CalPERS

THE MONTH IN WASHINGTON

A Federal Report Provided by LGV&A

JULY 2014

July was largely about foreign policy in Washington, as violence overseas intensified, and Congress limped toward its August recess. Israel and Hamas fought in the Gaza Strip, Islamic militants gained ground in Iraq and Syria, and Russian-backed rebels battled the Ukrainian government – and, apparently, accidentally shot down a passenger airplane, killing 298 people. Meanwhile, with five months remaining before adjournment, "The current session of Congress is on track to pass historically [few] laws of substance," *The Hill* reported. Lawmakers began a five-week recess on August 1.

ISSUES AND EVENTS

Four Years Added to Projected Lifespan of Medicare Trust Fund

The projected lifespan of Medicare's hospital insurance trust fund has been extended by four years to 2030 by the program's trustees.

The growth in per capita Medicare spending during the past four years has averaged just 0.8 percent, well below the 3.1 percent yearly increase in per capita gross domestic product (GDP), and that trend is expected to continue, pushing back the year in which the Medicare Part A trust fund is expected to be exhausted, according to the annual trustees report.

The revision to the trust fund lifespan was attributed to lower-than-expected spending in 2013, lower projected utilization of health care services by Medicare patients, and "substantial, but very uncertain, cost savings deriving from provisions of the Affordable Care Act" (ACA). The trustees expressed optimism about the possibility that structural changes in the nation's health care system have "bent the curve" of cost growth.

"The Trustees are hopeful that U.S. health care practices are in the process of becoming more efficient as providers anticipate a future in which the rapid cost growth rates of previous decades, in both the public and private sectors, do not return," the report stated. "Indeed, the Trustees have revised down their projections for near term Medicare expenditure growth in response to the recent favorable experience. In addition, the methodology for projecting Medicare finances had already assumed a substantial long-term reduction in per capita health expenditure growth rates relative to historical experience, to which the ACA's cost-reduction provisions would add substantial further savings."

Over the longer-term, the trustees reduced their projections of Medicare's 75-year actuarial deficit from last year's 1.11 percent of taxable payroll to 0.87 percent.

Despite the improved projections, the trustees stressed that reforms are still needed.

"Notwithstanding recent favorable developments, both the projected baseline and current law projections indicate that Medicare still faces a substantial financial shortfall that will need to be addressed with further legislation," the report stated. "Such legislation should be enacted sooner rather than later to minimize the impact on beneficiaries, providers, and taxpayers."

Medicare Part B, which covers visits to the doctor, and Part D, the prescription drug benefit, are funded by premiums and general revenue outlays that are adjusted each year to meet expected costs, so they do not have trust funds. The trustees noted that spending on these programs will "have to increase faster than the economy to cover expected expenditure growth."

The report includes several disclaimers related to the uncertainty of projections that span decades, such as, "Readers should not interpret the projections shown in this report as the Trustees' most likely expectation of actual Medicare financial operations in the future but rather as illustrations of the very favorable impact of permanently slower growth in health care costs, if such slower growth is achievable."

Medicare's chief actuary, in a "Statement of Actuarial Opinion" that concludes the report, noted that projected savings are far from certain.

"While the ACA has been successful in reducing many Medicare expenditures to date, there is a strong possibility that certain of these changes will not be viable in the long range," the chief actuary wrote. "Specifically, the annual price updates for most categories of non-physician health services will be adjusted downward each year by the growth in economy-wide productivity. The ability of health care providers to sustain these price reductions will be challenging, as the best available evidence indicates that most providers cannot improve their productivity to this degree for a prolonged period given the labor-intensive nature of these services."

The forecast for Social Security, meanwhile, remained unchanged, with the program's combined trust funds – for retirement and survivor benefits and disability benefits – projected to be exhausted in 2033, just as they were last year.

The 75-year actuarial deficit has increased, though, rising 0.16 percentage points to 2.88 percent of taxable payroll.

As with Medicare, "The Trustees recommend that lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes gradually and give workers and beneficiaries time to adjust to them."

Uninsured Rate Dropped from 20 to 15 Percent in Past Year, Report Finds

The uninsured rate dropped by one-fourth during the first open enrollment period for the health insurance exchanges, according to a report from The Commonwealth Fund.

The 2010 Patient Protection and Affordable Care Act (ACA) created state-level exchanges in which people who do not have access to affordable group insurance can buy coverage, often by using income-dependent advance tax credits to offset part of the cost of premiums. Enrollment began October 1, 2013, and plans sold through the exchanges began providing coverage on January 1. The law also expanded eligibility for Medicaid.

The Commonwealth Fund report found that, in the third quarter of 2013 – just before exchange enrollment began – 20 percent of Americans between the ages of 19 and 64 were uninsured, but in the second quarter of 2014 – just after the official end of the exchange enrollment period on March 31 – the rate had dropped to 15 percent.

During the enrollment period, about 8 million people signed up for exchange plans, and about 6 million people enrolled in Medicaid. Half of the states have not expanded Medicaid, though, and the report noted that, in the states that have not done so, "the uninsured rate for the poorest adults remained statistically unchanged at 36 percent."

The survey briefly highlighted California as a success story.

"California, the largest state, was the first state to pass legislation to develop its own marketplace," the report stated. "It also has expanded eligibility for Medicaid and pursued an aggressive outreach and enrollment campaign over the first enrollment period. The survey finds that the uninsured rate has fallen by half in that state, dropping from 22 percent prior to open enrollment to 11 percent by June 2014."

The Commonwealth Fund also recently released a report that found that the ACA was responsible for 20 million people enrolling for coverage between October 1, 2013, and May 1 of this year.

In addition to the 14 million people who enrolled in the exchanges or Medicaid, a prohibition on coverage denials based on pre-existing conditions and other consumer protections that have made it easier to buy coverage directly from insurers has added 5 million people to the insurance rolls, and a requirement that insurers allow young adults up to age 26 to stay on their parents' coverage has added 1 million, the report found.

Not all of those 20 million people would have otherwise been without coverage, however. The report's researchers stated in a *New England Journal of Medicine* article that, "We do not know yet exactly how many of these people were previously uninsured, but it seems certain that many were." They noted that the Congressional Budget Office has estimated that the number of uninsured Americans will decrease by 12 million this year.

While lauding the effects of the ACA, the researchers closed the article by suggesting that more reform is needed.

"The sustainability of the coverage expansions will depend to a great extent on the ability to control the overall costs of care in the United States," they wrote. "Otherwise, premiums will become increasingly unaffordable for consumers, employers, and the federal government. Insurers who seek to control those costs through increasingly narrow provider networks across all U.S. insurance markets may ultimately leave Americans less satisfied with their health care. Developing and spreading innovative approaches to health care delivery that provide greater quality at lower cost is the next great challenge facing the nation."

NCHC Advocates for Lower Price for Hepatitis C Drug

A health care advocacy group in which CalPERS is a member wrote to the manufacturer of the recently released hepatitis C drug Sovaldi on July 24 to express concerns about the medication's price.

Sovaldi cures hepatitis C in most patients at a cost of $84,000 for 84 pills to be taken over 12 weeks.

National Coalition on Health Care (NCHC) President and CEO John Rother wrote in the letter to John Martin, chairman and CEO of Sovaldi manufacturer Gilead, that, "at its current price it threatens the ability of public and private payers to deliver treatment and, moreover, it begs the question of health system sustainability given the onslaught of new high-priced therapies."

"Solvadi's [sic] price will also require trade-offs throughout the entire health care system," Rother wrote. "These trade-offs will have a significant impact on patients both directly and indirectly. We stand ready to work together to ensure patients and health programs are not forced to make these trade-offs because of the price of drugs like Sovaldi."

Rother referenced the strong earnings report released by Gilead on July 23, asserting that, "Based on yesterday's record-breaking earnings, two points became abundantly clear.

First, you will easily recoup the investment you made in purchasing and testing Sovaldi. Second, your company has plenty of financial wherewithal to lower the price."

Rother made three requests on behalf of the coalition: "substantially lower" Sovaldi's price; pledge not to increase the price for new versions of the drug; and enhance pricing transparency and provide warnings of launch prices and price increases.

The letter was part of the NCHC's "Campaign for Sustainable Rx Pricing."

Medicaid Pays Less for Drugs than Medicare, Defense Department, GAO Reports

Medicaid pays less for prescription drugs than does Medicare and the Department of Defense (DOD), according to the Government Accountability Office (GAO).

GAO examined a sample of 78 drugs – 45 generic and 33 brand-name – and found that Medicaid's average net price was 62 cents per unit, while Medicare, through its Part D prescription drug benefit, paid 82 cents and the DOD paid 99 cents. Medicaid paid $1.57 per unit for brand-name drugs and 28 cents per unit for generic drugs, both of which were lower than Medicare ($2.65 and 29 cents, respectively) and the DOD ($2.11 and 42 cents, respectively).

"We found that multiple factors affected the net prices paid by each program, including the amount of post-purchase price adjustments each program received, the gross prices paid to pharmacies, the beneficiary-paid amounts, and market dynamics," the report stated. "Of these, a key factor for the entire sample and for the brand-name subset was the amount of manufacturer post-purchase price adjustments received. On average across the entire sample, these price adjustments ranged from about 15 percent of the gross price for Medicare Part D to about 31 percent for DOD, and nearly 53 percent for Medicaid. For the brand-name subset of the sample, these rebates ranged from about 19 percent of the gross price for Medicare Part D to nearly 39 percent for DOD and 62 percent for Medicaid."

The report noted that, while the three programs could theoretically save money by each having access to the best post-purchase price adjustments, "market dynamics, such as manufacturer responses, likely would offset at least some of the savings."

"Previous reports by GAO and the Congressional Budget Office have noted that making rebates or other discounts available to federal programs could provide savings for the newly eligible programs but could result in higher prices for other programs – including those already eligible for the discounts – as drug manufacturers respond by raising their prices to offset the change," the report stated.

The report identified other differences between the three programs that can affect pricing, including formulary practices, number of beneficiaries, utilization practices, copayment structure, and type of pharmacy used.

Parties Release Competing Reports on Dodd-Frank

As the Dodd-Frank financial regulations reform law reached its fourth anniversary, Republicans and Democrats on the House Financial Services Committee released dueling reports on the law's impact.

Committee Chairman Jeb Hensarling, R-Texas, and GOP colleagues, unveiled a report on July 21 that summarizes many of the criticisms that they have leveled against Dodd-Frank during the past four years, including that the law "not only did ... not end 'too big to fail,' it had the opposite effect of further entrenching it as official government policy."
"It was actually the government's ill-advised decision to rescue the creditors of Bear Stearns in the spring of 2008 that created the expectation that virtually every firm was 'too big to fail' and set the stage for the financial crisis," the report states. "Rather than break with this decades' [sic] long history of bailing out the creditors of large financial institutions, the Dodd-Frank Act gives the regulators whose failures of supervision led to the financial crisis even greater powers to control and manage these institutions and grants them a permanent authority that perpetuates the 'too big to fail' doctrine."

Noting that Dodd-Frank supporters have blamed the financial crisis of the late 2000s on insufficient regulation, the report asserts that, "this attempt to rewrite history ignores the inconvenient fact that even before the financial crisis, the financial services sector was one of the most highly regulated industries in the United States."

After listing several major regulations implemented in the 20 years leading up to the financial crisis, that report states that, "it becomes apparent that the financial crisis resulted not from a *lack* of regulation, but from bad or ineffective regulation, and the failures of regulators to use the tools they had," and it goes on to cite several examples of "regulatory failures that helped set the stage for the financial crisis and made it worse."

The report is particularly harsh in its criticism of the Financial Stability Oversight Council (FSOC), a Dodd-Frank creation that includes the heads of multiple regulatory agencies and has the power to designate nonbank financial firms as "systemically important," which subjects them to additional oversight.

"The FSOC's authority to designate non-bank financial institutions for 'enhanced prudential supervision' undermines financial stability in two ways," the report states. "First, designations of nonbank firms undermine market discipline because these designations lead market participants to believe that they will be protected from losses if that firm fails. Second, structural flaws in the FSOC and the designation process will result in the designation of companies that do not pose a systemic risk, thus subjecting those companies to needlessly burdensome regulatory requirements."

The report also charges that the "orderly liquidation authority" provision of Dodd-Frank, which aims to establish a process through which the Federal Deposit Insurance

Corporation (FDIC) can guide the liquidation of a large financial firm, does little, if anything, to end "too big to fail." Given the borrowing authority granted to the FDIC, it suggests that taxpayers could face a large bill if a major firm fails, and "even if the Orderly Liquidation Fund proves equal to the task of resolving a multi-trillion dollar financial institution, taxpayers are still not entirely off the hook. The healthy firms that are assessed to pay for the resolution of a failed competitor will pass the cost of those assessments on to their customers in the form of higher fees on financial products and services."

"The 2008 financial crisis presented Congress, the regulators, and the financial markets with an opportunity to break decisively with the past – to do things better, to be smarter, to learn from our mistakes," the report concludes. "But by resorting to the same failed strategies and misplaced confidence in the powers of regulation and regulators that led to the financial crisis in the first place, the Dodd-Frank Act squandered that opportunity. Instead, the Dodd-Frank Act further entrenched the problem of 'too big to fail' by giving regulators even greater control over our financial system and a virtually unlimited pot of taxpayer money to bail out financial institutions when regulation inevitably fails."

Democrats, not surprisingly, reached opposite conclusions in a report released on the same day by Rep. Maxine Waters of California, the committee's ranking Democrat, and others, finding that "lax enforcement of regulations and a lack of accountability for the nation's financial institutions directly led to the worst financial crisis since the Great Depression."

The heavily bulleted Democratic report opens with a laundry list of Dodd-Frank reforms divided into 21 categories, such as "Looking Out for the Next Big Problem: Addressing Systemic Risks," "Limiting Large, Complex Financial Companies and Preventing Future Bailouts" and "Gives Shareholders a Say on Pay and Creates Greater Accountability."

In contrast to the Republican report, it asserts that Dodd-Frank "provided tools necessary to end 'too big to fail,'" and that the law "clearly states taxpayers are not on the hook to save a failing financial company or to cover the cost of its liquidation, requiring instead that large, systemically important firms are responsible for the costs of failures, thereby discouraging creation of new systemically risky financial companies."

The FSOC, it asserts, "monitors systemic risk and makes recommendations to the Federal Reserve for increasingly strict rules for capital, leverage, liquidity, risk management, and other requirements as companies grow in size and complexity, with significant requirements on companies that pose risks to the financial system," while the orderly liquidation authority empowers the FDIC to "borrow only the amount of funds to liquidate a company that it expects to be repaid from the assets of the company being liquidated."

"The government will be first in line for repayment," the report states. "Funds not repaid from the sale of the company's assets will be repaid first through the clawback of any payments to creditors that exceeded liquidation value, and then assessments on large financial companies, with the riskiest paying more based on considerations included in a risk matrix."

It goes on to criticize Republicans for their opposition to Dodd-Frank, charging that the GOP "has engaged in an aggressive, unrelenting campaign to repeal, weaken, or otherwise pressure regulators to significantly alter provisions in nearly all titles of the Act."

"In addition to passing legislation to weaken or repeal provisions of Wall Street Reform, the Majority has also undermined reform by underfunding regulators such as the SEC and CFTC and subjecting their rulemakings to constant implementation hurdles and court challenges," the report states. "If enacted, the cumulative effect of these efforts would render the Dodd-Frank Wall Street Reform and Consumer Protection Act essentially toothless, inviting a return to the opacity, risk, and deregulation that caused the 2008 crisis."

Oxfam Threatens Lawsuit to Force SEC to Issue Disclosure Rule

Oxfam is threatening to sue the Securities and Exchange Commission (SEC) if the agency does not issue a rule requiring oil and gas companies to disclose payments to foreign governments before the end of the year.

Section 1504 of the 2010 Dodd-Frank Act directed the implementation of the rule in order to increase the transparency of money flowing to regimes that may be more likely to pocket it than use it for the good of their nations.

After its first rule was struck down in federal court last year, the SEC did not include development of a new version of the rule in its original list of priorities for the coming year, but a recently released update to the list projects completion of the rule by March 2015.

Oxfam, an international organization that works on poverty issues, wrote in a July 14 letter to the SEC that the commission is well past the April 17, 2011, deadline for issuing a final rule that implements Section 1504 and that Oxfam members are concerned about "the recent non-binding announcement that the Commission may propose a new rule in March 2015 and strongly believe that this delay is both unwarranted and inconsistent with the Commission's legal obligations."

"We insist that the Commission commit to enacting a final rule implementing Section 1504 by December 31, 2014," Oxfam stated in the letter. "Since the statutory deadline is clear, we would hope to avoid unnecessary litigation; Oxfam therefore suggests negotiating a Consent Decree with the Commission to submit for court approval establishing binding deadlines for implementation. If by August 1, 2014, the Commission has not committed to finalizing the rule by year's end or agreed to the terms of a Consent Decree, Oxfam intends to promptly return to court to enforce the Commission's legal obligations.

Oxfam filed a lawsuit in May 2012 demanding that the SEC issue a Section 1504 rule. Three months later, the commission released the rule that was later struck down in a case brought by the American Petroleum Institute, the U.S. Chamber of Commerce, the National Foreign Trade Council and the Independent Petroleum Association of America. The commission's analysis of the rule's potential impact, the judge concluded, "was arbitrary and capricious and independently invalidates the Rule."

In June, 58 Democrats signed on to a letter organized by House Financial Services Committee Ranking Democrat Maxine Waters of California that advised SEC Chairman Mary Jo White that "we believe that the rulemaking for section 1504 should be on a swifter, more definite time line. We strongly urge you, therefore, to issue a proposed rule for public comment no later than the end of this year."

Sen. Barbara Boxer, D-Calif., signed on to a May 1 letter from 13 senators – 12 Democrats and one independent who caucuses with them – to White urging the commission to "prioritize the issuance of a new rule for Section 1504 by 2015."
CalPERS, in February 2011, wrote to the SEC to support the rule, which was then under consideration by the agency, stating that it "is especially vital for companies operating in countries where governance is weak resulting in corruption, bribery and conflict that could negatively impact the sustainability of a company's operations and our ability to more effectively make investment decisions."

House Passes Bill to Fund SEC at Level $300 Million Less than Requested

The House on July 16 passed a bill that would fund the Securities and Exchange Commission (SEC) at a level one-sixth less than what the Obama administration was seeking.

The "Financial Services and General Government Appropriations Act" (H.R. 5016), which would provide $1.4 billion to the SEC in fiscal year 2015, $50 million more than current funding, but $300 million less than had been requested, was passed by a vote of 228-195. The Senate has not yet passed an SEC funding bill.

"The SEC is not starved for money, and throwing more money at them will not make them a better regulator," Rep. Ander Crenshaw, R-Fla., the bill sponsor, said.

SEC Chairman Mary Jo White, though, said that she has "deep concerns" that the funding in the legislation would "harm America's investors by forcing the agency to limit its enforcement, examination and regulatory activities precisely at a time that the SEC should be building additional expertise and developing new technologies to better oversee our rapidly changing markets."

House Financial Services Committee Ranking Democrat Maxine Waters of California proposed an amendment that would have increased SEC funding to $1.7 billion, but it was voted down, 235-184.

Although SEC funding levels are set by Congress, the revenue itself comes from fees imposed on members of the financial services industry, not from congressional appropriations.

The legislation would also prevent the SEC from adopting rules that would impose a standard fiduciary duty on retail brokers and investment advisers; revise funding of the Consumer Financial Protection Bureau so that it comes from the congressional appropriations process rather than the Federal Reserve, as is now the case; and temporarily block the Financial Stability Oversight Council from classifying nonbank financial firms as "systemically important," a designation that subjects them to increased oversight.

President Obama has pledged to veto the bill if it reaches his desk.

Democratic Lawmakers Propose Boosting Employee Claims in Bankruptcy Proceedings

A group of Democratic senators have introduced legislation that is aimed at "putting workers' interests near the top when companies file for bankruptcy," in part by strengthening their claims to earned retirement benefits.

The "Protecting Employees and Retirees in Business Bankruptcies Act," would, among other things:

- Restrict the conditions under which collective bargaining agreements and commitments to fund retiree pensions and health benefits could be eliminated or adversely affected
- Increase to $20,000 the amount of worker claims entitled to priority payment for unpaid wages and contributions to employee benefit plans
- Eliminate the restriction that wage and benefit claims must be earned within 180 days of the bankruptcy filing in order to be entitled to priority payment
- Allow employees to assert claims for losses in certain defined contribution plans when such losses result from employer fraud or breach of fiduciary duty

"For too long, we've allowed needs of workers and retirees to take a back seat to executives and creditors when a company reorganizes," Senate Health, Education, Labor and Pensions Committee Chairman Tom Harkin, D-Iowa, said. "The 'Protecting Employees and Retirees in Business Bankruptcies Act' would correct that by ensuring that workers and retirees can mitigate their lost wages and retirement benefits, by giving them more opportunities to recover unpaid wages and benefits, and by ensuring that bankruptcy proceedings aren't rigged to protect senior executives while company workers suffer."

Harkin unveiled the legislation with Sens. Dick Durbin, D-Ill., Sheldon Whitehouse, D-R.I., Sherrod Brown, D-Ohio, and Al Franken, D-Minn.

The legislation would also require court approval of executive compensation packages, restrict the payment of bonuses to senior officers and others, and prevent "insiders" from receiving retiree benefits if workers have lost retirement or health benefits.

A similar bill (H.R. 100) was introduced in the House by Rep. John Conyers, D-Mich., in January 2013.

PBGC's Multiemployer Pension Program Likely Insolvent within 8 Years: Report

The multiemployer pension plan insurance program run by the Pension Benefit Guaranty Corporation "is more likely than not to run out of money within the next eight years," the PBGC has reported.

Multiemployer plans cover about 10 million people nationwide, and the PBGC's "FY13 Projections Report" noted that the financial condition of plans covering 1.5 million people are less than 40 percent funded.

"Based on recent reports it is now clear that, despite the improving economy, [the plans] will not be able to raise contributions or reduce benefits sufficiently to avoid insolvency," the report stated. "Plan insolvencies – possibly affecting more than a million of the ten million people in multiemployer plans – are now both more likely and more imminent than in our last report."

The failure of these plans would put more stress on PBGC's insurance program for multiemployer plans, which is projected to have a deficit of $49.6 billion in 2023.

"If and when the [insurance] program becomes insolvent, the only funds available to support benefits would be the premiums that continue to be paid by remaining plans; this would result in benefits being cut much more deeply, to a small fraction of current guarantees," the report stated.

PBGC's program for single-employer plans, in contrast, is showing "a trend toward significant improvement." While the agency's previous report projected a 2022 deficit of $32.5 billion, the current report estimates the 2023 shortfall at $7.6 billion.

"The major causes of the improvement are improving economic conditions, both for the financial markets and the employers themselves, as well as higher projected market rates of return and an increase in PBGC premiums," the report stated.

PBGC cautioned that its projections are based on ranges of results from economic models and, "The actual results that ultimately occur in future years can and likely will vary materially from the projections in this report."

RELATED NATIONAL AND INDUSTRY NEWS

Economic Impact of Pensions Approaches $1 Trillion: Report

Pensions have a nearly $1 trillion impact on the U.S. economy, according to a report from the National Institute on Retirement Security.

The "Pensionomics 2014" report found that defined benefit (DB) pensions paid $477 billion in benefits to 24 million retirees in 2012, including $229 billion to 9 million state and local retirees, $71 billion to 2.5 million federal retirees and $176 billion to 12.7 million private sector retirees. It found that $135 billion in tax revenue could be attributed to pension benefits.

"In supplying a stable source of income to retirees, DB pension plans support the national economy, as well as local economies throughout the country, with jobs, incomes, and tax revenue," the report concluded. "Pension benefits play an important role in providing a stable, reliable source of income regardless of economic climate – not just for retired Americans, but also for the local economies in which their retirement checks are spent."

The report, which uses data from the U.S. Census Bureau and the IMPLAN modeling software, found a multiplier effect related to pension expenditures, with each $1 in pension benefits supporting $1.98 in economic output. As a result, the $477 billion in benefits in 2012 supported $943 billion in economic output, as well as 6.2 million jobs, the report concluded. Since pension contributions by state and local governments account for just a quarter to a third of public pension funding, with the bulk coming from investment earnings, each taxpayer dollar spent on state and local pensions supported $8.06 in economic output, according to the report.

"When money is spent at a local business to purchase, say, groceries, that initial purchase generates even more income," the report stated. "First, some of the money spent circulates back to the businesses that manufactured, transported, and otherwise contributed to the production of those goods. Second, the proprietors of all these businesses and their employees will spend more money at other businesses, spurring another round of income generation. Thus, with each new round of spending, additional revenue is generated, sustaining jobs, incomes, total output, and tax revenue to the local community and beyond."

The report estimated that pensions have an economic impact in California totaling $60.3 billion and 377,000 jobs, and that each dollar of pension benefits in the state generates $1.65 in economic output. Nearly $11 billion in tax revenue in the state was traced to pension benefits.

Public Pensions Please Employees: Pew

More than two-thirds of state and local workers say they expect to "have enough money to live comfortably in retirement," according to the results of a survey conducted by the Pew Charitable Trusts.

The 69 percent of public employees who expressed optimism about their fiscal condition during retirement, Pew noted, was "substantially larger" than the percentage of the general public that responded that way in other surveys.

The Pew survey also found that 61 percent of respondents said they want to keep their retirement system "as is," while 22 percent said their system needs "minor change," and 12 percent reported that "major change" is needed.

"Those with lower confidence in their ability to live comfortably in retirement were more likely to say they would like to see changes," the report stated. "So were women – 38 percent – compared with men – 30 percent."
Among the other findings:

- 55 percent said they would prefer a job that offers more generous retirement benefits in exchange for a somewhat lower salary, while 41 percent would trade some retirement benefits for a higher salary
- 34 percent said they are "very satisfied" with their retirement benefits, and 51 percent are "somewhat satisfied"
- 25 percent said they plan to retire at age 65, and 29 percent said they plan to retire after age 65, while 4 percent said they do not expect to ever fully retire

The survey interviewed 2,110 state and local workers representing every state and the District of Columbia.

The survey was conducted in partnership with the Laura and John Arnold Foundation. In September, the Institute for America's Future, a progressive think tank, released a report that asserted that Pew Charitable Trusts and the Arnold Foundation have been working together since 2011 on "a campaign to reduce guaranteed retirement income for pensioners." While Pew is often regarded as non-partisan and non-ideological, the report stated that the organization is "well-rooted in conservative movement history [and] still tied to that movement's political institutions."

CEI Warns of Risk of 'Dubious' Accounting Methods, Pension Underfunding

A conservative think tank has released a report that argues that accounting methods used by state and local retirement plans "obfuscate the underfunding of public pensions," and that pensions are actually in such bad shape that they create "an increased risk of tax increases and reduced government services."

The "Understanding Public Pension Debt" report from the Competitive Enterprise Institute reiterates a common conservative critique of state and local pensions – that they use a discount rate that is too high, which reflects "rosy assumptions about investment returns."

"In defined benefit plans, states are on the hook for payouts regardless of their pensions' funding level," the report states. "Therefore, the discount rate used in the valuation of pension liabilities should be a low-risk rate, because of the fixed nature of pension liabilities. Ideally, this should as [sic] low as the rate of return on 10- to 20-year Treasury bonds, which is in the 3 to 4 percent range. However, in the U.S., most state and local governments use discount rates based on much higher investment return projections, usually of 7 to 8 percent a year. This usually leads to state and local governments making lower contributions, in the expectation of high investment returns making up for the gap. However, while such returns may be achievable at some times, they need to be achievable year-on-year in order for a pension fund to meet its payout obligations, which grow without interruption."

The report lists six state rankings of pension underfunding levels produced by other sources using a discount rate similar to what could be expected from Treasury bonds. An average of the studies' results shows New Mexico, Illinois and Mississippi in the worst shape, and Nebraska, North Carolina and Tennessee in the best condition. California, on average, ranked 17^{th} worst.

A separate "fair market value" calculation that used Treasury bond rates as the discount rate estimated California's unfunded pension liability at $145.3 billion, nearly eight times the "officially reported" figure of $18.7 billion.

What CEI characterizes as "dubious accounting methods" create economic risk, the report states, cautioning people and businesses to be wary of locating in states with large unfunded pension liabilities.

"If public pension programs are severely underfunded, tax rates may need to be raised and government services curtailed in order to meet future payment obligations," the report states. "Therefore, private businesses choosing where to locate, and individuals choosing where to live and work, are wise to consider not only the current policy climate of prospective states, but also the risk of policy changes made necessary by looming budgetary concerns like the need to increase funding of public pensions."

CALIFORNIA CONGRESSIONAL DELEGATION NEWS

California Rep. Seeks Hearing on Economic Impact of Climate Change

A California congressman is continuing his efforts to get Congress to act on climate change issues.

House Energy and Commerce Committee Ranking Democrat Henry Waxman of California and the ranking Democrat on the panel's Energy and Power Subcommittee, Rep. Bobby Rush of Illinois, wrote to the committee's Republican leadership on July 23 to ask that a hearing be held on a recent report that examines the economic risks of climate change in the United States.

"To provide investors the data they need to make informed decisions, the report examines climate change impacts in every region of the country and even analyzes data at the county level," Waxman and Rush wrote. "The clearest message of the report is that doing nothing is going to be much more costly than acting now to mitigate climate change."

This is the 30th letter that Waxman and Rush have sent requesting a hearing on climate change issues in a little more than two years. During that time, one hearing has been held.