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**To:** Schaaf, Libby
**Subject:** Pension Reform Newsletter, February 2014
**Date:** Tuesday, February 18, 2014 8:36:28 AM

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pensionreformnewsletter

# Issue No. 5 - February 2014
# Reason Foundation

This newsletter highlights articles, research, opinion, and other information related to public pension problems and reform efforts across the nation. You can also follow the discussion on pensions and other governmental reforms at Reason Foundation's website or on Twitter @ReasonReform .

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## Articles

**Lisa Scheller: Professionalize the Pension Plan**
**By Truong Bui, Reason Foundation**

While large reforms of public pensions such as moving to 401(k)-type plans attract much attention, some smaller and simpler changes at the local levels can bring significant benefits with few downsides, according to Lisa Scheller, chair of the Lehigh County Board of Commissioners. One of them is to change the composition of the retirement board, making it less political by bringing in professional board members who are not entitled to the pension benefits, and therefore have less incentive to overestimate the interest rate and burden taxpayers. Another simple but effective policy change is to reform the pension class system, thereby reducing pension percentages new employees earn over their employment time. This will have zero negative impact on current employees while generating substantial savings in the long run.

Read the full op-ed here.

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**Pension reforms on Washington State Senate Floor**
**By Truong Bui, Reason Foundation**

Two pension reform bills currently on the floor in Washington State Legislature could save taxpayers' money and move the reform further in the right direction. One is SB 5851 , which would create a "new optional defined contribution pension plan for current state workers and for new hires", potentially saving state and local governments an estimated $436 million over the next 25 years. The other is SB 6305, which would create a new defined contribution plan as the only option for public officials elected to office after July 1, 2016, and could bring about $92 million of savings for taxpayers over the next 25 years. According to Jason Mercier, Director of the Center for Government Reform at Washington Policy Center, "The private sector has been moving steadily away from defined benefit plans for decades, instead offering employees defined contribution pensions that provide retirement payments to an employee's pension while helping companies accurately project future pension costs." Mercier notes that effective state pension reform should follow these five principles:

- Do not skip any pension payments
- Close the current defined benefit plan to new hires
- Direct all savings toward paying down unfunded pension liabilities
- Enroll new hires into a defined contribution plan
- Constitutionally require the actuarially recommend pension payment and require a supermajority vote to enact new benefits.

Savings from SB 5851 and SB 6305 therefore should be used to pay down the unfunded pension liability to ease the burden on future taxpayers and to bring fiscal discipline to the state government.

Read more here.

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**The City of Seattle Pension System: A New Approach is Needed**
**By Truong Bui, Reason Foundation**

Like many other local and state governments after being hit by the Great Recession, the City of Seattle is in deep trouble with its pension fund, with unfunded liabilities exceeding $1 billion, a fivefold increase since 2008. A new study by Brian Sonntag, former Washington State Auditor, shows that since 1974, the city's pension has grown more generous over time, with higher benefit multipliers, younger retirement ages, and higher early retirement subsidies compared to the average public plan. The rising costs and the volatile value of assets, combined with lack of funding commitment, are putting a great burden on future taxpayers and crowding out important public services ( with projected $21 million diversion from the general fund to make the pension payment in 2014).

Fortunately, Seattle officials have recognized the problem and are exploring different options to forestall the financial breakdown. While switching to a defined-contribution plan would be the most sound approach, more modest and politically likely options that include a lower benefit multiplier and a higher retirement age would still yield substantial savings, between $1.1 billion and $2.8 billion over 30 years. Adopting one of these options can be the first step towards a more comprehensive and sustainable reform that allows public workers to have tax-deferred defined-contribution retirement accounts in the future.

To read more of the study, go here.

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## Research

**Pension Reform Case Study: San Jose**
**By Adam Summers, Reason Foundation**

Reason Foundation's most recent case study on pension reform in San Jose shows their unfunded liability for post-employment benefits grew from $300 million in 2003 to over $4 billion today, of which $2.3 billion is for pensions and $1.8 billion is for retiree health-care. This is in spite of a massive increase in annual pension contributions, which rose from $73 million in 2001 to $245 million in 2012 and now account for 27 percent of its general-fund expenditures.

The growth in the city's unfunded liabilities has many causes, including the financial downturn after 2008. But the primary cause is a massive increase in both salaries and benefits. Between 1991 and 2009, after adjusting for inflation, the average annual benefit for police and fire retirees increased 75 percent, and by 54 percent for

other retired city workers. In 2011, average total annual compensation for working police officers was $178,821, for firefighters it was $203,098, and for other city employees $120,092.

In the face of these rising costs, San Jose tried to save money by cutting employee salaries and government services. Employees voluntarily accepted wage cuts of 10-18 percent. Other budget cuts were wide ranging, affecting public safety, libraries, sidewalk and park maintenance, and code enforcement. The city even decided not to open four new libraries and a police substation that had been built with bond funds.

But these cuts were not enough, so starting in 2010, the city embarked on a series of pension reforms. These began with changes to the composition of the pension board, removing most insiders and replacing them with independent members with financial and investment expertise. Then, through a pair of ballot measures passed by voters, it limited the amount of compensation increases that could be awarded in arbitration disputes with city workers and gained the ability to shift new city employees to pension plans with lower benefit levels.

San Jose's pension reforms culminated, in June 2012, with the passage of Measure B, under which retirement benefits were reduced for new employees, while current employees had to choose between switching to a plan with reduced benefits or contributing more of their salaries in order to maintain their existing benefits, among other reforms.

Despite its legal challenges, this study looks at how San Jose, California reduced the burden of its public employee pensions and other post-employment benefits, thereby enabling it to continue to provide a high level of services and avoid bankruptcy. It also serves as roadmap - and cautionary tale - to other municipalities who seek pension reform.

To read the case study, go here.

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**Transparent California Website**
**By Lance Christensen, Reason Foundation**

In an effort to bring transparency to the public pension reform debate, the California Public Policy Center (CPPC), a non-partisan public policy think tank, assembled and published the largest database of public employee salaries and pension benefits at TransparentCalifornia.com. While the California Public Employees' Retirement System (CalPERS) recently scuttled a recent effort to put their retiree beneficiary information online, the Transparent California project seeks to highlight the true costs of public pensions and illuminate the debate for reform.

They found in their research "that more than 31,500 individuals collected over $100,000 each in 2012 in total pensions, which includes benefits. The highest total pension payout in 2012 was $540,882 and went to a former city administrator of Vernon." To view the comprehensive database, visit TransparentCalifornia.com.

But it is not only pension costs that they seek to highlight. Their research also showed:
• In 2012, California counties paid over $100,000 in total salary compensation to more than 99,000 county government workers, representing an estimated 50% of the full-time workforce. More than 12,000 county employees in the state earned over $200,000 each in total compensation in 2012. According to the latest Census Bureau stats http://quickfacts.census.gov/qfd/states/06000.html, the median household income in California is $61,400.
• The University of California and California State University systems paid 27,115 public employees more than $100,000 each in 2012, excluding benefits.
• 198 Lifeguards made over $100,000 in 2012.

"These data give new meaning to the phrase 'Golden State,'" said Mark Bucher, President of CPPC. "Amid civic bankruptcies in cities that can no longer pay for essential services, Californians can now see exactly where their tax dollars are going and how much current and former government employees are being paid."

The database, compiled from public records requests, categorizes more than 2.2 million salary records and 1.1 million pension records, including data from the two largest pensions funds in the state - CalSTRS and CalPERS - and data from 35 other independent pension funds set up for California's state and local government workers.

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## Spotlights

**Fox Business #Pension911 Project**
**By Truong Bui, Reason Foundation**

For those who interested in another resource for in-depth discussions about the public pension crisis, Fox Business's Adam Shapiro at the new Pension911 page has some insightful interviews with prominent experts and reform leaders, such as former New York Governor Richard Ravitch, Stanford professor Joshua Rauh, and San Jose Mayor Chuck Reed. The page and #Pension911 tag on Twitter will provide interested parties with the latest news about the public pension crisis across the country.

To find out more about the project, go here.

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**The Pension Peril**
**By Lance Christensen, Reason Foundation**

Under intense pressure from big government advocates opposed to public pension reform, the New York Times reported that WNET, New York's flagship PBS station, returned a $3.5 million grant from the Laura and John Arnold Foundation for their nascent series, "Pension Peril."

According to WNET's original press release announcing the series, "Pension Peril" was launched September 2013 as a "two-year, local and national multiplatform reporting initiative [that] will shine a spotlight on an expected $1 trillion-plus shortfall in funding for public employees' retirement benefits, and what it means for cities and states, retirees and current workers, and taxpayers. 'Pension Peril' will introduce millions of Americans to the tough choices ahead and possible models of reform." It was their intent to "further the dialogue about this challenging situation all across public media."

However, WNET was heavily scrutinized for taking money from the foundation because of their active work in pension reform issues. In order to avoid any perception of impropriety, and despite the fact the donors had neither asked for nor was permitted any editorial control or access to the programming, WNET decided to return the grant. It is unclear whether WNET will be able to raise the funds necessary resume the in-depth series.

To see videos already produced for "Pension Peril," go here.

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## Quotes on Pension Reform

"I don't know what else you'd call it but theft. It's my pension. I have earned it. It's something that has been promised to me. It's something I was told is protected by the constitution. For politicians in Springfield to simply turn around and say we're not going to give you that which you are entitled to under the constitution, I think theft is a very apt word."
*-Henry Bayer, International Vice President, AFSCME*

"The state Legislature that made (pension) reforms can next year reverse them. That's been the history of reform. Compare that to a voter initiative: Once the voters approve an initiative, it can only be reversed by another vote of the people."
*-David Grau, Ventura County Taxpayers Association*

"In the past, PERA's happy talk and the political pressure of public employees concerned about losing their benefits have combined to stifle additional reform efforts. Realization has grown around the state that something must be done, and state finances have started recovering. The next several years thus may offer the best time we will ever have to act, and brighten the prospects for Colorado's future generations."
*-Joshua Sharf, Independence Institute*

"Like alcoholics attending their first AA meeting, Speaker Perez and his colleagues deserve credit for taking the first step by acknowledging the problem and making a commitment to address it. Of course the Speaker may

have been nudged along after seeing poll results, including one by PPIC that shows that over 80 percent of adults believe that the money spent on pensions is a problem for state and local government budgets. The poll further reveals that more than 70 percent would favor a change from a defined benefit - a guaranteed monthly payout at retirement - to a defined contribution system, similar to a 401(k) plan."
*-Jon Coupal, Howard Jarvis Taxpayers Association*

"If it's good for one set of employees it should be good for all employees. And I hate to say that 70 percent in the retirement system are female, so I'm kind of concerned that we're carving out police and firefighters. Is there a gender-equity gap there?"
*-Joanne McCall, Vice President, Florida Education Association*

"The current defined benefit pension has proven to be unaffordable over time without significant changes, and especially since the 2008 financial crisis. We have almost doubled the contribution payments to the system over the last three years, and this will not be enough to address the unfunded liability."
*-Jarred Brejcha, Chief of Staff, Tulsa Mayor Dewey Bartlett*

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## Contact the Pension Reform Help Desk

Reason Foundation has 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.

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*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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