



# THE Plot AGAINST Pensions

**The Pew-Arnold campaign  
to undermine America's  
retirement security – and  
leave taxpayers with the bill**

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# Executive Summary

This report evaluates both the general state of the national debate over pensions and the specific effects of the partnership between the Pew Charitable Trusts' Public Sector Retirement Systems Project and the Laura and John Arnold Foundation. The following is a summary of the report's findings:

**Finding: Conservative activists are manufacturing the perception of a public pension crisis in order to both slash modest retiree benefits and preserve expensive corporate subsidies and tax breaks.**

- States and cities have for years been failing to fully fund their annual pension obligations. They have used funds that were supposed to go to pensions to instead finance expensive tax cuts and corporate subsidies. That has helped create a real but manageable pension shortfall. Yet, instead of citing such a shortfall as reason to end expensive tax cuts and subsidies, conservative activists and lawmakers are citing it as a reason to slash retiree benefits.

**Finding: The amount states and cities spend on corporate subsidies and so-called tax expenditures is far more than the pension shortfalls they face. Yet, conservative activists and lawmakers are citing the pension shortfalls and not the subsidies as the cause of budget squeezes. They are then claiming that cutting retiree benefits is the solution rather than simply rolling back the more expensive tax breaks and subsidies.**

## SHORTFALL IN PERSPECTIVE

*Public pensions face a 30-year shortfall of \$1.38 trillion, or \$46 billion on an annual basis. This is dwarfed by the \$80 billion a year states and cities spend on corporate subsidies.*

- According to Pew, public pensions face a 30-year shortfall of \$1.38 trillion, or \$46 billion on an annual basis. This is dwarfed by the \$80 billion a year states and cities spend on corporate subsidies. Yet, conservatives cite the pension shortfall not as reason to reduce the corporate subsidies and raise public revenue, but instead as proof that retiree benefits need to be cut.

**Finding: The pension "reforms" being pushed by conservative activists would slash retirement income for many pensioners who are not part of the Social Security system. Additionally, the specific reforms they are pushing are often more expensive and risky for taxpayers than existing pension plans.**

- Whether "cash balance" schemes or 401(k)-style defined contribution plans, many of the pension "reforms" being championed by conservative activists risk incurring more costs and increasing risks for taxpayers.

**Finding: The Pew Charitable Trusts and the Laura and John Arnold Foundation are working together in states across the country to focus the debate over pensions primarily on slashing retiree benefits rather**

**than on raising public revenues.**

- Pew's Public Sector Retirement Systems Project and the Laura and John Arnold Foundation are working in tandem on public pension policy to manufacture the perception of crisis and press for cuts to guaranteed retirement income. This campaign has played an integral role in states passing legislation that cuts guaranteed retirement income – all while those states preserve more expensive corporate subsidies.

**Finding: The Laura and John Arnold Foundation is run by conservative political operatives and funded by an Enron billionaire.**

- John Arnold is an Enron billionaire whose only major experience with pension management was his role in a company that decimated public pension funds. Well-known conservative political operatives and consultants run his foundation.

**Finding: The techniques used by conservative activists to gain public support to privatize the public pensions that public workers have instead of Social Security are, if successful, likely to be used in efforts to privatize Social Security in the future.**

- The current campaign to slash public pension benefits has relied on many of the same public relations strategies as President Bush's earlier campaign to privatize Social Security. In that sense, the campaign against public pensions is an exercise in perfecting methods that manufacture the perception of a crisis – and then result in cuts to guaranteed retirement income. If the state-based crusade against public pensions is successful, it will probably fuel a renewed effort to privatize Social Security.

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This report is broken into three sections, each of which build on one another to tell the story of the assault on public pensions. This story exemplifies how Americans' retirement security is now being undermined by an unholy alliance between public foundations and private billionaires.

## **Part I: Manufacturing the Perception of a Crisis**

- A review of the manufactured "crisis" around public pensions and how the problems facing public pensions can be easily fixed with modest proposals that do not slash retirement benefits.
- A look at how, despite the fact that public pensions are not in crisis, conservative ideologues and business interests are nonetheless championing radical proposals to slash those pensions. In the process, they suppress a discussion about reducing the rampant corporate welfare that is draining revenues from public coffers.

## **Part II: The Roots of a Powerful Partnership**

- A look at how Pew's recent jump into pension advocacy is moving the foundation away from its modern moderate brand and back toward its historical roots in conservative economic causes.
- An examination of John Arnold's ideological background, his ties to Republican leaders and operatives, his worldview of public pension policy, and his recent jump into state-based conservative politics.

## **Part III: The Pew-Arnold Assault**

- A detailing of Pew and Arnold's overlapping pension work in 2011-12 in California, Florida, Rhode Island and Kansas.
- A look at Pew and Arnold's formal partnership pushing retirement benefit cuts between 2012-2013 in Arizona, Kentucky and Montana.
- An analysis of how the Pew-Arnold partnership will expand into more states in the next legislative sessions.

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# Introduction

In May of 2013, the Pew Charitable Trusts released a report that sounded a frightening alarm. Entitled “Retirement Security Across Generations” and widely cited throughout the national media, the study found that a lack of retirement savings, less guaranteed pension income and the economic downturn have collectively exposed the next generation of Americans “to the real possibility of downward mobility in retirement.”<sup>1</sup>

Summing up the study’s implicit push to stabilize Americans’ retirement future, a Pew official declared that lawmakers must focus on creating policies that help workers “make up for these losses and prepare for the future.”

Pew’s analysis, though eye-opening, was not particularly controversial. Writing in the *Wall Street Journal*, conservative Martin Morse Wooster acknowledges that the Pew Trusts are “treated as benign truth-tellers, so high-minded as to be beyond politics”<sup>2</sup> – and the call to shore up Americans’ retirement security, indeed, upheld the organization’s promise to “generate objective data.”<sup>3</sup> Based on indisputable evidence, it proved that the country’s move away from guaranteed pension income – and states’ willingness to raid worker pension plans to finance massive corporate subsidies – will have disastrous consequences.

What was surprising was the fact that at the same time one branch of Pew was rightly sounding this moderate non-ideological alarm to shore up retirement security, and Pew’s Economic Development Tax Incentives Project was warning of states’ wasteful tax subsidies,<sup>4</sup> a more political branch of the organization was working in tandem with controversial Enron billionaire John Arnold to begin championing an ideologically driven plan to make the retirement problem far worse.

This Pew-Arnold partnership began informally in 2011 and 2012 when both organizations marshaled resources to try to set the stage for retirement benefit cuts in California, Florida, Rhode Island and Kansas. With legislative success in three of those four states, Pew and Arnold created a formal partnership in late 2012 that targeted another three states, Arizona, Kentucky and Montana. This formal partnership continues today, with the organizations issuing joint reports and conducting joint legislative briefings advocating cuts to guaranteed retirement income. It is widely expected that this partnership will continue working in these same states and potentially expand operations into Colorado, Pennsylvania, Oklahoma and Nevada.

## Should an Enron Executive Be Dictating Public Pension Policy?

In the lead-up to his anti-pension partnership with Pew, Arnold’s most relevant connection to pensions and retirement security came from working at Enron – a company whose collapse destroyed its own workers’ pensions and helped to damage the financial stability of public pension funds across America. Indeed, as *The New York Times* reported, “The rapid decline of the Enron Corporation devastated its employees’ retirement plan.”<sup>5</sup> Meanwhile, in a separate story, the newspaper noted that “across the United States,

pension funds for union members, teachers, government employees and other workers have lost more than \$1.5 billion because of the sharp decline in their Enron holdings.”<sup>6</sup>

In light of Arnold’s corporate pedigree, it’s no surprise that, rather than “laying the foundation for effective government solutions,” as Pew’s mission promises, the Pew-Arnold partnership has been a campaign to reduce guaranteed retirement income for pensioners. As *Marketwatch* reported in 2013, Pew and Arnold are “advocat(ing) for cash balance plans.”<sup>7</sup> They are advocating for 401(k)-style defined contribution plans as well.<sup>8</sup>

Like President George W. Bush’s proposal to radically alter Social Security, many of these plans would transform stable public pension funds into individualized accounts. They also most often reduce millions of Americans’ guaranteed retirement benefits. In many cases, they would also increase expenses for taxpayers and enrich Wall Street hedge fund managers.<sup>9</sup>

### **A Pension-Cutting Movement That Ignores Data**

These pension-slashing initiatives are part of a larger movement that aims to reduce or eliminate guaranteed retirement income for public workers. Leading this movement under the euphemistic guise of “reform,” Pew’s Public Sector Retirement Systems Project and the Arnold Foundation are trying to distract attention from what McClatchy Newspapers documented:

namely, that “there’s simply no evidence that state pensions are the current burden to public finances that their critics claim.”<sup>10</sup>

#### **ECONOMIC REALITY CHECK**

*“There’s simply no evidence that state pensions are the current burden to public finances that their critics claim.”*

— McClatchy Newspapers

Rather than acknowledge that truth, Pew and Arnold have successfully manufactured the perception of crisis – which has prompted demands for dramatic action. Pew and Arnold have consequently helped shape those general demands into specific efforts to cut guaranteed retirement income – all while downplaying (or altogether omitting) any discussion of the possibility of raising revenue through, for

instance, ending taxpayer-funded corporate subsidies and so-called “tax expenditures.” This deceptive message persists, even though these annual subsidies are typically far larger than the annual pension shortfalls. Indeed, to advocate cuts in retirement benefits, Pew and Arnold cite a 30-year, \$1.38 trillion pension gap – a \$46 billion annual shortfall.<sup>11</sup> Yet, they rarely ever mention that, as *The New York Times* reports, “states, counties and cities are giving up more than \$80 billion each year to companies” in the form of subsidies and tax expenditures.<sup>12</sup>

Such an insidiously selective message is eerily reminiscent of Margaret Thatcher’s infamous “There Is No Alternative” framing. It suggests that harming millions of middle-class workers is the only way forward – and that states shouldn’t dare consider raising pension-fund revenue by eliminating corporate subsidies. Thanks to Pew, Arnold and other groups, this has now become the dominant argument even though the amount state and local

governments now spend on such wasteful handouts is far greater than the pension shortfalls.

Perhaps the most famous illustration of the pervasiveness of this deceptive argument comes from Detroit, Michigan. When the city recently declared bankruptcy, much of the media and political narrative around the fiasco simply assumed that public pension liabilities are the problem. Few noted that both Detroit and the state of Michigan have for years been spending hundreds of millions of dollars on wasteful corporate subsidies.<sup>13</sup> Worse, the very same political leaders pleading poverty to demand cuts to municipal pensions were simultaneously promising to spend more than a quarter-billion taxpayer dollars on a professional hockey arena.<sup>14</sup>

But as outrageous as the blame-the-pensioners mythology from Detroit is, it is the same misleading mythology that is now driving public policy in states across America. In Rhode Island, the state government slashed guaranteed pension benefits while handing \$75 million to a retired professional baseball player for his failed video game scheme.<sup>15</sup> In Kentucky, the state government slashed pension benefits while continuing to spend \$1.4 billion on tax expenditures. In Kansas, the state government slashed guaranteed pension benefits despite being lambasted by a watchdog group for its penchant for spending huge money on corporate welfare “megadeals.”

In each of these states and many others now debating pension “reform,” Pew and Arnold have colluded to shape a narrative that suggests cutting public pension benefits is the only viable path forward. This, despite the fact that A) cutting wasteful corporate welfare could raise enough revenues to prevent such cuts; B) the pension “reform” proposals from Pew and Arnold could end up costing more than simply shoring up the existing system; and C) pension expenditures are typically more reliable methods of economic stimulus than corporate welfare.<sup>16</sup>

Those inconvenient facts have been ignored in the political debate over pensions. Thanks to the combination of Pew’s well-known brand and Arnold’s vast resources, the pension-slashing movement’s extremist message has been able to dominate the political discourse in states throughout America.

The result is a skewed national conversation about state budgets – one in which middle-class public sector workers are increasingly asked to assume all the financial sacrifice for balancing the government books, and corporations and the wealthy are exempted from any sacrifice whatsoever.

### **A Microcosmic Story for the *Citizens United* Age**

This is the story not merely of two nonprofits nor merely of one set of economic issues – it is a microcosmic tale of how in the *Citizens United*

#### **BUYING PENSION POLICY**

*“From Blackstone Group co-founder Peter Peterson to New York City Mayor Michael Bloomberg, some of the wealthiest Americans are beginning to pay increasing attention to this issue...(Pensioners) have to get used to billionaires brandishing checkbooks.”*

— *Institutional Investor*

age, politically motivated billionaires can quietly implement an ideological agenda in local communities across the country.

Operating in state legislatures far away from the national media spotlight, these billionaires can launder their ideological agenda through seemingly nonpartisan foundations, with devastating legislative consequences for millions of taxpayers and families. And as the battle over America's retirement proves, it isn't just the infamous Koch Brothers at work anymore.

In this particularly important fight over pensions, Arnold is leveraging his Enron fortune and his ties to top Republican activists to forge a powerful partnership with Pew. Having already spent at least \$10 million on his crusade to cut retirement benefits, Arnold's partnership with Pew is now driving and distorting the legislative debate over public pensions in at least seven states – and has helped enact huge cuts to retirement benefits in many of them.<sup>17</sup>

With other billionaires now reportedly following Arnold's lead and investing in the campaign to cut public workers' retirement benefits, the Pew-Arnold plot is poised to expand into every state in America. Indeed, as Institutional Investor reports, "From Blackstone Group co-founder Peter Peterson to New York City Mayor Michael Bloomberg, some of the wealthiest Americans are beginning to pay increasing attention to this issue," meaning that pensioners will "have to get used to billionaires brandishing checkbooks" in their political crusade to cut retiree benefits.<sup>18</sup>

### **The Corporate Bait-and-Switch**

The goals of the plot against pensions are both straightforward and deceptive. On the surface, the primary objective is to convert traditional defined-benefit pension funds that guarantee retirement income into riskier, costlier schemes that reduce benefits and income guarantees, and subject taxpayers and millions of workers' retirement funds to Enron's casino-style economics.

At the same time, waging a high-profile fight for such an objective also simultaneously helps achieve the conservative movement's larger goal of protecting profligate corporate subsidies.

The bait-and-switch at work is simple: The plot forwards the illusion that state budget problems are driven by pension benefits rather than by the far more expensive and wasteful corporate subsidies that states have been doling out for years. That ends up 1) focusing state budget debates on benefit-slashing proposals and therefore 2) downplaying proposals that would raise revenue to shore up existing retirement systems. The result is that the Pew-Arnold initiative at once helps the right's ideological crusade against traditional pensions and helps billionaires and the business lobby preserve corporations' huge state tax subsidies.

In bequeathing its brand to an Enron billionaire and embracing this campaign, Pew is being steered back toward its ultraconservative roots. In the process, the retirement security of millions of Americans is being jeopardized.

# Part I Manufacturing a Crisis

To appreciate just how radical the push to slash guaranteed public pension benefits really is, one must first appreciate that 1) the “crisis” language around pensions is, unto itself, fraudulent and 2) what pension financing problems do exist can be fixed without risky and radical schemes.

A brief review of the data shows that the “crisis” language is being employed to create a misleading portrait. As a recent Center for American Progress report notes, it is an illusion that pretends “a short-term shortfall caused by a large recession requires moving to a more expensive system that will cost (taxpayers) more in the long run.”<sup>19</sup> That illusion aims to hide what McClatchy Newspapers documented when it declared that “there’s simply no evidence that state pensions are the current burden to public finances that their critics claim.”<sup>20</sup> It also aims to mainstream the economically and ideologically extreme.

## A Redux of Bush’s Social Security Scheme

Just as conservative ideologues during the Bush era employed “crisis” language to try to convince America that Social Security is going “bankrupt” and therefore requires extreme benefit cuts and privatization, so too have they employed the same language to pretend current public pension shortfalls are an emergency requiring similar reductions. In Social Security’s case, government data prove that the overall system is solvent and that the modest challenges the system faces can be easily addressed with policies that avoid radical cuts.<sup>21</sup> The same is true for public pensions.

According to Pew’s estimates, “The gap between states’ assets and their obligations for public sector (pension promises) is \$1.38 trillion.”<sup>22</sup> As the Center for Economic and Policy Research (CEPR) says, “It is important to note that this estimate is over a 30-year period, the normal planning period for public pensions.”<sup>23</sup> It is also important to note that this shortfall is not the result of unsustainable increases in retirement benefits.

As CEPR’s data analyses show, up until 2007, pension funds with the same benefits were running surpluses. That, of course, changed in recent years. Today there is certainly a gap between pension liabilities and pension funds. But the gap exists for two reasons that have been largely ignored in the ideological push to cut guaranteed retirement income: 1) \$77 billion of the new gap was created by lawmakers recently raiding retirees’

## THE PENSION GAP IN PERSPECTIVE

### COMPARED TO STATE ECONOMIES:

*The total pension shortfall “is less than 0.2 percent of projected gross state product over the next 30 years.”*

– Center for Economic and Policy Research

### COMPARED TO STATE BUDGETS:

*Pension costs “account for only 3.8 percent of state and local spending.”*

– Boston College

### COMPARED TO CORPORATE WELFARE:

*The \$1.38 trillion state pension gap is roughly \$46 billion a year over 30 years. That is far less than the \$120 billion a year in public revenues that states and localities lose to offshore tax loopholes and corporate subsidies.*

– The New York Times & U.S. PIRG study

pension monies to finance other public programs, and 2) most of the rest of the gap was created by the stock market plunge that came with the 2008 financial collapse.<sup>24</sup>

Of course, regardless of the cause, a \$1.38 trillion shortfall can sound to casual onlookers like a crisis. But it is a comparatively modest problem over the long haul. That's because, as the CEPR report points out, in most states the shortfall "is less than 0.2 percent of projected gross state product over the next 30 years" and "even in the cases of the states with the largest shortfalls, the gap is less than 0.5 percent of projected state product."<sup>25</sup>

Budget-wise, Boston College's Center for Retirement Research notes that pension contributions are not budget busters; on the contrary, they "account for only 3.8 percent of state and local spending."<sup>26</sup>

To put those numbers into perspective, remember that the 30-year \$1.38 trillion pension shortfall is just \$46 billion a year – and "just" is the operative word in comparison to the amount of public revenues states currently give away in the form of corporate subsidies, wasteful tax expenditures and tax loopholes.

A 2013 study by the U.S. Public Interest Research Group found that states lose roughly \$40 billion a year thanks to loopholes that let corporations engage in offshore tax avoidance.<sup>27</sup> Additionally, a *New York Times* analysis recently found that "states, counties and cities are giving up more than \$80 billion each year to companies."<sup>28</sup> Over 30 years, that combined \$120 billion a year is \$3.6 trillion in lost revenue – or almost three times the size of America's combined public pension gap.

## **The Retirement Bait-and-Switch**

The aforementioned data is why, as the National Association of State Retirement Administrators says, "The idea of imminent (public pension) insolvency is a gross distortion." It is also why the head of the Milken Institute's Center for Emerging Domestic Markets concludes that the manageable pension problem "in this moment is revenue" – not allegedly unaffordable retirement benefits. And it is why the attempt to create the perception of a "crisis" as a means to slash guaranteed retirement income – rather than raise public revenue – is so deceptive.

In repeatedly refusing to devote the money needed to fulfill states' negotiated obligations to public pension funds, lawmakers for years have effectively raided their workers' retirement benefits to finance subsidies to already wealthy corporations – many of which are undoubtedly those lawmakers' major campaign donors.

When the housing crisis hit, the stock market's subsequent crash should have prompted legislators to slash corporate subsidies, close tax loopholes and return more of the raided money to pensioners.<sup>29</sup> After all, as *The Washington Post's* Ezra Klein points out, "Republicans and some Democrats and business interests passed (the) massive unfunded tax cuts that turned pension programs into ticking time bombs."<sup>30</sup> Those tax cuts could have just

as easily been repealed when the stock market dropped.

Instead, though, those business interests that want their subsidies and tax breaks preserved have convinced politicians to blame public workers' alleged greed and cite the pension shortfalls as reason to radically change the pension system for the long haul.

## **Prioritizing Risky, More Expensive Schemes Over Pragmatic Solutions**

That gets to the second point about solutions: with states currently giving away so much cash in the form of corporate handouts, the most pragmatic way to deal with manageable pension shortfalls is to simply give away a little less. By limiting tax loopholes and slightly reducing corporate welfare, states would have more than enough resources to make public pension systems whole again.

States could, for example, close the tax loopholes that allow 68 Fortune 500 companies to pay no state corporate income tax in at least one year between 2008 and 2010.<sup>31</sup> Similarly, they could follow the lead of states like Oregon, Alaska and West Virginia, which have recently moved to close loopholes that let corporations exploit offshore tax havens and avoid contributing to the public coffers.<sup>32</sup>

Under such proposals, revenues can be reclaimed from corporate welfare programs that have no proven record of creating jobs. It can then be invested in public pension funds, which data prove boost economies by putting money in the hands of those middle-class retirees who will spend it locally – and quickly.<sup>33</sup> Indeed, as the National Institute on Retirement Security reports, when it comes to traditional defined benefit retirement plans, “For each dollar paid out in pension benefits, \$2.37 in total economic output” is generated and “for every dollar contributed by taxpayers to state and local pension funds, \$8.72 in total output” was supported.<sup>34</sup>

In contrast to such a pragmatic path forward, proposals being championed by conservative ideologues and business interests look all the more extreme. These initiatives typically propose to cut pension benefits, convert traditional pensions to 401(k)-style defined contribution plans<sup>35</sup> and/or replace traditional pensions with so-

### **PENSIONS: JOB-CREATING ECONOMIC STIMULUS**

*Taxpayer subsidies to corporations are typically portrayed as job creating necessities, while public pensions are usually depicted as job-killing drains on state economies. But it is exactly the opposite – often times, corporate welfare does not produce promised economic benefits, while expenditures on defined-benefit pension plans typically create jobs and boost economies. Here’s what the National Institute on Retirement Security reported in 2012:*

#### **BENEFITS AS STIMULUS:**

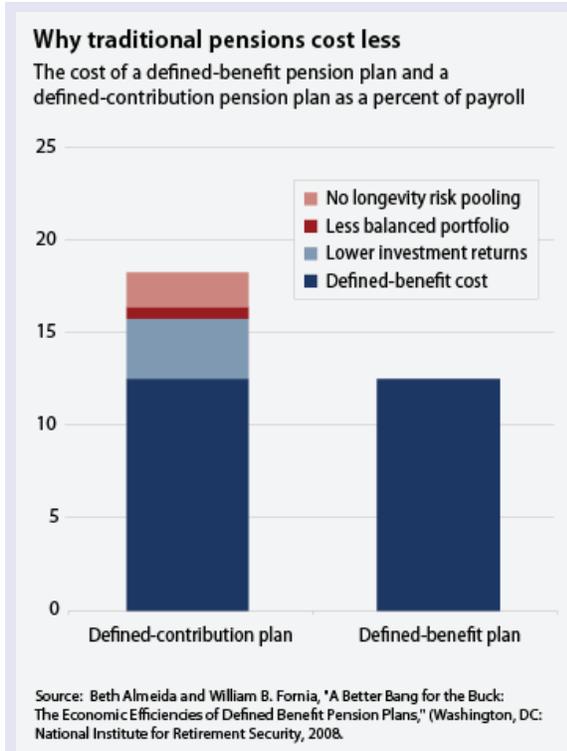
*“For each dollar paid out in pension benefits, \$2.37 in total economic output was supported.”*

#### **CONTRIBUTIONS AS STIMULUS:**

*“For every taxpayer dollar contributed to state and local pensions, \$8.72 in total output was supported nationally.”*

#### **PENSIONS AS JOB CREATORS:**

*“Pension expenditures support 6.5 million jobs...represent(ing) a full 4.2 percentage points of the national labor force.”*



*The National Institute on Retirement Security notes that "to deliver the same level of retirement benefits, a defined-benefit plan can do the job at almost half the cost of a defined contribution plan."*

called "cash balance" schemes.

The latter schemes are often the most deceptive because they are still labeled as traditional defined benefit plans. However, they replace current systems that pool risk and guarantee retirement income with ones whose benefits are based on the cash balance of an employee's individual account. As Pew notes, "The state retirement agency manages the investments and guarantees a minimum annual rate of return" – but not guaranteed retirement *income*.

There are three fundamental problems with moving to either 401(k)-style defined contribution plans or cash balance schemes:

**They add volatility rather than reduce it.** For many current workers, such plans would mean cuts to guaranteed pension income.<sup>36</sup> For many public employees, a lack of guaranteed retirement income is particularly problematic because many of them as public employees are not eligible for Social Security's defined benefits and would therefore have no consistent retirement income whatsoever.

**They threaten to cost taxpayers more.** The possibility of benefit reductions open up states to expensive lawsuits asking courts to uphold contracts preventing such cuts. Additionally, converting traditional defined-benefit pension plans to 401(k)-style defined-contribution plans can end up raising costs for taxpayers because the latter are often less cost effective and more

expensive.<sup>37</sup> As the National Institute on Retirement Security documents, because traditional pension plans better pool and manage risk, they typically "offer the same retirement benefit at close to half the cost of a (defined contribution) retirement savings plan."<sup>38</sup>

**They threaten to drive employees into poverty.** Reuters' Mark Miller points out that because they eliminate the guarantee of minimum retirement income, "there's a real risk that pension reforms could push public sector retirees into poverty." This is particularly true because many public employees do not participate in the Social Security system, so they have no guaranteed retirement income security. The result would create the likelihood of additional taxpayer costs for public assistance.<sup>39</sup>

Evidence from states confirms these problems. For example:

**Kentucky:** An independent actuarial analysis of the state's new cash balance plan found that it "would make paying Kentucky's unfunded pension liability

harder by adding approximately \$55 million in state costs over the next 20 years.<sup>40</sup>

**Louisiana:** *The Baton Rouge Advocate* reports that government actuaries believe the state's new cash balance system "could expose the state to additional costs." That confirms a report by actuaries for the Louisiana legislature that found that the new system's potential cuts to benefits will mean a typical retiree "may very well become a ward of the state because he or she has no other available resources" – a ward of the state that costs taxpayers even more money.<sup>41</sup>

**Maryland:** *Stateline* reports that "a commission studying Maryland's public pension system found that (under a cash balance pension system) a state worker earning \$40,000 a year and saving the maximum allowed would run out of money 13 years after retiring," potentially throwing them into poverty.<sup>42</sup>

**Minnesota:** When faced with the prospect of changing the state's existing pension plan into a 401(k)-style defined contribution program, actuaries contracted by the legislature found that such a move would cost taxpayers almost \$3 billion in additional expenses – a finding that the report noted was "consistent with similar studies...in other states such as Nevada, Kansas, Rhode Island, New Mexico, and Missouri."<sup>43</sup>

**Nebraska:** *Stateline* notes that "officials cannot point to a dollar amount they have saved since (the state's) cash balance plan went into effect eight years ago" and a separate American Enterprise Institute analysis found that the system was hiding large financial liabilities it originally aimed to fix.<sup>44</sup>

**Rhode Island:** Reviewing the state's new hybrid plan that involves a 401(k)-style defined contribution program, *Forbes'* Ted Siedle found that the system is "unprecedented in public pension history" in that it is "just a blatant Wall Street gorging" that "will inevitably dramatically increase both risk and fees paid to alternative investment managers, such as hedge funds and private equity firms." Siedle noted that the cut to retirees' cost-of-living adjustments ended up "going into the already-stuffed pockets of Wall Street's most highly-compensated gamblers—almost dollar-for-dollar," with \$2.3 billion in cost-of-living-adjustment savings going to finance \$2.1 billion in fees...paid by the pension to hedge, private equity and venture capital tycoons.<sup>45</sup> The Economic Policy Institute followed up with a report showing the program "actually increases costs to state and local governments and taxpayers while making retirement incomes less secure."<sup>46</sup> Meanwhile, as *Governing* reports, the plan ended up "cut(ing) retirement benefits for all state workers, including retirees."<sup>47</sup>

## Part II A Powerful Partnership

For all the reasons laid out in Part I, the effort to reduce guaranteed income for retirees and protect corporate-friendly tax and subsidy policies has been a longtime pet project of the business lobby, the finance industry and the extreme right. Indeed, from famed conservative activist Grover Norquist to former Republican U.S. House Speaker Newt Gingrich to the conservative American Enterprise Institute, the effort to dismantle public pensions has become a cause célèbre on the American Right.<sup>48</sup>

### PEW'S CONNECTION TO THE RIGHT

#### J. HOWARD PEW

*"An old-time Republican Party boss who despised government regulation and whose oil refinery in Marcus Hook, Pa., emitted noxious fumes that made the town's air almost uninhabitable."*

— *The Boston Globe*

#### SEEDING CONSERVATIVE THINK TANKS

*In the mid-20th century, Pew "support(ed) emerging conservative think tanks, such as the Hoover Institution and the American Enterprise Institute."*

— *The Philadelphia Inquirer*

#### TIES TO TODAY'S CONSERVATIVES

*Pew's governing board includes a scholar from the conservative American Enterprise Institute, and Pew employs other scholars from the same think tank.*

But even with that corporate-financed coalition's huge lobbying and campaign contribution advantage over retirees, it has had difficulty convincing legislators and the public at large to support converting traditional public pension funds into riskier schemes that potentially incur more taxpayer costs. That's because, up until recently, lawmakers and voters saw such radical initiatives for what they were: extreme ideological proposals designed to protect already-wealthy special interests and break pension promises to retirees.

That is why Pew's Public Sector Retirement Systems Project is so important to the larger story of retirement security in America. By adding its modern-day centrist brand to the Right's crusade against retirement funds, it is playing a pivotal role in laundering an extreme agenda and shrouding dangerous ideology in the veneer of pragmatism. Its involvement in such an ideological crusade is both a return to its historical roots and a new partnership with one of America's billionaire political activists.

#### A Move Back to Pew's Conservative Roots

While Pew is today known as apolitical and nonpartisan on many issues, it is hardly a stranger to the world of conservative political activism.

Created by the children of the conservative founder of Sun Oil Company, the organization first came to public prominence through J. Howard Pew, who *The Boston Globe* noted "was an old-time Republican Party boss who despised government regulation and whose oil refinery in Marcus Hook, Pa., emitted noxious fumes that made the town's air almost uninhabitable."<sup>49</sup> Under his leadership, the organization was a leading anti-government critic of Franklin Delano Roosevelt.

As *The Philadelphia Inquirer* reported in 1992, the organization in the mid-20th century “became a means of furthering J. Howard Pew’s right-wing causes and Christian fundamentalist beliefs.”<sup>50</sup> According to The Philanthropy Roundtable, that included “support(ing) emerging conservative think tanks, such as the Hoover Institution and the American Enterprise Institute.”<sup>51</sup> Notably, that latter think tank – which openly pushes for the dismantling of traditional public pensions – still maintains strong connections to Pew through its scholars on Pew’s governing board and in Pew’s key management positions.<sup>52</sup>

Such a past was no doubt prelude to Pew’s 2004 announcement that the organization was transforming itself from a private foundation into a public charity. As a Pew official noted, that transition gave the organization “more flexibility to collaborate with others” and to “advocate for policy” in the political arena. That same official noted that Pew was beginning to seek financial partners for particular projects because, she said, Pew’s massive \$5 billion endowment “is not always sufficient to get the job done.”<sup>53</sup>

Well-rooted in conservative movement history, still tied to that movement’s political institutions, more free to support overtly political causes and looking for well-resourced partners, Pew was perfectly positioned for a move to leverage its brand for the Right. Within a few years, that move happened, as the organization entered into a partnership with Enron billionaire John Arnold, who had already been spending big money on his crusade to subject public pensions to Enron-style economics.

### **Who Is John Arnold?**

According to *CNN/Money*, John Arnold is “the second-youngest self-made multibillionaire in the United States.”<sup>54</sup> Only Mark Zuckerberg is younger and richer – but that’s not the only difference between the two. Whereas Zuckerberg made his fortune building a brand-new social media technology, Arnold made his the old fashioned way: through the kind of financial speculation that destroys economies, harms taxpayers and wrecks public pension funds.

Arnold began amassing his fortune as an energy commodities speculator at Enron at the time the company’s trading schemes first caused rolling blackouts across the country and then cratered the national economy.<sup>55</sup> While there, he bragged about rigging the energy economy, once praising colleagues for “learning how to use the Enron bat to push around the



### **JOHN ARNOLD, ENRON BILLIONAIRE**

*According to CNN/Money, John Arnold is “the second-youngest self-made multibillionaire in the U.S.” He began amassing his fortune as a notorious trader at Enron, and faced legal questions about the company’s work in manipulating energy markets. He then created Centaurus, a trading firm that Institutional Investor described as “a simulacrum of its predecessor,” Enron.*

market” and telling them to “use position to force markets when it’s vulnerable.”<sup>56</sup> This made him a lot of money, but also got him into legal hot water.

According to *Institutional Investor*, “suspicion lingers” about Arnold’s role in the company’s criminal energy market manipulation, especially after “he invoked the Fifth Amendment when asked during a deposition if he manipulated markets at Enron.”<sup>57</sup> And that wasn’t the only time Arnold was questioned in legal proceedings about his role at Enron, either.

According to the magazine, Arnold “was a key target” of a federal sting operation aimed at the firm’s possible insider trading.<sup>58</sup> Meanwhile, the Associated Press reports that he was one of the top Enron executives “who scooped up more than \$72 million in hastily arranged bonuses within days of the company’s bankruptcy filing.” AP noted that Arnold’s \$8 million bonus, in fact, was the largest ever given to a single Enron employee and came “about two weeks before Enron filed for bankruptcy on after six weeks of revelations of hidden debt, inflated profits and shady accounting.”<sup>59</sup> In a ruling *Mondaq Businesswire* called “not a close call,” a bankruptcy judge sided with the plaintiffs who sued Arnold and other Enron executives for looting the company.<sup>60</sup>

Federal investigations and court rulings, though, did not deter Arnold. He soon established his own hedge fund called Centaurus, which *Institutional Investor* described as “a simulacrum of its predecessor,” Enron.<sup>61</sup> It was an accurate description, as Arnold quickly hired disgraced Enron president and COO Greg Whalley and Enron trader Mike Maggi.<sup>62</sup> Within a few years, the firm was fined by regulators for market manipulation.<sup>63</sup>

### **Arnold’s Dive Into Right-Wing Politics**

Soon after logging big trading losses in 2010, Arnold decided to retire from the speculation business.<sup>64</sup> At that point, his only experience with public pension issues was his leadership role at Enron – a company whose crimes and collapse ended up losing public pension funds more than \$1.5 billion, according to *The New York Times*.<sup>65</sup> Again, though, that didn’t deter Arnold.

Having made billions for himself in the boom-bust world of speculation, and having thrown around campaign cash to both parties – including to such archconservatives as Sens. Ted Cruz, Tom Coburn and John McCain – Arnold went all in on politics, naming a new conservative foundation after himself and hiring conservative activists to run it. Those include (among others):

- Executive director Denis Calabrese, the Republican lobbyist and chief of staff to House Majority Leader Dick Armey (R-TX).<sup>66</sup>
- Pension consultant Dan Liljenquist, a sitting Utah state senator and 2012 Tea Party primary challenger to incumbent Sen. Orrin Hatch (R-UT).<sup>67</sup>
- The Republican media consulting firms Pathfinder Communications and Raconteur Media Company.<sup>68</sup>

On economics, the foundation is focused on promoting the anti-regulation, let-them-eat-cake ideology Arnold learned at Enron and then applying it to state budgets. Specifically, the foundation is pushing to convert traditional pension plans into riskier cash balance or 401(k) schemes, and by deceptively downplaying reductions in corporate welfare as a way to raise revenue and preserve retiree benefits. Two high-profile moves by the foundation best sum up that ideological posture:

**Arnold releases a pension declaration insisting that benefit cuts are the only possible solution.**

In the Arnold Foundation's institutional statement of pension principles, the organization acknowledged that legislators' longtime practice of refusing to pay their states' share of pension obligations "is equivalent to borrowing from the pension fund – the result being an intergenerational transfer of wealth."<sup>69</sup> Yet, rather than pushing legislators to stop that "transfer of wealth" by replacing pilfered money with new revenue, the paper declares that "the way to create a sound, sustainable and fair retirement savings program is to stop promising a benefit" to robbed retirees. It goes on to propose five solutions, each proposing to cut guaranteed retirement income, and none proposing to generate revenue for pensions by ending expensive corporate tax subsidies. This, despite the fact that states expenditures on such tax loopholes and subsidies are far larger than their pension shortfalls.

### PROMOTING BENEFIT CUTS

*Rather than pushing legislators to replace money pilfered from pension funds with new revenue, the Arnold Foundation's institutional statement of pension principles declares that "the way to create a sound, sustainable and fair retirement savings program is to stop promising a benefit" to robbed retirees.*

**Arnold's pension operative appeared on right-wing television to demand pension cuts.**

Under a Fox Business channel chyron reading, "Public Employee Retirement Benefits Strangling Economy," the Arnold Foundation's Josh B. McGee didn't note that state corporate subsidies are vastly larger than pension shortfalls, and he didn't mention that reducing those subsidies could easily solve pension shortfalls. Instead, on right-wing cable television, he advocated slashing retiree benefits and converting pension plans into Wall Street-enriching schemes because, he insisted, "it's crazy to have our citizens choose between pensions and a police force, pensions and paved streets." When the Fox Business host, Lou Dobbs, declared that it was "impossible" for governments to raise tax revenues to avoid benefit cuts and reduce pension fund gaps, McGee declared: "I would agree with that...I think that benefits will have to be adjusted."<sup>70</sup>

With such an ideologically motivated foundation, Arnold in 2011 began spending big money in states – and he found a willing tag-team partner in Pew.

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## Part III The Pew-Arnold Assault

In May 2013, Marketwatch reported that “the Arnold Foundation, which was founded by John Arnold, a former Enron executive, has partnered with Pew...to advocate for cash balance plans for state government employees.” At that point, though, the partnership was nothing new. It had already started informally in 2011.

In the early stages of the collaboration, it was a tag-team affair. Pew's Public Sector Retirement Systems Project would drop into states to issue dire warnings and use its respected brand to help manufacture a political environment of crisis. Then, Arnold began spending his fortune to convince state legislators that the only solutions to the supposed crisis were cuts to guaranteed retirement benefits – not replenishing pension funds by raising revenue through ending states' expensive corporate subsidies.

By mid-2013, Arnold had already spent at least \$10 million on his pension crusade, and the Arnold-Pew ad hoc relationship had become an official partnership – with breakthrough results.<sup>71</sup> With Pew continuing to manufacture the illusion of imminent crisis, and with Arnold spending even more of his fortune to get his way, legislatures began bending to the Enron billionaire's will. What follows is a review of the Pew-Arnold assault and how it is now delivering concrete results for conservatives and business interests who want to at once end traditional pensions and protect state-based corporate welfare.

### 2011-2012: Seeding the Partnership

In a late 2010 report entitled “Roads to Reform” that previewed the upcoming new year, Pew cast the pension situation as a crisis, and then praised states for taking “action to reduce their pension liabilities, either through reducing benefits or increasing employee contributions.”<sup>72</sup> Later that year, in a pension Q&A with its research director, Pew touted the fact that “momentum for reform is building” – with momentum defined as “states reduc(ing) pension benefits.” In the Q&A, Pew made not a single mention of public revenue losses brought on by state corporate tax subsidies and loopholes.<sup>73</sup> Once again, in other words, Pew was praising “reforms” exclusively focused on cutting benefits – but downplaying the possibility of raising revenues through ending corporate subsidies.

At the same time, John Arnold began deploying his foundation to heavily donate to national right-wing organizations like the Thomas Fordham Institute and the Manhattan Institute, which had already made names for themselves advocating huge cuts to Americans' guaranteed retirement benefits.<sup>74</sup> Additionally, the Arnold Foundation put Utah State Senator Dan Liljenquist on its payroll to leverage his membership in the right-wing American Legislative Exchange Council and push pension cuts in states across the country.<sup>75</sup> And the foundation gave a combined \$2 million to Republican media consultants affiliated with, among others, Texas Gov. Rick Perry and disgraced U.S. Rep. Tom DeLay.<sup>76</sup>

In 2011 and early 2012, Pew and Arnold focused their efforts on four states.

### □ California: Seeding a Future Ballot Initiative to Cut Retirement Benefits

Pew began in California in 2011 by making local headlines claiming the state's pension shortfall was an emergency even though, according to *The Sacramento Bee*, it was anything but.

In a January 2011 dispatch, *Stateline* noted that the newspaper reported that because of smart investments, the state's two biggest pension funds "erased the losses incurred during the stock market collapse of 2008."<sup>77</sup> A few months later, the *Bee* added that "With 12 percent of the nation's population and about that proportion of the nation's economy, (California) had just 6 percent of the nation's unfunded pension liability."<sup>78</sup> Meanwhile, state actuaries pointed out that Pew evidently omitted two years of positive investment performance in order to "present a misleading picture of the health of public pension funds."<sup>79</sup>

One might think that with his connection to Enron – a company that according to *Businessweek* "played a major role in California's 2000-2001 power crisis" – and with his infamous history pleading the Fifth when asked about energy manipulation that harmed the West Coast, Arnold wouldn't want to show his face in the Golden State.<sup>80</sup> Instead, his foundation donated \$150,000 to a local conservative front group that generated more headlines with another draconian proposal to slash pension benefits.<sup>81</sup>

What was so revealing about this one-two punch from Pew and Arnold was that its discussion of state finances focused on benefit cuts and omitted a conversation about simply replenishing pension monies through revenue raised by limiting California's \$45 billion in annual tax expenditures (a.k.a. expenditures written into the tax code).<sup>82</sup>

This is a particularly stunning omission because in pension terms, just three years of that annual expenditure is more than the entire 30-year, \$112 billion public pension shortfall in the state.<sup>83</sup> Additionally, many of the tax expenditures are wasteful corporate welfare. As the *Los Angeles Times* notes, "Hundreds of millions of dollars are spent every year on handouts to business...despite the lack of evidence that some of these programs keep employers in the state, lure employers from out of state or are cost-effective in any general way."<sup>84</sup> Similarly, the Howard Jarvis Taxpayer Association admitted that "many California tax breaks given to corporations constitute corporate welfare (and) actually impede economic growth."<sup>85</sup>

Of course, Pew, Arnold and the business lobby are focused on preserving



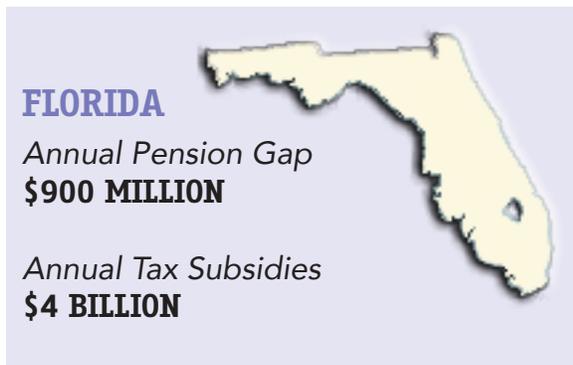
those tax expenditures – and so they forward the notion that California’s only real budget options are either a cut in guaranteed retiree benefits or more employee contributions to the pension fund.

Though those proposed reforms were not passed by the legislature in 2011, conservative activists told *California Watch* that they are hopeful Arnold’s money will prompt a statewide ballot measure to force a cut in pensions. Within two years, it appears their dream is coming true. In 2013, Reuters reported that Arnold Foundation officials had “attended a private ‘pension retreat’” where “California city officials, lawyers and taxpayer groups...shared information and plotted strategy” as Arnold looks “to fund (California) groups supporting ballot initiatives that would scale back” retirement benefits.<sup>86</sup>

### □ Florida: Slashing One of the Healthiest Pension Funds in America

In 2011, two reports rang the alarm bell about Florida’s out-of-control spending on corporate welfare and its wasteful corporate tax loopholes. One was a study by the Institute for Taxation and Economic Policy that found major Florida firms like Tech Data, NextEra Energy, Ryder System, CSX, Harris, Health Management Associates, Darden Restaurants and

Publix Super Markets pay less than 4 percent in state income taxes.<sup>87</sup> The other was a dispatch by the *Orlando Sentinel* evaluating a report by the state’s Department of Economic Opportunity. The newspaper found that the state “promised more than \$1.7 billion in tax credits, rebates and other types of cash incentives” to companies, and that “the lion’s share of the awards ...have yet to report any jobs.”<sup>88</sup> In all, *The New York Times* estimates that the state spends almost \$4 billion a year on so-called incentive programs.<sup>89</sup>



The good news for Florida’s budget, though, was that the state did not have a major pension problem. As Pew admitted that year, Florida “is a national leader in saving enough to cover its pension bill” and its pension remained healthy despite the fact that it was the single biggest financial loser from Enron’s collapse in 2002.<sup>90</sup>

That health, though, didn’t stop Arnold from working to focus the state’s debate over its budget issues on cutting pension benefits rather than on cutting corporate welfare. His foundation donated \$265,000 to the local conservative think-tank pushing big cuts to pension benefits, and *The Chronicle of Philanthropy* reported that Arnold additionally “financed radio advertising to advance legislation” to cut Florida pension benefits.<sup>91</sup>

Ultimately, the legislature that year bent to Arnold’s will by passing a bill that began to start cutting benefits.<sup>92</sup> Seeing an opportunity, Pew then suddenly changed its tune about Florida, issuing a “Widening Gap” report decrying “a \$27 billion funding gap.”<sup>93</sup> The complaint came even though Pew admitted that such a relatively small gap leaves the pension actuarially

healthy, and even though over 30 years, that gap is one-fifth the size of the amount Florida spends on tax expenditures.

Pew and Arnold's work set the stage for the legislature and governor to enact more cuts in the future.<sup>94</sup>

### □ Rhode Island: A "Blatant Wall Street Gorging" Promoted As a National Model

Though Rhode Island faces a \$7 billion pension shortfall over 30 years, that's nothing compared to what it gives away to corporations and the wealthy.<sup>95</sup>

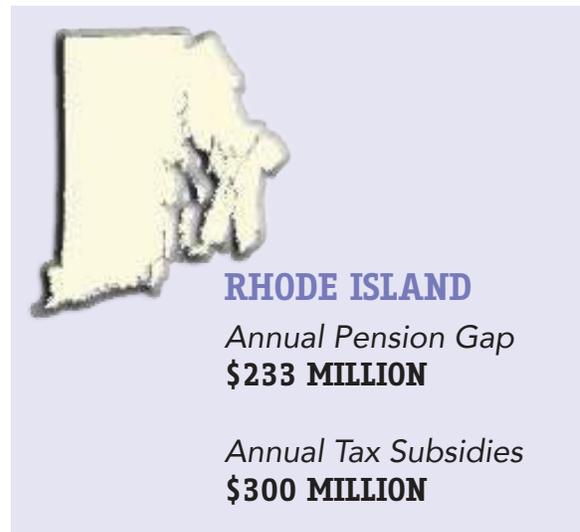
As *The New York Times* reports, the state spends \$300 million in annual tax expenditures – or more than \$9 billion over 30 years.<sup>96</sup> Those include the infamous expenditure that gave Boston Red Sox pitcher Curt Schilling a whopping \$75 million worth of taxpayer monies to finance his failed video game scheme.<sup>97</sup> Additionally, Rhode Island's tax system is famously regressive, allowing the wealthiest 1 percent of its population to pay a tax rate half that of the poorest 20 percent.<sup>98</sup> So the state clearly has plenty of ways to reform tax rates and end subsidies as a way to raise the revenue it owes to its public pension funds.

That kind of straightforward solution, however, was ignored when an Enron mogul came to the Ocean State.

As *The Wall Street Journal* reported, in 2011 – the very moment the state was handing over that \$75 million to Schilling – Rhode Island was pleading poverty as a rationale to slash its state workers' guaranteed retirement benefits. The *Journal* noted that "Rhode Island's rollback of public-employee retirement benefits turned the small state into a national battleground over pensions" when "the campaign to curtail pension costs in Rhode Island was financed, in large part, by a Houston billionaire who sees the state as an opening salvo in a quest to transform retirement systems nationwide." That billionaire was none other than John Arnold.<sup>99</sup>

As part of that campaign, Arnold made personal financial contributions to private-equity executive-turned state treasurer Gina Raimondo, who was leading the charge to slash pension benefits.<sup>100</sup> He also made massive six-figure contributions to the corporate front group that spearheaded the PR campaign on behalf of the Rhode Island pension cuts.<sup>101</sup>

According to *Governing* magazine, the final pension legislation ended up replacing the traditional pension plan with a cash balance hybrid system – one that "cut retirement benefits for all state workers, including retirees."<sup>102</sup> Once the bill passed, Pew swooped in to promote the Arnold-backed plan as a national model. In a white paper distributed to policymakers, Pew touted the Rhode Island plan because it "limits cost-of-living adjustments



until the retirement system improves; reduces the ability of all employees, old and new, to earn additional pension benefits (and) raises the state's retirement age for a new employee to 67."<sup>103</sup>

In its 2012 update for state legislatures, Pew devoted a substantial section to further promoting Arnold's Rhode Island initiative as a national model, while devoting just a single sentence to West Virginia making history by becoming the nation's first state to pledge new tax revenue to shore up retirement finances.<sup>104</sup>

Today, Rhode Island's corporate welfare and regressive tax system remain firmly in place, while its pension reforms have been exposed as a massive corporate giveaway. In 2013, *Forbes* reported that the new system is "unprecedented in public pension history" in how it is "just a blatant Wall Street gorging."

Under the headline "Rhode Island Pensioners 3% COLA Will Go To Pay Wall Street 4%+ Fees," the magazine's Ted Siedle noted that the "reforms" mean "\$2.1 billion in fees will be paid by the pension to hedge, private equity and venture capital tycoons."<sup>105</sup>

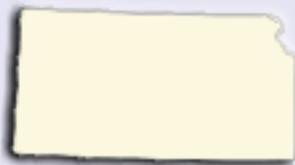
Underscoring the potential corruption surrounding the pension system, Siedle also reports that state pension officials became the target of "pay-to-play" allegations and a Securities and Exchange Commission inquiry.<sup>106</sup> Meanwhile, the Economic Policy Institute reports that the Pew/Arnold-backed pension system "actually increases costs to state and local governments and taxpayers while making retirement incomes less secure." Specifically, because of the comparative inefficiencies of the defined contribution part of the state's new hybrid pension plan, state taxpayers will be forced to make "upwards of \$15 million a year in additional contributions while providing a smaller benefit for the average full-career worker."<sup>107</sup>

#### □ Kansas: Slashing Retirement Benefits While Passing New High-Income Tax Cuts

### KANSAS

Annual Pension Gap  
**\$276 MILLION**

Annual Tax Subsidies  
**\$1 BILLION**



Kansas spends about \$1 billion a year on tax expenditures, much of which are handed out in the form of corporate subsidies.<sup>108</sup> It was also recently cited in a Good Jobs First report on corporate welfare for its five so-called "megadeals" – what the report defines as "giant subsidy packages with a total state and local cost of \$75 million or more (that) come at enormous taxpayer expense."<sup>109</sup>

With this profligate spending on corporate welfare as a backdrop, the Arnold Foundation in 2011 began investing in the Koch-organized Kansas Policy Institute, which advocates cutting guaranteed retirement income and replacing traditional pension plans with risky defined-contribution schemes.<sup>110</sup> At the same time, Pew was ginning up pension-crisis fears, issuing a report noting that the state "faces an unfunded liability

of \$8.3 billion” – conveniently failing to mention that such a gap could be closed by reducing the state’s expensive corporate welfare and paying the money the pension funds are duly owed.<sup>111</sup>

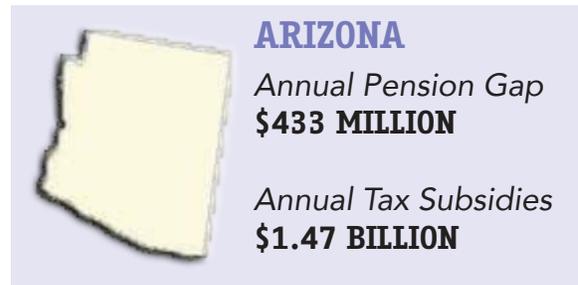
In 2012, the Arnold-Pew campaign to press for benefit cuts and downplay the idea of cuts to corporate welfare helped produce legislative results, as the state changed its pension system into a cash balance-style scheme with higher contributions for workers and reduced guaranteed benefits for retirees.<sup>112</sup> Incredibly, while citing state budget shortfalls as the reason to cut these benefits, Kansas lawmakers not only preserved the state’s corporate subsidies, but also simultaneously passed new revenue-draining tax cuts – the kind that, as Kansas University’s tax law expert told the *Lawrence World-Journal*, “will benefit the wealthy, produce revenue shortfalls and possibly prompt gaming of the tax system.”<sup>113</sup>

### 2012-2013: Cementing the Partnership

In 2012 and into the 2013 legislative sessions, Pew’s Public Sector Retirement Systems Project and the Arnold Foundation formalized their partnership with joint reports and PR campaigns in three states.

#### □ Arizona: A Crusade to Override the State Constitution

In 2011, just as Pew and Arnold were beginning their joint campaign to cut guaranteed public pension benefits, the Arizona legislature passed a “reform” bill that, according to *The Arizona Republic*, “suspended cost-of-living raises...and required current workers to contribute more.”<sup>114</sup> Lawmakers cited budget shortfalls as the rationale to reduce guaranteed pension income even though at the very same time they were enacting \$538 million worth of new corporate tax cuts.<sup>115</sup>



Because Arizona voters in 1998 backed a ballot measure creating what The Republic called “one of the nation’s strongest constitutional protections for public pensions,” the draconian pension changes of 2011 are now at risk of being invalidated by state courts.<sup>116</sup> But the newspaper notes that “Lawmakers say that if the state Supreme Court invalidates the pension reforms they put in place in 2011, they are poised to take the issue to voters in 2014.”

This explains the Pew-Arnold focus on Arizona in 2012. In a joint report issued in November of that year, the two admit that Arizona will need to “either raise taxes or cut spending” to deal with the state’s 30-year, \$13 billion pension gap – or a gap of roughly \$433 million a year.<sup>117</sup> But the report does not include any specific proposals to raise revenue by reducing Arizona’s \$1.47 billion in tax expenditures and corporate subsidies, nor does it include mention of West Virginia’s recent move to devote more new public revenue to paying down the pension debt.<sup>118</sup> Rather, it praises Rhode Island’s devastating retirement benefit cuts, insisting that such a “reform

demonstrates that dedicated policy makers can find solutions to serious pension problems.”<sup>119</sup>

The Pew-Arnold messaging that downplays new revenue generation while demanding pension cuts was promptly echoed by State Treasurer Doug Ducey, the former CEO of Cold Stone Creamery, who is the chairman of a bipartisan committee overseeing pension fund changes. After issuing a press release touting the Pew-Arnold report, Ducey told the *Phoenix Business Journal* that budget shortfalls mean “we need to make the necessary adjustments (to) these systems.”<sup>120</sup> Ducey didn’t mention the fact he had just led the fight for a deficit-expanding \$900 million state sales tax cut, which will exacerbate the budget shortfalls he was citing to justify pension cuts.<sup>121</sup>

No doubt, this kind of Pew/Arnold-sculpted messaging will define any 2014 ballot measure to override the Arizona constitution and slash pensions.

### □ Kentucky: Making a Bad Situation Far Worse

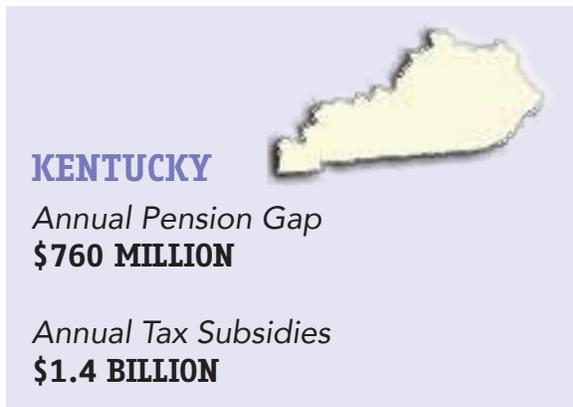
In August of 2012, Pew and the Arnold Foundation made headlines in Kentucky with their joint report about Kentucky’s 30-year, \$23 billion pension shortfall – which amounts to \$760 million a year.<sup>122</sup>

The report was released in conjunction with their joint proposal for a “road to a sustainable pension system” for Kentucky. In the paper outlining that initiative, the two praised past Kentucky legislation that allowed for pension benefit cuts and went on to note that “making costs manageable may require current employees and retirees to further share the load by either paying more in employee contributions or accepting reduced retirement benefits going forward.”<sup>123</sup>

Left out of the analysis, of course, was any note that Kentucky’s \$760 million annual pension shortfall is far less than the \$1.4 billion a year

Kentucky spends so-called “incentive programs” – much of them classic corporate welfare. These programs have included subsidies of \$300 million to Ford Motor Company, \$205 million to Weyerhaeuser and \$110 million to United Parcel Service. They also include a \$560 million subsidy to the mining industry.<sup>124</sup> Meanwhile, thanks to Kentucky’s loophole-riddled tax code, profitable Kentucky-based Fortune 500 companies like Yum Brands and Ashland Inc. have during one of the last few years paid no state income tax whatsoever.<sup>125</sup>

In all, the watchdog group Good Jobs First says Kentucky has created “an atomic bomb” of expensive corporate welfare, much of it failing to create jobs<sup>126</sup> – and yet, thanks in part to the Pew-Arnold push, reducing those corporate subsidies to raise revenues remained off the legislative table. Instead, as 2012 progressed, Pew and the Arnold Foundation began convening meetings with state officials and a state pension task force, pressing three sets of “reforms” – each focused on slashing retirement benefits.



According to the *Louisville Courier-Journal*, the proposals did not focus on reining in the state's profligate corporate welfare to raise revenue – the only tax changes they proposed focused on raising levies on pensioners' retirement benefits and/or revoking an income tax credit that helps the middle class.<sup>127</sup> In subsequently pressing legislators, Pew and Arnold hired October Three LLC to produce reports touting the pension cuts – but not noting what *Businessweek* reports: that the firm's core business revolves around marketing "retirement benefits programs focusing on cash balance and hybrid plan(s)."<sup>128</sup>

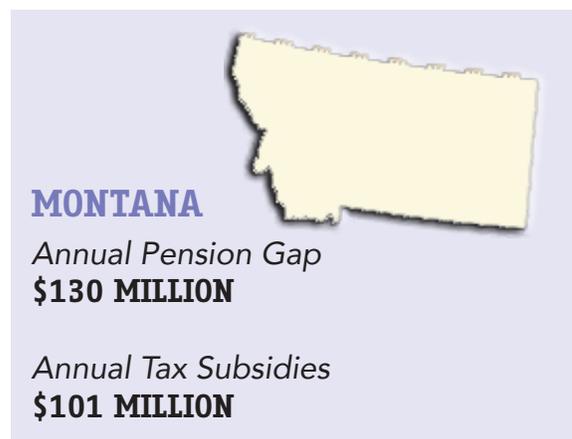
When the legislature opened in early 2013, the Kentucky Center for Economic Policy released an independent actuarial analysis of the Pew-Arnold plan, finding that rather than saving money, it would "add approximately \$55 million in state costs over the next 20 years."<sup>129</sup>

Nonetheless, Pew and Arnold began holding controversial closed-door meetings with legislators to demand passage of its cash balance-style pension proposal.<sup>130</sup> The secret nature of the negotiations prompted a scathing *Courier-Journal* editorial criticizing state officials for "giving short shrift to advocates for some 340,000 active and retired public employees who have a voice in the matter." Noting that union leaders "got only a few minutes each at the last meeting to present views of state workers, firefighters, police, teachers and others with a stake" in retirement benefits, the newspaper said lawmakers "should listen to the folks who are affected – the workers themselves."<sup>131</sup>

That didn't happen. The state ultimately bowed to the Pew-Arnold demands, transforming its pension plan into a more expensive cash balance hybrid system – one that Fitch Ratings says "exerts additional budgetary pressure" on taxpayers.<sup>132</sup> With the Pew-Arnold plan leaving Kentucky's corporate subsidies untouched, the state business lobby celebrated the pension reductions, even as the *Courier-Journal* noted that government agencies predicted huge cuts to social services thanks to "the costs related to pension reforms" pushed by Pew and Arnold.<sup>133</sup>

#### □ **Montana: Creating Momentum for Future Cuts**

Timed to the opening of the new legislative session, the late 2012 headline in *The Billings Gazette* screamed a scary message: "Researcher: Montana Public Pension Shortfalls Total \$9,700 Per Household."<sup>134</sup> The story described a recent visit to the state capital by a Pew executive who was touting a Pew-Arnold report drumming up hysteria about the state's \$3.9 billion pension gap. Then came a *Helena Independent Record* op-ed pointing to the hysteria as proof that the state needed to enact radical pension cuts. The author, not surprisingly, was an executive from the Arnold-funded Manhattan Institute.<sup>135</sup>



Predictably, neither the Pew-Arnold report nor the Manhattan Institute declaration focused on raising revenue by reducing the state's annual \$101 million in tax expenditures and corporate subsidies.<sup>136</sup>

With the Pew-Arnold campaign's pressure in the state, lawmakers in 2013 agreed to some cuts to pensioners' guaranteed retirement income.<sup>137</sup> But they did not radically alter the entire pension system to a cash balance scheme, which likely means the Pew-Arnold campaign will be back for the next legislative session.

### **2013 and Beyond: Going National With the Campaign to Cut Retiree Benefits**

Halfway through 2013, there are already signs that the Pew-Arnold partnership will intensify and expand its efforts.

In June, for instance, Reuters reported on a top executive at the Arnold Foundation boasting that the organization plans "to fund groups supporting ballot initiatives" and bragging that Arnold's cash supported pension-slashing campaigns in states where "laws that cut benefits for current and new workers were passed."<sup>138</sup>

Likewise, Pew's Public Sector Retirement Systems Project has started seeking to deploy its pension-cutting formula in new states. For example, Pew has begun legislative briefings in such states as Pennsylvania and Colorado,<sup>139</sup> and pension analysts expect them to get involved in budget fights in Oklahoma and Nevada as well.

Thanks, in part, to the success of the Pew-Arnold partnership in distorting the conversation about public pensions, the budget debate in all these states is focused almost exclusively on slashing retiree benefits rather than on raising revenues and ending corporate subsidies – even though those subsidies are typically far larger than the pension shortfall. And with John Arnold as a role model, other billionaires are beginning to invest in the same dishonest message.

"From Blackstone Group co-founder Peter Peterson to New York City Mayor Michael Bloomberg, some of the wealthiest Americans are beginning to pay increasing attention to this issue," *Institutional Investor* reported in February of 2013, adding that pension defenders will "have to get used to billionaires brandishing checkbooks."<sup>140</sup>

With all that money behind it, the movement to convert traditional public pensions into riskier and costlier schemes will almost certainly reach into every legislature in America. As an Arnold Foundation executive said in discussing his work pushing pension cuts in California, "We want to see if we can build momentum for a sustained reform effort in the state, and nationally."

# End Notes

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- 2 Martin Wooster, Wall Street Journal, "Too Good to Be True," 4/1/05
- 3 Pew President Rebecca W. Rimel, Winter 2012
- 4 Pew Charitable Trusts, "Avoiding Blank Checks: Creating Fiscally Sound State Tax Incentives," 12/13/12
- 5 Richard Opiel, New York Times, "Employees' Retirement Plan Is a Victim as Enron Tumbles," 11/22/01
- 6 Steven Greenhouse, New York Times, "Public Funds Say Losses Top \$1.5 Billion," 1/29/02
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