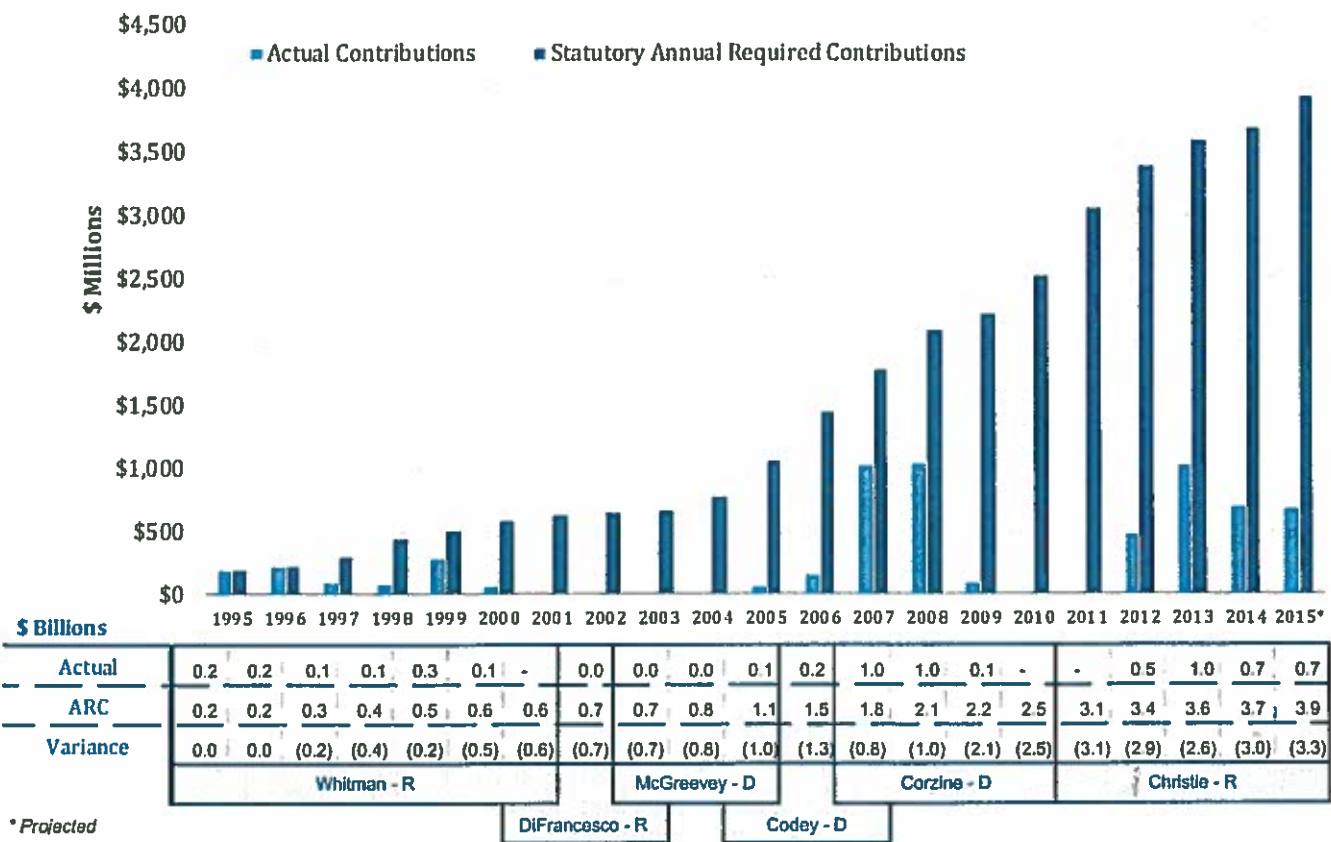


DEATH SPIRAL

A September, 2014 Bloomberg Business report told of U.S. Public Pensions such as Illinois, Kansas and New Jersey were in a “Death Spiral” with assets insufficient to cover benefits payouts while consuming a growing proportion of resources. The cost of liabilities are rising twice as fast as the investment gains plus the employee/employers’ contributions. Shortly after the Bloomberg Business Report, Governors Christie’s Pension Study Commission prepared a Report “Truth or Consequences” dated September 25, 2014. On Page 7 they showed the following table which delineates the difference between the actual contributions made by the State Government compared to the statutory Annual Required Contribution (ARC).

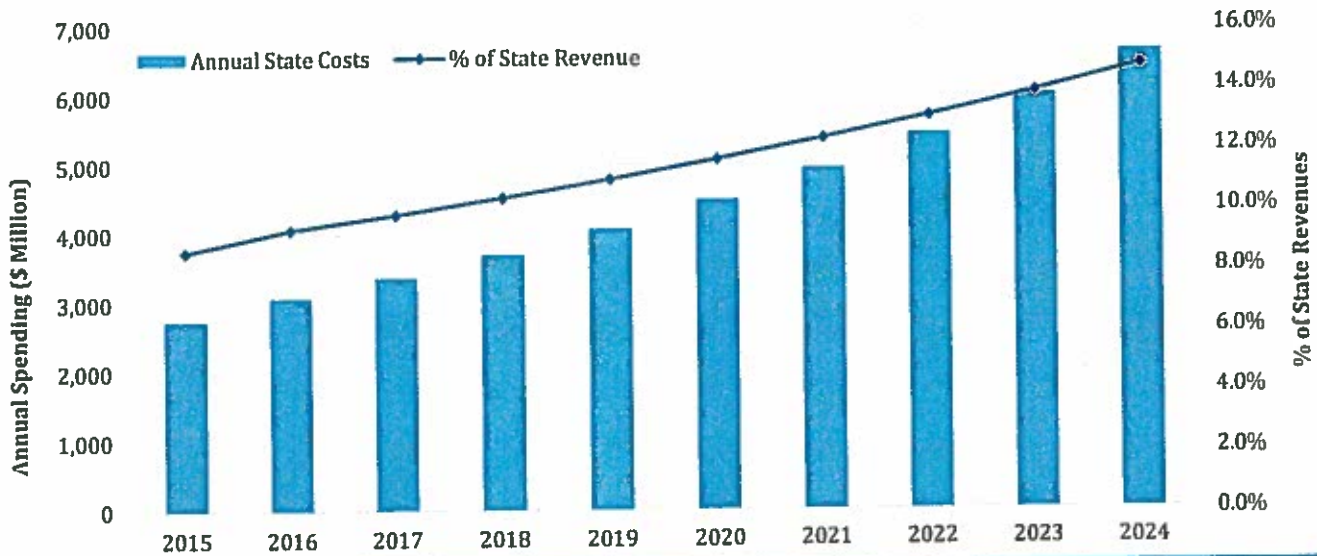
Actual Pension Contributions Relative to Statutory Annual Required Contributions (in Millions)¹²



* Projected

They go on to report Health Benefit costs are increasing in absolute terms at an astounding rate. In 2015 they indicated the cost of health benefits funded by the State which was \$2.8 Billion Dollars represented 6% of the States revenues. The report continued to project through 2024 at which time the projected growth in the cost of State Health Benefits would require 14% of the State's Budget.

Projected Plan Costs for State-Paid Groups, FY2015 through FY2024¹⁸



Without changes, health care costs are projected to consume over 14% of the State's budget by 2024.

The combination of the unfunded accrued liabilities from the Pension System and the projected increase in the pay as you go health benefits systems would demand such a large amount from the State Budget that funding of the two categories would be impossible (Death Spiral).

Quickly move forward; the Pension Benefit Health Study Commission released February, 2015 what they called "A Road Map to Resolution". The approach they suggested was to freeze the existing Defined Benefit (DB) pension systems offered by the State of which there are six. All would be "frozen" meaning no additional benefits would accrue after December 31, 2015. By "freezing" all future salary which could be credited to the DB Systems may save the State 20% or 25% of future unfunded liabilities. One would think such is a significant number, but when compared to the actual total unfunded accrued liabilities for the Pension System the action pales leaving the State with an insurmountable problem.

I have written many articles suggesting the State will at some point want to take the assets which are accounted to the local PERS and local PFRS, which systems are funded at roughly 73% and blend local assets with the States deficit in order to help slow the "Death Spiral" confronting the State. The "Road Map" further goes on to suggest a reduction in the quality of health benefits provided for both active and retired employees' is necessary coupled with an increase in responsibly for employees to fund a greater portion of the benefit. The members of the Committee were given a very difficult task and the report suggest these measures are the only "fair method" to resolve the State problem. During the past two decades the Governors and Elected Legislators have permitted the Unfunded Accrued Liabilities (UAL) to develop by not funding their statutory ARC as developed by the Actuaries. It is most interesting for us all to realize the State mandated Local Governments, Counties, Authorities and Special Districts pay 100% of their statutory ARC while the State was at times paying 0% or very little. Along with lapse in payment the State implemented gimmicks such as resetting the assets (mark to market) thereby artificially increasing the assets and lowering the employers ARC. These steps along with other maneuvers permitted the system to progress to the point we have arrived at today, where we are confronted with such an enormous liability which requires drastic actions to be taken as suggested by the "Road Map".

As Tax Collectors and Treasurers, you know the end result of Sifting Local Assets to solve the State's funding problem is nothing more than an increase in the property tax which you are obligated to collect once levied. Local Governments, Counties, Authorities and Special Districts have honored their commitment and have developed assets that would permit reasonable funding for their DB employee pensions. Balanced against local action is the State which has not properly funded their obligations. Commitments to non-local Government employees it seems cannot be honored without blending the local assets to the State liabilities as a means to meet their ongoing obligations.

The Commission further recommends that a constitutional question be placed on the November Ballot which means the legislature must formulate the question by August 3 or before to meet the appropriate time lines. Currently, vested public employees have what is called "Non-Forfeitable Right" to receive pension benefits that have been provided by the current law. The Legislature can only take benefits away prospectively, however, they cannot retrospectively change what they have committed. Prospectively ending the Retirement System does not solve the problem, as eluded to in the first paragraph.

It should be clear and understood Public employees have not caused the current problem. Local government officials have paid the ARC. Investment returns have been above average for three of the past four years. However, public employees are being asked to share a major responsibility to correct the situation. The situation in which we find ourselves did not occur by accident. It was a methodical effort by various elected officials to defer decision making to a point which has developed today. The Pension and Benefit Commission has performed a significant task and presented a possible set of solutions. It is of the utmost importance that every Tax Collector and Treasurer become involved in the process by understanding the proposals, reviewing the concepts and making your voice heard both at your local level and to the State Representatives. Accumulating liabilities is a genuine threat.