SUBJECT: ***Ranked 48th, with every Delawarean owing nearly $5,000!***
(Part 1 Podcast transcript)

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Dace Blaskovitz: Welcome back to money and politics in Delaware. Welcome back, Jonathan Williams.

J. Williams: Great to be back with you, my friend, as always.

Dace Blaskovitz: Jonathan Williams is a personal friend. He lives and is headquartered in DC, as in Washington DC. He's the Chief Economist of ALEC, the American Legislative Exchange Council nonprofit. And it's his story to tell, so Jonathan, you know how we play the game. We always give first time listeners 30 seconds about you, 30 seconds about the business.

J. Williams: Sure, well, I've been Chief Economist and Vice President here at ALEC overseeing our economic portfolio now for more than 12 years, and traveled the 50 states working with our two thousand state law makers at ALEC and talking about best practices for the economy and public policy. And ALEC is a nonprofit, nonpartisan organization, now been around for 45 plus years, dedicated to the principles of limited government, free markets, federalism. But more importantly, as you know, Dace, is focusing on what works and what doesn't work across states.

Dace Blaskovitz: Yeah, yeah. Allow me to rub it just a minute. Art Laffer of Reagan fame, and I believe just received a prestigious award from the President, is one of your board members. Do I remember that correctly?

J. Williams: That's right. He's been affiliated with us for quite some time as a Board of Scholars member and is, of course, my coauthor of the Rich States, Poor States report with Stephen Moore.

Dace Blaskovitz: And to play fair, to underline in red, your last sentence of a second ago, your rating system is a relative one. There are no winners and losers, it's, "Here's the data."

J. Williams: Exactly. No, that's right. And we take our data from government sources and compare the states based on lots of different criteria through the course of the year that you and I talk about on your show, whether it's Rich States, Poor States or pensions, or so many other things that state policy makers are thinking about in their state capitals.

Dace Blaskovitz: OPEB, what is that?

J. Williams: Well, it's Other Post Employment Benefits, that's the government term. What is really means is, generally, when people are in government service working for state and local governments, they receive their current compensation in salary. But also they receive deferred compensation in the form of pensions and OPEB benefits, the other posted benefit part of that is generally health care benefits for retired government employees before they reach the age of Medicare. So there'll be things like health insurance, life insurance and Medicare supplemental coverage that the government and, therefore, taxpayers provide for retired public employees before they reach other ages of government assistance perhaps.

J. Williams: So this is a massive issue that has flown way under the headlines in the national media, but it's one that continues to build and it's really some scary news for taxpayers in terms of these unfunded liabilities in the OPEB plans.

Dace Blaskovitz: All right. So this is totally hypothetical, but I work for a government entity, for instance, the state of Delaware, hypothetically. My salary's 100, but my compensations were like 135 because you throw pension and healthcare in there, so my all-in cost to taxpayers is arguably 135. I then retire, that healthcare, which is promised for the rest of my life, has to get booked on the proverbial books in a certain way. Did I get the story mostly right so far?

J. Williams: That's right.

Dace Blaskovitz: And then to continue the chain of thought, it's a liability that you have to wrestle through and come up with a number. How about if you take the next paragraph? Run with it.

J. Williams: Yeah, and that's really the rub is, how are we estimating what these costs are going to be in the future. Obviously, we all know the cost of healthcare continues to skyrocket, even post Obamacare. Of course, it was going to supposedly bend the cost curve of healthcare, it failed miserably at doing that and the quality of care and some of the other things has suffered as a result. But we, as a nation, have really struggled with estimating what future costs will look like. At the same time, we have state and local governments that is a part of the total compensation package for employees, and we don't fault them for compensating employees well for doing a good job, but this is a real interesting issue that has implications for long term state debt and for taxes going up in the future. And for that matter, for services being cut if they don't estimate these OPEB promises correctly, they don't fund them correctly, all of a sudden, states have a huge debt problem that they're looking at.

J. Williams: And we've talked a lot about pensions, pensions have gotten a lot of attention in the news. But as I mentioned, the OPEB liabilities, which in many, many cases are less pre-funded than pensions, are in even worse shape as a percentage term, are actually going to be some of the largest growing debt problems within states.

Dace Blaskovitz: And to play fair, and I'm doing a general statement that you will clean up, pensions are generally guaranteed constitutionally, exceptions, exceptions, yeah, yeah. But generally speaking, while healthcare has proven through a myriad of court cases already, not to be guaranteed. Did I get it mostly right?

J. Williams: That's right, exactly. And obviously, there's some exceptions to that rule, but by and large, in states, pensions, at least for vested employees that have worked generally for five or 10 years for that state employer, or retirees, are considered a obligation. That's either a moral or legal obligation, that is generally not broken. But when you look at things like healthcare and OPEB liabilities, these are situations where state and local governments get into a dire financial strait that, unfortunately, do get talked about changing these rules going forward. And this is, of course, leaving taxpayers and employees in the lurch.

Dace Blaskovitz: And to play fair, again, I'm going to do it in lay people terms, and you're going to clean it up. But OPEB is a headline for two reasons. The numbers are finally becoming public and they're staggering. And the way the rating agencies, for lack of word choice, I don't want to blame them, but the way the system worked is, that these OPEB numbers were allowed to get bled into, they're being slowly released and now openly available into the balance sheets. So all of a sudden, it's become a discussion item. Nobody did anything arguably illegal in the past, it's just they're now on the balance sheet and they're being talked about, as they should be, and they're suddenly a headline because of size. Did I get it mostly right?

J. Williams: Exactly, per usual. This is something that, because of government accounting rules generally being lax, and I know I've criticized government accounting rules in the GASB Standards, the Government Accounting Standards Board that governs state and local government accounting. However, they did make some positive moves in recent years as you alluded to in ensuring that now OPEB liabilities are shown on the balance sheets of states, instead of just being a footnote buried somewhere. We're talking about billions, hundreds of billions of dollars of unfunded liabilities based on our upcoming report, ALEC, that we're going to be talking about on a national basis.

J. Williams: So we're talking much larger than deserved to be in a footnote somewhere, hidden in a report before. So that has been a good development, that there's been more transparency. And now policymakers are looking into solutions.

Dace Blaskovitz: All right. Tick tock on my clock. You're doing two segments with us, but we have only two minutes, a little less, in this segment. So as much bravado, drama as I can put into it, you do an OPEB study, hasn't been publicly released yet, but what can you share with us regarding OPEB and Delaware?

J. Williams: Well, your listeners will be the first to see a preview today of the report, or at least hear some of the numbers, that are scary numbers, for Delaware. And then, of course, the overall numbers will be released at ALEC.org when this report goes live and we'll make sure you know about it first, as usual, my friend. But when you look at where Delaware ranks, it's very concerning, in that, when you look at total unfunded liabilities per capita within the OPEB plans that we look at, Delaware ranks 48th with 50 being worst. The number is nearly five thousand, it's 46 hundred ...

Dace Blaskovitz: Whoa, whoa, whoa. You've got to start again. Give me that ... we're going to run out of time. You'll do it again, but what was that sentence? We ranked what?

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J. Williams: You ranked 48th out of the 50 states for our total risk free unfunded liabilities per capita number in this report. And that is nearly five thousand dollars for every man, woman and child in Delaware. So some pretty scary stuff that we're going to talk through in the report.

Dace Blaskovitz: Oh, my gosh. Well, you've released it, at least a headline, but ... we're going to take a break, but 10 seconds here, when's this report get released?

J. Williams: Well, it's going to be later this summer. We don't have a specific date, but it's going to be coming very soon to a website near you. Let's put it that way.

Dace Blaskovitz: Jonathan Williams. Disclaimer, he is the Chief Economist of the American Legislative Exchange Council. When we come back, you'll hear those numbers again. He's not getting off that easy. Also, we tape on Friday, air on Saturday. ALEC, featured in the Wall Street Journal. We will be right back.