Girard Miller response to *The Economist* editorial,
"The great public sector pension rip-off"
Letter to the Editor
The Economist

Your July 11 article, *Dodging the Bill: The great public-sector pension rip-off*, misses the point. The actuarial discount rate is not the culprit. If American states and municipalities used their borrowing rate instead, as you suggest, they would have to use a taxable rate, not a tax-exempt rate, as you infer. U. S. Treasury arbitrage regulations prohibit issuance of tax-exempt munis to invest in pension funds, hence the actual borrowing cost in today's market would approximate the 7 percent rates on new taxable "Build America Bonds." Although that's below the 8 percent assumed returns on investments, it would hardly raise the liabilities by the billions you suggest. Equity markets have now returned from bubble levels to their long-term trendlines (10 pct since 1926 using Ibbotson data), so the forward earnings projections of most public funds are now reasonably realistic.

The real story is unfunded retiree medical liabilities, actuarial amortization schedules that are literally double the remaining expected lives of active employees, unfunded cost-of-living allowances, retroactive benefits increases, early retirement with full benefits, and insufficient employee contributions. That's where America's public plans need reform. Rather than begrudge public servants a rightfully secure retirement, we should make them pay an equitable share toward the real costs.