Third Quarter 2011

MESSAGE FROM THE PRESIDENT

Moving Forward

By Ronnie Jung, NCTR President;
and Executive Liaison to the Board of the Teacher Retirement System of Texas

NCTR's 89th Annual Convention is around the corner, with members of the public pension community gathering in Baltimore, Maryland, from October 9 to 13. The theme of this year's Convention is "Moving Forward," implying many things, including the obvious—putting the past behind.

In recent years the economy, the negative political climate, the actions taken, and the events that have occurred all have dramatically impacted our pension plans in unprecedented ways. Knowing there are still problems to be faced and challenges to be met, we still must recognize the need to dust ourselves off and *move forward*.

The agenda being presented by NCTR has been carefully planned to educate and empower the attendees, enabling them to confidently make informed choices *that move our pension plans forward*.

Below are a few guest speaker highlights. To view the full slate of this year's remarkable speakers, link to the agenda posted at the NCTR website, www.nctr.org.

Sunday afternoon's Pre-Convention Event marks the return of provocative geography advocate **HARM DE BLIJ** for an update on "America's Changing Role in a Transitory World." Dr. de Blij, who specializes in geopolitical and environmental issues, looks at America's declining strategic and economic power and how to let others do what America can't or won't.

On Monday, the Convention's First General Session launches with an overview of the "Current Political Environment" as observed by Keynote Speaker **JOHN HARWOOD**, CNBC Chief Washington Correspondent and political writer at *The New York Times*.

Later that morning, three nationally recognized experts on retirement security share the stage—EBRI President **DALLAS SALISBURY**, labor economist **TERESA GHILARDUCCI**, and **MARK IWRY** from the US Treasury.

On Tuesday, the Second General Session begins with demographer **NEIL HOWE**, an expert on generational change and long-term fiscal policy, addressing the "Global Aging and the Crisis of 2020s."

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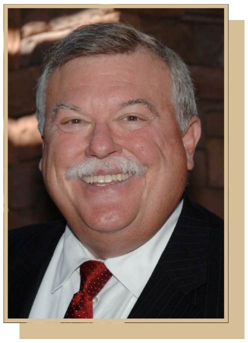
CAPITOL COMMENTARY

A Messy Divorce

By Leigh Snell, NCTR Federal Relations Director



On July 8th, the Governmental Accounting Standards Board (GASB) released two "Exposure Drafts" of its proposed changes to accounting and financial reporting for pension plans and their sponsors. This represents the final stages of a multi-year project to rewrite the rules governing the way in which government pension costs and obligations are calculated and reported.

GASB claims its amendments would "improve" this process. Many, however, believe just the opposite. By divorcing accounting from funding, GASB will seriously impair the decision-usefulness of employers' pension disclosures, virtually destroying the ability to use them as a tool to provide policymakers with a funding target, or to know whether plan sponsors are paying their fair share of pension costs.

> *"By divorcing accounting from funding, GASB will seriously impair the decision-usefulness of employers' pension disclosures…"*

Why? Currently, the amount shown on the sponsor's balance sheet is linked to actual plan funding. It reflects the cumulative difference between the employer's actuarially determined Annual Required Contribution (ARC) necessary to fund plan liabilities over time and the actual contributions made by the employer. For example, if an employer had always paid its ARC in full, then its pension obligation shown on its balance sheet would be $0. To the extent the ARC was not being paid, the balance sheet would identify this and provide a sense of how much the employer had fallen behind.

Under the new GASB proposal, the employer would have to report, as of its fiscal year-end date, its total pension liability minus the market value of plan assets. Thus, if the employer's total pension liability equaled $25 billion, and the market value of plan assets equaled $20 billion, then the employer would report the remaining $5 billion as its *net* pension liability on its balance sheet—even if the employer had always paid 100% of its ARC. Finally, employers in cost-sharing plans would be required to disclose their proportionate share of their plan's liabilities—a major departure from current practice.

Furthermore, GASB also makes major changes in calculating total pension liability (commonly referred to as the actuarial valuation). Smoothing is limited, most governments would have to recognize pension expenses sooner than they do at present (no more 30-year amortization), and the discount rate could be less than the expected rate of return in some cases.

Consequently, this new pension liability will likely be dramatically larger than the number currently disclosed on the balance sheet that is directly linked to the ARC. It also will likely be larger than the actual pension contribution calculated by the plan for funding purposes, which will no longer be based on GASB rules.

This will "de-link" pension accounting from pension funding. It will create confusion as to which number—the balance sheet liability or the liability used by the plan to determine its funding request—is the "real" number.

Overall, GASB will inflate employers' perceived costs, increase the perception of volatility in their liabilities, raise public confusion over the adequacy of funding efforts, and eliminate proven and much-needed tools to help enforce funding discipline.

It looks to be a very messy divorce.

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The PensionDialog Blog

By Ady Dewey, NASRA-NCTR External Affairs Manager

Tackling misstatements, commenting on studies, examining retirement security—these are some of the focus areas of our recently launched blog, PensionDialog (www.PensionDialog.com)

Like anything online—or in print—it takes more than a "write it and they will come" attitude. There needs to be a concentrated effort to spread the word.

What can you do to be part of the conversation?

- Sign-up on the site to be notified via e-mail each time there is a new post. Look for this in the right column:

  Email Subscription
  Enter your email address to subscribe to this blog and receive notifications of new posts by email.

- Share an article by clicking one of the choices at the bottom of every post to connect with your LinkedIn, Facebook, Twitter, or other social media:

  Share this:

- Post a comment on one of the articles with your thoughts and perspectives:

  Leave a Reply
  Enter your comment here...

- Get the PensionDialog widget for your LinkedIn or Facebook page (it works like a link—when clicked, it directly connects to the blog):
- Write and submit a post, or suggest a topic.

For more information on any of the above, please contact Ady Dewey, the NASRA-NCTR external affairs manager, at nasra.nctrcomm@gmail.com.

A Snapshot of the Three-Month-Old PensionDialog

- Articles from retirement systems, the Government Finance Officers Association (GFOA), the Heartland Institute, Lord Abbett, and others;
- Links to current research, including from the National Council of State Legislatures, the Center for State and Local Government Excellence, AARP, and the National Institute on Retirement Security;
- Video clips of interviews and links to Congressional hearings;
- Cited as a public pension news source by the Society of American Business Editors and Writers.

WEBINAR

MONITOR DC activities with Federal news **WEBINARS** hosted by **LEIGH SNELL,** NCTR Director of Federal Relations

Visit www.nctr.org for next date and time.

On the move

Shifts in System Directors

BRIAN GUTHRIE has replaced Ronnie Jung as Executive Director of the Teacher Retirement of Texas. For the last 3 years, Guthrie has served as the system's Deputy Director. Jung will assist in the transition as Executive Liaison to the Board, serving until he retires in January 2012.

NCTR welcomes **LINDA SAVITSKY** as Executive Director of NASRA. Savitsky, who served 37 years in public sector finance positions, predominately in the State of Connecticut, replaces Glenda Chambers who retired in August after leading NASRA for the past nine years.

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Moving Forward

Tuesday evening, we honor the 2011 National Teacher of the Year with a dinner and reception. This year's honoree is **MICHELLE M. SHEARER,** who has taught chemistry for the last ten years at Urbana High School in Frederick County, Maryland. Following dinner, Ms. Shearer will share her philosophy and experiences in transforming student lives.

The primary mission of the NCTR Convention is to provide education to members of the public pension community, with specific attention to teacher pension funds. In addition to offering perspectives of global and national events that may affect state pension systems, the convention is a one-stop opportunity for annual updates on legislative, legal, and actuarial issues; the latest word on bond, alternative, and emerging markets; and networking and discussion with peers at meals and receptions.

Be assured that choosing to attend NCTR's 89th Annual Convention will be a rewarding first step into the future. The information you will take away will serve you well in these extraordinary times.

Please make every effort to attend. We look forward to seeing you in Baltimore.

NCTR President

Registration is underway at www.nctr.org

SNAPSHOTs

In June, executives gathered in Sacramento for the **NCTR 24th Annual System Directors' Meeting**, which included tour and sessions in the CalSTRS headquarters. Next meeting marks 25 years and is scheduled for Denver, Colorado, in June 2012.

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Wall of Art Glass by Paul Housberg, 2009. Photo by Clarissa Resultan.

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