

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)
International Association of Fire Fighters (IAFF)
National League of Cities (NLC)
International City/County Management Association (ICMA)
National Education Association (NEA)
National Association of State Auditors Comptrollers and Treasurers (NASACT)
National Association of Police Organizations (NAPO)
National Association of State Treasurers (NAST)
Fraternal Order of Police (FOP)
Government Finance Officers Association (GFOA)
International Public Management Association for Human Resources (IPMA-HR)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)
National Association of Government Defined Contribution Administrators (NAGDCA)
National Conference of State Social Security Administrators (NCSSSA)

June 17, 2008

The Honorable George Miller
Chairman, House Committee on Education and Labor
2205 Rayburn House Office Building
Washington, DC 20515-0507

Dear Chairman Miller:

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 working and retired state and local government workers and their beneficiaries—we are writing to set the record straight with regard to the long-term viability and strength of State and local government employee retirement systems.

Recent press articles have used inappropriate and incomplete information, and muddled pension and healthcare liabilities, to distort the truth of public pension finance. 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.¹ The many existing safeguards for public pension funding and benefits explain why this is so:

- Benefits for the public workforce are publicly adopted by and subject ultimately to the oversight of popularly-elected governmental bodies (which is not the case in other sectors).
- Separate public agencies governed by independent boards of trustees are responsible for administration and management of the retirement system.
- Strict governmental requirements for transparency and public accountability must be followed.

¹ 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*. Chestnut Hill, MA: Center for Retirement Research at Boston College.

Just as financial reporting requirements for federal agencies are set by the Federal Accounting Standards Advisory Board (FASAB), those for State and local governments are set by the independent Governmental Accounting Standards Board (GASB). Both FASAB and GASB were established because of the fundamental differences between governments and businesses. State laws typically mandate public plans' adherence to GASB standards. Auditors generally require state and local governments to comply with these requirements in order to receive a "clean" audit opinion.

Recent articles have suggested governments should measure and account for their pension liabilities using corporate sector requirements. However, distinctions between the public and private sectors and the structure and governance of their pension plans are often unknown or misunderstood by the authors of these articles. State and local government employee pensions are designed much like the Federal pensions provided to U.S. military and civil service personnel, and are similarly backed by the full faith and credit of their sponsoring governments. Accordingly, suggesting the application of corporate finance measures—which are aimed at companies that can be acquired or go out of business—is simply inappropriate, uninformed and irresponsible.

Furthermore, unlike Federal plans, State and local pension systems collectively have pre-funded nearly ninety percent of their future pension liabilities. As the Census Bureau, GAO and CRR report, State and local government retirement systems have accumulated roughly \$3 trillion in financial assets to ensure the retirement security of more than 20 million working and retired state and local government workers and their beneficiaries.

State and local governments take seriously their responsibility for paying promised benefits to their employees and retirees:

- Comprehensive State and local laws and significant public accountability and scrutiny provide rigorous and transparent regulation of public plans and have resulted in strong funding rules and levels.
- The assets set aside for State and local employee pensions are professionally managed and invested on a long-term basis using sound investment policies.
- On the whole, public pension funding levels and investment performance have been found to exceed those in the private sector.
- Public plan participants' accrued benefits and future accruals are protected by state constitutions, statutes, or case law that prohibits the elimination or diminution of a retirement benefit. These protections are stronger than those provided for corporate plans under ERISA and the PBGC.

A better understanding of the protections put in place by the governments ultimately responsible for funding these plans may serve to build support for these arrangements and address the erosion of confidence in retirement security in general. In fact, the last place to be inciting "pension panic" is with advance-funded, government-protected pension plans that 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.

Public pension funds distribute more than \$150 billion in benefits annually to seven million Americans. These distributions not only provide financial security to retirees and their survivors, but they also provide economic stability and stimulus through consistent, inflation-protected revenue streams flowing into communities throughout the nation. While the number of corporate pensions is seriously on the decline, public pensions have continued to flourish – solid evidence that their existing regulatory structure is working. This is a model that should be emulated, not used to provoke

taxpayer resentment, or dismissed as outdated or obsolete, particularly when the growing number of workers who will have no income security in retirement will ultimately place increased strain on our public assistance programs and our economy.

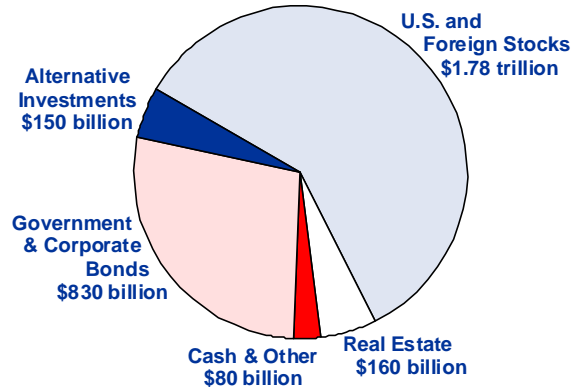
Our organizations share the desire to correct widely-publicized misinformation about State and local government employee retirement systems. Please feel free to contact our legislative representatives if you have any questions or would like additional information:

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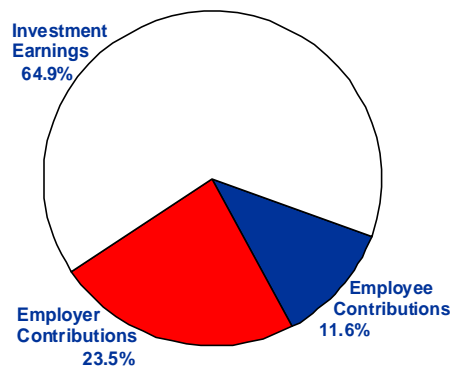
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Key Facts Regarding State and Local Government Defined Benefit Retirement Plans

- **Public Pension Plans are in Good Financial Condition.** As a group, state and local pension systems have pre-funded nearly 90 cents for each dollar they owe in liabilities. These assets are professionally managed and invested on a long-term basis using sound investment policies. As shown on the chart below, the \$3.25 trillion (in real assets, not IOU's) held by these plans are an important source of liquidity and stability for the nation's financial markets.



- **The Bulk of Public Pension Benefit Funding is Not Shouldered by Taxpayers.** On a national basis, employer (taxpayer) contributions to state and local pension systems make up less than one-fourth of all public pension revenue. Earnings from investments and employee contributions comprise the remainder. 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 plans. The chart below summarizes the sources of public pension revenue from 1982 through 2006.



- **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).
- **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 \$21,400. These payments are steady and continuous and provide a strong economic stimulus to communities throughout the nation. Several state-specific studies have documented the significant contributions public pensions make to local and state economies.
- **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.
- **State and Local Pension Funds Earn Competitive Investment Returns.** For the 3- and 5-year periods ended 9/30/07, public pension funds generated strong investment returns of 13.6% and 14.4%, exceeding returns generated by corporate pension plans.