

**From:** Frank Keegan  
**Sent:** Friday, October 14, 2011 3:17 PM  
**To:** Ragan Vincent  
**Subject:** Director of Research & Technical Activities Project No. 34-E

To the Government Accounting Standards Board:

When even the most fiscally responsible governor of a state with the lowest hidden pension debt per household doesn't know how bad it really is, the time has come to force honesty on all state and local governments. Dishonest accounting has taxpayers on the hook for trillions of dollars no matter what reforms states pass now. If the lying doesn't stop, many states will sink into a pit of eternal debt.

Indiana Gov. [Mitch Daniels](#) said he favors proposed changes in accounting public pension debt during questions at an appearance in Washington, D.C., this week promoting his book, "[Keeping the Republic: Saving America by Trusting Americans](#)."

"There's a lot of subterfuge and self-deception that must stop," Daniels said.

The best thing he can do to keep our Republic is pass that message along to the [Government Accounting Standards Board](#) and consider testifying at the Oct. 20 hearing in Chicago or at least write by the Oct. 14 comment deadline.

Maybe a governor whose state has tried for more than three decades to get its public pension crisis under control can convince rule makers to force politicians to stop lying to taxpayers, workers and themselves about how huge the catastrophe really is.

Asked about the GASB rules, Daniels thought for a moment and said, "Yes, in general, we must account honestly. I have no particular concern about Indiana. I think we're at 92 percent funding, and I read somewhere that Indiana is the third lightest state in obligations.

"We'll leave future generations a heritage of the lowest obligation in the country," he said.

True enough. Actually, right now Indiana is the least worst in the nation, according to one [study](#). Being the least worst in a bad bunch is not the same as being good.

It still means the average Hoosier household must pay \$236 to \$329 a year for 30 years in additional taxes for public pension obligations already owed.

In a state where real household income dropped more than 10 percent in a decade and unemployment hangs at about 10 percent, raising any taxes any amount to pay state pensions is going to generate public rage.

And a sincere governor incorrectly believing pensions might be sufficiently funded is not going to cover checks the state has to write to retirees every month for the next 30 years.

According to every method of calculation, Indiana is not going to have enough money to cover all those checks without squeezing more out of taxpayers.

Under existing government accounting standards, politicians don't have to admit that when calculating what they insist on referring to as "balanced" budgets.

They get to lie about the true size of the debt and then hide the lie below the bottom line in financial reports they use to deceive the public and themselves when putting together state budgets and inflicting taxes.

Hidden below the bottom line in Indiana's latest [Comprehensive Annual Report](#) — which has complete numbers only through July 1, 2009 — the state owed more than \$11 billion to current and future retirees.

But even that is a lie. A recent [Standard & Poor's](#) report put it at \$12.3 billion even accepting official delusional assumptions.

An optimistic but still more accurate estimate of \$36.9 billion is from the Pew Center on the States "[Widening Gap](#)" study. That is about 15 percent of total state [gross domestic product](#), probably worse given recent market turmoil.

Even a report last month, [Understanding Indiana's Largest Pension System](#), compiled by the Indiana Public Retirement System itself, shows the system at only 64.5 percent funding and deteriorating steadily through at least 2017.

Remember, taxpayers, public workers and politicians, these are catastrophic numbers states and municipalities now do not even have to put on the books, but somebody must pay.

And Indiana is one of the best, most fiscally responsible states in the nation when it comes to getting ahead of the inexorable pension tsunami. The worst states are doomed already. Many more are on a sure path toward a fiscal event horizon of eternal debt if they do not act immediately.

Politicians never will act, as long as they can use accounting tricks to hide reality. The longer they hide it, the worse it is going to get.

One good governor who thought he helped solve his state's pension crisis, but did not, can take this message to GASB and push for tough accounting standards as quickly as possible.

That would help in keeping the Republic, because impossible pension debt — at least \$3 trillion — is the biggest factor in undermining our Founders' intent that state [sovereignty](#) balance and check federal power.

States are becoming so dependent on federal funds they can't say no.

According to a [Government Accountability Office](#) study ordered last year by Wisconsin U.S. Rep. **Paul Ryan**, R-1st Congressional District, using data from before the Great Recession, states are in for at least 50 years of hard times so bad many will not be able to meet matching requirement mandates for federal money.

It means more and more future governors are going to grovel, unless tough accounting rules make state leaders face reality now and deal with it.

Daniels knows we can trust Americans, but we can't trust politicians with our pension funds. Go tell that to GASB, governor.

Thank you.

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