Memorandum

DATE: April 19, 2016

TO: Board of Directors

FROM: Heather Baez, Governmental Affairs Manager

SUBJECT: H. R. 4822 (Nunes) – Public Employee Pension Transparency Act

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Pursuant to the Public Affairs & Legislation Committee's request, below are the pros and cons associated with H.R. 4822 (Nunes). This issue is Item No. 14-2(c) at the 4/20/16 Board meeting.

Pros:

This measure would provide citizens and government officials with a sense of how indebted taxpayers are to state and local government employees. It is estimated that State and municipal public pension officials have disclosed unfunded liabilities of $2.4 trillion.

Seeks to prevent more municipal bankruptcies. Sponsors of the measure said Stockton and other distressed cities would not be in such deep trouble — and their workers, residents and bondholders exposed to losses — if they had been reporting more accurately what they had promised to retirees.

The bill would not require governments to change the type of benefits they offer workers, or to invest their retirement money in any particular way. The federal government has little or no power to direct such decisions by states and cities because of state sovereignty provisions in the Constitution.

State budgets are so dependent on federal dollars that Congress does have a role to play crafting federal policies that allow the states maximum discretion to economize and innovate.

Cons:

This measure would strip states and cities of their right to issue tax-exempt bonds unless they first disclosed the true cost of their pension plans and whether they could pay it. They would not be able to borrow money to build schools or other essential infrastructure unless they share complete information on the health of their pension funds to the U.S. Treasury Department.

The federal government would not backstop states, cities or other governments that promised pensions to their workers, despite offering bailouts to failed private pensions.

Opponents argue the bill is a deliberate effort to make pensions look exorbitant, to stoke taxpayer anger and resentment, and heighten the pressure on states and cities to switch to 401(k) plans.

Accounting is primarily the states' responsibility and states are sovereign. States should be able to gradually solve their underfunding problems with the steps they are already taking like requiring bigger contributions from both workers and governments.

Most of the additional funding needed to cover pension liabilities is likely to take the form of higher government contributions and therefore will require higher taxes or reduced government services for residents.