



January 11, 2010

The Editors
The Washington Post
1150 15th Street, NW
Washington, DC 20071

VIA ELECTRONIC MAIL

To the Editors:

The January 2nd editorial in *The Washington Post* uses incomplete information to describe public pensions. While the reserves set aside in trust for future pension benefits, along with State and local government fiscal conditions, have been severely affected by the 2008 market decline, the vast majority of public pension plans have sufficient assets to continue paying promised pension benefits for the foreseeable future, even using very pessimistic projections. Public pensions do not require, nor are they seeking, any Federal bail-out.

A chief reason for this is the fact that public pension plans are pre-funded; they are not “promise now, pay later” schemes. That is, a significant portion of the assets needed to fund public sector pension liabilities is accumulated during a government employee’s working life from contributions and investment returns, which is then paid out during that employee’s retirement. Consequently, State and local government retirement systems currently have more than \$2.6 trillion in financial assets accumulated to ensure the retirement security of their working and retired employees, survivors and beneficiaries. Moreover, public employees share, along with their employers, in the cost of their retirement, typically contributing from five to ten percent of their paychecks to their pensions.

Another major reason why public pension funds are well-prepared to withstand periods of market volatility is that the assets set aside for State and local employee pensions are pooled, professionally managed and invested on a long-term basis using sound investment policies, including portfolio diversification. Since public plans and their sponsors are effectively perpetual entities, they are also able to employ an extensive time horizon that allows for a patient and measured approach.

As a result, investment earnings have accounted for 58 percent of all public pension revenue from 1982 through 2008. Although much has been made of so-called “rosy investment earnings projections,” typically eight percent in recent years, the fact is that, according to Ibbotson Associates, overall stock returns have averaged 10.4% per year

since 1926. Indeed, most economists consider the projected long-term rates of return used by public pension plans reasonable given their balanced investment portfolios.

This is not to say that changes will not need to be made in response to the loss in pension assets as a result of the unprecedented 2008 market decline. Indeed, State and local governments, their pension plans and their employees are already engaged in the process of examining benefit levels and financing structures in order to rebuild reserves. Asset allocation strategies also are being reviewed. However, to suggest that governmental plans will be “tempted to gamble for higher returns to make up for their losses” ignores recent statistical research on thousands of plans over many decades. Such analysis concludes that after experiencing cyclical market losses, public plans consistently follow prudent investment practices, maintaining a focus on the long-term, and invest in new asset classes to diversify risk, not increase it.

Governmental plans, their sponsors and their participants recognize that in order to remain sustainable over the long term, adjustments may be necessary. Indeed, such flexibility and a willingness to make changes is a hallmark of the history of public pensions – from the move to pre-funding from pay-as-you-go, to the incorporation and active promotion of deferred compensation plans as important supplements to traditional pensions.

However, our retirement systems differ not only from corporate pensions, but also from one another in both design and governance arrangements. This has produced varying financial pictures across the country that will in turn require varying approaches to sustainability, depending on many factors, particularly a plan’s funding condition prior to the market decline. Therefore, while tempting, it is difficult – and ultimately misleading - - to generalize about the overall state of public plans based on the condition of a select few.

Public pension funds distribute more than \$160 billion in benefits annually to more than 7.5 million Americans. These distributions not only provide financial security to retirees and their survivors, but also, through consistent, inflation-protected revenue streams flowing into virtually every community throughout the nation, they have provided vital economic stability and stimulus during this painful economic period in our nation’s history. While the number of corporate pensions is seriously on the decline, public pensions have continued to flourish – solid evidence that their existing regulatory and financial structure is working.

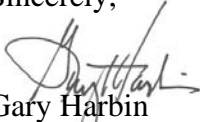
Many Americans saw their retirement savings severely diminished by the economic downturn and many may not have a sufficient time horizon to rebuild their assets. This will place an unexpected financial burden not only on individuals and their families, but also on our already strained public assistance programs and our economy. In contrast, State and local retirement systems have weathered numerous market declines in the past,

and are already working with affected stakeholders, including the taxpayer, to do so once again.

Governmental pension plans therefore provide a model that should be emulated, not used to provoke fear, or dismissed as outdated or obsolete, particularly given the growing number of private-sector workers who will have no income security in retirement. If, as *The Washington Post* states, only 20 percent of private-sector employees participate in traditional defined benefit plans, providing them with a median monthly income of just \$641, the answer should be to find ways to secure a more realistic retirement for these Americans – not to reduce the average monthly \$1,470 pension check the *Post* says the vast majority of those who teach our children, drive their school buses, and keep them safe from harm receive (an amount that may not be supplemented by Social Security, for which many public employees are not eligible).

We welcome coverage and commentary related to the important and necessary process of re-examining the best means of providing realistic, sustainable retirement security for public employees. Creating fear where retirement security still exists is irresponsible and only erodes efforts to address the true retirement security crisis facing our nation.

Sincerely,



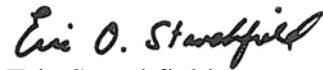
Gary Harbin

President, National Council on Teacher Retirement; Executive Secretary, Kentucky Teachers' Retirement System



Pat McElligott

President, National Conference on Public Employee Retirement Systems; Captain, Tacoma, Washington Fire Department; Chair, Washington State Investment Board.



Eric Stanchfield

President, National Association of State Retirement Administrators; Executive Director, District of Columbia Retirement Board

The National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR), collectively represent State and local public employee retirement systems that hold over \$2.6 trillion in trust for nearly 20 million public employees, retirees and their beneficiaries.