



# **The Free Enterprise Nation**

## **Best Practices: Taxpayer Oversight of Public Employees Benefit Plans**

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## **SUMMARY**

The purpose of these Best Practices is to provide standards for the evaluation of existing benefit programs and proposed modifications of existing benefits. Those standards are designed to both allow comparative assessments between various governmental entities and private employers and disclose plan provisions in a way that taxpayers can relate. The primary basis for these standards is that plans in the governmental arena should be subject to the same limitations and funding requirements that apply to plans of private employers and that disclosures should be standardized and be in a format that all stakeholders can use to build their understanding of the long term impact of benefit liabilities on Federal, state and local government's fiscal operation.

## **CONSISTENCY**

- All employee benefit plans (Federal, state, local and private) should be required to provide financial disclosures using the same set of assumptions (discount, mortality, CPI). Initially, the standards established under the Tax Code and ERISA should apply.
- Benefit structures for all employee benefit plans (Federal, state, local and private) should be capped at the same limits and be subject to the same restrictions on discriminatory benefits in favor of the highly compensated employees. Initially the standard should be based upon the current Tax Code requirements applicable to private plans. Restrict back end accruals of benefits to same requirements that apply to private employers.
- Common benchmarks should be established to measure the structure of governmental employee benefit plans to plans of comparable private employers. These benchmarks and comparative benefits structures should be fully disclosed to all stakeholders.
- Consistency should allow for specific exceptions for public sector safety employees who are actively involved in safety services (i.e., not primarily administrative) for benefits options such as early retirement, and disability.
- Impose the same vesting and plan restrictions on nonqualified deferred compensation benefits that are applied to private employers.

## **FUNDING**

- Require the Unit Credit funding method for retirement benefits which tends to measure the plan's annual funding at roughly equivalent to the annual increase in plan liabilities.
- This is the standard required of private employers. Unfunded liabilities should be amortized over a 7 year period.

- The discount rate for purposes of determining retirement plan funding should be the average of all municipal bond rates issued in the preceding 15 years.
- Non mandated funding calculations (i.e., following current Tax Code standards) should be based on reasonable assumptions based upon the prior 10 years of actual plan experience that are reviewed every 5 years.
- All governmental plans should be required to maintain certain minimum funding levels, and where those levels are not met the same restrictions that apply to private employers should apply; Those restrictions include:
  - Benefits cannot be increased
  - No lump sums distributions
  - Additional benefit accruals are frozen
- Participants in governmental retirement plans would be entitled to the same benefit insurance under PBGC coverage that is required of private employers. Basically, governments would pay insurance premiums based on each plan's underfunding. Where governmental entities default on certain bond issue or declare bankruptcy, accrued benefits of participants would reduced to PBGC limits
- Apply the same private employer plan restrictions on providing enhanced benefits for the highly compensated employees with comparable benefits for the nonhighly compensated employees

## **DISCLOSURE**

- Valuations of benefits and liabilities should be based on standards applicable to private employers with annual valuations. The results of these valuations are to be provided within three months of valuation date, or the plan will be subject to the same restrictions that apply to private employers.
- The full valuation report is to provided to tax payers on public website within 30 days of release to the government recipient.
- The structure of all governmental plans should be provided in a standard format on a public web site with examples of benefit levels for representative high paid and low paid staff.
- These benefit structures should be displayed in comparison to other governmental and private entities in the local area.

- Require governmental entities to disclose in a public forum the funding and benefit values for 10 highest paid employees.
- Require that proposed modifications to existing plans or new benefits be presented on a public web site 90 days before the effective date. Those disclosures would include the full impact of these modifications on existing liabilities and their impact on a representative group of employees.
- Provide annual notice to plan participants and other stakeholders, that are based on the notices required of private employers when benefit funding level fall below a specified percentage.
- Provide a benefit study prepared by an independent party every 10 years comparing benefits offered by municipality and other private organizations within each region.



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