

# TEXPERS OUTLOOK

## ISSUES IMPACTING PUBLIC PENSION FUNDS

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### Texas Fares Well in Pew Report Finding Collective \$1.26 Billion Shortfall in Retiree Benefits

State funds that pay pension and health care benefits to public workers collectively faced a \$1.26 trillion shortfall at the end of the 2009 fiscal year, according to a new report from the Pew Center on the States. The funding gap increased 26 percent over the previous year, an increase caused by inadequate state contributions, an aging population and recession-driven market losses.

At the same time, the Pew report, which focused on statewide and not local systems, showed Texas to be in good shape. "Our state pensions for teachers and state workers have appropriate funding levels to honor commitments to retirees," said Max Patterson, Executive Director for the Texas Association of Public Employee Retirement Systems (TEXPERS). "The state has contributed the amounts required to continue the good health of pensions."

The report, "The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs," found that Texas' latest liability was \$155,679,204 and was 84 percent funded. The state's latest required contribution was \$2,611,397 and was 99 percent paid. By contrast, Illinois' latest liability was \$126,435,510 and was only 51 percent funded.

Patterson pointed out that the Pew report does not include an assessment of Texas' locally administered pensions for city and county employees, like firefighters, police and other municipal employees. TEXPERS' own research, along with assessments by Texas state agencies, indicates that these systems are in good shape as well, Patterson said.

"For the periods ending in September 2010, the TEXPERS members responding to a survey reported an 8.9 percent average annual return over 20 years and a 7.9 percent average annual return for over 15 years," Patterson said. "Both returns kept pace

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with or exceeded actuarial assumptions and comparative returns with other benchmarks for public funds.”

The Pew report, which was based on state financial reports, found that states faced a collective \$660 billion pension funding gap and a \$604 billion health-care liability gap in FY2009. The report said the gap reflects the failure of a number of state policy choices, including a failure to make annual payments for pensions systems at the levels recommended by their own actuaries and an unsustainable expansion of benefits and cost-of-living payments.

“States’ ability to meet their annual payments may not improve anytime soon; most government finance experts expect state tax revenues to continue recovering slowly in the years ahead,” the Pew report notes, later warning that “a state’s failure to pay the annual bill for retirement benefits can mean it will have to pay more in the future.”

The report found that states had only saved about \$31 billion, or 5 percent, for retiree health care benefits. State pensions plans were 78 percent funded, down from 84 percent the year before. The report also found that just five states made full contributions for retiree health benefits in 2009, and just 22 paid their annual pension bill.

To calculate the funding gap, Pew used states’ assumptions for what their pension funds would earn in annual investment returns – typically 8 percent. It’s a return that states have met in recent decades, but if states were to calculate investment returns the same way private firms are required to for their pensions, the gap would grow to \$1.8 trillion, according to the report. If they were to peg returns to 30-year Treasury bonds, the gap would rise to \$2.4 trillion.

In a statement, the National Conference on Public Employee Retirement Systems (NCPERS) said the Pew report relied on out-of-date data and faulty assumptions, resulting in a “seriously flawed” analysis and as a result reached “misguided conclusions that dramatically overstate the financial challenges facing state pension plans.”


“Were government policymakers to embrace Pew’s thinking, they would undoubtedly formulate equally misguided approaches to dealing with their public pension systems – approaches that might well do irreparable long-term harm to those pension funds and to the millions of public employees who are relying on those funds for their retirement security,” NCPERS said.

Meanwhile, TEXPERS is working to acknowledge the strong performance of its local systems.

“We saluted the Big Spring Firemen’s Relief and Retirement Fund with a congratulatory advertisement in their local newspaper for achieving above average returns with below average risks,” Patterson said. “For example,

they had a 9.54 percent average annual return for 15 years, a level well above the actuarial assumptions needed to maintain benefits without extra contributions from their city. Similar ads will be placed in Lubbock and other markets.”

The Pew report follows a report it released last year entitled, “The Trillion Dollar Gap.” That report is available online at: [http://downloads.pewcenteronthestates.org/The\\_Trillion\\_Dollar\\_Gap\\_final.pdf](http://downloads.pewcenteronthestates.org/The_Trillion_Dollar_Gap_final.pdf). The latest “Widening Gap” report is available at: [http://www.pewcenteronthestates.org/initiatives\\_detail.aspx?initiativeID=85899358839](http://www.pewcenteronthestates.org/initiatives_detail.aspx?initiativeID=85899358839).

On the Web at: <http://www.prnewswire.com/news-releases/texas-pension-expert-comments-on-todays-release-of-pew-report-on-texas-pensions-120707619.html> and <http://www.fortmilltimes.com/2011/04/26/1531093/ncpers-finds-pew-report-on-public.html>. 

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## **GASB Will Propose Pension Funding Disclosure Mandate Soon**

The Governmental Accounting Standards Board (GASB) will soon propose increased disclosure of states’ pension funding, according to Reuters.

David Bean, director of research and technical activities at GASB, told a municipal analysts’ meeting that the board will release an exposure draft on the possible requirements in June.

Under the proposal, governments would have to make more thorough annual Cost of Living Adjustments calculations along with presenting employees’ projected salary increases.

“Where the fistfights occur is with the discount rate,” Bean said about returns on pension funds’ investments, which affect how well a government can cover those liabilities, Reuters reported.

Governments would have to disclose their long-term expected rate of return on plan investments as determined by actuaries. “This is the actual expected rate of return as recommended by the actuaries,” Bean said, according to Reuters. “We’re going to make very clear this is not a number that is pulled out of the air. This is based on solid science.”


GASB wants to “draw back the curtain” and provide more information about how return rates are derived, Bean said.

Republican members of the House of Representatives would like public pensions to forecast a lower rate of return, around 4 percent, which they consider “riskless.” Some have introduced legislation that would bar a state

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from selling tax-exempt bonds if they do not lower the return to what is considered a riskless forecast.

On the Web at: <http://www.reuters.com/article/2011/04/01/usa-states-pensions-accounting-idUSN0126012720110401>. 

## Public Pension Assets Near \$3 Trillion in Rebound

Aggregate public pension asset values were \$2.93 trillion at the end of 2010, a 35 percent increase from their March 31, 2009, quarterly low point, according to a new report by the National Association of State Retirement Administrators and the National Council on Teacher Retirement.

The two associations credit the increase to improving capital markets and robust long-term investment returns. They also say many states have moved to “preserve or restore the affordability and sustainability of their pension plans.”

The groups found that the median public pension fund’s annualized investment return in 2010 was 13.1 percent, bettering the annualized return of 8.8 percent seen in the past 25 years.

However, the associations warned of recurring reports that claim that pension plans are underfunded and will not be able to meet their liabilities, noting that many of these studies’ calculations include data from the market decline but fail to consider the more recent recovery. Such selective use of data can be “misleading,” the two groups say in their study, “Strong Investment Gains and Legislative Changes Speeding Public Pension Recovery.”

“The use of point-in-time measures, particularly at the low-point of the market recovery, can present a distorted or misleading picture of the condition of public pensions,” the report states. “The use of such measures also underscores the need for policymakers to closely analyze long-term programs such as state and local government retirement systems in order to avoid making major policy decisions based on short-term and outdated information.”

On the Web at: <http://www.nasra.org/resources/NASRANCTR1104.pdf>. 

## Role for DC Plans in the Public Sector is Made

Defined contribution (DC) plans may have a role in the public sector, but in combination with – not as an alternative to – defined benefit (DB) plans, according to an issue brief by the Center for State and Local Government Excellence (SLGE).

In the wake of the financial crisis, policymakers have been talking about shifting from DB plans to DC plans in the public sector.


Three states – Georgia, Michigan, and Utah – have taken action, joining the 10 states that had introduced some form of DC plans before 2008. These new plans are “hybrids” that combine elements of both DB plans and DC plans.

“Such an approach spreads the risks associated with the provision of retirement income between the employer and the employee,” the brief states.

The hybrids introduced in Georgia, Michigan, and Utah reflect sponsors’ recognition of the need to balance the risks to employees and the risks to taxpayers. These hybrids consist of slimmed-down DB plans and DC plans operating in “parallel.”

The brief states that “a preferable approach” may be a “stacked” arrangement in which DB plans could remain as a secure base for the typical public employee. DC plans could be “stacked” on top to provide additional retirement income for those at the higher end of the pay scale.

“Such an approach would ensure a more equitable sharing of risks and would also prevent headlines generated by the occasional inflated public pension benefit,” the brief states.

On the Web at: <http://www.slge.org/vertical/Sites/%7BA260E1DF-5AEE-459D-84C4-876EFE1E4032%7D/uploads/%7B25F56D3A-26A7-4E55-886C-C9FF478CCCC%7D.PDF>. 

## CalPERS Trustee Wants Investment Managers to Disclose Advocacy against DB Plans

Wall Street money managers seeking to work for the California Public Employees’ Retirement System should have to disclose whether they’ve given any support to groups advocating against defined benefit (DB) pension plans, a CalPERS board member says.

In an interview with Bloomberg, J.J. Jelincic says CalPERS has an interest in defending both DB plans and public employees, and the fund should know if fund

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managers hold a position contrary to its interests.

Jelincic, the former president of the California State Employees Association, one of the state's largest workers' unions, raised the matter for discussion with other board members in April but stopped short of making a formal proposal for the board to take action.

But CalPERS general counsel Peter Mixon said free-speech rights must be considered if money managers are evaluated, even in part, on their political positions, Bloomberg reported. "Disclosure is one thing, but grading potential contractors or investment managers based on their First Amendment speech is something we would have to take a very close look at," Mixon said at the meeting.

Jelincic's proposal comes on the heels of a formal proposal by a trustee at New York City's police retirement system in February that managers could be fired if they spoke out against the pension plan.


Against this backdrop, California's Republican lawmakers and at least one non-profit group are seeking to end the state's DB public employee pensions in favor of 401(k)-style accounts.

"If they [investment managers] provide a really good service then I don't think it becomes the decision-maker, but we need to have the conversation," Jelincic said.

Meanwhile, the CalPERS board recently adopted a 12-point set of federal legislative policy priorities that underscore the fund's commitment to preserving DB plans.

The CalPERS priorities call for the pension plan to support expanded opportunities for workers to have access to DB plans, tax policies that encourage preservation of DB plans and deferral of taxation of contributions and earnings until benefits are paid in retirement.

They also call for policies that report public pension liabilities that reflect the long-term nature of public employee retirement plans, accounting standards that preserve the link between accounting and funding, such as portfolio diversification, smoothing of investment gains and losses and managing growth of liabilities to minimize contributions volatility, including support of the Governmental Accounting Standards Board, and more.

On the Web at: <http://www.bloomberg.com/news/2011-04-12/calpers-officer-wants-money-managers-to-disclose-pension-bashing-donations.html> and <http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2011/april/pers-adopts-fed-leg.xml>. 


## Public Plans Database Goes Live on the Web

The Center for State and Local Government Excellence and the Center for Retirement Research at Boston College have partnered to develop the Public Plans Database (PPD). The database contains comprehensive financial, governance, and plan design information for 126 state and local defined benefit plans, along with additional data on state defined contribution plans.

The PPD covers 107 plans at the state level, which represent more than 90 percent of all state government pension assets and members. At the local level, the PPD covers 19 plans, which the groups say represent more than 20 percent of all local government pension assets and members.

On a combined basis, the PPD represents more than 85 percent of total state and local government pension assets and members.

Data are collected from plans, annual reports, actuarial valuations, member handbooks, and contact with plan administrators.

The groups credited the National Association of State Retirement Administrators and the National Council on Teacher Retirement for their guidance in the development of the database, which can be viewed online at: <http://pubplans.bc.edu>. 

## Pace of Public Employee Retirements Quickens as States Cut Benefits to Shrink Deficits

California, Florida and Texas are seeing more public employees retire early as rising benefit costs, pay cuts and looming furloughs prompt workers to leave, according to a recent analysis by Bloomberg.

Early retirements are also up in New York as the state faces budget gaps. In New Jersey, Wisconsin and Ohio, the heightened motivation to retire early has been prompted by attacks on public-sector unions over costs that strained budgets, according to the report.

One-third of state and local workers with special skills, such as teachers, nurses, legal staff, engineers and managers, will be eligible to retire within five years, Elizabeth Kellar, president of the Washington-based Center for State and Local Government Excellence, a

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nonprofit research organization, told Bloomberg.

That may exacerbate a “brain drain” at states and municipalities, where employment has fallen by 2.5 percent since its peak in August 2008, according to U.S. Bureau of Labor Statistics data.

The Employees Retirement System of Texas expects about 5,400 retirements in the fiscal year ending Aug. 31, up from 3,500 in a typical year, spokeswoman Mary Jane Wardlow told Bloomberg.

The report also found:

- Retirement applicants in New Jersey rose 60 percent from 2009 to 2010.
- In Wisconsin, retirement applications jumped 79 percent in the three months that ended in March from the same period last year.
- Ohio saw a 27 percent annual rise in retirement filings and inquiries in March.
- California teacher retirements rose 20 percent in fiscal 2010 from a year earlier, to 15,621.
- In Florida, retirees entering the pension system rose to 14,306 in the first seven months of fiscal year 2011, from 11,639 in all of FY2010.
- The number of New York public employees who retired in 2010 grew 65 percent to 12,281, after a program that ended Dec. 31 allowed some to leave with full benefits after 25 years rather than 30.
- Iowa, Michigan, Minnesota, Oklahoma offered early-retirement enticements in 2010, according to a Nov. 23 report by the National Conference of State Legislatures.
- In Illinois, 2,600 employees are expected to retire in 2011, up 27 percent from two years ago, because of legislative proposals aimed at cutting their benefits.

On the Web at: <http://www.bloomberg.com/news/2011-04-19/public-retirees-surge-as-states-cut-benefits-to-shrink-deficits.html>. 

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## **Goldman Sachs' Role in Financial Crisis Under Fire from U.S. Senate Subcommittee**

The U.S. Senate Permanent Subcommittee on Investigations, one of Capitol Hill's most feared panels, accuses powerhouse Goldman Sachs of misleading clients and manipulating markets in an official report on Wall Street's role in the financial crisis.

Subcommittee chairman Carl Levin (D-Mich.), who clashed publicly with Goldman's CEO Lloyd Blank-

fein a year ago at a hearing on the crisis, said he will now recommend that any outstanding cases related to the matter be referred to the U.S. Department of Justice and the Securities and Exchange Commission for further investigation.

The 639-page report, “Wall Street and the Financial Crisis: Anatomy of a Financial Collapse,” accused “greedy” investment banks of triggering the crisis. The report said Goldman misled investors and manipulated markets, especially when it came to sub-prime loans. The report also blamed the crisis on greed, poor regulatory oversight and a financial system rife with conflicts of interest.


While Levin refused to say which cases may be referred for future investigation, Bloomberg reported that Levin wants federal prosecutors to review the possibility of bringing perjury charges against Blankfein and other current and former employees who testified before Congress in 2010. Levin accuses them of denying under oath that the firm's bets against the mortgage market were solely for its own profit. Levin says those statements were untrue.

A Goldman Sachs spokesman says the firm disagrees with many of the report's conclusions but will “take seriously” issues raised by the subcommittee.

The report also criticized Deutsche Bank, the former Washington Mutual Bank, the U.S. Office of Thrift Supervision and credit rating agencies Moody's and Standard & Poor's.

The report was released less than a year after Goldman paid \$550 million to settle SEC claims that it allegedly failed to reveal to customers that hedge fund Paulson & Co. bet against the collateralized debt obligations that Goldman was selling. Paulson also influenced the selection of those CDOs, Bloomberg reported.

Separately, the Financial Times reported that Michael Llodra, who was in charge of JPMorgan's CDO business during the crisis, has been alerted by the SEC that he may face civil charges over his involvement in the sale of a structured product in 2007. Llodra's lawyer declined to comment.

On the Web at: <http://levin.senate.gov/newsroom/release.cfm?id=332491>, <http://www.reuters.com/article/2011/04/14/us-financial-regulation-report-idUSTRE73C8JR20110414>, <http://www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2011/04/14/bloomberg1376-LJM1ZZ1A1I4H01-0I1LCCM3N3GBKP00UAS4L3S1L1.DTL> and <http://www.ft.com/cms/s/0/80640774-6620-11e0-9d40-00144feab49a.html?ftcamp=crm/email/2011413/nbe/BreakingNews1/product#axzz1JTmQ9OuI>. 

## Public Pensions Aim to Tighten Rules on Gifts from Managers

California State Controller John Chiang is sponsoring two bills to improve the performance of and the public's confidence in the nation's two largest public pension funds – the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS).


One bill, S.B. 439, offered by state Sen. Gloria Negrete McLeod (D-Chino) would prohibit pension fund board members, staff and consultants from accepting gifts valued in excess of \$50 in a single calendar year from any entity doing business with or intending to seek to do business with the funds. The current limit for other statewide officials is \$420 in a single calendar year.

The second bill, A.B. 873, introduced by Assembly Member Warren Furutani (D-Carson), would impose a two-year waiting period on a board member, administrator, executive officer, investment officer or general counsel of CalPERS or CalSTRS from certain employment with the pension funds' business partners under certain circumstances. Staff was directed to work with the sponsor and author on identifying appropriate amendments to the bill.

"The appearance of impropriety by some former board members and investment staff of CalPERS raises concerns that members and staff may be using their past relationships and positions of power to influence decisions regarding the investment of public pension funds," Chiang said. "I believe these bills are a critical step toward restoring the public's confidence in the professionalism of all of our activities on behalf of the retired public employees and teachers, and the taxpayers of California."

CalPERS' board endorsed both bills. "Given the serious issues involving placement agents in recent years, [these bills] represents an effort to ensure the investment integrity of pension funds," said CalPERS Board President Rob Feckner.

CalSTRS' staff also expressed support for the bills. "The board has historically supported efforts to increase transparency and accountability in governing bodies," says a legislative committee document penned by Berman Obaldia, CalSTRS director of governmental affairs. "The provisions of this bill are consistent with efforts made by the board to enhance CalSTRS' accountability."

On the Web at: [http://www.sco.ca.gov/eo\\_pressrel\\_controller\\_urges\\_support\\_for\\_calpers\\_calstrs\\_reform.html](http://www.sco.ca.gov/eo_pressrel_controller_urges_support_for_calpers_calstrs_reform.html), <http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2011/mar/endorsed-state.xml> and [http://www.calstrs.com/legislation/Current%20Legislation/2011/analysis/sb\\_439\\_021611.pdf](http://www.calstrs.com/legislation/Current%20Legislation/2011/analysis/sb_439_021611.pdf). 

## Legislation Capping Federal Spending Would Cut Entitlement Programs, Report Finds

A bipartisan proposal by two U.S. senators to limit total federal spending to no more than 20.6 percent of the Gross Domestic Product (GDP) would force enormous cuts in Medicare, Medicaid, and possibly Social Security, according to a new report by the Center on Budget and Policy Priorities, a left-leaning Washington think tank.

Sens. Bob Corker (R-Tenn.) and Claire McCaskill (D-Mo.) have introduced a bill (S. 245) that would impose automatic, across-the-board cuts, called a "sequester," to close the gap between projected spending and the proposed cap if the cap would otherwise be breached.

"If the cuts needed to reach the cap were achieved entirely through this mechanism, the estimated cuts would total about \$1.3 trillion in Social Security, \$856 billion in Medicare, and \$547 billion in Medicaid over the first nine years that the cap was in effect, from 2013 through 2021," the center said in its analysis of the bill.

The cuts in Social Security, Medicare, Medicaid, and other programs would grow much larger in subsequent decades. For example, the 20.6 percent cap would phase in gradually and would not be fully in effect until 2023 and thereafter.

In addition, the bill, dubbed the "Commitment to American Prosperity Act of 2011" or the "CAP Act of 2011," does not take into account the costs for Social Security, Medicare, and Medicaid, which are projected to rise substantially in future decades due to the aging of the population and rising health care costs.

As a result, these programs would have to be cut by "increasingly severe amounts" to meet the level outlined in the Corker-McCaskill bill.


The report finds that the negative effects of a cap on total spending would be even more severe under a recent proposed balanced-budget amendment to the U.S. Constitution that Senate Republican leaders unveiled on March 31.

That proposal would cap federal spending in any fiscal year at 18 percent of what the GDP was in the prior calendar year, which is equivalent to a cap on spending of about 16.7 percent of the current year's GDP.

"That would necessitate even deeper cuts in Medicare, Medicaid, and Social Security," the report adds.

On the Web at: <http://www.cbpp.org/cms/index.cfm?fa=view&id=3471>, [http://corker.senate.gov/public/index.cfm?p=News&ContentRecord\\_id=e2186a40-](http://corker.senate.gov/public/index.cfm?p=News&ContentRecord_id=e2186a40-)

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440d-4152-9c0f-60d97b30abb8, [http://mccaskill.senate.gov/?p=press\\_release&id=1183](http://mccaskill.senate.gov/?p=press_release&id=1183) and <http://thomas.loc.gov/cgi-bin/query/z?c112:S.245>. 

## Fed Study Finds Few Municipalities Will Default on Debt


While there is little disagreement that 2011 will be a tough year in local government finance, few local governments will either default on their debt or end up in bankruptcy, according to a new report by the Federal Reserve Bank of Chicago.

If history is any guide, most municipalities will take steps to avert such a crisis. “In all but the most dire cases, local governments under stress are likely to take alternative steps to shore up their fiscal positions,” according to the report, “Local Governments on the Brink.”

Facing minimal growth or outright declines in property tax revenues, reduced assistance from state governments, and requirements to make larger payments to underfunded public pension funds, local governments know they could be hurt badly when they emerge from bankruptcy, such as the experience of Vallejo, Calif., in 2008.

In addition, municipalities appear to have reserves that can be tapped in the short run. The report cited a survey by the National League of Cities that found municipalities’ ending balances for general funds, which are like “rainy day funds,” peaked at 25.2 percent of general fund expenditures in 2007.

“Ending balances still amounted to 21.4 percent of general fund expenditures in 2009 – a healthy share by historical standards. Projected ending balances for 2010 are at 19.9 percent, which would still be higher than any share of ending balances recorded over the period 1985–2000.”

On the Web at: [http://www.chicagofed.org/digital\\_assets/publications/chicago\\_fed\\_letter/2011/cflmay2011\\_286a.pdf](http://www.chicagofed.org/digital_assets/publications/chicago_fed_letter/2011/cflmay2011_286a.pdf). 

## State Tax Revenues are Up, but Local and City Revenues are Down

State finances as a whole have continued to improve this year as revenue collections have grown, but the opposite has been the case at the local level, largely due to the continuing effects of the housing bust, according to data from the Rockefeller Institute.

Overall state collections increased 9.5 percent in January and February from the same months last year. Those gains followed a 7.8 percent increase in state tax revenues in the fourth quarter of 2010 from the final quarter of 2009, the institute said.

But at the local level, tax collections of cities and counties fell by 2.3 percent in the fourth quarter of 2010 from the last quarter of 2009. This decrease was almost entirely due to falling property taxes, which made up 85 percent of local revenues in the fourth quarter of 2010, according to the report.


The housing bust that began more than three years ago quickly pushed down property values, but due to a lag in tax assessment of properties, the crisis only started affecting many local governments’ coffers in the last year.

The drop comes at a time when many cities and counties are struggling to balance their books and keep funding essential services, such as firefighters and police forces.

Assistance from the federal economic stimulus plan is ending just as states, also mired in persistent budget woes, have begun cutting their aid to local governments.

The report concluded: “The bottom line: State budgets will likely face continuing pressure at least until the national economy enters a new period of continuing, robust growth.”

On the Web at: [http://www.rockinst.org/pdf/government\\_finance/state\\_revenue\\_report/2011-04-19-SRR\\_83%20rev.pdf](http://www.rockinst.org/pdf/government_finance/state_revenue_report/2011-04-19-SRR_83%20rev.pdf).

Meanwhile, the Government Accountability Office (GAO) produced a report on state and local governments’ fiscal outlook that reached many of the same conclusions. While the sector’s near-term fiscal picture has improved slightly since its March 2010 update, the GAO says the economic downturn has created an “unprecedented fiscal situation for states as revenues declined in tandem with the economy.” That report is available at: <http://www.gao.gov/new.items/d11495sp.pdf>. 

## U.S. House Committee Hearing on Muni Debt Focuses on Collective Bargaining and State Pensions

The House Oversight and Government Reform Committee held a hearing on April 14 supposedly to cover state and municipal debt. But the focus of the hearing quickly turned to collective bargaining, the civility of political discourse, and facts/falsehoods of state pensions.

The two witnesses, Vermont Gov. Peter Shumlin (D) and Wisconsin Gov. Scott

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Walker (R), were often facing questions about several different issues at once, leading to several moments of interruption and confusion.

Rep. Dennis Kucinich (D-Ohio) provided one of the highlights, referencing Wisconsin's Legislative Fiscal Bureau's recent report that indicated that Walker's changes to that state's public employee collective bargaining rules would not save the state money.

Walker responded that attempts to eliminate collective bargaining rights had nothing to do with the budget or finances of the state itself. Kucinich asked Walker what budgetary rationale there was – in terms of savings to the state – in proposals such as requiring unions to regularly re-certify themselves. Walker told him there were no savings from that provision but he made that and other proposals to “give the workers the right to choose.”

Kucinich replied, “The attack on collective bargaining rights is a choice, not a budget issue.”

Pressed by Virginia Democrat Gerald Connolly about why he didn't run for governor on his collective bargaining changes, Walker conceded they were not an “explicit” part of his campaign.

“I didn't run an ad saying I'm going to do exactly this,” he said.

But he rejected the idea that people should have been surprised by his proposals, citing positions he had taken on the issue as county executive in Milwaukee and his more general talk during the campaign about getting concessions from state employees.


“So from your point of view, nobody should have been surprised?” Connolly asked.

“That's 100 percent correct,” said Walker.

While Democrats told Walker his policies had needlessly divided the state, Republicans on the committee offered Walker sympathy. They commiserated with him over the decision by state Senate Democrats to leave the state to prevent a vote on his budget repair bill, and praised Walker for repairing Wisconsin's finances.

Walker suggested that despite the current divisions, he will be rewarded with public support as people see his policies working. He cited Indiana Gov. Mitch Daniels' reelection in 2008 after making similar changes in collective bargaining earlier in his term.

But Shumlin told the panel he was able to negotiate concessions from state workers “without taking on the basic right of collective bargaining.” At the outset of the hearing, Shumlin handed Walker a jar of Vermont maple syrup, before declaring, “We get more with maple syrup than we do with vinegar.”

On the Web at: [http://oversight.house.gov/index.php?option=com\\_content&view=article&id=1243%3A4-13-11-qstate-and-municipal-debt-tough-choices-ahead&catid=12&Itemid=1](http://oversight.house.gov/index.php?option=com_content&view=article&id=1243%3A4-13-11-qstate-and-municipal-debt-tough-choices-ahead&catid=12&Itemid=1). 

## Former NY Pension Trustee Sent to Prison for Role in ‘Pay-to-Play’ Scandal

Alan Hevesi, former New York state comptroller who was the sole trustee of the state's \$141 billion pension fund, was sentenced in April to one to four years in prison for his role in the political influencing of investment business with the New York State Common Retirement Fund.

Hevesi, 71, pleaded guilty last October to a single charge of corruption for taking bribes. He was the highest-ranking state official involved in so-called “pay-to-play” practices at the giant pension fund. Hevesi admitted receiving about \$1 million in cash and other favors from businessmen seeking contracts with the New York Common Retirement Fund, including \$500,000 in campaign contributions for him and other candidates.

The crackdown in corruption linked to the state pension fund has resulted in guilty pleas from eight people, while more than 20 others, including financial firms, have agreed to pay a combined \$170 million in civil penalties, according to the Associated Press. Prosecutor Ellen Biben asked Supreme Court Justice Michael Obus to give Hevesi the maximum sentence of four years. Hevesi “fostered a culture of corruption that permeated the highest ranks of the comptroller's office,” Biben said.

Bradley Simon, Hevesi's lawyer, reminded the judge of Hevesi's record of public service, noting that he had helped bring New Yorkers safe drinking water and access to hospital care. Simon also highlighted Hevesi's health concerns, informing the judge that a prison sentence “could possibly be a death sentence.” In a pre-sentence statement, Hevesi, who was also once a state assemblyman, told the court that he destroyed his reputation, humiliated himself and “made my family suffer.” Obus acknowledged Hevesi's public service history but said he had violated the people's trust. Former Hevesi political adviser Henry “Hank” Morris is the only other person to be sentenced to prison in the wide-ranging case. He is serving 16 months to four years.

The probe has targeted a number of players in politics and finance, drawing guilty pleas from figures including the former head of New York's defunct Liberal Party and civil fines from people including former “car czar” Steven Rattner, the financier who helped lead the Obama administration's bailout and restructuring of Chrysler and General Motors.

In the wake of the investigation, current Comptroller Thomas DiNapoli made changes including eliminating the use of middlemen paid to help investment firms court pension fund business. 