November 22, 2016

The Financial Literacy Seminar Series Steering Committee
The George Washington University School of Business
2201 G Street NW, Duques Hall
Washington, DC 20052

Ladies and Gentlemen:

I am the Executive Director of the National Council on Teacher Retirement (NCTR), which serves 68 state, territorial, and local pension systems representing more than 19 million active and retired teachers, non-teaching personnel, and other public employees, with combined assets of over $2 trillion in their trust funds.

I am writing to express our extreme disappointment and concern with the intentions of the Financial Literacy Seminar Series to feature a presentation by Professor Joshua Rauh of the Stanford Graduate School of Business, entitled “Hidden Debt, Hidden Deficits: How Pension Promises are Consuming State and Local Budgets,” to be held on Thursday, December 1, 2016.

I understand that the Financial Literacy Seminar Series “brings together academics, practitioners, policymakers, and other experts” to discuss “cutting-edge research” on financial literacy. Your self-proclaimed goal is to “engage professionals from a wide range of backgrounds and perspectives to foster a medium for confronting key financial literacy issues and challenges.”

I fear that Professor Rauh’s presentation will fail to meet these commendable standards.

First, the seminar does not bring together experts in the field to discuss the important subject at hand, namely, the health of the nation’s public pension plans. Without the opportunity to hear competing views on such a controversial topic—indeed, one that Professor Rauh insists threatens to “consume” state and local budgets, no less—it can hardly be said that you are “confronting” the issue.

On the contrary, you are providing yet one more opportunity for Professor Rauh to repeat his numerous assertions, made over the last decade, that his recommended approach provides the “true” annual cost of public pensions, as he phrases it in his paper. The way he believes that
governmental pension liabilities should be measured is an oft-repeated opinion, not an existential truth. Many economists and academics may hold a viewpoint similar to his, but not all of them do so. You do a disservice to the complexity and nuances of a debate that has been vigorously waged for more than a decade now by simply offering, unchallenged, only Professor Rauh’s side of the argument.

Frankly, I also question the reliability of his calculations and conclusions. For example, Professor Rauh has previously claimed to have determined the dates when States will totally run out of pension assets and must start using general revenues to pay retiree pensions. Two of the states that he said would reach his so-called “exhaustion” point first, in 2017, are Louisiana and Oklahoma. Indeed, in a March 2010 post on the Kellogg Finance Department’s blog, entitled “The Day of Reckoning for State Pension Plans,” Professor Rauh insisted that Louisiana will have to move to a pay-as-you-go system, producing a “shock” to the revenue needs of the state, amounting to 28 percent of 2008 tax revenue.

However, as of June 30, 2016, the Teachers Retirement System of Louisiana and the Louisiana State Employees Retirement System had combined assets of $29.88 billion. As for Oklahoma, the Oklahoma Teachers Retirement System and the Oklahoma Public Employees Retirement System had a total of $22.2 billion in combined assets as of that same date.

Unless some unforeseen catastrophe occurs in the next several weeks, it would appear that Professor Rauh will be shown to have been completely wrong in his research, at least for these two states, and I am confident that, over the next several years, the other predicted “days of reckoning” will prove to be equally incorrect.

I would also note that this same faulty research unfortunately continues to be used to support Federal legislation affecting public pensions. Specifically, Professor Rauh’s projected “exhaustion” dates were used by Congressman Devin Nunes (R-CA) in his printed materials supporting his legislation, the “Public Employee Pension Transparency Act” (PEPTA), originally introduced in December of 2010. This legislation, which would require the restatement of public pension liabilities along the lines that Professor Rauh supports, has been introduced in every Congress since then by Congressman Nunes, and the Congressman’s website continues to provide Professor Rauh’s soon-to-be demonstrably incorrect projections as support for the need for his legislation.

Finally, I would point out that the Government Accountability Office (GAO)—an independent agency that provides Congress with audit, evaluation, and investigative services—said in a 2012 report that Professor Rauh’s exhaustion dates were based on assumptions that it found to be “unsupported.”

Hardly the kind of “cutting-edge research” that I would expect the Financial Literacy Seminar Series to advance—let alone, in doing so, to tacitly endorse.
I would, in conclusion, also point out that Professor Rauh claims in the paper he will be presenting that “assets in the pension systems will be insufficient to pay for the pensions of current public employees and retirees,” and that “[t]axpayer resources will eventually have to make up the difference.” More explicitly, he has been quoted in the press as explaining that these purported “hidden” debts and deficits will create “a hole that states will eventually have to fill with tax increases and spending cuts.”

Once again, however, this analysis is simply not supported by the facts. Professor Rauh completely ignores the reality that public pension reforms that have occurred in the years following the Great Recession have typically required public employees to pay more for the same or a lesser pension, and have even reduced Cost of Living Adjustments (COLAs) for current retirees in some cases. Indeed, according to recent research performed by the National Association of State Retirement Administrators (NASRA), “[o]ne overarching characteristic shared by most of the reforms is a shift from employers to employees of the risk associated with financing retirement benefits.”

For example:
- Employees in more than 40 plans in 36 states saw increases to their contribution rates, most of them being permanent or indefinite, and most of them applying to current members as well as new hires.
- Twenty-nine states increased retirement eligibility, affecting more than 40 plans, typically in the form of an increase in age, required years of employment, or a combination of both; these and other reforms of benefit structures could reduce the retirement benefit of new employees by between 1 and 20 percent, compared to pre-reform benefits, it has been estimated.
- Where changes to COLA benefits for retired members were made, they were challenged in court in most states where they were passed, and the cuts were upheld in most cases.

Will these proven alternatives to Professor Rauh’s claims of increased taxation and service cuts be presented at the seminar in order to provide the proper perspective?

As I stated earlier, NCTR is very disturbed with the selection of Professor Rauh’s paper as the sole focus of a Financial Literacy Seminar. I would think your attendees would greatly benefit from hearing divergent viewpoints. There are any number of experts in the field who could provide a balanced response, and I would be happy to provide you with specific names. I sincerely hope that you would consider expanding the seminar to include one of them.

Sincerely,

Meredith Williams
Executive Director