins of power that induces amnesia. So it's a safe bet that when the 114th Congress convenes on Capitol Hill in January, Republican pre-election commitments to small government, civil liberties, and bureaucratic reform will quickly yield to the inevitable squabbles of a classic gridlock scenario: a lame-duck Democratic president, a newly empowered (but not veto-proof) GOP majority in the House and Senate, and a grumpy electorate that seems to be voting against politicians instead of for them.

But even with the added distraction of a presidential primary season already wheezing into gear, there are several concrete and long-overdue steps that lawmakers can take to expand the scope of human freedom and prosperity. So in the New Year's spirit of helpfulness, reason is offering the new Congress a 10-point list of passable policies that would help make the country more free, fair, and fun:

7. Fix government worker pensions: Congress should help reform state and local pension systems, which have amassed more than \$4 trillion in unfunded liabilities. Useful changes to policy would include amending the Internal Revenue Code to allow government workers to switch to 401(k)-style defined contribution retirement plans if their employers create them (like the federal government did decades ago), prohibiting "double dipping" of both pay and pension benefits, requiring transparent reporting of pension costs and payments, and denying access to federal tax-exempt bonds to state and local governments that borrow in order to make pension debt payments. These changes would help prevent more pension system abuse by government workers and support state and local governments trying to reform the mistakes of the past.

To read all ten policy prescriptions from Reason Magazine's editorial staff, go [here <http://click.email.reason.org/?qs=07acae87e45c165c9f45a2ece2ccf80bfdc9d5df4e92408ad53e9c29d453befc>](http://click.email.reason.org/?qs=07acae87e45c165c9f45a2ece2ccf80bfdc9d5df4e92408ad53e9c29d453befc).

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What Caused Increases in Public Pensions UAAL?

By Truong Bui, Reason Foundation

How did public pension plans become underfunded? A [recent study <http://click.email.reason.org/?qs=07acae87e45c165c4114e3bf205b488ed03a35128a14c9a3c86aecce9af42e13>](http://click.email.reason.org/?qs=07acae87e45c165c4114e3bf205b488ed03a35128a14c9a3c86aecce9af42e13) by the Center for Retirement Research at Boston College provides some insights to this question. Based on the data on 150 state and local plans in the United States, the study analyses five major factors that lead to changes in unfunded actuarial accrued liability (UAAL):

- Investment returns
- Contributions
- Deviations from actuarial assumptions
- Benefit changes
- Assumption changes

The public pension plans are divided into three groups: "Good", "Average", and "Bad", according to their average funded ratios over the 2001-2013 period. The study finds that, across the three types, lower investment returns' than assumed was the largest factor behind increases in UAAL. Shortfalls in contributions were the next major factor. However, bad plans' contributions fell much further short of

the normal cost plus interest on unfunded liability than those for the good plans. Also, bad plans' actuarial experiences significantly deviated from their assumptions, compared to the average and good plans. These facts suggest that discipline in pension funding and reliable actuarial estimates are what set well-funded plans apart from poorly-funded ones.

To read more about this, go [here <http://click.email.reason.org/?qs=07acae87e45c165c94e470c8549272418d269ae39579c9d7dd3a97d6d75e2b76>](http://click.email.reason.org/?qs=07acae87e45c165c94e470c8549272418d269ae39579c9d7dd3a97d6d75e2b76).

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Government Lobbying on Pension Rules Does Not Align with Public Interest

By Truong Bui, Reason Foundation

Governmental Accounting Standards Board (GASB) pronouncements 67 and 68, despite their limitations <http://click.email.reason.org/?qs=07acae87e45c165c3c0be896339667d1ec7e9882ea79562c8c994ab0696e40bf>, are expected to bring about some improvements in the way governments report pension liabilities. As a result, public pension plans are predicted to report higher unfunded liabilities as the new standards are phased-in. A [recent paper <http://click.email.reason.org/?qs=07acae87e45c165c5465e3089689fd9acf2d8b2f8bf04c54cb0bfcd800f5a685>](http://click.email.reason.org/?qs=07acae87e45c165c5465e3089689fd9acf2d8b2f8bf04c54cb0bfcd800f5a685) at Harvard Business School examines the relationship between states' lobbying against the new rules and their finances, as well as how the lobbying aligns with public interest.