

**National Conference of State Legislatures (NCSL)**  
**American Federation of State, County and Municipal Employees (AFSCME)**  
**National Association of Counties (NACo)**  
**American Federation of Teachers (AFT)**  
**United States Conference of Mayors (USCM)**  
**Fraternal Order of Police (FOP)**  
**National League of Cities (NLC)**  
**International Association of Fire Fighters (IAFF)**  
**International City/County Management Association (ICMA)**  
**National Association of State Treasurers (NAST)**  
**National Association of Police Organizations (NAPO)**  
**National Association of State Auditors Comptrollers and Treasurers (NASACT)**  
**National Education Association (NEA)**  
**Government Finance Officers Association (GFOA)**  
**Service Employees International Union (SEIU)**  
**International Public Management Association for Human Resources (IPMA-HR)**  
**National Association of State Retirement Administrators (NASRA)**  
**National Conference of State Social Security Administrators (NCSSSA)**  
**National Conference on Public Employee Retirement Systems (NCPERS)**  
**National Council on Teacher Retirement (NCTR)**

July 10, 2008

VIA ELECTRONIC MAIL

The Honorable Robert P. Casey, Jr.  
United States Senate  
Washington, DC 20510

RE: Hearing of the Joint Economic Committee, "Your Money, Your Future: Public Pension Plans and the Need to Strengthen Retirement Security and Economic Growth"

Dear Senator Casey:

On behalf of the 20 national organizations listed above—representing state and local governments and officials, public employee unions, public retirement systems, and more than 20 million state and local government employees, retirees, and their beneficiaries—we commend the Joint Economic Committee for examining the need to strengthen retirement security and economic growth in our country. The negative national savings rate, lack of pension coverage and participation in many parts of the private sector, and number of baby boomers that are currently ill-prepared for retirement, will place increased strain on our public assistance programs and our economy.

While pensions are seriously on the decline in most sectors of the workforce, State and local government employee pensions continue to provide a modest, secure benefit to those who spend a career in public service—providing for public safety, protecting the homeland, caring for the sick, and educating our children. The management of public pension assets also promotes economic growth and vitality. Through their size, broad diversification, and focus on long-term investment returns, public pension funds stabilize and add liquidity to the nation's financial markets. They additionally distribute consistent and inflation-protected revenue streams to local communities throughout the nation.

Independent sources such as the U.S. Government Accountability Office (GAO) and the Center for Retirement Research at Boston College (CRR), have found the vast majority of public sector pension plans to be sound and on track to meet their future obligations, with over \$3 trillion in financial assets accumulated for the retirement security of millions of Americans.<sup>1</sup>

We hope your efforts to examine these programs may additionally serve to strengthen retirement programs. We are pleased to share the following facts:

- **State and Local Pension Plans are an Integral Component of National, State and Local Economies.** Public plans distribute more than \$150 billion annually (an amount greater than the total economic output of 22 states) in benefits to 7 million retirees, disabilitants and beneficiaries, with an average annual pension benefit of roughly \$20,500. These payments are steady and continuous and provide a considerable benefit to national, state and local economies. Several state-specific studies have documented the significant contributions public pensions make to local and state economies. On the whole, personal income from state and local government pensions exceeds the personal income derived from the nation's farming, fishing, logging, and hotel/lodging industries **combined**.<sup>2</sup>
- **State and Local Retirement Plan Assets are Professionally Managed and Provide Valuable Long-term Capital for the Nation's Financial Markets.** The \$3 trillion in assets held in plan portfolios—and managed by professional investment managers—are an important source of stability for the economic marketplace and are designed to withstand short-term fluctuations of the financial markets while providing optimal long-term growth potential for the plans. Public pension portfolios are broadly diversified: approximately \$1.74 trillion of public pension assets are held as equities in publicly traded companies; \$850 billion is in corporate bonds and US treasury notes and bonds; and another \$150 billion is in real estate.<sup>3</sup> The bulk of assets are invested on a long-term basis, creating a stabilizing effect on these financial markets, while public pensions' cash and short-term holdings add essential liquidity. For the 3- and 5-year periods ended 12/31/07, public pension funds generated strong investment returns of 10.0% and 12.7%, closely tracking returns generated by corporate pension plans.<sup>4</sup>
- **Public Retirement Plans Attract and Retain the Workforce That Provides Essential Public Services.** State and local government employees comprise 12 percent of the nation's workforce, and two-thirds are employed in education, public safety, corrections, or the judiciary. Retention of experienced and trained personnel in these and other positions is critical to the continuous and reliable delivery of public services. Retired public employees live in virtually every city and town in the nation (90 percent stay in the same jurisdiction where they worked).
- **Public Pension Plans are Well-Financed.** As a group, public pension plans have pre-funded nearly 90 cents for each dollar they owe in liabilities. Unlike the contribution volatility that may exist in a private plan setting, state and local plans receive a steady stream of both employer and employee contributions that typically is mandated by statute. Required contributions to public pension plans often represent historically low amounts as a percentage of total state and local government spending and payroll. This is because these programs are

<sup>1</sup> U.S. Government Accountability Office. 2007. *State and Local Government Retiree Benefits: Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs*. GAO-07-1156. Washington, DC.

U.S. Government Accountability Office. 2008. *State and Local Government Retiree Benefits: Current Funded Status of Pension and Health Benefits*. GAO-08-223. Washington, DC.

Munnell, Alicia H., Kelly Haverstick, Steven A. Sass, and Jean-Pierre Aubry. 2008. *The Miracle of Funding by State and Local Pension Plans*. Center for Retirement Research at Boston College and the Center for State and Local Government Excellence.

<sup>2</sup> U.S. Department of Commerce Census Bureau and Bureau of Economic Analysis

<sup>3</sup> National Association of State Retirement Administrators and National Council on Teacher Retirement, Public Fund Survey, 7/8/08

<sup>4</sup> Wilshire Associates, Trust Universe Comparison Service, 2/13/08

pre-funded trusts where the vast majority of funding comes from investment income. Employer (taxpayer) contributions to state and local pension systems over the last quarter century have made up less than one-fourth of total public pension revenue. Earnings from investments and employee contributions comprise the remainder. This ratio has improved over time. In 2006, investment earnings accounted for 75 percent of all public pension revenue; employer contributions were 16 percent. Unlike corporate workers, most public employees are required to contribute to their pension.

- **State and Local Plans are Subject to Comprehensive Oversight.** While private sector plans are subject solely to federal regulation, state and local government plans are creatures of state constitutional, statutory and case law and must comply with a vast landscape of state and local requirements, as well as government accounting standards. These plans are highly transparent and accountable to the legislative and executive branches of the state; independent boards of trustees that include employee representatives and/or ex-officio publicly elected officials; and ultimately, the taxpaying public.

We share your interest in providing a secure retirement for American workers and future economic growth for our country. Indeed, we believe many public sector retirement systems are innovative models. Their independence and flexibility has enabled them to achieve important objectives related to the recruitment and retention of quality workers, while also promoting participants' ability to attain financial security in retirement, reduce reliance on public assistance programs, and provide significant economic benefits to communities and the financial markets.

We welcome the opportunity to work with the Committee as you further examine these important issues. Please feel free to call upon the legislative representatives of our organizations:

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