National group wants U.S. governors to freeze defined benefit pension plan

By Sean Whaley, Nevada News Bureau

CARSON CITY – A national nonprofit organization seeking fundamental reforms to state budgeting sent a letter to the nation's governors urging them to follow General Motors' lead and freeze defined benefit pensions for all public employees.

Bob Williams, a former Washington lawmaker and president of State Budget Solutions, sent the open letter, which was in response to General Motors announcement earlier this month that on Sept. 30, 2012, they will freeze the defined benefit pension plans of all salaried workers in an effort to hold down expenses.

GM's announcement will affect 19,000 salaried workers hired before 2001, who will move from traditional pension with guaranteed payments to a 401(k)-type plan with contributions based on salary and bonuses.

"It is time for state government to accurately account for and begin reducing massive deficits," Williams said in the letter. "By freezing defined benefit pensions, you are taking one step closer to truly balancing budgets. Our nation can no longer ignore the realities and push our budget problems onto future taxpayers. Corporate America isn't always right, but eventually they have to acknowledge the light of reality. GM is a beacon that your administration must follow."

Nearly all of Nevada's public employees are members of the Public Employees' Retirement System, which offers a defined benefit plan upon retirement.

Gov. Brian Sandoval supports a change to a defined contribution plan for future state workers, but the issue did not get much attention in the 2011 legislative session. It is expected to come up again in the 2013 legislative session.

Sandoval favors a change to the retirement plan because of a concern about the potential taxpayer liability for the defined benefit plan. The long-term unfunded liability is estimated at about $11 billion, although some assessments using different measures put it at a much higher amount.

Williams said in his letter that a State Budget Solutions' compilation of academic studies shows that the total unfunded pension obligation for state and municipal governments is at least $4 trillion based on common actuarial assumptions.

"Across the country, states have understated their true unfunded pension liabilities because lax government accounting rules allow it," Williams said. "As a result, the plans are severely underfunded and will adversely impact every state budget for decades. Without major reform now, those liabilities will continue to grow."

In a telephone interview today, Williams said one reason for the growing size of the obligation is the unrealistic rates of return assumed by public pension plans. Nevada assumes an 8 percent return, which it has achieved over the life of the plan.

"But over the last 10 years (the nation's public pension plans) only averaged about a 3.5 percent, so once you don't make that annual return then you have to make that up and there is no way the states are," he said.

The private sector is facing the reality that the defined benefit plans cannot be sustained, Williams said.

The day of reckoning is coming, he said.

“I think it’s going to really wake us up when it probably hits either New Jersey, Illinois or California first,” Williams said. “I mean those are the states that just have an unbelievable unfunded pension obligation. But why not take action when you can.”

There has been a growing call nationally to move public pension plans to a state to a defined contribution plan, similar to a 401(k)-type plan, from the current defined benefit plan, where retirees are paid a set amount per month based on salary and years of service.

Nevada PERS officials say the current state plan is actuarially sound, and that the unfunded liability will be covered over time. They also note that the contribution rates required to keep the plan healthy are set by an independent actuary and are fully funded by the Legislature. The Legislature also made several changes to the existing PERS plan in 2009.