

From: Leigh Snell [lsnell@nctr.org]
Sent: Monday, July 17, 2006 5:16 PM
To: NCTR
Subject: NCTR Federal Alert



FEDERAL ALERT

"OPERATION PUSH-BACK"

Your Immediate Attention Requested

As you may know, on July 10, 2006, the leaders of the Senate Finance Committee, Senators Chuck Grassley (R-IA) and Max Baucus (D-MT), sent a [letter](#) to the Government Accountability Office (GAO) asking for a study of the funding status of public pension plans -- both the tone and content of the letter provide reason for us to be concerned about the purpose of this request.

NCTR, in conjunction with NASRA and other industry allies, needs to provide a swift push-back to what could be an effort to establish a justification for federal funding rules for public sector DB plans. We must act immediately to correct the facts regarding DB plans and to underscore for both Congress and the GAO the importance of an unbiased and accurate report in this critical area.

Background

While there had been rumors that such a request of GAO was in the works, the timing of the letter and the identity of the authors have come as something of a surprise. Most disturbing is the tone of the letter and the numerous misstatements concerning public pension plans that it contains. It would appear, based on these factors, that the two Senators had already passed judgment on the very issues that their letter asks to be examined. Furthermore, Senators Grassley and Baucus, as well as their Finance Committee staff, typically have been receptive to and understanding of the concerns that NCTR and other public sector groups have raised with them in the pension area, which makes the letter's contents all the more troublesome.

Finally, the ultimate purpose of this request, coming as it does in the midst of a very difficult conference

committee that is wrestling with contentious private sector funding rules under ERISA, is also very worrisome. While it is unclear what prompted the letter, GAO reports are often used as the precursor to legislative proposals. Therefore, there is some concern that the timing may be right -- given increased media attention to public plan underfunding, the impending disclosures of OPEB liabilities and their impact on overall funding issues, and the frustration of private sector DB sponsors -- for a major legislative initiative aimed at public sector DB plans.

Accordingly, it is **MOST IMPORTANT** that this GAO study be conducted with the utmost care and attention to the facts and that an unbiased report is issued. In order for this to be accomplished, it is critical that, from the very outset, the GAO and the Congress be made aware that the public pension community intends to follow this study and its development very closely.

NCTR/NASRA Response

NCTR and NASRA have addressed a letter (see below) to Senators Grassley and Baucus expressing our serious concerns with their approach to this study. The letter was delivered to both Senators and to the Comptroller General last Friday, July 14, 2006. A second letter, to be signed by a larger coalition of public sector pension advocates, is currently being drafted.

Call to Action

It is critical that every NCTR member write a letter to Senators Grassley and Baucus expressing your plan's view regarding the requested study. In addition to reinforcing the points that we've made in our joint letter, you should highlight the funding status of your plan, the protections that apply to your members' benefits and any other plan-specific fact(s) that makes it clear that public pension plan promises made -- are promises kept! In addition to sending the letter to Senators Grassley and Baucus, you should copy your letter to your two U.S. Senators and to the Comptroller General.

Finally, please send a copy of your letter to **Leigh Snell**, NCTR Director of Governmental Relations. **Also, we have learned that the GAO may already be contacting plans about funding issues. If your plan has been contacted, or you have heard of such efforts, please let us know ASAP.**

TEXT OF NCTR/NASRA LETTER

**NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS
NATIONAL COUNCIL ON TEACHER RETIREMENT**

July 14, 2006

The Hon. Charles E. Grassley, Chairman

United States Senate Committee on Finance
135 Hart Senate Office Building
Washington, DC 20510

The Hon. Max Baucus, Ranking Member
United States Senate Committee on Finance
511 Hart Senate Office Building
Washington, DC 20510

Dear Senators Grassley and Baucus:

On behalf of the National Association of State Retirement Administrators (NASRA) and the National Council on Teacher Retirement (NCTR), we are writing in reference to your letter dated July 10, 2006, to the Government Accountability Office (GAO) requesting a study of the funding status of public pension plans. The membership of NASRA and NCTR collectively administers State, territorial, local, university and statewide public pension systems that hold over \$2.1 trillion in trust for over 18 million public employees, retirees and their beneficiaries.

We appreciate your interest in the general financial health of State and local government defined benefit (DB) plans. We are concerned, however, about some of the statements made in the letter to the GAO, particularly those that could be misleading or are factually inaccurate regarding the governance, protections and financial condition of public employee retirement systems. It is extremely important that an accurate point of departure is used and proper metrics are employed. We welcome the opportunity to work closely with you and the GAO as you examine the areas outlined in your letter, and hope the factual points noted below and future discussions will better ensure a balanced study.

For example, when discussing pensions in the private sector, the letter may be correct in stating that "retirees and workers who 'play by the rules' all their careers now find themselves with far lower actual or future retirement income on which they had counted." However, that statement definitely does not apply to participants (both active employees and retirees) in the public pension plans represented by our two associations. Public DB pension plan promises made are promises kept. Accordingly, we do not understand the basis for the letter's suggestion that public employees need "help" in "avoid[ing] the benefit losses and reduced accruals experienced by their private sector counterparts." We know of no participant in our members' plans who has or may ever lose any part of his or her existing retirement benefit.

Indeed, unlike the private sector in which only the participant's accrued benefit to date is protected, in the State and local DB plan world the benefit formula itself is typically protected from such cutbacks by state constitutions, statutes, or case law that prohibit the elimination or diminution of a retirement benefit once it is granted. Thus, State and local DB plans typically guarantee not only the participant's accrued level of benefit but also protect future benefit accruals from being cut back. The implication that lack of coverage by the Pension Benefit Guaranty Corporation (PBGC) renders government employees at greater risk is a misnomer, and only serves to unduly alarm the participants in our members' systems. Even though public plans may not have the PBGC as a "back-up source for guaranteed benefit payments," the

full faith and credit of State and local governments has provided insurance far greater than what is provided by the PBGC. In fact, public employees may actually find increased comfort in knowing that there is no "escape hatch" from pension obligations once they are promised in the public sector. It is a misconception that PBGC coverage will provide any added value to the benefit protections already in place for State and local government employees.

We also wish to take exception to the statement in the letter to GAO that "many" public sector DB plans are "even more poorly funded" than their private sector counterparts, and the implication that an untenable burden will fall on taxpayers and public employees. As a group, public pension plans have funded 86 percent of their liabilities, a figure that is expected to begin rising in the near future as investment gains since March 2003 are more fully incorporated into funding calculations. This figure is also reflective of the funding levels of plans covering the substantial majority of public pension participants. Unlike private sector plans that must rely on uneven employer contributions, State and local DB plans receive a steady stream of both employer and employee contributions that typically is mandated by statute. In addition, State and local government DB plans are long-term investors, whose portfolios are professionally managed and designed to withstand short-term market fluctuations while still providing optimal growth potential. When placed in context, required contributions to public pension plans continue to be well within State and local governments' budgetary means, and even represent historically low amounts as a percentage of total state and local government spending and payroll.

Finally, we are concerned with the letter's co-mingling of pension benefit funding with the issue of health benefits and the "funded status" of retiree health plans. We agree that adequate health care is essential to overall retirement security, and that health benefit commitments are placing significant and increasing pressure on government resources. However, meeting the fiscal and other challenges in providing healthcare benefits must not be confused with the funding of DB retirement plans. Retiree health benefits are handled separately and independently and often are not administered or funded as part of a government's retirement system.

NASRA and NCTR appreciate the strong record of support that each of you have maintained for State and local government employee retirement programs. We share your interest in keeping commitments to providing a secure retirement for American workers, particularly those who spend a career delivering vital services to the public and whose retirement security the members of our associations guarantee. We welcome the opportunity to work closely with you and the GAO and hope future discussions and consultation will provide an objective and factually accurate study.

To this end, we have attached comments recently sent to the President of the Federal Reserve Board of Chicago. These comments are intended to constructively promote sound public policy regarding issues with far-reaching ramifications affecting millions of working and retired Americans.

We look forward to working with the GAO and are confident that when its study is complete, you will be reassured that the status of public pension plans and their funding condition is sound. Please feel free to call upon either one of us (202-624-1417/jeannine@nasra.org or 703-684-5236/lisnell@nctr.org). We would be happy to assist you at any time.

Sincerely,

Jeannine Markoe Raymond
Director of Federal Relations
National Association of State National
Retirement Administrators

Leigh Snell
Director of Governmental Relations
National Council on Teacher Retirement

Attachment

cc: The Honorable David M. Walker
Comptroller General of the United States
U. S. Government Accountability Office

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