Did you know that the Evergreen Freedom Foundation--which is connected to the Kochs--was the corporate co-chair in 2011?"

ALEC's Statement of Principles on State and Local Government Pension and Other Post Employment Benefit (OPEB) Plans

Summary

To solve the funding crises in state and local defined benefit pension and other post employment benefit (OPEB) plans for public employees the American Legislative Exchange Council recommends that defined benefit plans be replaced by defined contribution plans. To implement this reform state and local governments should take the following actions:

1) The Government Accounting Standards Board (GASB) has strong language on pension liabilities, but only requires OPEB liabilities be acknowledged in a footnote. Each jurisdiction should hold their OPEB liabilities to the same standard as their pension liabilities.

a) Each jurisdiction should report unfunded liabilities as debt in the financial statements of state and local governments.

b) Each jurisdiction should amortize unfunded liabilities in pension and OPEB plans within a thirty year time frame.

2) Each jurisdiction should require legislative approval for increased benefits.

3) Each jurisdiction should require voter approval for any debt issued to finance unfunded liabilities in pension and OPEB plans.

4) When defined benefit pension and OPEB plans fail to meet the actuarial standards outlined in section 1, each jurisdiction should:

a) Declare an actuarial emergency that sets a legal precedent for fundamental reform of these plans.

b) Require voter and legislative approval for increased benefits.

c) Freeze the defined benefit pension and OPEB plans, and replace the defined benefit plans with defined contribution plans for new employees.

d) Increase payroll contributions for existing employees until employers and employees equally share the normal cost as defined by GASB in defined benefit plans.

e) Bring the current retirement system management within the purview of the executive and legislative branches of government.

f) Strengthen the management system's fiduciary role to balance system assets and liabilities by

i) Making the Board responsible for employee and employer contribution rates

ii) Adopting actuarial assumptions

iii) Setting benefit levels, subject to legislative approval, consistent with the standards outlined in section 1.

Explanatory Notes

State and local governments in recent years have encountered funding crises in their defined benefit pension and other post employment benefit (OPEB) plans for public employees. Defined benefit pension plans are considered "safe" by government standards if they have enough assets to support at least 80 percent of pension benefit obligations. In 2008 only 9 percent of a sample of state and local government pension plans met this standard, and a number of states have seen this ratio fall below 50 percent this year. State and local government OPEB plans for public employees are generally in worse shape than their pension plans; most governments continue to fund these OPEB plans on a pay as you go basis. To meet GASB standards governments must now show the unfunded pension plan liabilities as debt in their financial statements. For OPEB plans, liabilities only need to be recognized in a footnote. Governments must also meet the 30 year time frame for eliminating unfunded liabilities in pension plans, though not in OPEB plans. Few state and local jurisdictions are meeting the thirty-year amortization standard for either pension or OPEB plans. Many of these state governments would have to double their actual contribution rates to well over 20 percent of salaries to meet this standard. It is likely that unfunded liabilities in state and local government pension and OPEB plans are over two trillion dollars. Taxpayers are no longer willing to bear the increasing cost of these plans in the form of higher employer contribution rates, or decreased government services. They are demanding reforms that will bring these plans into line with pension and OPEB benefits offered in the private sector. In response to the funding crises a growing number of state and local governments have frozen their defined benefit pension plans, and replaced them with a defined contribution plan. Over time this reform achieves a number of goals. The reform has strengthened government management and fiduciary oversight of the retirement system. The reform has constrained the growth of unfunded liabilities in the system. The reform has established a portable defined contribution plan for new employees that, over time, has reduced the government's dependence on riskier and less predictable defined benefit plans.