Myth vs. Reality: Protecting Local Government Retirement and Benefits Act

Arguments you may hear from reform opponents, with corresponding counterpoints:

- *MYTH: This proposal takes away the ability for local units to bargain with unions and restricts previously mandatory subjects of bargaining related to non-pension benefits.*

REALITY: Opponents are trying to misrepresent portions of the reform in hopes of stalling or undermining the process. Our proposal respects bargaining rights while implementing important reforms that will benefit union-represented and all other local government employees in the long run.

The bill makes an important change in a post-employment benefit area that is not a mandatory subject of bargaining. Local governments would not be able to offer wholesale, percentage-based premium subsidies for retiree healthcare to new employees hired after July 1, 2018. They would still have the flexibility to provide monthly stipends or make defined contributions.

This change is needed because nobody knows what the cost of healthcare will be in the future. If we allowed local governments to continue making promises they can't afford to keep, we'd be selling out our children, grandchildren and great-grandchildren. If we continue to kick the can down the road, the amount of debt left to future generations will only increase.

- *MYTH: This proposal allows local government management to unilaterally strip retirees of pensions and retirement health care.*

REALITY: Pension benefits are constitutionally protected. Only a federal bankruptcy judge has the authority to impact pension benefits. Our reforms simply put in place an early warning system and changes how local governments fund pension and retiree healthcare benefits. These reforms ensure we put enough money away to pay retiree benefits in the future.

Current law allows local governments to make changes to retiree healthcare benefits. That remains true with these reforms. In cases where extreme underfunding exists, retirees may eventually face a reduced benefit – but those decisions would be made at the local level in concert with other reforms. The alternative would be cities going bankrupt and retirees being left with no benefits -- the exact situation we are trying to avoid with these reforms.

- *MYTH: This proposal is a one-size-fits-all solution that takes away local control.*

REALITY: A five-phase process is set up under these reforms. Phases 1-4 are completely locally driven. The state plays a meaningful role only in Phase 5, which kicks in only if communities fail to find a local solution. Even in this stage, local leaders pick two of the members on a five-person panel that will come up with solutions to underfunded benefits plans. The solutions they can choose from are balanced between new revenue and possible reductions in benefits. Every effort must be made to avoid this stage, and only local governments in the worst possible funding positions will reach it. The majority of situations will be resolved at the local level with limited guidance and oversight provided by the state in the form of accounting and financial experts.

- *MYTH: The process in Phase 5 is stacked against local leaders and unions because the state controls the majority of the board making the final decision.*

REALITY: The most important thing we can do for retirees and taxpayers is to solve this problem of unfunded liabilities. Three of the five board members will be local government finance, accounting, and actuarial experts. One member is appointed by the governor, one by the senate majority leader, one by the House speaker. Two members, or 40 percent of the board, will be leaders from the local unit of government -- one member appointed by the local union and one member by the local government management team. It's clear the board is interested in making sure the retiree benefits being offered are financially sound.

Financial stability is the top priority in this stage of the process. If it weren't, we wouldn't be making these reforms – and problems would simply persist until retirement plans eventually run out of money.

- *MYTH: The governor's task force unanimously agreed on what the solution to this problem would be. We should try those reforms first and see if they work.*

REALITY: The task force did not agree on what the solution should be. There was a consensus about what a framework should look like and certain items that should be done across the board. This reform package was built from that consensus, and those items are in this legislation. However, the task force did not have a consensus on what to do for Phase 5 or the final stage, which is reserved for communities that cannot come up with a local solution. These reforms address that issue and put forward a solution that will fully solve the problem. Without the fifth stage as set up in these bills, the problem of unfunded liabilities will simply continue with no end in sight.

- *MYTH: The state took away revenue sharing, and that is what really caused this problem. If it weren't for revenue sharing cuts these plans would be fully funded.*

REALITY: We are trying to find solutions, not place blame. While revenue sharing as a percentage of local government revenue has decreased, that alone did not cause this problem. Many communities have consistently made their required payments to pension and retiree healthcare plans. Faulty assumptions, accounting gimmicks, inadequate stock market performance, and simply not saving enough money have greatly contributed to this problem. Simply throwing more money at local governments will not solve this problem. Better planning, more realistic assumptions, and not allowing promises to be made without fully funding them is the real solution. These are the types of reforms we put in place with this legislation.

Protecting Local Government Retirement and Benefits Act Summary

This proposed law is based on a five phase process. Changes that apply across the board are limited to phase 1. Nearly all of the reforms are made on a case by case basis, taking into account the unique circumstances of each local unit of government. Local control is maintained throughout the process.

Phase 1: Provisions that relate to all local units of government

- Prohibit the payment of employer premium subsidies for a defined benefit retirement health care plan for new employees after July 1, 2018
- Transparency reporting requirements. Require locals units to start prefunding retiree healthcare normal cost obligations. No DB benefits for newly elected officials after July 1st, 2018.
- Require State Treasurer to publish standards for actuarial assumptions and other valuation methods for pension and retiree health care systems

Phase 2: Identification of pension and retiree health care system underfunded status

- An evaluation system to determine the underfunded status of all local governmental units is created
- A retirement system is considered underfunded based on the following criteria
  - Pensions: Funded ratio of less than 60% **and** more than 10% of GF Revenue spent on ARC
  - OPEB: Funded ratio of less than 30% **and** more than 10% of GF Revenue spent on ARC
  - Special district governments and component unit governments only use the funded ratio criteria. Pension funded ratio grows to 80% in 20 years, OPEB grows to 80% in 30 years
- Other criteria that will trigger underfunded status are:
  - A local unit of government fails to follow standards set by Department of Treasury
  - A local unit of government requests and is approved to be classified as an underfunded status

Phase 3: Investigation and Waiver Process for Underfunded Units

- State Treasurer may issue a waiver of underfunded status based on certain criteria such as: the local unit funding is trending in the right direct, already has working corrective action plan, ect.
- State Treasurer may rescind a waiver if conditions significantly change in the local unit.

Phase 4: Local Retirement Stability Board (LRSB)

- A fixed 3 member board of technical experts, appointed by the Governor (1), Speaker (1), Senate Majority Leaders (1), is created to advise local units of government in phase 4. After 180 days the local government must submit a Corrective Action Plan (CAP) to this board for approval. The local unit must work with unions and retirees on the CAP cooperatively during this phase
- A CAP is required from any unit that is in underfunded status and has not received a waiver. A CAP must include a plan to resolve underfunded status permanently over the long run.
- LRSB role in Phase 4 is to:
  - The three fixed members approve or reject a locally developed and locally approved CAP.
  - Three fixed members may rescind a State Treasurer approved waiver and require a CAP.
  - Monitor compliance with CAP's and grant 45 day approval extension in certain circumstances.

Phase 5: LRSB imposed corrective action plan

- Two members are added to the LRSB in phase 5, one picked by local government management and one picked by the local union or retirees if no union exists.
- The five member board develops and approves a CAP if the local governing unit did not provide one or the locally approved CAP was denied in Phase 4
- The LRSB's options in phase 5 are balanced and limited with the goal of protecting benefits and making retirement plans more affordable. In phase 5 both management and employees may not get the outcome they desire. This incentivizes both to come together on an agreement locally in phase 4.