February 16, 2011

VIA FACSIMILE

The Honorable Harry Reid
SH-522 Hart Senate Office Building
Washington, DC 20510-2803

Dear Majority Leader Reid:

On behalf of the national organizations listed above—representing State and local governments, officials and retirement systems—we are writing to express our strong opposition to S. 347. This legislation creates a dangerous precedent with regard to federal taxation and regulation of state and local governments and represents a fundamental lack of understanding regarding the operations and funding of public pensions and the strong accounting rules and strict legal constraints already in place requiring open and transparent governmental financial reporting and processes.

Further, this legislation ignores the extensive efforts made at the state and local levels to close short-term budget deficits as well as address longer-term obligations such as pensions. Inaccurate and misleading descriptions of the state of public finance and pensions are unhelpful, and Federal intrusion into areas that are the fiscal responsibility of state and local governments are unwarranted.

At a time when Congress and the Administration are both discussing the need to remove regulatory barriers, it makes little sense to impose disruptive and costly federal requirements that only serve to interfere with state and local government recovery and reform efforts. We strongly urge you to learn the facts about the retirement systems sponsored by your state and local governments, and oppose S. 347. A fact sheet on public pensions is attached for your review.

If you have any questions or would like additional information, please do not hesitate to contact our organizations' legislative representatives:

Deseree Gardner, National Association of Counties, (202) 942-4204
Neil Bomberg, National League of Cities, (202) 626-3042
Larry Jones, United States Conference of Mayors, (202) 293-7330
Elizabeth Kellar, International City/County Management Association, (202) 962-3611
Cornelia Chebinou, National Association of State Auditors Comptrollers and Treasurers, (202) 624-5451
Barrie Tabin Berger, Government Finance Officers Association, (202) 393-8467
Tina Chiapetta, International Public Management Association for Human Resources, (703) 549-7100
Leigh Snell, National Council on Teacher Retirement, (540) 333-1015
Jeannine Markoe Raymond, National Association of State Retirement Administrators, (202) 624-1417

Attachment (1)

FACTS ON STATE AND LOCAL GOVERNMENT PENSIONS

Retirement systems remain a small portion of state and local government budgets. State and local government pensions are not paid out of general operating revenues, but instead, a trust that public retirees and their employers contributed to while they were working. The portion of state and local government spending dedicated to retirement system contributions is about three percent.[1] While some pension trusts are fully funded (they have enough assets in the trust now for all pension obligations), following the recent market decline, plans will need to increase their contribution levels to five percent on average to return to full funding.[2] The unprecedented number of benefit and financing changes in public plans over the last few years will help to keep any required increases to a minimum.

Public pension plans are not in crisis. Most state and local government employee retirement systems have substantial assets to weather the economic crisis; those that are underfunded are taking steps to strengthen funding. It is important to understand that pensions are funded and paid out over decades. There is currently $2.7 trillion already set aside in pension trusts for current and future retirees. Further, state and local government retirees do not draw down their pensions all at once. Employees must reach certain age and/or years of service before they are eligible for a pension; once retired, they must receive their pension in installments over their retirement years (as an annuity).

State and local governments are already taking steps to secure their pensions for the long-term. More state and local governments enacted significant modifications to improve the long-term sustainability of their retirement plans in 2010 than in any other year in recent history. In the past few years, nearly two-thirds of states have made changes to benefit levels, contribution rate structures, or both; many local governments have made similar fixes to their plans.[3]

Public employees share in the financing of their pension, which in many cases is in lieu of Social Security. The vast majority of public employees are required to contribute a portion of their wages—typically five to ten percent—to their state or local pension, and these contribution rates are being raised in many state and local governments. Employee contributions along with investment returns comprise the majority of public pension fund revenues. The average retirement benefit for public employees is $22,600 and for many of them, including nearly half of all teachers and over two-thirds of firefighters and public safety officers, it is in lieu of Social Security. State and local salaries on which these pensions are based are lower than those for private sector employees with comparable education and work experience, even when benefits are included.[4, 5]

Pension dollars help the economy of every jurisdiction. Public employees live in every city and county in the nation; more than 90 percent retire in the same jurisdiction where they worked. The over $175 billion in annual benefit distributions from pension trusts are a critical source of economic stimulus to communities throughout the nation, and act as an economic stabilizer in difficult financial times. Recent studies have documented public retirement system pension distributions annually generate over $29 billion in federal tax revenue, more than $21 billion in annual state and local government tax revenue, and a total economic impact of more than $358 billion.[6]

Long-term investment returns of public funds continue to exceed expectations. Since 1985 – a period that has included three economic recessions and four years of negative median public fund investment returns – actual public pension investment returns have exceeded assumptions.[7] For the 25-year period ended 12/31/09, the median public pension investment return was 9.25%.[8] Moreover, for the year ended 6/30/10, this return was 12.8%.[9] These actual returns exceed the 8% average public pension investment assumption, as well as the average assumed rate of return used by the largest corporate pension plans.[10]

State and local government retirement systems do not require, nor are they seeking, Federal financial assistance. The great strides made in the ability of state and local government retirement systems to ensure that more than 20 million working and retired public employees have financial security in retirement have been achieved without Federal intervention. One-size-fits-all Federal regulation is neither needed nor warranted and would only inhibit recovery efforts already underway at the state and local levels.

ENDNOTES

[1] NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems

[2] The Funding of State and Local Pensions, Center for State and Local Government Excellence

[3] Pensions and Retirement Plan Enactments in 2010 State Legislatures, National Conference of State Legislatures

[4] The Wage Penalty for State and Local Government Employees, Center for Economic and Policy Research

[5] Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years, Center for State and Local Government Excellence/National Institute on Retirement Security

[6] Pensionomics: Measuring the Economic Impact of State and Local Pension Plans, National Institute on Retirement Security

[7] Investment Return Assumption for Public Funds: The Historical Record, Callan Investments Institute Research

[8] NASRA Issue Brief: Public Pension Plan Investment Return Assumptions

[9] The Public Fund Survey

[10] Milliman 2010 Pension Funding Study

OTHER RESOURCES:

The Impact of Public Pensions on State and Local Budgets, Center for Retirement Research at Boston College

Faulty Analysis is Unhelpful to State and Local Pension Sustainability Efforts, National Association of State Retirement Administrators

Frequently Asked Questions About Pensions, National Institute for Retirement Security

Research Brief on America's Cities, National League of Cities

NATIONAL CONFERENCE OF STATE LEGISLATURES (WWW.NCSL.ORG)
NATIONAL ASSOCIATION OF COUNTIES (WWW.NACO.ORG)
UNITED STATES CONFERENCE OF MAYORS (WWW.USCM.ORG)
NATIONAL LEAGUE OF CITIES (WWW.NLC.ORG)
INTERNATIONAL CITY/COUNTY MANAGEMENT ASSOCIATION (WWW.USMAYORS.ORG)
NATIONAL ASSOCIATION OF STATE AUDITORS COMPTROLLERS & TREASURERS (WWW.NASACT.ORG)
GOVERNMENT FINANCE OFFICERS ASSOCIATION (WWW.GFOA.ORG)
INTNERNATIONAL PUBLIC MANAGEMENT ASSOCIATION FOR HUMAN RESOURCES (WWW.IPMA-HR.ORG)
NATIONAL COUNCIL ON TEACHER RETIREMENT (WWW.NCTR.ORG)
NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS (WWW.NASRA.ORG)