

**Statement of the Hon. Walker Stapleton, Treasurer of Colorado**

**Subcommittee on Oversight**

**Committee on Ways and Means**

**May 5, 2011**

Chairman Boustany, Ranking Member Lewis, and members of the Subcommittee on Oversight:

Thank you for the opportunity to testify this morning in support of the Public Employee Pension Transparency Act. My name is Walker Stapleton, and I am the Treasurer of Colorado. Before being elected Treasurer last November, I spent my entire career in the private sector. I am fortunate to have both an MBA and a graduate degree in Business Economics.

One of the most important duties I have as Treasurer of Colorado is to serve as the only elected official on the board of our state's Public Employee's Retirement Association (PERA). PERA has nearly 500,000 members, including state workers, members of the state judicial branch, teachers in our public K-12 and higher education systems, local government workers, and members of our State Patrol, among others.

Last year, the Colorado Legislature passed pension reform legislation which accomplished two main objectives:

- It lowered the Cost of Living Adjustment from 3.5 percent to 2 percent
- It raised the eligible retirement age of members from 55 to 58 for educators and from 55 to 60 for everyone else.

These are worthwhile reforms but they unfortunately fell far short of the systematic improvements needed in Colorado's pension system to protect current and future retirees as well as Colorado's taxpayers.

Let me discuss the lingering and growing challenges facing PERA and the key factor Colorado's pension reform legislation did not address.

The system is operating with an unrealistic and unachievable rate of return, which is now set at 8 percent.

In Colorado's case, PERA currently maintains an unfunded liability of more than \$21 billion based on this 8 percent expectation. Of course, if this rate of return is lowered, the unfunded liability becomes far greater – and, in my view, more realistic and transparent for PERA members and Colorado taxpayers alike.

The question is whether states like Colorado should be in the business of guaranteeing market returns. If the answer to this question is "NO," as I believe it should be, then public pension plans like PERA need to start adopting rates of return in line with Treasury Yields and stop the pervasive underfunding of plans. Overestimating a pension system's expected return is essentially gambling with the financial welfare of the next generation of Americans.

As you may know, Wilshire Associates, a nationally recognized financial consulting firm recently completed a study of 126 public pension plans, including Colorado's. Wilshire found that not a single plan would meet an 8 percent return expectation over the next 10 years. In PERA's case, they have used an 8 percent return to claim solvency over 30 years, meaning the only way they will achieve an average

of 8 percent over the next two decades will either be to raise the rate of return even higher, which is a fiscal fantasy, or to require members to contribute more for the benefits that they receive.

It is also worth noting that approximately 25 percent of PERA's portfolio is currently invested in fixed-income products, yielding in the neighborhood of 4 percent, which requires the rest of the portfolio to return closer to 10 percent in order to average an overall return of 8 percent. The only way to achieve this unrealistic return is to take outsized market risk, further exposing our public pension plans to more volatility. If a default occurs, states, unlike private businesses, cannot declare bankruptcy and restructure, and taxpayers will be obligated to backfill resulting pension liabilities.

The Public Employee Pension Transparency Act makes a lot of sense. While it is not mandatory for states to adopt, it categorically states that the federal government will not bail out a state's public pension system. This act increases transparency standards for public pension systems. Unfortunately, the Government Accounting Standards Board (GASB) refuses to require this minimum level of transparency from public pension plans in its accounting standards. The GASB currently does not and will not in the future require plans to disclose a sensitivity analysis of discount rates so that plan members, local government leaders, and the public can assess for themselves what the underlying liabilities in these plans may be.

Greater transparency and better information is important for the fiscal health of our states – and for our taxpayers – to use when it comes to evaluating the significant liabilities associated with public pension systems in this country.

I strongly support this legislation, and am here today to urge every member of the Committee to support the Public Employee Pension Transparency Act.

Thank You.