NATIONAL COUNCIL ON TEACHER RETIREMENT

PRESS STATEMENT

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NCTR OPPOSES FEDERAL TAKE-OVER OF PUBLIC PENSION ACCOUNTING

"One-size-fits-all" Federal reporting mandates unwarranted; new regulations would be disruptive and costly for State, local governments

Washington, D.C., April 18, 2013 – The National Council on Teacher Retirement (NCTR) issued the following statement in response to Congressman Devin Nunes' introduction of the Public Employee Pension Transparency Act (PEPTA), that would amend the Internal Revenue Code to impose new Federal reporting and disclosure requirements on State and local governments' retirement savings plans:

"The National Council on Teacher Retirement today announced its opposition to public pension reporting legislation introduced by Representatives Devin Nunes (R-CA) and others on April 18, 2013. Their proposal ignores the facts regarding the validity of current State and local government accounting rules and practices. The legislation would also mandate inappropriate, costly federal reporting requirements on State and local retirement systems that could result in the loss of Federal tax-exempt status for plan sponsors' bonds if the IRS found fault with the filing of these reports.

"PEPTA 'displays a fundamental lack of understanding of the strict standards already in place regarding public pension plan accounting and transparency, including Generally Accepted Accounting Principles set by the Governmental Accounting Standards Board (GASB), financial reporting guidelines set forth by the Government Finance Officers Association (GFOA), and sunshine laws in every State that require open and transparent governmental financial reporting and processes,' said Meredith Williams, NCTR's Executive Director. 'Mr. Nunes' new legislation would needlessly create turmoil in the municipal bond markets and scare both bondholders and taxpayers, while also threatening to increase State and local government costs,' Williams warned.

"'I continue to be surprised that Congressman Nunes and his supporters believe that imposing unwarranted, unnecessary, and duplicative Federal regulation on State and local governments is the best way to solve any problem,' Williams continued.

"The Nunes legislation would require every public pension plan to essentially keep two sets of books. One would be the set that plans currently produce, which would reflect the reality of balanced investment portfolios -- including stocks and other sensible investment alternatives as well as bonds – that have, over the past 25 years, averaged 8.8 percent (based on median returns for periods ended 09/30/2012). The other set would pretend that all public plan assets were invested in U.S. Treasury bonds (even though this is not the case for any public plan), which currently yield around 3 percent.

"The result will be that when, as now, interest rates are very low, the Nunes approach will make pension plans appear very underfunded. This could place pressure on State and local governments to put more monies into these funds than they really need based on their actual funding status. But when interest rates are high, it could make plans look even more funded than they actually are, which could exacerbate the underfunding of pensions.

"'At a time when most Americans are still struggling to make ends meet,' Williams said, 'Congressman Nunes wants to effectively force State and local taxpayers, when they can least afford it, to pay more into funding State and local pensions than is necessary because certain ivory-tower academics and think-tank theorists believe that these pensions should be even safer than they already are.'

"The Nunes proposal also ignores the unprecedented number of reforms already underway, with 44 states having enacted major changes in State retirement plans from 2009-2012. Many local governments have implemented changes as well. These changes have included increases in employee contributions to pension plans, longer vesting periods, reduced benefit levels, higher retirement ages, and lower cost-of-living adjustments. Some modifications may apply to new workers only, while others affect current employees and/or retirees. These changes were instituted and executed without the need for any Federal intervention or regulatory mandates.

"Finally, the Nunes legislation fails to factor in the new GASB accounting and reporting guidelines approved in June of 2012 that allow funds that are financially healthy to continue to use a discount rate that reflects the long-term expected rate of return on plan investments in calculating the net pension liability instead of the so-called "risk-free" rate of return that PEPTA would require plans to use. Fitch Ratings recently expressed approval of the new GASB rules, saying they are 'a step in the right direction toward better transparency and comparability of government pension liabilities.' Congress should let the new GASB requirements take effect before rushing to impose a Federal one-size-fits-all mandate.

"Williams urged Member of Congress to 'ignore the doomsday rhetoric, learn the real facts about the retirement systems sponsored by your State and local governments, and then oppose the Nunes legislation.'"

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The National Council on Teacher Retirement (NCTR) is an independent association dedicated to safeguarding the integrity of public retirement systems in the United States and its territories to which teachers belong. NCTR membership includes 68 state, territorial and local pension systems, serving more than 19 million active and retired teachers, non- teaching personnel, and other public employees, with combined assets of more than $2 trillion in their trust funds.