SOCIAL SECURITY

In May, the Center for Retirement Research at Boston College released a report entitled, "The Impact of Mandatory Coverage on State and Local Budgets." In addition to the more recent reasons given for mandating non-covered employees into Social Security – such as increasing portability and raising revenue, and creating a safety net for public employees in the event that plans have funding issues – the report also blindly states that Social Security would extend protections that non-covered workers do not have, such as dependent and survivor benefits, which almost all non-covered plans have.

Further, and most striking, is that for the first time the report challenges the cost data that the Segal studies have reported for years. The report goes on to say that the cost of mandating coverage would be modest and even uses the word trivial at one point. All-in-all, this is a damaging report. To that end, the NCPERS Board is meeting in Washington on July 9 to plan a variety of responses.

In another bit of not-so-good news, Henry Aaron (not the baseball player) was appointed to the Social Security Advisory Board. He is a senior fellow at Brookings and has long been an advocate for mandatory coverage.

RETIREMENT SECURITY

On June 16, eleven representatives from major national associations signed on to a letter to SEC Commissioner Daniel Gallagher striking back at his recent comments in which he stated that state and local retirement systems were misleading people about their true financial conditions, and basically compared public accounting to fraud. Organizations included NGA, NCSL, NASRA, NCTR, and GFOA, as well as those associations representing mayors, cities, counties, state governments, auditors, and treasurers.

Gallagher' comments about public retirement systems is just one more link in a long line of attacks against public funds that has been occurring over the last four years and which continue to escalate.

PEW Charitable Trusts and the Arnold Foundation issued another report as a part of a continuing series of reports raising questions about public pension funds, this time focusing on plans moving away from fixed income investments. According to the report, fixed income investments fell from 96% of assets in 1952, to 47% in 1992, and 27% in 2012. The report acknowledges that equities and alternative investments can produce higher returns, but also increase volatility. Further, the report not-so-slyly suggests that there is disagreement about the appropriateness of current assumed rates of return used by public plans.

Not surprisingly, this report links to the pension transparency bills introduced in the House and Senate which, among other things, call for more so-called "risk free" investments by public funds.

Detroit City, as a part of its bankruptcy proceedings, has carved out an agreement with its unions to implement a scaled back pension plan, which they are calling a hybrid. Detroit's active workers will shift to it on July 1. Retirees will keep 73% to 100% of their current base pension under the agreement. Workers will still be in a defined benefit plan, but at the same time, will start to bear most of the new plan's investment risk. The plan has set up a series of eight "levers" to pull if the investments falter, which include raising workers contributions, reducing COLAs, and having workers build up benefits more slowly.

Plans like those in Ohio have been paying close attention to the Detroit settlement, because at one point joining Social Security was being considered as an option which could have opened the door for a broader discussion on mandatory coverage, as well as concern about converting plans to a defined contribution model.

GASB

GASB voted to propose revising financial reporting requirements for public sector health insurance and other post employment benefits (OPEB). According to GASB, if the proposed rules are enacted, state and local governments would be required to recognize net OPEB liabilities on the face of their financial statements. This would provide financial statement users with a more comprehensive understanding of OPEB promises. GASB's stated concerns are that health care benefits represent a significant liability for many state and local governments, and they fear that governments have not set aside the funds to pay for these benefits.

There are two exposure drafts which include other proposed changes including the use of a single actuarial allocation method. GASB will accept comments through August 29, and public hearings will take place on September 10, 11, and 12.