

Testimony of Utah State Senator Dan Liljenquist:

House Committee on Oversight and Government Reform

Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs

*March 15, 2010*

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It is an honor for me to appear before The Committee on Oversight and Government Reform, Subcommittee on TARP, Financial Services and Bailouts of Public and Private Programs to discuss State and Municipal Debt: The Coming Crisis Part II.

If there is an upside of an economic downturn it is that taxpayers throughout the United States are waking up to the massive liabilities incurred by State and Local governments. In particular, financial commitments made to public employees are driving policy debates in statehouses throughout the country, from New Jersey to Wisconsin to California. Defined benefit pensions are at the heart of these debates as policy makers wrestle with the approximately \$3 Trillion in unfunded pension liabilities.

For years, public employee pension plans have been largely exempted from taxpayer scrutiny because of the long-term nature of pension commitments and the assumption that today's market losses will be made up by tomorrow's gains. However, the market crash of 2008 revealed just how much market risk taxpayers are bearing to guarantee pension benefits for public employees. Utah's pension system is a case in point.

Going into 2008, Utah's public employee pension systems were over 100% funded. Utah has always paid the full required actuarial contribution to its pension systems, and has not raised retirement benefits for over 20 years. Utah's Retirement System had been, and still is, recognized as one of the best-run pension systems in the country.

Market losses in 2008 blew a 30% hole in Utah's pension fund, opening up \$6.5 Billion in unfunded pension liabilities. To put this number in perspective, Utah's constitutional debt limit is 1.5% of the total assessed value of property in the state and currently stands at \$4.4 Billion. Utah's official debt currently stands at \$3.3 Billion, or 75% of Utah's debt limit. Adding Utah's official debt to Utah's newly recognized unfunded pension liabilities, Utah's total debt is \$9.8 Billion, 223% of Utah's constitutional debt limit.

In the fall of 2009, Utah's Joint Retirement & Independent Entities Sub-Appropriations committee, of which I am the Senate co-chair, requested an in-depth actuarial review of Utah's pension liabilities. Utah's retirement actuaries, Gabriel Roeder Smith, delivered an extensive report to the committee, projecting the full impact of the 2008 market losses on Utah's pension system. The report Utah's pension actuaries delivered to the committee revealed several troubling facts.

First, Utah cannot grow its way out of the problem. Utah would have to average 13% pension fund returns every year for 20 years to grow out of the 2008 losses. If Utah's

pension system averages its assumed 7.75% annual rate of return, Utah's pension system will be bankrupt by 2040.

Second, Utah must dramatically increase contributions to the pension system to compensate for the 2008 losses. Utah's actuaries project that Actuarial Required Contributions will have to be increased by 75%, and remain at historically unprecedented levels for 25 years to pay off the 2008 losses. This 75% increase in required contributions equates to nearly 10% of Utah's general and education funds for 25 years.

Finally, Utah the actuarial study by Gabriel Roeder Smith demonstrated that Utah cannot afford to absorb another year like 2008. If, for example, Utah averages 6% market returns over the next 25 years (instead of the assumed 7.75% return) Utah is bankrupt now and just does not know it. A 6% return over the next 25 years would open up pension liabilities of over \$20 Billion.

The bottom line of this analysis was that Utah was and is bearing far more risk with its defined benefit pension systems than it ever anticipated. The only thing that can bankrupt the State of Utah is if its pension system misses its assumed rates of return on its pension portfolio.

Last year, the Utah Legislature acted aggressively to cap its existing pension liabilities. Utah closed its defined benefit pension plans to new enrollees, creating a new retirement system for new employees hired after July 1, 2011. Under Utah's new retirement system, public employees will receive a defined employer contribution towards retirement. New public employees will be able to choose to between (1) a 401(k) style program, or (2) a Hybrid pension program (where they may pool market risk with other employees). Regardless of the program employees choose, Utah will only contribute at set amount towards retirement. Utah's recent pension reforms will, over time, reduce and eliminate Utah's pension related bankruptcy risk. This is a big win for Utah taxpayers.

Pension reform, including efforts to move to defined employer contributions, will continue to dominate the headlines over the next several years. Those States who choose to tackle pension reform by capping defined benefit systems and migrating towards defined contribution systems will find that taxpayers are with them. Those States who choose not to do so will continue to subject their taxpayers to the whims of an unpredictable market. It is my hope that other States will look to Utah for an example on pension reform. It is also my hope that this Committee and this Congress will encourage states to reform their pension systems by refusing to bail out irresponsible states.

# SENATOR DANIEL R. LILJENQUIST

UTAH STATE SENATE – DISTRICT 23

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## ELECTED OFFICE

### **Utah State Senate, Salt Lake City, Utah**

- *Elected November 2008*
- *Chair of Retirement & Independent Entities Standing Committee*
- *Ex-officio member of Governor's Commission on Optimization of State Government*
- *Other legislative committee assignments: Rules Standing Committee; Business & Labor Standing Committee; Health & Human Services Sub-Appropriations Committee*
- *Awards: 2010 Taxpayer Advocate Award – Utah Taxpayers Association; 2010 Legislator of the Year – Utah Technology Council; 2010 Senator of the Year – Davis County Utah Republican Women*

## INDUSTRY EXPERIENCE

### **First Call Savings, LLC, Roy, Utah**

- *President & Partner, 2010-Present*

### **Focus Services, LLC & Focus Direct, Inc., Roy, Utah**

- *Vice President & Partner, 2006-2011*

### **Affiliated Computer Services, Inc. , Sandy, Utah**

- *Director of Operational Strategy, Commercial Solutions Group, 2003-2005*

### **Bain & Company, Dallas, Texas**

- *Strategy Consultant, 2001-2003*

## EDUCATION

### **The University of Chicago, Hyde Park, Illinois**

- *Juris Doctorate, The University of Chicago Law School, 2001*

### **Brigham Young University, Provo, Utah**

- *Bachelor of Arts in Economics, magna cum laude, 1998*

## PROFESSIONAL AFFILIATIONS

### **The Salt Lake Chamber of Commerce, Salt Lake City, Utah**

- *Board Member, 2009-Present*

### **Utah Bar Association, Salt Lake City, Utah**

- *Member, 2003-Present*



Committee on Oversight and Government Reform  
Witness Disclosure Requirement - "Truth in Testimony"  
Required by House Rule XI, Clause 2(g)(5)

Name:

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1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

NON APPLICABLE - I HAVE NOT APPLIED FOR A FEDERAL GRANT OR CONTRACT.

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2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

NON APPLICABLE - I AM TESTIFYING ON MY OWN BEHALF, AND NOT AS A REPRESENTATIVE OF A SPECIFIC ORGANIZATION.

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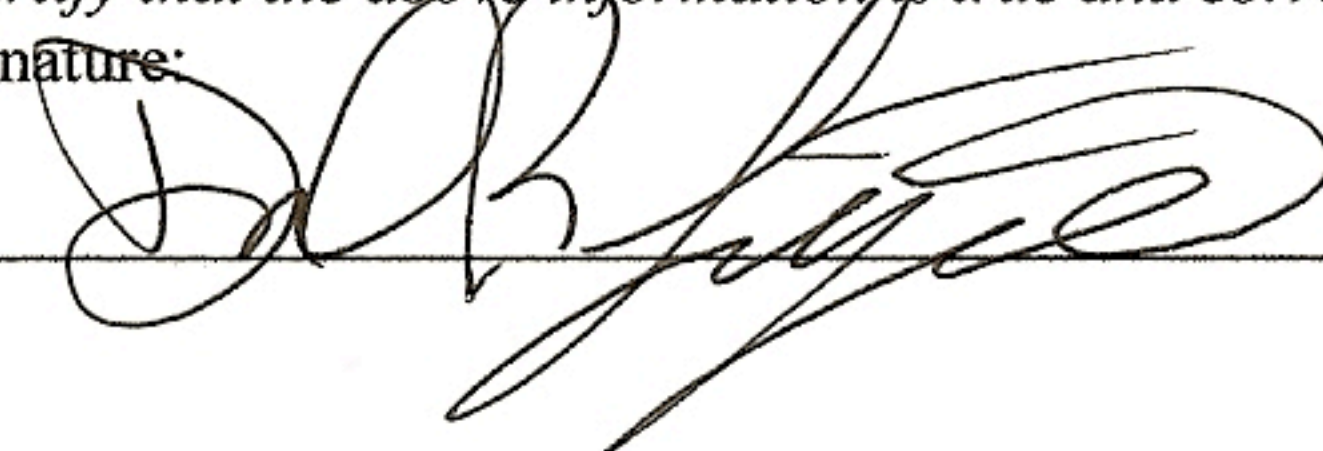
3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

NON APPLICABLE - I HAVE NOT APPLIED FOR A FEDERAL GRANT OR CONTRACT.

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I certify that the above information is true and correct.

Signature:



Date:

3/12/11