OVERVIEW
Public Employee Pension Transparency Act

Background
Most state and local governments offer their employees defined benefit pension plans. In fact, state and local governments have promised pension benefits to about 20 million active employees and another seven million retirees and their dependants.

Under these plans, the employees are promised an annual payment that begins when the employee retires, where the annual payment depends on the employee's age, tenure, and late-career salary. When a government promises a future payment to a worker, it creates a financial liability for its taxpayers, which must be fulfilled when the worker retires.

To prepare to meet their future pension liabilities, governments typically contribute to and manage their own pension funds, which are pools of money dedicated to providing the promised retirement benefits. If these pools do not have enough funds to pay for the retirement benefits of public employees, governments will be forced to transfer funds from their general operating budgets to ensure payments are made. This will require additional taxes, spending cuts or both. In many cases, Constitutional protections make a default on public pension obligations unlikely.

The Status Quo
The accounting system used by state and local governments to determine their pension liabilities is not subject to oversight or regulation but is instead the result of a set of suggested 'best practices.' The standards setting organization responsible for promulgating these best practices is widely criticized for lacking the independence and funding necessary to enforce unbiased standards. As a result, public pensions operate in a way that inconsistent with the rest of the world of finance, making it very difficult for taxpayers, retirees, and policy makers to make informed decisions.

In March, an IGM Forum survey found that 97% of financial economists agreed with the statement that "state and local governments understate their pension liabilities." The survey group included experts from our nation's most prominent schools of accounting and finance including MIT, Harvard, Yale, U.C. Berkeley, the University of Chicago, Princeton, and Stanford. Furthermore, 92% of those surveyed replied that absent change, public pensions would result in severe austerity budgets, a federal bailout or default in the coming decades. Yet despite this clear consensus of experts, public pensions continue to report grossly misleading information to taxpayers, retirees and public policy decision makers.

Reforms Needed
Public pension accounting should ideally provide citizens and government officials with a sense of how indebted taxpayers are to state and local government employees. However, the government accounting standards currently used allow states to use procedures that severely understate their liabilities.

To-date, state public pension officials have disclosed unfunded liabilities that are in excess of $1 trillion. However, this enormous number fails to convey the true nature of the debt confronting taxpayers because public pension plans are able to calculate their liabilities using unreasonably high discount rates. In many instances, they also severely

distort fair market value of assets in order to hide debt. When these accounting gimmicks are excluded from the calculations, <u>unfunded liabilities as of October 2011 have been estimated to be</u> **$4.0 trillion**.

Summary of the Resolution

The Public Employee Pension Transparency Act would address this situation by requiring state and local government pension plans to disclose their liabilities in a uniform and transparent manner based on widely accepted accounting principles. This information would be made available by the Secretary of the Treasury to the public through a searchable website. State and local governments that fail to disclose the requested information would have their federal tax-exempt bonding authority eliminated. The bill also expressly states that state and local pension obligations are solely the responsibility of those entities and that the federal government will not provide a bailout.

<div align="center">END</div>