

**National Conference of State Legislatures (NCSL)**  
**American Federation of State, County and Municipal Employees (AFSCME)**  
**National Association of State Treasurers (NAST)**  
**American Federation of Teachers (AFT)**  
**National Association of Counties (NACo)**  
**Communications Workers of America (CWA)**  
**National Association of State Auditors Comptrollers and Treasurers (NASACT)**  
**Fraternal Order of Police (FOP)**  
**United States Conference of Mayors (USCM)**  
**International Association of EMTs and Paramedics (IAEP)**  
**National League of Cities (NLC)**  
**International Association of Fire Fighters (IAFF)**  
**International City/County Management Association (ICMA)**  
**International Brotherhood of Correctional Officers (IBCO)**  
**Government Finance Officers Association (GFOA)**  
**International Brotherhood of Police Officers (IBPO)**  
**International Public Management Association for Human Resources (IPMA-HR)**  
**International Union of Police Associations, AFL-CIO (IUPA)**  
**National Association of Government Defined Contribution Administrators (NAGDCA)**  
**National Association of Government Employees (NAGE)**  
**National Association of Nurses (NAN)**  
**National Association of Police Organizations (NAPO)**  
**National Association of State Retirement Administrators (NASRA)**  
**National Conference on Public Employee Retirement Systems (NCPERS)**  
**National Council on Teacher Retirement (NCTR)**  
**National Education Association (NEA)**  
**National Public Employer Labor Relations Association (NPELRA)**  
**Service Employees International Union (SEIU)**

August 2, 2006

The Hon. Charles E. Grassley, Chairman  
United States Senate Committee on Finance  
135 Hart Senate Office Building  
Washington, DC 20510

The Hon. Max Baucus, Ranking Member  
United States Senate Committee on Finance  
511 Hart Senate Office Building  
Washington, DC 20510

The Hon. David M. Walker  
Comptroller General of the United States  
U. S. Government Accountability Office  
441 G Street, NW, Room 7100  
Washington, DC 20548

Dear Gentlemen:

On behalf of the 28 national organizations listed above—representing state and local governments and officials, public employee unions, public retirement systems, and over 20 million State and local government employees, retirees, and their beneficiaries—we are writing in reference to a July 10, 2006 letter between your offices regarding a study into the financial condition of State and local government defined benefit pension systems. The interests of our numerous organizations may be widely diverse, but we share in the desire to ensure such a study is done accurately and results in a balanced report, and stand ready to work with you to ensure its highest possible quality.

Indeed, such a study may go a long way to correcting the many misperceptions that appear to exist with regard to State and local government retirement systems. We hope you will call upon our collective expertise as this study ensues, as there are fundamental differences between governments and businesses that result in critical distinctions between plans in each sector and the way in which they are accounted for and measured. These distinctions are often unknown or misunderstood. A factual study into the health of public plans must ensure appropriate metrics are used and must not employ a private plan yardstick to measure government retirement systems.

Public plans are in sound financial condition and 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. Public plans are backed by the full faith and credit of State and local governments. Additionally, a public plan participant's accrued level of benefits and future accruals typically are protected by state constitutions, statutes, or case law that prohibits the elimination or diminution of a retirement benefit, providing far greater protections than what is provided by ERISA and the PBGC. A greater 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.

We also hope you will keep in mind that retiree health benefits are handled separately and independently and often are not administered or funded as part of a government's retirement system. While adequate health care is essential to overall retirement security, and health benefit commitments are placing significant and increasing pressure on government resources, fiscal and other challenges in providing healthcare benefits should not be confused with the funding of state and local government retirement plans. It is crucial that retiree health care benefits are clearly distinguished from any study into the financial health of public pension plans.

When you look at State and local government pension plans, you will find there is a good story to tell. It is our hope that a factual and objective analysis might ultimately serve to strengthen retirement programs and build on the success many in the public sector have had in not only enduring market fluctuations and providing security to retirees, but providing stability to our financial markets, and distributing consistent and inflation-protected revenue streams to local communities as well. We are pleased to share the following current facts about state and local plans, which we hope you will keep in mind as your work progresses:

- **Public pension plans are in good financial condition.** As a group, public pension plans have funded 86 percent of their liabilities, a figure that is projected to begin rising in the near future as the three-year market shock earlier this decade is more fully offset by strong investment gains. This figure also is consistent with funding levels of plans covering the substantial majority of public pension participants. 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.
- **The bulk of public pension funding is not shouldered by taxpayers.** When placed in context, required contributions to public pension plans continue to be well within State and local governments' budgetary means, and even represent historically low amounts as a percentage of total state and local government spending and payroll. This is because the vast majority of public plan funding comes from investment income. Employer (taxpayer) contributions to state and local pension systems over the last two decades have made up only one-fourth of total public pension revenue. Earnings from investments and employee contributions comprise the remainder. This ratio has improved over time. In 2004, investment earnings accounted for 77 percent of all public pension revenue; employer contributions were 15 percent.
- **State and local retirement plan assets are professionally-managed and provide valuable long-term capital for the nation's financial markets.** The \$2.8 trillion held in plan portfolios are an important source of stability for the marketplace and are designed to withstand short-term fluctuations while still providing optimal growth potential.
- **State and local pension plans fuel national, state and local economies.** Public plans distribute more than \$130 billion annually (an amount greater than the total economic output of 22 states) in benefits to over 6 million retirees and beneficiaries, with an average annual pension benefit of roughly \$19,500. These payments are steady, continuous, in great part adjusted for inflation and provide a strong economic stimulus to local economies throughout the nation.

- **Public 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 industry accounting standards. These plans are 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.
- **Public retirement plans attract and retain the workforce that provides essential public services.** Active public employees comprise more than 10 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 taxpayer services.

We share your continued interest in providing a secure retirement for American workers, particularly those that have spent a career in public service—protecting the homeland, caring for the sick, and educating our children. We believe many public sector systems indeed are innovative models that could be emulated to ensure responsible and prudent pension funding and management of assets. We welcome the opportunity to work closely with the Committee and the GAO as you examine State and local government defined benefit plans, and hope you will consult with us as this study moves forward. Please feel free to call upon our legislative representatives:

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