



OFFENSE OR DEFENSE?

By Jim Mosman, NCTR Executive Director



With the severe market decline in the last two years, and as investment portfolios plummeted, all of us knew that hard times were ahead for both individuals and institutions. The recession has proven to be deeper and more prolonged than first imagined and sustained unemployment levels are present in most states. This has, in turn, had a devastating impact on state budgets as tax revenues at all levels of government have dropped in a precipitous manner. State and local governments are more profoundly impacted as they must balance their budgets and cannot legally run deficits in the same manner as the Federal Government.

For those of us in the pension plan industry, it is a very difficult period. Pension fund portfolios have recovered some of the ground in the last year, but the losses wiped out years

of gains, and it will be some time before portfolios can catch up to former levels. Even with actuarial smoothing, many systems find themselves in the difficult position of seeking contribution increases in a period when public services such as police and fire protection, education, and health care are being reduced. In several states, governors have proposed reductions in employer contributions during this period. This only exacerbates any long-term funding problem.

As pension fund administrators and trustees, it is necessary to sort out what can be done to resolve the funding issue and protect the long-term viability of the plan. Public pension plans have come under attack from those who believe they offer generous benefits and are thus too costly for governments. This is a time when opponents of defined benefit plans want to capitalize on perceived weaknesses in these plans. Some entities, such as the Manhattan Institute, have released reports claiming the funding situation is far worse because of the actuarial methodology and assumptions utilized by public plans. In a number of states, legislation has been introduced to modify benefits for prospective members of

the plans. The State of Utah recently enacted legislation to close the current defined benefit plan to new members.

What Is Your Game Plan?

Some pension funds have actually taken an offensive strategy with regard to resolution of the funding issue. The Colorado Public Employees' Retirement Association (PERA) seems to offer the best example of this strategy. The PERA recognized early that the decline in the investment portfolio put its funding in a perilous position and that both contribution increases and amendments to plan benefits would be needed to maintain on-going viability of the plan. The PERA board and staff worked hard to develop a proposal to deal with the funding issue. They recognized that all interested parties would have to contribute to a solution. Early on in the process, they involved all interested parties, including active members and their

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CAPITOL COMMENTARY

CUTTING THE BABY IN HALF? GASB AS SOLOMON

By Leigh Snell, NCTR Federal Relations Director



In June, the Governmental Accounting Standards Board (GASB) will release for public comment a “preliminary views” (PV) document discussing possible changes to GASB’s existing accounting and financial reporting standards for governmental pensions. Based on early reports, these new standards will look very different from both prior rules and from recognized actuarial methods. If eventually adopted, they could be devastating for the future of public pensions.

NCTR has been very involved in this GASB process from its inception, focused on potential changes in the rate of return used for discounting projected pension benefits to their present value.

Under existing GASB standards, this rate is a plan’s estimated long-term investment return based on the plan’s asset allocation. However, proponents of “financial economics” have been pressing for GASB to require plans to use, instead, the “Market Valuation of Liabilities” method (MVL), which would substi-

tute a so-called “risk-free” discount rate, such as 30-year U.S. Treasury bond yields.

The use of such a discount rate would overstate present pension costs and obligations, produce volatility in pension plan funding levels, and wreak havoc on governmental plan sponsors’ budget processes. NCTR has therefore strongly opposed such a change.

The results, to date, appear to be mixed. In an apparent effort to appease both sides, GASB has tentatively decided to require a hybrid rate based partly on the long-term expected return on plan assets and partly on a municipal bond rate. The “blending” methodology would involve projected benefit payments and changes in plan assets from investment earnings and projected employer contributions—but not from employee contributions. Benefit payments covered by plan assets (up to the point that such assets are fully depleted) would be discounted using the long-term expected return; and any payments required thereafter would be discounted at a high quality municipal bond index rate.

But remember what happens to the baby when such Solomon-like solutions are pursued!

“In an apparent effort to appease both sides, GASB has tentatively decided to require a hybrid rate...”

To make matters even more confusing, it is not clear if this hybrid rate would be used for all pension accounting and financial reporting purposes, or if there would be dual discount rates. There are also other troubling elements that are expected to be contained in the PV, such as recognition of certain changes over the “remaining service lives of individual plan members,” which would appear to require the ongoing maintenance of separate annual amortization bases for each individual active member of a plan.

But what is perhaps most disturbing is that GASB appears intent on replacing the Annual Required Contribution (ARC) with a new expense measure that will not provide a realistic basis for a reliable employer contribution policy. In my humble opinion, this would not accomplish GASB’s stated goal of improving the usefulness, accountability, and inter-period equity of public pension financial calculations and disclosures.

In its white paper, “Why Governmental Accounting and Financial Reporting Is—And Should Be—Different,” GASB states that pension accounting for governments “explicitly harmonizes accounting with the actuarial funding characteristics of public pension plans.” If GASB follows through on its current approach, that critical harmony would be destroyed. ❖



TRUSTEE EDUCATION COMMITTEE LOOKS TO COMING DECADE

By Tina Zubeck, Chair, NCTR Trustee Education Committee;
and Chair, Board of Trustees, Missouri PSRS



The NCTR Trustee Education Committee met March 19th to evaluate NCTR's trustee education program in general, which is entering its tenth year, and to develop curriculum for this summer's workshop. Several NCTR Executive Board members were in attendance as well.

The committee wanted to ensure the program's effectiveness during the current economic climate and to maximize the value of training dollars available to public pension systems. It reviewed and assessed all aspects of the program and made recommendations for improvement. After analyzing past workshop evaluations, the committee noted that NCTR's training was held in such high regard that many trustees continued to attend far beyond their first years of service.

The committee also compared the NCTR program to other "for-profit" trustee training opportunities. After a great amount of discussion, the committee determined to continue with a summer Trustee Workshop, but to look at offering it in 2011 with an academic partner—one of the nation's premier business/finance educational institutions. This will allow us to expand our training to include academic as well as practitioner and manager presenters. We are excited about this new framework for NCTR's summer trustee training as we move into the next decade of its existence.

Once the Workshop direction was set, the committee drew on the vast experience and relationships of its members to recommend speakers for both the summer training and for our national conference. Several names were presented as keynote speakers on subjects as varied as the election, demographics, and business/education relationships. Breakout session topics were suggested as well.

Tina Zubeck is the School-Community Relations Coordinator and Board Secretary for Platte County R-3 Schools, Missouri, for which she has worked for 16 years. She has extensive experience in accounting, payroll, and employee benefits; and has served on the Board since 2004.



2010 TRUSTEE WORKSHOP & INSTITUTE AGENDAS AT-A-GLANCE

Today's unstable economy calls for a firm grounding in one's role and responsibility as a public pension trustee. Join us in July for NCTR's 10th Annual Trustee Workshop in Portland, Oregon. [Register for Workshop and reserve hotel room at www.nctr.org.](#)

TRUSTEE INSTITUTE (optional)

MONDAY, JULY 26

- Investments Governance/Asset Allocations
- Public Markets
- Private Markets
- Corporate Governance

TRUSTEE WORKSHOP

TUESDAY, JULY 27-28

- Economic Outlook
- Ethical Best Practices
- Actuarial Issues
- Board Evaluations
- What's Happening in the States?
- Building Consensus in Tough Times
- New Perspectives on Risk
- Promoting Fund Economic Value
- Sustainability

Plus networking, open discussion, and group problem-solving with peers from throughout the nation.



*Mark your
calendar!*



Preserving Retirement Security

October 9-14, 2010

The Westin La Cantera, San Antonio, Texas
Online registration begins in June at www.nctr.org



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OFFENSE OR DEFENSE

unions, retiree organizations, and the Legislature, in developing a “share the pain” proposal, which would stabilize funding of the plan. After considerable debate, the Legislature adopted a proposal that increased both employer and employee contributions and also reduced the plan’s COLA for retired members. The governor signed the legislation.

I think it is incumbent on all plans to develop a strategy during this period. Without a clearly defined strategy, your plan may be overwhelmed by the solution of another party. A solution that may be detrimental to both the plan and all of its members. As the economy improves and tax revenues are restored to governments, hopefully, the intense scrutiny on your plans will subside to some degree. The “pension envy” phenomenon, however, is not likely to disappear anytime soon as the private sector continues its evolution to defined contribution plans. The better answer for policy makers, however, is to maintain or provide plans with defined benefit characteristics to a larger portion of the population. Otherwise, as a nation, we are going to see the next generations of Americans increasingly dependent on governmental assistance in their senior years as defined contribution plans currently do not provide for longer term retirement security.



LOOKING TO FILL OR FIND A POSITION?

NCTR’s “Pension Fund Job Opportunities” page lists openings throughout the U.S. Have a position to post? Email the job description to rgonzales@nctr.org for consideration. Jobs will remain posted for six months or until we hear from you that the job has been filled, whichever comes first. Current listings include:

- OUTSIDE LEGAL COUNSEL—RFP
West Virginia Consolidated Public Retirement Board
- CHIEF TECHNOLOGY OFFICER
Employees’ Retirement System of the City of Milwaukee
- DIRECTOR/CIO
New Jersey Division of Investment
- GENERAL COUNSEL
California State Teachers’ Retirement System
- CEO/RETIREMENT ADMINISTRATOR
San Diego City Employee Retirement System



2010 Events

23rd Annual System Directors’ Meeting
June 13–16

Charleston Place Hotel
Charleston, South Carolina
Registration now open online



10th Annual Trustee Workshop
Optional INSTITUTE: July 26
WORKSHOP: July 27 & 28

Hilton Portland & Executive Tower
Portland, Oregon
Registration now open online



88th Annual Convention
October 9-14

The Westin La Cantera
San Antonio, Texas

Online registration begins in June



**For latest information,
visit www.nctr.org**



HOW DID YOU PARTICIPATE?

“America Saves” wants to hear from groups that participated in the 2010 America Saves Week (February 21–28). What materials, events, or activities were part of your promotion? This year’s campaign, with more than 500 groups registered, was the largest to date. Visit www.americasavesweek.org for more information.



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