Impact

Spring 2016

A Pacific Research Institute Publication

THE WAY OUT OF OBAMACARE

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Sir Antony Fisher was a British entrepreneur, World War II Spitfire pilot, and strong believer in individual rights and limited government. Persuaded by Friedrich Hayek that the most effective way to advance these ideas would be through independent research institutes rather than political office, Fisher helped to found the Institute of Economic Affairs (IEA) in London in 1955, followed by a network of free-market oriented think tanks worldwide. In 1979, Fisher teamed up with San Francisco businessman James North to establish the Pacific Research Institute.

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DEAR FRIENDS

AMERICA FACES MANY CHALLENGES today that threaten the opportunity for her citizens to achieve their full potential. We have a healthcare system where medical decisions are increasingly being made by government bureaucrats instead of doctors and patients. We have unsustainable levels of national debt, an overburdened tax code, and an educational system that prioritizes teachers' unions over the needs of students. That's why the Pacific Research Institute remains committed to researching, developing, and promoting free-market policies that will lead to a stronger, freer America.

This edition of ***Impact*** includes a special feature on my ongoing efforts to educate policymakers, the media, and the public on the need for meaningful health care reform in America. In January, *Encounter Books* published ***The Way Out of Obamacare***, a Broadside that provides an actionable blueprint for health care reform in this important campaign season – one that will provide affordable, accessible, quality health care for all Americans. Over the coming months, we will be urging policymakers to coalesce around a single plan that will, unlike Obamacare, lower costs while empowering patients.

We are also pleased to highlight our new study on public sector pension reform in California. ***California's Pension Crowd-Out*** authored by PRI Senior Fellow Wayne Winegarden, Ph.D., is part of PRI's ***California Prosperity Agenda***, a 12-point plan to address California's most pressing problems. As outlined on page five, Dr. Winegarden's study reveals the flaws with the state's current public pension systems and offers potential reforms. The study has garnered a significant amount of attention in the media, both nationally and in California. We look forward to continuing to promote the study and working with legislators on advancing real solutions.

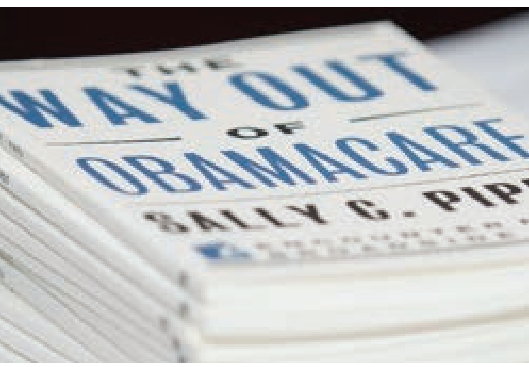
This fall, I celebrate my 25th anniversary of leading PRI. I am so very grateful for your support of our work. Your generosity allows us to champion freedom, opportunity, and personal responsibility by advancing free-market policy ideas. I hope you will continue to partner with us in this important election year as we advance workable solutions to replace Obamacare, fight to give parents options for their children's education, and advance the principles of liberty upon which this great country was founded.

Sincerely,

Sally

Sally C. Pipes
President, CEO, and Thomas W. Smith Fellow in Health Care Policy

THE WAY OUT OF OBAMACARE



Doctor and hospital networks are much smaller and, hence, many patients no longer have access to their previous doctors and hospitals.

ON JANUARY 15, 2016, ENCOUNTER Books released Sally Pipes' *Broadside* ***The Way Out of Obamacare.*** The book provides an actionable blueprint for health care reform in this critical presidential campaign year. PRI is undertaking an aggressive outreach strategy that puts the book and Pipes' replacement plan in the hands of candidates, legislators, policymakers, the media, and the general public. The release of the book was accompanied by a book tour with stops in San Francisco, Newport Beach, Palm Desert, Pismo Beach, New York City, and Moraga, California. More speeches are scheduled throughout 2016.

The Way Out of Obamacare has received extensive media attention and positive reviews. Pipes was interviewed about her book on *The Wall Street Journal's* Opinion Journal, The Heartland Institute's Heartland Daily Podcast, LifeHealthPro, RealClearRadio Hour with Bill Frezza (which ran on Bloomberg and stations nationwide), WBZ Radio Boston, Small Business Digest Radio, and intrepidNOW with Joe Lavelle. John Tamny, a Senior Fellow in Economics at Reason Foundation and editor of *RealClearMarkets*, wrote in a review of the book published on *RealClearMarkets*:

> "Obamacare is in effect and it's imploding before our eyes. Pipes saw it coming, and as she writes in her essential new book *The Way Out of Obamacare* (Encounter Books), the flawed implementation ("flawed" is a bit of a redundancy here) of President Obama's signature legislative achievement 'has forced Americans to endure lengthy waits before seeing a physician.'"

In this special *IMAPCT* interview, Sally discusses the state of health care in America and the prospects for replacing Obamacare with a plan that will lead to affordable, accessible, quality care for all Americans.

How has Obamacare, now in its sixth year, impacted America's health insurance market?

Obamacare celebrated its sixth anniversary on March 23. Health care premiums and deductibles have increased at a staggering rate for most Americans, access has deteriorated as individuals and families discovered that they could not keep their plans. Doctor and hospital networks are much smaller and, hence, many patients no longer have access to their previous doctors and hospitals. The Congressional Budget Office (CBO) had estimated in March 2015 that 21 million individuals would be enrolled in the exchanges in 2016. The CBO revised its estimate downward in January 2016 forecasting that only 13 million people would buy insurance under Obamacare in 2016. Enrollment has been significantly lower than projected. The 2016 number at the end of the open enrollment period was 12.8 million. Some 83 percent of the enrollees will receive subsidies from the federal government. The average 2016 subsidy is $294 per month. In mid-March 2016, HHS revised its final 2015 enrollment numbers down from 11.7 million to 8.8 million. This was because enrollees were unable to prove their citizenship or had not paid their premiums. If this 25 percent decrease holds true for 2016, only 9.5 million will be enrolled on the exchanges.

Thirty-eight states are now covered under the federal exchange *HealthCare.gov* and only 12 states and D.C. are operating their own exchanges. Under the law's individual mandate, those who do not have coverage face a penalty this year of $695 or 2.5 percent of income, whichever is greater. It is no wonder that young people decide to pay the penalty than fork out on average $408 per month for plans on *HealthCare.gov.*

What does your Obamacare replacement plan as outlined in *The Way Out of Obamacare* call for?

I support a replacement plan that is market based—one that empowers doctors and patients, not the federal government. My replacement plan includes:

- changing the federal tax code so that individuals have the same tax advantage in purchasing insurance as those with employer-based plans;
- age-based tax-refundable credits ($3,000 for those over 50, $2,100 for those 35-50, and $1,200 for those under 35) are the way to end this distortion;
- contribution limits to Health Savings Accounts (HSAs should be increased; federal funding for state-based high-risk pools should be provided so those with chronic or pre-existing conditions can get coverage until a market-based plan is fully implemented);
- elimination of mandated essential health benefits (EHBs) under Obamacare and the state regulations that add 20 to 50 percent to the cost of premiums;
- introduction of state-based medical malpractice reform laws;
- reforming Medicare and Medicaid by introducing premium support under the former and block granting the states; and
- elimination of costly employer and individual mandates.

If such a replacement plan were introduced following the repeal of the ACA, America would be on the path to a health care system that would bring about affordable, accessible, quality care for all. However, repeal will not be possible until January 2017, at the earliest, when a new president and Congress will be in place—one that we hope supports a market-based health care system.

Could a single-payer, "Medicare for all" system become reality in America?

I certainly hope not. While more and more Obamacare supporters are now acknowledging Obamacare's flaws, many are touting the problems as a reason to propose a single-payer, "Medicare for all" system. Included in this group are Democratic presidential candidate Senator Bernie Sanders (I-VT), former Acting Administrator of the Centers for Medicare and Medicaid Services (CMS) Dr. Donald Berwick, and former Princeton economist and Nobel laureate Paul Krugman.

As a former Canadian who grew up under a single-payer system, I have been a long-standing critic of such a system for America. I will continue to show and educate Americans on why adopting single-payer would have disastrous consequences for Americans – long waiting lists, rationed care, and lack of access to the latest technology and treatments. In this important presidential election year, with Bernie Sanders vigorously promoting a single-payer health care system, and former Secretary of State Hillary Clinton calling for Obamacare 2.0, PRI will continue to educate Americans on the perils of such a system.

Why are the major health insurance companies merging and what does it mean for health care in America?

Following the June 2015 U.S. Supreme Court decision in *King v Burwell* that allowed those on the federal exchange *HealthCare.gov* to continue to receive subsidies from the federal government, it is no surprise that insurance companies announced mergers: Aetna bought Humana, Anthem bought Cigna, and Centene purchased HealthNet. These mergers have to be approved by the Department of Justice (DOJ). If the mergers are allowed, there will be only three large insurers: United, the largest insurer; Anthem; and Aetna. Insurers are saying that the mergers will make them more efficient producing economies of scale, reducing premiums, and eliminating waste. Most economists would explain that the exact opposite is true: competition will decline, consumer choice will decline, and premiums will rise. Under Obamacare, many insurers are already significantly limiting the choices of networks of doctors and hospitals in the exchanges in order to reduce their costs because they are facing large claims while not receiving premiums from the young and healthy to cover costs. Many plans exchange plans do not include top-rated hospitals.

Why are the largest insurance companies threatening to drop out of the Obamacare exchanges?

As of January 31, 2016, the so-called young invincibles (aged 18-34) had not signed up for coverage at the levels the Obama administration predicted. In order to make Obamacare viable, this group should make up 40 percent of exchange enrollment. But, only 28 percent of enrollees in this group signed up. If this continues, it is likely that the exchanges will fail because there won't be enough healthy young people to cover the insurers' costs for those who are older and sicker who use a lot of health care.

Hence, it was not a surprise that Stephen Hemsley, CEO of UnitedHealthcare, the largest insurer in the U.S., told shareholders last year that it was considering leaving the state and federal exchanges in 2017. More than 500,000 United consumers purchased exchange plans in 34 states in 2015. The insurer announced losses of $720 million in 2015. He said "In recent weeks, growth expectations for individual exchange participation have tempered industry wide, co-operatives have failed, and market data have signaled higher risks and more difficulties while our own claims' experience has deteriorated, so we are taking this proactive step." He added "we cannot sustain these losses and we see no indication of things actually improving."

Aetna CEO Mark Bertolini said "we continue to have 'serious concerns' about the sustainability of the public exchanges. We remain concerned about the overall stability of the risk pool." Aetna lost $140 million in 2015 on 750,000 enrollees. Cigna, Humana, and several of the Blue Cross/Blue Shield plans have expressed similar concerns over their losses.

What about the failure of Obamacare's Co-Ops established under the ACA?

It is very concerning. More than half of Obamacare's nonprofit insurance Co-Ops had failed by the end of 2015, forcing 740,000 people to find new, often more expensive insurance. Eight of the 11 remaining Co-Ops are facing severe financial hardship. As President Obama explained, the idea behind the 23 Co-Ops was to provide more competition in the insurance market with lower prices for coverage. The federal government provided $2.4 billion to build the Co-Ops. To date, taxpayers have lost $1.3 billion. The surviving Co-Ops say the Obama administration cannot recover $1.3 billion so there are no federal funds left to pay outstanding bills of the remaining Co-Ops. According to a new report from the General Accounting Office (GAO), four of the remaining Co-Ops had fewer than 25,000 enrollees, the benchmark for covering direct costs.

Centers for Medicare & Medicaid Services (CMS) Acting Administrator Andy Slavitt said on February 24 that because of the failures, he wants to loosen the capital rules to allow private insurers to become part owners of the surviving co-ops. This new policy is a clear admission of the Co-Op program's failure.

Polls continue to show that more Americans disapprove of Obamacare than support it. Why do so many Americans still oppose the law?

Polls continue to show that more Americans disapprove of Obamacare than support it.

54% OF AMERICANS STILL DISAPPROVE OF THE LAW

The latest Gallup poll reveals that 54 percent of Americans still disapprove of the law. This percentage has been fairly static over the six years since the law was passed. In a new NPR/Robert Wood Johnson/Harvard poll, results showed that the ACA failed on almost all levels. Three-quarters said health care had not improved in their states, 26 percent said it had declined, and only 15 percent reported better results.

The reason for the continuing low level of support for the law is because of the higher premiums and deductibles that consumers are facing last year and this, smaller networks for doctors and hospitals, and the insurance companies threatening to get out of the exchanges.

The time is right to go "big and bold" on providing a replacement plan for Obamacare. Congress should not support bi-partisan fixes that would result in Obamacare Lite. The American people need to be "Free to Choose" a health care plan that suits their own needs.

As the great American humorist P.J. O'Rourke says "If you think health care is expensive now, just wait until it is free." My new book *The Way Out of Obamacare* was published by Encounter Books as a Broadside in January 2016. Copies are available on Amazon.com. My op-eds on health care are available on our website www.pacificresearch.org.

INTERVIEW WITH KATHY GREMER

ANAHEIM, CA

PRI SUPPORTER

What might surprise us about you?

MY CONSERVATIVE ROOTS go back to about age 10 following a discussion with my father about a '50s TV show called "Robin Hood." I enjoyed the show very much until my dad explained that much of Robin Hood's activities involved forcibly taking money from the rich to "redistribute" it to the poor, from those who earned it to those that did not. Political discussions between my father and me became a significant part of our relationship until he died in early 2013.

In college I read *Atlas Shrugged* about a half dozen times. It seemed to me that Ayn Rand was accurately assessing the progression of the United States toward totalitarianism. It seemed so crystal clear to me at that time, in the late '60s. I re-read the book about three years ago. It is amazing how totally accurate she was. How could we progress little by little to a totalitarian state ourselves? We were a nation of Hank Reardens—smart, hard-working individualists. Today, over 50 percent of our population is on some form of subsidy. Our children are forfeiting a good education for social doctrine and climate change, neither of which prepares them to be self-supporting, solid citizens, and quality parents. It is depressing. There is no Galt's Gulch!

What do you do in your spare time?

By day, I am a small business owner, a health insurance broker, suffering along with my clients through Obamacare. The entire law could have its own chapter in *Atlas Shrugged*. It was totally obvious from day one what the actual purpose of the Affordable Care Act is—to increase government control in every aspect of our business and personal lives, physical health, and financial health. So much of my time is now spent assisting my clients, individuals as well as businesses, with understanding and complying with the law. So much more is being required from us as our incomes shrink.

In the evening and on weekends the bulk of my time is spent with my children and grandchildren. I love babysitting, watching their sporting events, taking them out to dinner, etc. They are the future.

Second to my family, I get great joy from my policy organizations and activities. I am positively euphoric in the company of like-minded friends and organizations like PRI, Claremont Institute, Hillsdale College, David Horowitz Freedom Center, Lincoln Club of Orange County, etc. They give me hope for the future: intelligent people who understand what is happening, what needs to be done and who are willing to do it!

What is it like to run a business in California?

Gov. Jerry Brown recently signed the $15 minimum wage increase into law. While cap and trade could not be passed in Congress, California has implemented its own version. I run a small business that is minimally affected directly but is maximally affected through our clients and the overall business environment. I am totally flummoxed by the lack of knowledge of economics and economic history in our state legislature. How difficult is it to see that if Trader Joe's budgets $300 per hour in salaries per store, at $10/hour minimum wage it can employ 30 employees. However, at $15/hour, it can only employ 20. Add this new law to the existing regulations, environmental impact studies, etc., is it a mystery why so many large and small businesses are leaving the state for friendlier business environments? How close to total collapse must this state come before it understands basic economics and implements free-market policies?

How did you learn about PRI and what do you like most about being a supporter?

Over 10 years ago I went on my first policy-oriented cruise with Claremont Institute. It was serendipitous that the very first dinner on the cruise I was seated with Claremont McKenna College Professor Dr. Charles Kesler, husband of Sally Pipes. I met Sally briefly on the cruise while we were docked in Quebec. Over the next several years I gradually got to know them better. My affection for Charles and Sally and my respect for their intelligence, their passion for our country, its founding, its founding principles, etc., has grown exponentially.

I love listening to Sally share personal stories about Rose and Milton Friedman. Milton Friedman has been a source of wisdom on both economics and public education at PRI. Of course the involvement of Dr. Arthur Laffer, the "father of supply-side economics" is another economic fortification of PRI. Of critical importance to me and my business is Sally Pipes, President and CEO of PRI. Sally's efforts in illuminating the faults of and fighting Obamacare are invaluable. I am always looking forward to her next book or report or her next TV interview, but most especially to our next discussion on Obamacare.

It is because of all the efforts of PRI and its staff that I knew I needed to contribute to PRI, first by attendance at all its wonderful events and then financially in an ongoing basis. I am but a small donor. I wish my contributions could match my gratitude for how much I benefit from all they do.

What is your favorite PRI memory?

In early 2015 I began receiving brochures on the inaugural PRI *Liberty at Sea Cruise* to the Baltic. I knew the speakers on the cruise but not a single guest. There were about 35 guests and what a great group we were! I had the most spectacular time and now have a new, wonderful set of awesome friends, all good supporters of PRI from different parts of the country but mostly California. I have reconnected with and even expanded these friendships at subsequent PRI events. There is nothing warmer or more satisfying than having friends who share your values and actively work to make our state and our country better: freer, more prosperous, safer, and economically sound.

Is California still the Golden State?

Either directly or indirectly, each of us is affected by public policy in almost all our endeavors; starting a new business, educating our children, making financial decisions such as whether and where to buy a new home, how to save for college or retirement given our post tax income, health care decisions, required union membership, business and personal regulations. There are states other than California that offer more freedom from all of the above. It is not my love of my state that keeps me here. I would be better off financially in any number of other states. What keeps me here is my family that I love above all. While I am here I will continue to support organizations including PRI that work tirelessly to turn our state around. The time may come, however, when I join the many individuals and corporations leaving California for states with lower taxes, fewer regulations, better education, right-to-work, etc. The exodus angers Governor Jerry Brown but, as yet, not enough to reverse our 'tax-and-spend' course. Here's praying for more wisdom and a return to the magnificence that was once California.

PAVING THE PATH TO PUBLIC SECTOR PENSION REFORM

THE PACIFIC RESEARCH INstitute released in January a new study on California's pension crisis. *California's Pension Crowd-Out,* authored by PRI Senior Fellow Wayne Winegarden, Ph.D., is part of PRI's *California Prosperity Agenda*, a 12-point plan to address California's most pressing problems. *Pension Crowd-Out* reveals the flaws with the state's current public pension systems; analyzes the severe budgetary impact on government services and the burden on California taxpayers; and provides potential reforms that could lessen the impeding adverse economic consequences.

California pension costs grew twice as fast as tax revenues during the last decade, exerting upward pressure on the state's tax burden -- the fourth highest in the country according to the Tax Foundation. The excessive growth in pension payments is also crowding out spending on other government priorities. The unfunded liabilities of California's defined benefit public pension plans are around $170 billion or 125 percent of total state tax revenues, or 7 percent of total state GDP, as of 2014. If risk is taken into account, California's estimated unfunded pension liabilities increase to between $300 billion and $600 billion, equivalent of between 13 percent and 28 percent of total California GDP in 2014.

Given the excessively large public pension debt burden, the current policy that public pension promises, once made, are inviable, impose severe economic costs on California for years to come. PRI is undertaking an aggressive outreach strategy to bring the reform ideas to policymakers, the media, and the public. The study has been featured in various news publications, including the *San Diego Union-Tribune*, *California Political Review*, *Fox & Hounds Daily*, and the Heritage Foundation's *Insider*. An interview with Dr. Winegarden on the study was aired on NBC affiliates throughout California.

CALIFORNIA'S PUBLIC PENSIONS REQUIRE FUNDAMENTAL REFORM

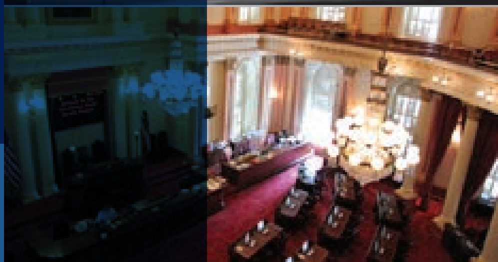
BY PRI SENIOR FELLOW WAYNE WINEGARDEN

Without necessary reforms, the next generation of Californian's will endure fewer economic opportunities and fewer public services.

THE MOST RECENT attempt to reform California's public pension systems has been pulled from the 2016 ballot by its own authors. Opponents tried to frame the proposal (inaccurately) as another "extremist measure." But the state's public pension systems are in deep financial trouble, and ignoring this reality will make the crisis even more difficult to resolve.

Tackling these problems is challenging. Pension reform elicits strong opposition from vested interests and many proposals to alter the system either require a constitutional amendment or would end up being adjudicated in court. Without changes, however, California's pension crisis will diminish the state's economic vitality for the next generation.

Future reform efforts should start by building off of San Diego's Proposition B and switch all new public employees into 401(k) defined contribution retirement plans – the typical retirement plans that most Californians working in the private sector currently receive. The 401(k) plan benefits should be equivalent to those benefits offered by large private sector employers, which typically make contributions (both matching and non-matching) equal to 8 percent of salary.



However, according to CalPERS' 2015 annual report, the pension giant already covers 1.2 million members, and a defined contribution model for new state workers does not address the future costs of pensions for these existing employees.

Any changes to the pensions of these current workers would require a constitutional amendment to repeal the so-called California Rule. This unusual requirement mandates that once employees have been hired, they are entitled to both the retirement benefits they have earned for their years already worked, and the benefits they would earn under the current retirement system should they continue working for the state.

The California Rule is a bad policy that traps taxpayers in an unaffordable pension system and ensures unequal treatment for public and private sector retirees.

If the California Rule were changed, by the courts or through the ballot box, what would happen to current workers?

If such a change were to happen, California should implement a hard freeze across all defined benefit programs and switch all current employees into the newly established 401(k) plan with the same terms and benefits as new hires. As for the frozen defined benefit plan, no public employee should be able to accrue any more benefits in the program.

All vested public employees should be offered a choice: either receive a lump sum payment equal to the present value of their actuarially determined benefit, or remain in the frozen defined benefit plan. Employees that choose the lump-sum payment would transfer their share of the assets into an appropriate retirement account.

Although there would be transitional issues in a "cash-out" option that would need to be addressed, such as the impact these payments would have on pension programs' funded status, they pale in comparison to the difficult decision facing California if it fails to enact these reforms.

Without action, paying for current unfunded liabilities would require an annual $28.3 billion tax increase over the next 30 years. In my recent study, *California's Pension Crowd-Out,* I calculated that such a tax increase would cause California's economy to be 21 percent smaller over the next three decades compared to the baseline growth path. Alternatively, without such a devastating tax increase, California would be forced to cut $8.3 billion from schools and higher education, $4.9 billion from income support programs, and $1.9 billion from the state's hospital systems.

Without necessary reforms, the next generation of Californian's will endure fewer economic opportunities and fewer public services. Creating an effective transition plan away from failed pension policies will result in savings for all state taxpayers and is the fairest solution for public employees.

FRIEDRICHS' DECISION ISN'T END IN FIGHT AGAINST PUBLIC-SECTOR UNIONS

BY LANCE IZUMI
KORET SENIOR FELLOW AND
SENIOR DIRECTOR OF PRI'S CENTER FOR EDUCATION

AS EXPECTED, IN THE WAKE OF JUSTICE ANTONIN SCALIA's death, the U.S. Supreme Court delivered a 4-4 tie vote in the critical *Friedrichs v. California Teachers Association* case, which sought to determine whether non-union public employees could be forced to subsidize union collective bargaining.

While the tie vote means that a Ninth Circuit ruling against the non-union plaintiffs will hold sway for the time being, teacher and lead plaintiff Rebecca Friedrichs vows to press for a re-argument of their case before the Supreme Court, saying, "My hopes and spirits are high."

The non-union teacher plaintiffs in the *Friedrichs* case argued that union-bargained contracts, which cover both union and non-union teachers, are inherently political documents and often contain poli-

cies detrimental to teachers and students, such as uniform salaries, inflexible tenure rules, and lax discipline standards. According to the plaintiffs, forcing them to pay so-called "agency shop" fees to the unions to negotiate such contracts violates their First Amendment rights of free speech and free association.

Rebecca Friedrichs and her legal team are undeterred by the Supreme Court tie vote. Terry Pell, head of the Center for Individual Rights, which brought the case on behalf of Friedrichs and her fellow plaintiffs, said, "We believe this case is too significant to let a split decision stand and we will file a petition for re-hearing with the Supreme Court." Indeed, for Rebecca Friedrichs, unbridled union power has left too large an impact on her life to walk away now.

In an interview with the Pacific Research Institute prior to the Supreme Court's tie vote, she laid out why she was willing to endure the scorn and invectives from the teachers union. "I hope that teachers, and other public-sector workers," said Ms. Friedrichs, "will be free to decide for themselves, without fear or coercion, whether or not to join or fund a union."

For Ms. Friedrichs, overturning forced "agency shop" fees to the teacher unions is not just about keeping a few more dollars in her own pocket. No, it is about much more than that. Pointedly, she said, "the unions' benefits are not worth the moral costs." She explained: "When [teachers union] 'protects' my rights by defending teachers who are no longer effective, or are even abusive, in the classroom, at the expense of vulnerable children, I have a huge moral dilemma with their 'protection.'"

Further, when the unions "pressure the legislature to provide Cadillac pension benefits for me at the expense of the economy and my community, I have a moral problem there too."

"Our educational system," she warned, "is funded by taxpayers and exists to educate and serve children, yet it is riddled with corruption and mismanagement of funds. In my mind, putting the desires of adults above the needs of the children is immoral."

Yet, she noted, this immoral situation is made possible because of coercive government laws that favor the unions' interests, not rank-and file teachers: "Because of the automatic dues paying regime, union leaders are not accountable to teachers."

The result, according to Ms. Friedrichs, is sadly ironic: "Forced fees have led to unions that have become what they used to fight. They're powerful, entrenched organizations more focused on self-preservation than on educating children and protecting workers."

In the end, Ms. Friedrichs, concluded, "The only court in the country that can vindicate our rights to free speech and free association, and protect us from this unfortunate treatment, is the U.S. Supreme Court."

For that crucial reason, she and her fellow plaintiffs are willing to do it all again and continue the fight for freedom in the nation's highest court on another day.

Originally published in the Washington Examiner *on April 9, 2016.*

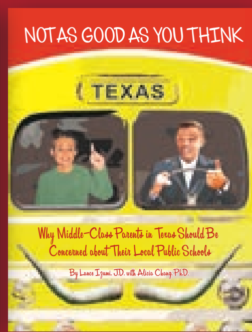
NOT AS GOOD AS YOU THINK: MAKING THE CASE FOR UNIVERSAL SCHOOL CHOICE

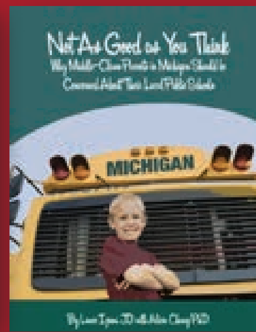
IN 2007, PRI PUBLISHED A LANDMARK BOOK entitled *Not as Good as You Think: Why the Middle Class Needs School Choice*. The book examined student performance on California math and English exams in the state's public schools that had relatively few low-income students. The book found that hundreds of these public schools were underperforming based on the California Standards Test (CST).

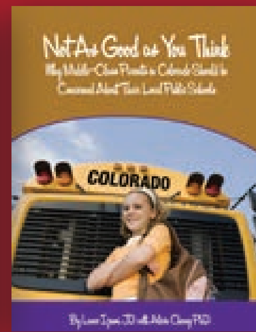
With support from the Walton Family Foundation, PRI's Center for Education launched a multi-state project in 2014 to analyze student achievement in middle-class and affluent public schools in Illinois, Texas, Michigan, Colorado, and New Jersey and to determine whether the same underperformance phenomenon was occurring. The result: based on a variety of indicators, many public schools with predominantly non-low income/middle class student populations are not as good as people think.

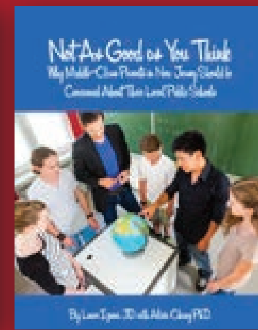
Lance Izumi, Koret Senior Fellow and Senior Director of PRI's Center for Education, authored the studies which found that:

- In Illinois, weak state tests produced misleadingly high test scores compared to scores by Illinois students on the more rigorous national exam. For example, on the 2013 eighth-grade Illinois state reading exam, 75 percent of non-low-income students scored at proficiency, while 25 percent did not. In contrast, on the 2013 National Assessment for Educational Progress eighth-grade reading test, 50 percent of non-low-income Illinois test-takers scored at proficiency, meaning that half failed to do so.









- Among the 1,115 regular public schools that qualify as predominantly middle-class/non-low-income in Texas, in 672, or 60 percent of the schools, more than half of the students in at least one grade level failed to meet or exceed proficiency on the State of Texas Assessments of Academic Readiness (STAAR), based on the final Recommended Level II benchmark of proficiency.

- Among the 677 regular public schools in Michigan that have less than 33 percent of their students coming from low-income households, 316, or nearly 47 percent had 50 percent or more of their students in at least one grade level fail to achieve proficiency on the Michigan Education Assessment Program and the Michigan Merit Exam (MME) – mostly in the math exams.

- Among the 103 predominantly non-low income high schools in Colorado, 77, or 75 percent, had at least one grade-level math or reading exam where 50 percent or more of these students fail to reach proficiency. Virtually all of these grade level failures were in mathematics, which indicates that many Colorado middle-class students may not be receiving adequate preparation for science, technology, engineering, and math (STEM) education in college and STEM-related jobs.

- Among the 114 predominantly non-low-income high schools in New Jersey, which met the state target of 80 percent or more of the seniors taking the SAT, 28 percent, or nearly three in 10, had half or more of their SAT-takers fail to score at or above the college readiness benchmark score of 1550.

The findings from the studies demonstrate that school choice shouldn't just be limited to low-performing schools in low-income areas. In July 2015, Lance Izumi made a presentation to the Education and Workforce Development Task Force of the American Legislative Exchange Council (ALEC). Lance discussed the findings from his research on middle-class schools and explained that school choice should be an option for middle-class parents too. The task force debated whether to pass model legislation to create education savings accounts (ESAs) targeted only to low-income children and their parents, but many on the panel were moved by the data presented by Lance on the underperformance of non-low-income, middle-class students. Ultimately, the task force decided to advance a model education savings account bill.

The five-part *Not as Good as You Think* series has received extensive media attention. Lance Izumi has appeared on many local radio and TV stations and authored op-eds published in the *Illinois Daily Herald, Fort Worth Star-Telegram, Lansing State Journal*, *Colorado Springs Gazette*, and *Courier-Post* (New Jersey), among other publications. The studies have been cited in various publications, including *The Washington Post*, *Washington Free Beacon*, *CNS News*, *Huffington Post*, and *MyCentralJersey*. The release of each study was accompanied by launch events in Chicago, Austin, Lansing, Trenton, and Denver. PRI also produced interactive websites for each state that allows parents to search their local schools and obtain the most recent student performance data.

PRI plans to further expand this research by examining underperforming middle-class schools in additional states. This research is an important part of our efforts to demonstrate to parents, the media, and policymakers that many of the public schools that serve middle-class students are not as good as people think they are. With these studies showing widespread underperformance among middle-class children across the country, all states should implement meaningful reforms that give parents the ability to choose the best educational option for their children.

FIFTH ANNUAL BARONESS THATCHER GALA DINNER

ON MARCH 11, 2016 PRI HELD ITS FIFTH ANNUAL BARONESS Thatcher dinner at the Island Hotel in Newport Beach with *National Review* Senior Editor, best-selling author, columnist, and American Enterprise Institute fellow **Jonah Goldberg** as our keynote speaker. At the dinner, we presented longtime PRI board member **Richard A. Wallace** with our Baroness Thatcher Liberty Award and Orange County teacher **Rebecca Friedrichs,** the lead plaintiff in the U.S. Supreme Court case *Friedrichs v California Teachers Association*, with PRI's Courage Award. Although the Supreme Court's 4-4 decision in *Friedrichs* on March 29, 2016 handed public sector unions a victory, Rebecca told attendees that she would continue her fight against mandatory union agency fees that all public employees are required to pay.

"If you had been in that court room, you would feel like me, very confident in arguing that case in front of any nine justices, because we won on the merits. There is no doubt." – Rebecca Friedrichs

"Help out the Pacific Research Institute because they are on the front lines, fighting the good fight, and it's a worthy fight." – Jonah Goldberg

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ABOUT PACIFIC RESEARCH INSTITUTE

For 37 years, the Pacific Research Institute has championed freedom, opportunity, and personal responsibility by advancing free-market policy solutions. PRI provides practical solutions for policy issues that impact the daily lives of all Americans, and demonstrates why the free market is more effective than the government at providing the important results we all seek: good schools, quality health care, a clean environment, and a robust economy.

Founded in 1979 and based in San Francisco, PRI is a non-profit, non-partisan organization supported by private contributions. Its activities include publications, public events, media commentary, including opeds, radio and television interviews, as well as article citations, community leadership, invited legislative testimony, *amicus* briefs, and academic outreach.