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State-Local Pension Plans Double Assets Since 1970

State-local pension plans have doubled their wealth in less than a decade, new Tax Foundation research indicates. Meanwhile, employees of state and local government now contribute less than 20 percent of the cost of their own retirement.

Cash and security holdings of state and local retirement systems have continued to increase substantially in recent years. As of the end of fiscal year 1978, these holdings of public employees' pension plans amounted to $142.6 billion. This was more than two-and-one-half times the amount of such holdings in fiscal 1970 ($54.9 billion), and more than seven-and-one-half times their aggregate total in 1960 ($18.5 billion), according to analysis by Tax Foundation economists of the latest data available.

Along with growth in assets has come a rise in earnings from those holdings, both in absolute terms and as a percentage of the total receipts of the retirement plans. In 1978, the $8.7 billion in such earnings comprised 31 percent of receipts, up from 29 percent in 1976, 25 percent in 1970, and 18 percent in 1960.

Employer contributions, however, remain the largest source of pension plan income; and their proportion of total receipts has held steady at just under one-half. The $13.6 billion in employer contributions constituted 49 percent of the total in fiscal 1978, unchanged from 1976 when the $10.5 billion also comprised 49 percent, and from 1960 when the $1.7 billion made up an identical percentage.

Assets and Annual Receipts of State and Local Employee Retirement Systems Selected Fiscal Years, 1960-78 (Billions)

			Receipts by source		
Year	Cash and security holdings[1]	Total	Employee contributions	Government contributions	Investment earnings
1960	$ 18.5	$ 3.4	$1.1	$ 1.7	$ .6
1965	31.8	5.3	1.6	2.4	1.2
1970	54.9	9.8	2.8	4.6	2.5
1975	98.1	18.9	4.5	9.1	5.3
1976	111.5	21.6	4.8	10.5	6.3
1977	123.5	25.3	5.2	12.4	7.7
1978	142.6	28.0	5.7	13.6	8.7

[1]As of end of fiscal year.

Source: Compiled by Tax Foundation from annual reports of the U.S. Department of Commerce, Bureau of the Census.

Employee contributions, while continuing to rise in absolute terms—from $1.1 billion in 1960, to $2.8 billion in 1970, and $5.7 billion in the most recent fiscal year—have steadily declined as a proportion of total receipts, from 33 percent of the total in 1960, to 28 percent in 1970, and 20 percent in fiscal 1978.

As was the case in previous years, there continues to be a wide range of differences among the individual states in the way public employees' pension plans are financed. The ac-

(Continued on page 4)

Conable Named For Foundation Service Award

Barber B. Conable, Jr., has been chosen to receive the Tax Foundation's Distinguished Public Service Award for 1979, Thomas M. Macioce, President of Allied Stores and Chairman of the Foundation, has announced. The award will be presented on November 28 at the Foundation's 42nd Annual Dinner at which Congressman Conable will be the speaker.

Conable, ranking minority member of the House Ways and Means Committee, is currently serving his eighth term in Congress. He represents the 35th Congressional district in Western New York. He has been chairman of both the House Republican Policy Committee and the Research Committee, and he was a vice chairman of the Republican Platform Committee at the Party's 1976 National Convention.

The Tax Foundation's Distinguished Public Service Award is presented annually by the Trustees to a leading public servant or businessman. Recent recipients are: Al Ullman (1978), Reginald H. Jones (1977), Russell B. Long (1976), William E. Simon (1975), George F. Shultz (1974), and Harry F. Byrd, Jr. (1973).

Federal-To-Local Aid Rises 849% in Ten Years

Federal dollars as a source of local revenue have shown a dramatic jump in the last decade, according to data recently compiled by Tax Foundation economists. Between 1967 and 1977, latest figures available, direct Federal aid to localities has chalked up a gain of 849 percent.

During the same period, revenues from local sources, including property taxes, climbed 169 percent and state aid to localities increased 227 percent.

Total local revenue from 1967 to 1977 rose from $64.6 billion to $196.3 billion, a gain of 204 percent. During the same time span, personal income grew about 140 percent and population, 9 percent. Federal grants to state governments also rose sharply in dollar amounts (from $13.6 billion in 1967 to $45.9 billion in 1977), but the percentage rise was less than a third as large as the local increase.

The result is that 25 cents of every dollar spent by state and local government is Federal money. Washington's aid is broken down as follows: 76 percent in the form of categorical grants, 13 percent in block grants, and 11 percent in general revenue sharing.

In 1977, the Federal government provided localities with $16.6 billion in revenue, while state governments provided $60.3 billion. (An undetermined portion of the state grants was from Federal funds passed on to localities by the state.) Local units continued to furnish the bulk of their own revenue—$119.4 billion in 1977, almost half of which ($60.3 billion) came from property taxes.

The significant fact, say Tax Foundation economists, is the big jump direct Federal aid to local government units has made compared with other sources of revenue. In 1967, Washington provided $1.8 billion in aid, 2.7 percent of local government revenue. The $16.6 billion the Federal government was supplying ten years later—which completely bypassed state government entities—constituted 8.5 percent of all the revenue available to local jurisdictions.

Federal grant programs for states and localities are scattered among 1,078 programs, administered by 57 Federal agencies, and disbursed by a host of state and local government jurisdictions, which makes the recipients of such revenue virtually unaccountable for the monies received.

The Federal budget for 1980 projects a significant decline in the rate of growth in grants in the years ahead. After rising by 14 percent from 1977 to 1978, Federal aids to state-local units are seen as increasing by 5 percent in 1979 and by less than 1 percent in 1980.

The accompanying table shows major sources of local revenue for selected years.

Local Government Revenue by Major Source 1967-1977
(Dollar Amounts in Billions)

Fiscal year	Total local revenue	Revenue from local sources: Total	Revenue from local sources: Property taxes	Local revenue from: State governments	Local revenue from: Federal government
1967	$ 64.6	$ 44.4	$25.2	$18.4	$ 1.8
1968	70.2	47.9	26.8	20.3	2.0
1969	79.3	53.2	29.7	23.8	2.2
1970	89.1	59.6	33.0	26.9	2.6
1971	101.0	66.5	36.7	31.1	3.4
1972	114.8	75.1	41.6	35.1	4.6
1973	129.1	81.2	44.0	40.0	7.9
1974	143.2	88.4	46.4	44.6	10.2
1975	159.7	97.8	50.0	51.1	10.9
1976	178.3	108.6	54.9	56.2	13.6
1977	196.3	119.4	60.3	60.3	16.6
Percent change 1967-1977	+204	+169	+139	+227	+849
Percentage distribution:					
1967	100.0	68.8	39.0	28.5	2.7
1977	100.0	60.8	30.7	30.7	8.5

Source: U.S. Department of Commerce, Bureau of the Census, and Tax Foundation computations.

TF Conference Will Focus On Politics/Economy

"Tax Policy in a Political Economy" will be the theme of the Tax Foundation's 31st National Conference, to be held on Wednesday, November 28 at the Plaza Hotel in New York City.

The morning session of the conference will address itself to:

- "The Economic and Fiscal Policy Outlook," by Albert G. Matamoros, Vice President and Chief Economist, Armstrong Cork Company;
- "The Washington Tax Scene," by John Pierson, Congressional Correspondent, *The Wall Street Journal*;
- "New Directions in the U.K.," by John Kay, Director of Research, The Institute for Fiscal Studies, London.

Donald C. Lubick, Assistant Secretary of the Treasury (Tax Policy), will be the luncheon speaker. The luncheon session will be chaired by Thomas M. Macioce, President of Allied Stores Corporation and Chairman of the Tax Foundation.

(Continued on page 3)

Sunset Faces New Debate As Congress Resumes Work

Sunset legislation almost made it through the 95th Congress, and advocates of sunset are cranking up a strong campaign to enact some form of sunset during the fall session of the 96th Congress.

Two bills now before the Congress pertain to sunset—S. 2 and H.R. 2. In this month's issue of *Tax Review*, Maynard H. Waterfield, Tax Foundation's Director of Federal Affairs, examines the bills, explores the background of sunset, and discusses what would actually be achieved if such legislation were adopted.

Much of the debate during the past year, he points out, has been focused on the issue of tax expenditure provisions of the revenue code, and whether or not these provisions should be included in the periodic program review and reauthorization requirement which is at the heart of the sunset process. This may be the wrong issue. If sunset legislation is perceived as "providing for regular review and evaluation of all government programs with a view to modifying, reducing, or terminating those which are outmoded, inefficient, or not cost-effective, a rethinking of the basic sunset concept should be made," cautions Waterfield.

In a review of the highlights of the bill, Waterfield points out that the core of the sunset concept is a ten-year, five-Congress schedule for review and reauthorization of Federal programs. To enforce the reauthorization requirement, the proposed bill provides that a "point of order" would lie against the bills providing funds for programs which were not reauthorized.

Waterfield notes that program review and evaluation has long been closely linked to the oversight responsibilities of Congress. Over the years, he points out, Congress has taken numerous actions "to emphasize and strengthen the oversight responsibility and capabilities."

It is evident, Waterfield contends, that there has long been Congressional "concern and intent to carry out program review and evaluation on some fairly regular basis. Whether these oversight functions are being carried out is another matter," he observes.

"Previous attempts to deal with program review and evaluation," Waterfield says, "raise a question as to what new tools, responsibilities, or authority the proposed sunset process would provide." The one new approach to the program review and evaluation problem which sunset proposes, he maintains, is the ten-year, five-Congress review-reauthorization schedule.

Despite the attractiveness of the sunset concept, support for this legislation is not unanimous. Members of Congress, consumer organizations, labor groups, and several government regulatory agencies have voiced concern about the proposed legislation.

Authority to exercise the oversight and review function is already set forth in existing rules and statutes of committees of both the House and the Senate, Mr. Waterfield points out. "This raises the question," he states, "if Congress were properly exercising its oversight responsibilities, would there be a need for sunset?" He notes that the only senator to vote against sunset in the last Congress was Senator Dale Bumpers, who said that sunset "represents an admission that we are not exercising our oversight responsibilities."

Tax Foundation's Federal Affairs Director then asks, "What additional facilities or authority will sunset provide that will assist the Congress and insure the proper exercise of that responsibility?" The review-reauthorization schedule appears to be the only new authority in the pending legislation. And, Waterfield notes, "there is no assurance that the mechanism, if established, would work or work better than what is now in place."

"If that be so," he concludes, "what may be needed is a reform of the will, rather than of the way."

Conference

(Continued from page 2)

In the afternoon session, a panel of experts will examine the topic of "Value-Added Taxation and Priorities for Tax Relief."

Speakers will be:

- Leonard E. Kust, Cadwalader, Wickersham & Taft, "Leadoff and Overview."
- Burns Stanley, Director, Governmental Tax Relations, Ford Motor Co., "Income Taxes—Individual and Corporate—Lessons from Michigan's Single Business Tax."
- Ernest S. Christian, Jr., Patton, Boggs & Blow, "Capital Cost Recovery."
- James P. Bryant, Manager of Corporate Taxes, J. C. Penney Co., Inc., "Payroll Taxes."

Chairman of the morning session will be Albert H. Cohen, Director of Tax Research, Price Waterhouse & Co. C. Lowell Harriss, Professor of Economics, Columbia University, and economic consultant to the Tax Foundation, will chair the afternoon program.

The Conference will be followed by the Foundation's 42nd Annual Dinner at which Representative Barber B. Conable, recipient of the Foundation's Distinguished Public Service Award for 1979, will serve as the keynote speaker.

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Pension Plan

(Continued from page 1)

companying table (see below) indicates the state-by-state variations for fiscal 1978.

The proportion of current income of state and local pension systems made up of earnings on investments ranged from a low of 8 percent in the District of Columbia to 39 percent in Michigan and Wisconsin. In only three states—Delaware, Idaho, and Maine (plus the Federal district)—did investment earnings make up less than 20 percent. In 11 states—Hawaii, Louisiana, Michigan, Missouri, Nebraska, Nevada, North Carolina, Ohio, South Carolina, Vermont, and Wisconsin—they made up 35 percent or more.

At the same time, the percentage of income made up by employer contributions ranged from 28 percent in New Hampshire and 34 percent in Wyoming, to 63 percent in the District of Columbia and New York, and 70 percent in Delaware. Employee contributions, which comprised but 5 percent in New York, 7 percent in Florida, and 9 percent in Michigan, made up 35 percent in North Dakota, 37 percent in Utah, and 40 percent in New Hampshire.

To some extent, the increasing share which earnings from investments have played in providing financing for the retirement plans is a result of the expansion in assets of the pension systems, says the Tax Foundation. In addition, there has been a long-range shift in the composition of these investment portfolios. In 1960, Federal and state-local securities comprised more than half of total holdings; by 1978, they made up only about 16 percent. Conversely, corporate stocks and bonds, which in 1960 made up only about one-third of the assets, in 1978 comprised two-thirds.

However, while the long-range trend is for a decrease in the importance of government securities and, conversely, an increase in the significance of corporate bonds and stocks, the last two years have witnessed a partial reversal of this development. While government securities comprised but 16 percent of the total value of the investment portfolios in 1978, in 1976 they made up only 11 percent. At the same time, while corporate stocks and bonds made up 66 percent in 1978, this represented a decline from the 74 percent which they comprised two years earlier.

The long-range effects of this trend on the earnings of pension fund investments remain to be seen. However, it is clear that the rate of return on asset holdings has risen significantly in recent years—from 4.5 percent in 1970 to more than 6 percent in 1977 and 1978.

Most recent developments in the financing of state and local public employees' pension systems would not appear to call for any revision in the appraisal presented in Tax Foundation's 1976 study *Employee Pension Systems in State and Local Government*, Research Publication No. 33. Among the major sources of concern cited in that report was the fact that commitments on the part of governmental employers to future retirees are in many cases greater than the financial resources that are being set aside to meet these claims as and when they fall due. Costs of commitments for future pensions are rising rapidly, reflecting expansion in the number of state and local employees, increasing salary levels, and a growing tendency on the part of state and local units to enrich the provisions of their employee pension plans.

Receipts of State and Local Employees' Retirement Systems by State
Fiscal Year 1978

	Amount (millions)				Percent of total		
State	Total receipts	Employee contributions	Government contributions	Earnings on investments	Employee contributions	Government contributions	Earnings on investments
Alabama	$ 339.4	$ 71.7	$ 167.4	$ 100.3	21	49	30
Alaska	127.0	32.3	60.9	33.8	25	48	27
Arizona	289.9	96.5	112.1	81.4	33	39	28
Arkansas	161.8	36.9	75.6	49.4	23	47	30
California	4,765.9	996.6	2,273.4	1,495.9	21	48	31
Colorado	384.0	103.1	158.1	122.7	27	41	32
Connecticut	331.4	72.6	168.8	90.0	22	51	27
Delaware	54.6	8.3	38.1	8.2	15	70	15
District of Columbia	38.8	11.4	24.3	3.1	29	63	8
Florida	735.0	49.4	432.4	253.2	7	59	34
Georgia	417.2	106.9	186.0	124.3	26	44	30
Hawaii	174.5	54.6	56.0	64.0	31	32	37
Idaho	64.1	20.3	32.9	10.8	32	51	17
Illinois	1,501.7	442.1	629.1	430.5	29	42	29
Indiana	275.4	55.6	146.9	72.9	20	53	27
Iowa	228.2	55.3	96.0	76.9	24	42	34
Kansas	165.9	42.5	90.6	32.9	26	54	20
Kentucky	271.5	74.4	125.2	72.0	27	46	27
Louisiana	430.3	118.6	156.8	154.8	28	36	36
Maine	89.0	28.0	48.1	12.9	31	54	15
Maryland	503.9	120.9	232.5	150.5	24	46	30
Massachusetts	690.4	187.8	357.3	145.3	27	52	21
Michigan	1,118.9	103.6	579.8	435.5	9	52	39
Minnesota	497.1	128.7	230.3	138.1	26	46	28
Mississippi	181.0	55.8	75.7	49.6	31	42	27
Missouri	379.6	85.4	161.8	132.5	22	43	35
Montana	91.3	30.3	30.8	30.2	33	34	33
Nebraska	58.1	16.0	21.6	20.5	28	37	35
Nevada	111.3	17.5	53.0	40.9	16	47	37
New Hampshire	47.2	19.1	13.2	15.0	40	28	32
New Jersey	893.4	187.2	405.0	301.2	21	45	34
New Mexico	126.6	38.5	45.8	42.2	30	36	34
New York	4,462.5	246.3	2,804.1	1,412.1	5	63	32
North Carolina	551.5	146.8	210.2	194.5	27	38	35
North Dakota	24.7	8.6	10.4	5.7	35	42	23
Ohio	1,764.1	444.6	712.0	607.5	25	40	35
Oklahoma	197.9	35.1	121.0	41.8	18	61	21
Oregon	249.9	79.0	111.1	59.8	32	44	24
Pennsylvania	1,489.8	324.1	735.3	430.5	22	49	29
Rhode Island	100.5	25.9	48.5	26.0	26	48	26
South Carolina	260.4	67.5	93.1	99.8	26	36	38
South Dakota	48.1	16.4	22.1	9.6	34	46	20
Tennessee	388.5	88.6	202.4	97.5	23	52	25
Texas	1,064.4	317.8	418.9	327.8	30	39	31
Utah	127.1	46.5	50.9	29.8	37	40	23
Vermont	35.7	8.3	14.5	12.8	23	41	36
Virginia	317.3	114.8	120.5	82.0	36	38	26
Washington	540.3	132.9	254.4	152.9	25	47	28
West Virginia	152.8	43.0	73.4	36.3	28	48	24
Wisconsin	622.6	59.5	318.2	244.9	10	51	39
Wyoming	42.1	14.2	14.4	13.5	34	34	32
United States	27,984.4	5,687.6	13,620.7	8,676.1	20	49	31

Source: Compiled by Tax Foundation. Basic data from U.S. Department of Commerce, Bureau of the Census.