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Issue No. 1 - October 2013

Reason Foundation

This newsletter seeks to shine a light on articles, research, opinion, reformers, and other information related to pe strive to grow and improve the publication, please feel free to send your questions, comments, and suggestions to org.

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Events

Reason Foundation Offers Pension Reform Webinar

Reason Foundation is offering a webinar to discuss pension reform and, in particular, ho The webinar is designed to share timely information and experiences from former and cu have successfully navigated the pension reform process in various places across the co

Tuesday, October 22, at 12:30 pm PDT / 3:30 pm EDT.

The expert panel on the webinar will include:

• ***The Honorable Carl DeMaio*** - Author of the San Diego Pension Reform Initiative and member of the San Diego
• ***The Honorable Pete Constant*** - San José City Councilmember whose leadership led to major pension reforms city.
• ***The Honorable Dan Liljenquist*** - Former Utah State Senator who led the state's groundbreaking overhaul of its
• ***Dr. Adrian Moore*** - Vice President of Policy at the Reason Foundation and manager of their policy implementati including pension reform.
• ***Mr. Josh McGee*** - Vice President of the Laura and John Arnold Foundation and leader of their public policy work

Those wishing to participate may register here.

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Stanford Pension Researcher Joshua Rauh to Offer Free 8-Week Online Course on Retirement and Pensio

Pension expert and Stanford Graduate School of Business professor Joshua Rauh is offering an 8-week online co finance. There is no cost for the course and it is open to anyone with a computer and Internet access. The course personal retirement planning and public pension finance and policy.

To sign up for the course or for more information, go here.

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Articles

San Jose Mayor Chuck Reed Files California Pension Reform Initiative

Pension reformer and San Jose Mayor Chuck Reed, who spearheaded the successful passage of the city's Measu percent of the vote in favor, has launched a statewide pension reform initiative along with four other California ma Bernardino Mayor Pat Morris, Pacific Grove Mayor Bill Kampe, Anaheim Mayor Tom Tait, and Santa Ana Mayor M Democrats except for Tait, who is a Republican-filed the measure, known as "The Pension Reform Act of 2014," w General's Office on October 15. The constitutional amendment would allow the state and local governments withi employee's pension benefits on a go-forward basis. Under the measure, all benefits earned by existing employees measure, if passed, would be protected, but future, unearned benefits could be reduced.

The measure asserts that such a reform is necessary because the California legislature has not adequately addre sector pensions should operate under the same rules as private-sector pensions.

Speaking about the growing problem of public pension liabilities at the Hoover Institution's California Pension Solu Reed asserted, "The government can't afford these benefits, and the employees can't afford these benefits."

A similar effort to curtail future, unearned pension benefits for current government employees was included in Ree Jose, which are currently being tested in the courts. While many have argued that benefits for current government be rolled back-even future benefits that have not yet been earned-San Jose contends that since it is a charter city, in determining its employee compensation levels, the changes made by the new pension law are perfectly legal.

Read the full text of "The Pension Reform Act of 2014" here.

For more on the initiative, go here.

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Milwaukee County Executive Calls for Study of Switching to DC Plans

Milwaukee County Executive Chris Abele is calling for the county to study a voluntary shift from traditional, definec 401(k)-style, defined-contribution retirement (DC) plans for public employees. The idea of switching to a DC syster attention in recent years in Milwaukee County. As related in this *Milwaukee Journal-Sentinel* article , then-County I

Wisconsin governor) Scott Walker advocated making such a transition in 2010. That year, a study estimated that t save between $557 million and $933 million over the long term, depending upon whether all employees or only ne over. Another study in 2012 , performed by the county's actuarial consultant, found that the county could save as r year period by phasing out the existing DB plan in favor of a DC plan.

Milwaukee County has adopted some other pension reforms in recent years. It raised the retirement age for misce 64, reduced the annual multiplier used to calculate benefits by 20 percent-from 2.0 percent per year of work to 1.6 special benefit called the "backdrop," which is paid out in a lump sum. As described in a MacIver Institute article , ' that it allows a long-time employee to opt for the pension level at the point when they were first eligible to retire. Tł payment of all of the money they would have gotten since then plus 8.5% interest." The benefit was never even sc unions, but they are now fighting in court to maintain it. The pension benefits reduction is also currently being litiga

For more information on the pension reform efforts in Milwaukee County, see here, here, and here.

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Ocean City, NJ Passes Resolution to End Unsustainable Pensions for Lifeguards
By Sal Rodriguez, Reason Foundation

On September 26th, the City Council of Ocean City, New Jersey unanimously approved a resolution asking the Ne abolish the statutory requirement that seasonal lifeguards be provided pensions. City contributions to the pension and 2013, from $50,000 to $100,000. Active lifeguards have consistently contributed a combined $50,000 to the lif However, annual pension payouts to the 28 retired lifeguards, combined, amount to over $160,000. The underfunc its dubious value, prompted the City Council decision.

Read the full commentary here.

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Stockton Decides Not to Touch Pensions in Bankruptcy; Vallejo Regrets Doing the Same

The City of Stockton, California, which filed for Chapter 9 bankruptcy protection in June of 2012, announced recen bankruptcy. The city reached deals with its creditors to reduce and restructure its debts, but decided against trying employees . The plan also relies upon voters approving a ¾-cent sales tax increase during a special election to be would raise the sales tax rate from 8.25 percent to 9.00 percent, representing a hike of about nine percent.

The City of Vallejo, California, faced a similar predicament after it filed for bankruptcy in 2008, when it chose not tc California Public Employees Retirement System (CalPERS). Instead, the city was forced to endure significant cuts safety. Now the city is again facing the prospect of filing for bankruptcy, and some are voicing regret that it did not time around.
"We failed bankruptcy when we did not make the cuts to our contracts," Vallejo Vice Mayor Stephanie Gomes told going to go bankrupt, do it with strong political will-rip off the Band-Aid when you can." Vallejo's annual pens CalPERS have risen by about one-third in just the past two years-from $10.4 million in fis more than $14 million this year-and they are expected to surpass $18 million in five years

Whether Stockton-or San Bernardino, CA or Detroit or others-heed the lesson of Vallejo remains to be seen, but it issues if it is to get back on solid financial footing once again.

For more on the municipal bankruptcies of Stockton and Vallejo, and the role that pension obligations play in those *Sacramento Bee* article.

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Studies

Public Pensions Nationwide Underfunded By $4.1 Trillion
By Cory Eucalitto, Editor, State Budget Solutions
September 2013

State Budget Solutions (SBS) has released a comprehensive review of state-level public employee pension plans funding levels. Based on annual financial reports and actuarial valuations, the SBS examined "over 250 state-leve with a combined $2.6 trillion in assets and evaluated their funding level based on a "fair-market valuation." SBS de pension plans have a $4.1 trillion unfunded liability, nearly four times as large as the $1 trillion that pension systen

Read the full commentary on the study by Reason Foundation's Sal Rodriguez here.

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The Revival of the Contract Clause
By Sasha Volokh, Associate Professor of Law, Emory Law School for Reason Foundation
September 2013

Efforts to reform public pensions have met legal challenges rooted in the "Contract Clause" of the United States C legal challenges have been brought in 2013 based on legal arguments invoking the legal constraints of the Contra reform contractually specified retirement benefits, including pensions. Volokh discusses the nuances of litigating a Contract Clause as it pertains to pension reform.

Read the full commentary here.

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Re-Calibrating CalSTRS: Evaluating the California State Teachers' Retirement System's Funding Shortfall
By Adam Tatum, California Common Sense
October 2013

A new study by Adam Tatum for California Common Sense finds that California's teachers' pension fund is in seric pension obligations continue to grow at a rate of $50 million per day. By state estimates, the California State Teacl (CalSTRS) is currently underfunded by $71 billion. According to the California Common Sense report, the pension depleted by 2043 if present conditions persist. In order to reach full funding, the study estimates, CalSTRS require assuming that it hits its 7.5 percent average annual investment return target. If the average annual rate of return o being just 5.1 percent, the report asserts, the amount required would jump to $580 billion. If nothing is done, the sy over 10 percent a year in order to reach full funding in 30 years-not a likely scenario, to say the least.

The study argues that the primary cause of CalSTRS's underfunding problem stems from an increase in benefits c would be over 88 percent without the benefit increase-although lagging pension fund investment performance as a financial and housing bubbles over the last decade certainly have not helped matters.

The study concludes that although additional contributions will be painful and will likely impact education spending for classroom instruction, these changes are nonetheless necessary and, in any case, will only become more pain legislature avoids the problem.

> *Rectifying CalSTRS's funding shortfall will not be an easy endeavor. Diverting $4.5 billion from schools is th statewide spending on K-12 books and supplies - twice. It is also more than the state spends on courts and as the state spends on the University of California and California State University systems combined. Havin CalSTRS now will be difficult and painful. But should the Legislature wait much longer, fixing CalSTRS will r and services in the process. (Emphasis in original)*

Read the full study here.

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Meet the Reformers

In a new spotlight series by Reason Foundation's Director of Government Reform, Len Gilroy, Innovators in Action successfully implemented reforms in their jurisdictions. In his most recent installment - *Closing the Gap: Designing Reform in Utah* - Gilroy interviewed former Utah State Senator Dan Liljenquist, the architect of a successful overha Following the economic collapse in 2008, the Utah pension fund dropped from being near-fully funded to a project In light of this projection, Liljenquist proposed reforms in 2010, which sought to address the long-term problem. No creation of a defined-contribution plan for new state employees and an end to the practice of "double-dipping."

Read the full interview here.

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Contact the Pension Reform Help Desk

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

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