

## **Prohibit Bailout of State/Local Government Employee Pension Funds**

Many state government employee pension plans are critically underfunded and will not be able to payout promised benefits. Rep. Chaffetz is proposing a resolution opposing a federal bailout of these pension plans. The resolution also encourages states to adopt defined contribution plans to replace defined benefit plans.

- Pew Center on the States: The Trillion Dollar Gap (February 2010).
  - Promised pension benefits are \$3.35 trillion, but pension assets on hand are only \$2.35 trillion, leaving an unfunded pension liability: \$1 trillion
  - Above numbers include other post-employment benefits such as retiree healthcare
  - Liabilities are possibly understated: most retirement systems allow for “smoothing” of losses over several years and unrealistically high discount rates.
  - In aggregate, states were at 84% funding.
  - States below
    - 80% funding: 21
    - 67% funding: 8
    - 60% funding: 2 (Illinois and Kansas)
- American Enterprise Institute: The Market Value of Public-Sector Pension Deficits (April 2010). States report \$438 billion in underfunding, but liability is actually over \$3 trillion
- Novy-Marx (University of Chicago) and Rauh (Northwestern University) : State pensions are underfunded by \$3.23 trillion.
- States are already heavily dependent on federal funding
  - More than 15% of total federal budget goes directly to state and local governments (even higher during “stimulus” period)
  - 20% of state/local general revenue comes from federal government
- Federal government is already in dire fiscal straits and is no position to bailout state and local governments
  - Federal debt is more than \$14 trillion of which \$9.4 trillion is owed to the public and \$4.6 trillion is owed to Social Security and other trust funds (January 2011)
  - The federal government borrowed 37 cents for every dollar it spent in 2010
  - Foreign governments, individuals, and corporations own 47% of debt owned by the public (October 2010)
  - Social Security’s unfunded liabilities in 2010 are \$5.4 trillion over 75 years and \$16.1 trillion over the infinite horizon
- Many states have been fiscally responsible with their government employee pension plans. Expecting federal taxpayers in fiscally responsible states to bailout taxpayers in fiscally irresponsible states would be wrong.
- Supported by Alliance for Worker Freedom, FreedomWorks, Citizens Against Government Waste, Freedom Action, and National Taxpayers Union

*To cosponsor resolution, please contact Mike Jerman in Rep. Jason Chaffetz’ office at [mike.jerman@mail.house.gov](mailto:mike.jerman@mail.house.gov)*

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(Original Signature of Member)

112TH CONGRESS  
1ST SESSION

## H. RES. \_\_\_\_\_

Expressing the sense of the House of Representatives that the Federal Government should not bail out State and local government employee pension plans or other plans that provide post-employment benefits to State and local government retirees.

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### IN THE HOUSE OF REPRESENTATIVES

Mr. CHAFFETZ submitted the following resolution; which was referred to the Committee on \_\_\_\_\_

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## RESOLUTION

Expressing the sense of the House of Representatives that the Federal Government should not bail out State and local government employee pension plans or other plans that provide post-employment benefits to State and local government retirees.

Whereas the Federal Government is operating at a huge annual deficit and is rapidly increasing its outstanding debt every year;

Whereas the Federal Government, as of January 2011, is carrying more than \$14.0 trillion in debt, of which \$9.4 trillion is owed to the public and \$4.6 trillion is owed to Social Security and other trust funds;

Whereas the Federal Government borrowed 37 cents for every dollar it spent in 2010;

Whereas foreign governments, individuals, and corporations as of October 2010 own 47 percent of Federal debt owned by the public;

Whereas Social Security's unfunded liabilities in 2010 are \$5.4 trillion over 75 years and \$16.1 trillion over the infinite horizon;

Whereas the Federal debt is expected to increase by more than \$8 trillion from 2011 to 2020 according to the Office of Management and Budget;

Whereas State and local governments are heavily dependent on Federal revenues;

Whereas more than 15 percent of the entire Federal budget goes directly to States and local governments;

Whereas 20 percent of total State and local government general revenue comes from the Federal Government according to Census Bureau's latest Annual Survey of State and Local Government Finance;

Whereas numerous State and local government employee pension plans have offered overly generous retirement benefits to its employees and are in dire financial situations with combined unfunded liabilities up to \$3 trillion;

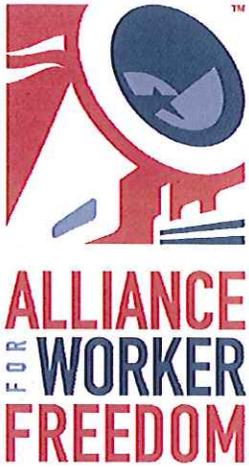
Whereas many State and local government pension plans have understated liabilities and overstated asset growth rates and have employed methodologies that private sector plans are prohibited from using by Federal law; and

Whereas several State and local pension plans are expected to fully exhaust their funds within ten years: Now, therefore, be it

1       *Resolved*, That it is the sense of the House of Rep-  
2       resentatives that—

3               (1) the Federal Government should not bailout  
4       state and local government employee pension plans  
5       and other post-employment benefit plans; and

6               (2) State and local governments should imme-  
7       diately institute reforms to their employee pensions  
8       plans, including replacing defined benefit plans with  
9       defined contribution plans.



8 November 2010

Dear Representative:

On behalf of the Alliance for Worker Freedom (AWF), I urge you to support Rep. Chaffetz's (R-Utah.) resolution against future bailouts of state and local employee pension plans.

As you are well aware, our nation is still struggling to shake off the effects of a prolonged recession and a stagnant economy. Almost a tenth of the country is out of work, and many Americans are frustrated by overspending and wasteful bailouts which benefit a chosen few. At the same time, the federal government and numerous states are wrestling with soaring deficits and costly programs.

The defined benefit pension systems implemented by most states have become untenable. Large future payments—owed to an increasingly large number of retirees—has led to massive underfunded liabilities and contributed to state budget shortfalls. While these facts have been hidden via administrative book-cooking, the massive toll becomes evident when private-sector accounting practices are applied to these funds:

- State and local government pension underfunding is \$3.04 trillion
- Public school teachers' pension underfunding totals about \$933 billion
- State and local pension plans have only a 16 percent probability of being able to cover accrued benefit liabilities with current assets.

A key factor in the underfunding of government employee pensions is the inflated benefits promised to individual workers. On average, government workers with defined benefit plans are owed \$2.85 in retirement benefits per hour worked. Comparatively, a private sector worker with a defined benefit pension plan receives \$0.41 in pension benefits per hour worked. This iniquitous pay disparity favors politically connected government workers while taxpayers foot the bill.

Taking a federal bailout off the table will force governors and state representatives to make difficult but necessary reforms. If insolvent pension plans are to be fixed, solutions should originate within statehouses across the nation—not from an artificial infusion of taxpayer's dollars.

Throwing federal money at the problem will only prop up a broken system and discourage meaningful reform. Please join Rep. Chaffetz in ensuring that this does not happen.

Sincerely,

Christopher Prandoni  
Executive Director

Cc: All US Representatives

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C O U N C I L F O R



Thomas A. Schatz  
*President*

December 1, 2010

U.S. House of Representatives  
Washington, D.C. 20515

Dear Representative,

Rep. Jason Chaffetz (R-Utah) will soon introduce a non-binding resolution to prohibit a federal bailout of state and local government employee pension plans and to encourage states to adopt defined contribution plans to replace defined benefit plans. On behalf of the more than one million members and supporters of the Council for Citizens Against Government Waste (CCAGW), I urge you to support this resolution.

In December 2008, state governments had nearly \$1.94 trillion set aside in pension funds for approximately 20 million active state and local government employees and seven million retirees and dependents who currently receive benefits.

States currently have pension liabilities of \$5.17 trillion, which means that state pension plans are unfunded by \$3.23 trillion. Local government pension plans are unfunded by \$574 billion. Government accounting standards, however, show that states' unfunded pension liability is \$1 trillion. The undervaluation is due to the fact that government accounting standards require state and local governments to discount liabilities at an unrealistically high rate of return on their assets.

State and local governments' empty coffers should not be ignored, nor should they become dependent on federal bailouts to ensure the fiscal soundness of their pension plans. Rep. Chaffetz's resolution opposes a federal bailout of state and local government employee pension plans and other post-employment benefit plans and promotes the replacement of defined benefit plans with defined contribution plans as a solution for controlling ballooning liabilities. With a growing \$13.7 trillion debt, the federal government cannot and should not be responsible for fiscally irresponsible states, especially at the expense of taxpayers and those states which have properly managed their budgets.

I strongly urge you to support Rep. Chaffetz's important resolution. All votes on the resolution will be among those considered in CCAGW's *2010 Congressional Ratings*.

Sincerely,

A handwritten signature in black ink that reads "Thomas Schatz". The signature is written in a cursive, slightly slanted style.

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Suite 1075  
Washington, D.C. 20004  
202-467-5300



November 16, 2010

The Honorable Jason Chaffetz  
United States House of Representatives  
1032 Longworth House Office Building  
Washington, DC 20515

Dear Representative Chaffetz:

On behalf of the 362,000 members of the National Taxpayers Union (NTU), I write to offer our support for your resolution in opposition to a federal bailout of state and local government employee pension plans.

Pension shortfalls, whose fundamental causes predate the slumping economy, are leaving many states strapped for cash and questioning how best to remedy the problem. The Pew Foundation estimates that unfunded liabilities in all fifty states totaled \$1 trillion in 2008. Another study, by Josh Rauh of Northwestern University's Kellogg School of Business and Robert Novy-Marx of the University of Chicago's Booth School of Business puts the "gap" at more than \$3 trillion. Officials are believed to be floating the idea of a federal taxpayer-subsidized bailout for the purpose of preserving retirees' benefits. Not only would this strategy help states and localities escape necessary, albeit difficult, policy decisions, but it would also be incredibly costly – an endeavor our federal government simply cannot afford.

While no one wants to see employees left without retirement relief, neither is it fair to leave current and future taxpayers with grave financial burdens that could run into the trillions of dollars. Some states, such as your own, are already devising solutions and taking strident measures to confront pension financing issues. Other states should be encouraged to follow suit.

A federal bailout would yield severe consequences in an already abysmal economy and would deter more significant reform for damaged systems whose unsustainable benefit promises must be reconciled with reality. We support your legislation and hope it brings attention to this very important matter. Any roll call votes will be significantly weighted in NTU's annual Rating of Congress.

Sincerely,

Jordan Forbes  
Federal Government Affairs Manager