



PRESIDENT'S MESSAGE

SUSTAINING SECURE RETIREMENTS FOR PUBLIC EDUCATORS—STAND UP AND BE COUNTED

By Ronnie G. Jung, CPA; NCTR President; and Executive Director, Teacher Retirement System of Texas



With the ringing in of the New Year, 2011 brings with it significant challenges facing all of us as we work to maintain secure retirement systems for our members. At the federal level, public pension funds will be under attack by those who are “concerned about the need for taxpayer bailouts because pension benefits are not sustainable.” At the state and local levels, many public pension funds will face challenges obtaining adequate contribution rates because of serious budget deficits. Public pension funds also seem to be under attack by some in the academic community. The press seems to pile on story after story about extravagant benefits.

Most information used to attack public pension funds is not repre-

sentative of the industry as a whole, nor does it paint a fair picture. Most information is taken out of context or generated from analyses using extreme assumptions that are neither practical nor reasonable.

Although we face an uphill battle in dealing with attacks on public pension funds, it is “time to stand up and be counted.” As pension plan administrators, we must get the message out that public pension funds are about the only ones getting it right by providing reasonable retirement security for our members. Not only do we need to speak up and get the message out, but we must also work to eliminate some of the abuses that do exist, thereby eliminating some of the ammunition used against us. In addition, we need to remember that our fiduciary duty requires that we consider the impact on all stakeholders when doing what is best for our members in the long run.

We need to do more than just stand

up and defend the status quo. We need to come up with practical solutions that address the needs of all stakeholders, including members, employers, and taxpayers. We need to be honest with the current status of our funding, tell it like it is and not sugarcoat the long-term challenges we face. We must thoroughly examine our benefit structures, contribution rates, and investment return assumptions; however, we must be careful not to fall into a herd mentality, taking a course just because everyone else is doing so. We must also not let short-term situations drive our long-term actions. Unlike the private sector, where companies come and go, we are here for the long haul and must do everything we can to ensure that funds are available to pay current and future members.

While times are challenging, this is a perfect opportunity for public pension funds to take leadership roles in ensuring secure retirement systems for all members. The staff and executive committee of NCTR stand ready to help in the fight to preserve secure retirement benefits for all public educators.

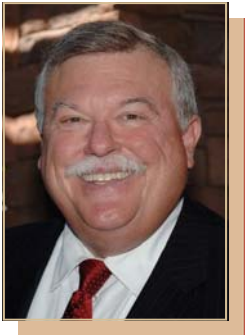
“We need to do more than just stand up and defend the status quo.”



CAPITOL COMMENTARY

HAPPY NEW YEAR?

By Leigh Snell, NCTR Federal Relations Director



The new year started early—and badly—for public pensions. In December 2010, during the Congressional lame-duck session, legislation was introduced in the House of Representatives to prohibit state or local government sponsors of a pension plan from issuing federally tax-exempt bonds unless the sponsor files reports with the federal government regarding its plan’s accounting practices.

These new reports would disclose each plan’s financial data using federally-proscribed methodologies designed to “achieve comparability across plans.” Plans would have to report an unsmoothed asset valuation and a so-called “market value” for their liabilities (MVL). The legislation would also mandate the creation of a public website containing this information. Finally, the bill makes it clear that the federal government would not be liable for any current or future shortfall in public pension funding.

The bill was introduced by Congressmen Devin Nunes (R-CA), Paul Ryan (R-WI) and Darrell Issa (R-CA). Very

soon, they intend to reintroduce the legislation in the current Congress.

Congressman Nunes asserts that the true level of public pension unfunded liabilities is being hidden and he is “trying to smoke the rats out of their holes.” According to Nunes, public pensions could be underfunded by as much as \$15 trillion!

Bill supporters also claim that states will begin to run out of pension funds by 2017, and 42 states’ pension funding will be exhausted by 2030. Their research, however, is seriously flawed. First, it is based on asset values as of June 30, 2009, when the S&P 500 had a return of -26.2 percent for the previous 12 months.

Next, they assume that, going forward, state and local governments will contribute nothing to amortize their past pension liabilities. However, from FY 01 to FY 09, pension plan sponsors, on average, paid 91 percent of their required pension contributions, which include such amortization payments.

Finally, these public pension critics assume that plans will generate rates of return as if they were invested in only bonds, rather than in the diversified portfolios actually in use. This makes a huge difference, when you consider that, from 1871 to 2008 the mean real (above inflation) return on stocks was 6.3 percent compared to 2.5 percent on bonds. Is it any wonder then— when

combining such gross underestimates of expected investment returns with no projected future contributions—that

“The Nunes legislation represents a fundamental lack of understanding....”

this “research” results in such a doomsday scenario?

The Nunes legislation represents a fundamental lack of understanding regarding the strong accounting rules and strict legal constraints already in place requiring transparent governmental financial reporting. Due to the use of MVL and an unsmoothed asset valuation, the new reports would present highly inflated, volatile numbers compared to those currently used for valuation and funding purposes. This would create tremendous confusion among decision-makers as well as the public.

The Nunes bill is being used as the focal point for a renewed assault on public pensions at the federal, state, and local levels. Be sure your Congressional delegation gets the facts regarding your plan and the negative implications of this dangerous legislation.

Keep abreast of issues that impact NCTR members

Follow the latest developments in Washington, DC, in Leigh Snell’s Federal E-news, Blog, Legislative Alerts, and Webinars. Visit the “Federal Governmental Relations” page at www.nctr.org to learn more.



2011 MEET YOUR NEW COMMITTEE MEMBERS

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NCTR's Legislative Committee meets Monday, March 7, 2011, at the Dupont Hotel in Washington, DC, for a joint Legislative Conference with NASRA.

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Jeff Ezell, Georgia
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NCTR's Administrator Education Committee meets Sunday, March 6, 2011, at the Dupont Hotel in Washington, D.C.

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NCTR's Trustee Education Committee meets Sunday, March 6, 2011, at the Dupont Hotel in Washington, DC.

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Appointments pending



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Appointments pending



February 20-27, 2011

Build Wealth, Not Debt. Prepare for this year's campaign with publicity ideas, flyers, and social media links at www.americasavesweek.org

President & President-Elect are ex-officio members of all NCTR Standing and Special Committees.



On the move SHIFTS IN SYSTEM DIRECTORS



WESLEY MACHIDA of Hawaii Employees' Retirement System assumed the Administrator position upon the retirement of David Shimabukuro in July 2010. Mr. Machida had served as the ERS Assistant Administrator since 2000.



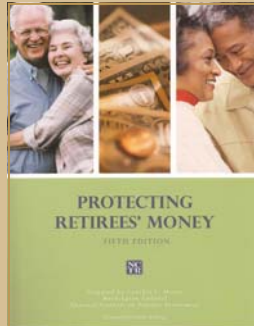
In late January, **RICHARD W. INGRAM** steps into the Executive Director position at Illinois Teachers' Retirement System. Mr. Ingram has been the Executive Director of the New Hampshire Retirement System since January of 2009.

WELCOME NEW NCTR MEMBERS!

■ COMMERCIAL ASSOCIATES

- Bingham McHale LLP
- CF Global Trading, LLC
- Pension Trustee Advisors
- Pomerantz Haudek Grossman & Gross, LLP
- Vontobel Asset Management

UPDATE UNDERWAY



Last printed in 2005, NCTR's valuable resource, *Protecting Retirees' Money*, summarizes administration, investment, and oversight of the 50 state systems serving K-12 teachers; and cites statutes and laws that protect participant rights. Chapters are currently under review for a new edition this summer.

NEW NIRS DIRECTOR

DIANE OAKLEY, former senior policy advisor to Congressman Earl Pomeroy (D-ND) has begun her role as Executive Director of NIRS (National Institute on Retirement Security) where she will lead strategic planning, research, and education initiatives. In her many years working with both public and private retirement plans, Ms. Oakley has gained a reputation as a respected and passionate retirement policy expert. Prior to her work with Pomeroy, she held various leadership positions during a 28-year tenure at TIAA-CREF. Ms. Oakley succeeds NIRS' inaugural Executive Director, Beth Almeida. ❖

2011 NCTR Events

Deputy Directors' Workshop
Tentative for May

•
24th Annual
System Directors' Meeting

June 12-14
Embassy Suites
Sacramento, California

•
11th Annual Trustee Workshop

Optional INSTITUTE: August 1
WORKSHOP: August 2-3
Fairmont Copley Plaza
Boston, Massachusetts

•
89th Annual Convention
October 10-13
Baltimore Hilton
Baltimore, Maryland

•
For more current information,
visit www.nctr.org

WEBINARS

Join NCTR
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Relations
Director
Leigh Snell
for live updates
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Coming in February.

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