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To: All Clients

From: Klausner Kaufman Jensen & Levinson

Re: State Budget Crisis Task Force

Date: May 1, 2013

In 2011, Paul Volker (former Chairman of the Federal Reserve) and Richard Ravitch (former Lt. Governor of New York) formed the State Budget Crisis Task Force (hereinafter "Task Force") to draw national attention to the eroding financial condition of the states. In 2012, the Task Force issued its report, which put a spotlight on key drivers of fiscal stability, including pension costs.

Recently, the Task Force held a national dialogue at the Federal Reserve Bank of New York. Participants at the roundtable discussions included Federal Reserve officials, elected officials, trustees, actuaries, union representatives and lawyers. Adam Levinson from Klausner Kaufman Jensen & Levinson was invited to discuss pending litigation and legal protections. Other invitees and speakers included Thomas Di Napoli, New York Comptroller; Alicia Munnell, Director of the Center for Retirement Research at Boston College; Robert North, New York City's Chief Actuary; Robert Attmore, Chairman, Government Accounting Standards Board; Josh Gotbaum, Director and CEO, Pension Benefit Guarantee Corporation; Jerome Stermer, Director, Illinois Office of Management and Budget.

In his remarks, Mr. Levinson discussed the following:

- public plans are designed to cope with market volatility and were generally well funded in 2000, prior to the Great Recession;
- well publicized problems are not systemic in nature;

10059 NORTHWEST 1ST COURT, PLANTATION, FLORIDA 33324

PHONE: (954) 916-1202 • FAX: (954) 916-1232
www.robertdklausner.com

- on the whole, state and local systems have weathered the financial crisis, as they have other dislocations in the past;
- public pensions benefit the economy and are a source of economic stimulus, acting as an economic stabilizer during difficult financial times;
- while public pensions are flexible laboratories of change, it is important to be mindful of constitutional and other legal protections for accrued benefits;
- all things being equal "good actors" automatically make actuarially determined contributions into their plans, have dedicated revenue streams that are used for pension funding, and have embedded this funding discipline into their state constitution and/or state statutes;
- by way of example, Chapter 112, Florida Statutes, contains useful requirements that would prevent another Prichard, Alabama. For all municipal/local pension plans, the public employer in Florida is required to fund on an actuarially sound basis (pay the ARC every year; can't exceed 30 year amortization; review by state actuary every three years; actuarial impact statements required for all amendments; 80 – 120 corridor on smoothing; detailed actuarial reporting in annual valuations; no contribution holidays ever).

We anticipate that the Task Force will prepare a white paper containing non-binding pension recommendations. In particular, we expect that the Task Force will focus on "greater transparency about liabilities and risks" and will seek to improve "fiscal discipline in making pension contributions." We welcome your thoughts on these topics, which we are happy to share with the Task Force and Federal Reserve researchers.