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This newsletter from Reason Foundation's Pension Integrity Project highlights articles, research, opinion, and other information related to public pension challenges and reform efforts across the nation. You can find previous editions [here](#).

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Articles, Research & Spotlights

CalPERS Board Lowers Assumed Rate of Return to 7.0%

Last week, the board of the California Public Employees' Retirement System (CalPERS) voted to reduce the plan's assumed rate of return on its investment portfolio from 7.5% down to 7.0% over the next three years. The move is expected to result in \$2 billion in additional employer contributions over the next several years. While a significant reduction, CalPERS' investment advisor forecasts average returns of just 6.2% over the coming decade. As a bellwether of the U.S. public pension sector, CalPERS' move is likely to prompt other public plans to reconsider their current return assumptions.

» MORE INFORMATION: [Reuters](#) | [L.A. Times](#) | [Bloomberg](#) | [EdSource.org](#)

» RELATED: [CalPERS Says 7.5% Returns Over the Next Decade Unlikely](#)

Dallas Pension Crisis Prompts Another Credit Rating Downgrade and Ban on DROP Withdrawals

The Dallas Police & Fire Pension System (DPFP) has made headlines recently due to its massive unfunded liabilities, a virtual "run" on the system since August—with an estimated \$500 million in withdrawals—and its unsustainable deferred retirement option plan (DROP). In a blog post this week, Reason's Anil Niraula and Leonard Gilroy highlight two recent developments in this evolving story: a second credit rating downgrade by Moody's this year prompted by the pension crisis, and a move by the DPFP board to place a moratorium on DROP withdrawals.

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2016 Pension Litigation Year-in-Review

With pension reform, signing policy into law isn't the end of the story. Benefit reductions, changes to retirement ages, contribution increases, and other reform measures often face legal challenges, and 2016 was no exception. As Reason's Daniel Takash writes, it has been a good year for pension reformers overall, though legal hurdles still need to be cleared in some states.

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Study Identifies Enormous Risk in Public Pension Investments

While the accounting practices adopted by most public pension plans have been extensively condemned in recent research, few people pay attention to the risks inherent in investments taken by those plans. For example, a popular criticism of public pension plan discount rates is that they undervalue pension liabilities by not reflecting the risk of those liabilities, and that the expected returns assumed by those rates are too high and unrealistic. However, the asset allocations designed to achieve those returns can yield a wide range of outcomes, and the distribution of these outcomes can have significant effects on pension costs. In a recent article, Reason's Truong Bui examines new academic research on this issue.

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Do Retirees With Defined Benefit Pensions Spend Differently Than Those With Defined Contribution Accounts?

Earlier this year the National Institute on Retirement Security (NIRS) released a report claiming that defined benefit (DB) plans are better for local economies than defined contribution plans. The argument is rooted in the idea that DB plans generate superior "multiplier" effects on state and local economies through retiree spending. NIRS further argues that because pension checks don't change during market downturns, DB plans also stabilize local economies in times of financial turmoil. Unfortunately, the NIRS report is full of logical flaws, as Reason's Anil Niraula and Anthony Randazzo write in a recent article.

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Can Kentucky Teachers Hold the Commonwealth to Its Pension Promises?

Do states have a legal requirement to fully fund their employees' pension plans? As Reason's Daniel Takash explains in a recent blog post, this is the question at the heart of a lawsuit recently filed by Kentucky's public school teachers against Governor Matt Bevin and the state legislature for underfunding the Kentucky Teachers' Retirement System.

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News in Brief

New State/Local Government Worker Retirement Survey: A new survey released by the TIAA Institute and the Center for State & Local Government Excellence examines the retirement planning and saving decisions of full-time state and local government workers, as well as their confidence in their retirement income prospects. Among its many findings, the survey found that 88% of government workers are very or somewhat confident that they will receive the full retirement plan benefits they have earned. The full report is available [here](#).

Utah State Auditor Report Puts School-Related Pension Debt into Perspective: A new analysis by the Utah Office of the State Auditor finds that if there were no pension debt, the unfunded liability amortization payments made by Utah school districts in 2015 could have been used instead to reduce education expenses by 3.7%, increase teacher pay by 14%, increase the weighted pupil unit by almost 7.5%, raise public education employee wages by approximately 8.5%, double the number of teacher aides and paraprofessionals inside classrooms, or operate an additional 40 elementary schools or several hundred new classrooms. The full report is available [here](#).

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Quotable Quotes on Pension Reform

"There's no doubt [CalPERS] needs to start aligning its rate of return expectations

with reality"

—California Gov. Jerry Brown, quoted in Heather Gillers, "America's Largest Pension Fund: A 7.5% Annual Return Is No Longer Realistic," *The Wall Street Journal*, December 14, 2016.

"If you care about this system, if you're concerned about the payment of benefits to members, the most important thing we can do is shore up the funding. And we can't wait to do that. It's pay now or pay more later."

—CalPERS board member Richard Gillihan, quoted in Dan Walters, "Two decisions could make big changes in California's public pension system," *Sacramento Bee*, December 11, 2016.

"Absent reform, pension costs will crowd out more than \$1 trillion of California public services over the next 30 years. *It doesn't take a social scientist to grasp that civil society is at risk when so many people are being disappointed*, especially when there is perceived unfairness because not all citizens suffer the consequences (e.g., parents who can afford to send their kids to private schools). Elected officials must understand pension math and work towards a solution."

—David Crane, "Clearing Up Some Pension Math," Medium.com (blog), December 4, 2016.

"The [Michigan Public School Employee Retirement System] now devours 36 percent of school payroll costs. Teachers may fear not having a traditional pension, but the reality is that if left unaddressed the current trajectory will contribute to other negative impacts, such as less money for pay raises and other cuts to the classroom."

—"Put pensions on to-do list," (editorial) *The Detroit News*, December 13, 2016.

"Everyone wants to keep their job, I get that. And I don't want to hurt anyone's retirement. But I also don't want to hurt future generations of learners and teachers, and state police and others. How is it fair to our students to cut current teachers to pay for retired ones?"

—Former Oregon Investment Council Chairwoman Katy Durant, quoted in, "Denial not a solution for Oregon's public employees retirement system" (editorial), *Statesman Journal*, December 17, 2016.

"All we know is that interest rates have popped up a little bit and equity prices have run up over the last three weeks. How that's going to filter into the

ingredients that go into forecasting long-term returns, it's too early to tell."

—Milliman actuary Alan Perry, quoted in Vipal Monga and Heather Gillers, "Dow 20000 Won't Wipe Away Pension Problems," *The Wall Street Journal*, December 14, 2016.

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Contact the Pension Reform Help Desk

Reason Foundation's Pension Reform Help Desk provides information and technical 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.

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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 leonard.gilroy@reason.org.

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