Statement for the Record

At a Field Hearing of the
Subcommittee on Employer-Employee Relations of the
Committee on Education and the Workforce,
United States House of Representatives

Springfield, IL
August 30, 2006

Examining the Retirement Security of State and
Local Government Employees

Submitted on behalf of

National Conference of State Legislatures (NCSL)
American Federation of State, County and Municipal Employees (AFSCME)
American Federation of Teachers (AFT)
National Association of Counties (NACo)
Communications Workers of America (CWA)
National Association of State Auditors Comptrollers and Treasurers (NASACT)
Fraternal Order of Police (FOP)
United States Conference of Mayors (USCM)
International Association of EMTs and Paramedics (IAEP)
National League of Cities (NLC)
International Association of Fire Fighters (IAFF)
International City/County Management Association (ICMA)
International Brotherhood of Correctional Officers (IBCO)
Government Finance Officers Association (GFOA)
International Brotherhood of Police Officers (IBPO)
International Public Management Association for Human Resources (IPMA-HR)
International Union of Police Associations, AFL-CIO (IUPA)
National Association of Government Defined Contribution Administrators (NAGDCA)
National Association of Government Employees (NAGE)
National Association of Nurses (NAN)
National Association of Police Organizations (NAPO)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)
National Education Association (NEA)
National Public Employer Labor Relations Association (NPELRA)
Service Employees International Union (SEIU)

On behalf of the XX national organizations listed above—representing state and local governments and officials, public employee unions, public retirement systems, and more than 20 million state and local government employees, retirees, and their beneficiaries—we submit the following comments for the public record.

While the constituencies of our numerous organizations may be diverse, we share in the desire to ensure an accurate understanding of public pension plans results from this hearing and the many misperceptions that appear to exist with regard to state and local government retirement systems are corrected. Given the negative national savings rate, lack of pension coverage and participation in many parts of the private sector, and the number of baby boomers that are currently ill-prepared for their retirement needs, it is our hope that a "pension panic" isn't incited where it is the least warranted—pre-funded, financially and structurally sound, government-guaranteed pension plans.

Over $3 trillion (and growing) has currently been set aside for the future retirement needs of state and local government employees. These state and local government defined benefit (DB) plans should not be confused with federal defined benefit programs that are not pre-funded and are subject to appropriation or pay-as-you-go financing. They should also not be confused with corporate DB plans, whose sponsors can go out of business, be acquired, or can have their plans taken over by the Pension Benefit Guaranty Corporation (PBGC).

In March 2006, the Governmental Accounting Standards Board, which promulgates standards for state and local government accounting, published a White Paper titled, "Why Governmental Accounting and Financial Reporting Is—And Should Be—Different." The paper details the intrinsic differences between these governments and for-profit business, arguing that governments and private business have "...different purposes, processes of generating revenues, stakeholders, budgetary obligations, and propensity for longevity. These differences require separate accounting and financial reporting standards in order to provide information to meet the needs of stakeholders to assess government accountability and to make political, social, and economic decisions."

Any examination of the financial health of State and local government plans must ensure that metrics appropriate to a State or local government unit are used. It should be understood that measurement and reporting standards used to determine the health of private sector plans or federal government plans are not appropriate for, and must not be applied to, the plans in public retirement systems.

State and local governments take seriously their responsibilities for paying promised benefits to their employees and retirees. Comprehensive state and local laws, and significant public accountability and scrutiny provide rigorous and transparent regulation of public plans and have resulted in strong funding rules and levels. As such, public sector pension plans are in good shape, on the aggregate having pre-funded over 86 percent of future retirement benefits. Additionally, public plans are backed by the full faith and credit of their sponsoring state and local governments. Public plan participants' accrued level of benefits and future accruals typically are protected by state constitutions, statutes, or case law that prohibit the elimination or diminution of retirement benefits. These constitutional and statutory protections provide far greater security than are provided to private sector pension plans by ERISA and the PBGC. A greater understanding of the protections put in place by the governments ultimately responsible for funding these plans may serve to build support for these arrangements and address the erosion of confidence in retirement security in general.

Additionally, it should be noted that retiree health benefits are handled separately and independently from, and often are not administered or funded as part of, a government's retirement system. While health care is essential to overall retirement security, and health benefit commitments are placing significant and increasing pressure on government resources, fiscal and other challenges in providing healthcare benefits should not be confused with the funding of state and local government retirement plans. It is crucial that retiree health care benefits are clearly distinguished from any study into the financial health of public pension plans.

State and local government pension plans are a principal component of retirement security for the millions of government workers across the nation, and the story you will find here is one that is positive. It is our belief that a factual and objective analysis of the true state of public pension plans would ultimately serve to strengthen retirement programs and build on the success many in the public sector have had in not only enduring market fluctuations and providing security to retirees, but providing stability to our financial markets, and distributing consistent and inflation-protected revenue streams to local communities as well. We are pleased to share the following facts about state and local plans, which we hope you will keep in mind during this hearing:

• **Public pension plans are in good financial condition**. As a group, public pension plans have pre-funded 86 percent of their liabilities, a figure that is projected to begin rising in the near future as the three-year market downturn earlier this decade is more fully offset by strong investment gains. This figure also is consistent with funding levels of plans covering the substantial majority of public pension participants. Unlike the contribution volatility that may exist in a private plan setting, state and local plans receive a steady stream of both employer and employee contributions that typically is mandated by statute. Unlike the federal retirement systems, which are not pre-funded, public plans have diversified portfolios which are invested in stocks, bonds, real estate and other products in the global financial marketplace.

• **The bulk of public pension funding is not shouldered by taxpayers.** 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. This is because these programs are pre-funded trusts where the vast majority of funding comes from investment income. Employer (taxpayer) contributions to state and local pension systems over the last two decades have made up only one-fourth of total public pension revenue. Earnings from investments and employee contributions comprise the remainder. This ratio has improved over time. In 2004, investment earnings accounted for 77 percent of all public pension revenue, while employer contributions represented only 15 percent of plans' assets.

• **State and local retirement plan assets are professionally-managed and provide valuable long-term capital for the nation's financial markets**. The $2.8 trillion in assets held in plan portfolios—and managed by professional investment managers—are an important source of stability for the economic marketplace and are designed to withstand short-term fluctuations of the financial markets while providing optimal long-term growth potential for the plans.

• **State and local pension plans fuel national, state and local economies.** Public plans distribute more than $130 billion in benefits annually (an amount greater than the total economic output of 22 states) to more than 6 million retirees and beneficiaries, who receive an average annual pension benefit of roughly $19,500. These payments are steady, continuous, and inflation-protected. They provide a strong economic stimulus to local economies throughout the nation.

• **Public plans are subject to comprehensive oversight.** While private sector plans are subject solely to federal regulation, state and local government plans are creatures of state constitutional, statutory and case law and must comply with a vast array of state and local requirements, as well as industry accounting standards. These plans are accountable to the legislative and executive branches of the state; independent boards of trustees that include employee representatives and/or ex-officio publicly elected officials; and ultimately, the taxpaying public.

• **Public retirement plans attract and retain the workforce that provides essential public services.** Active public employees comprise more than 10 percent of the nation's workforce, and two-thirds are employed in public safety, education, corrections, or the judiciary. Retention of experienced and trained personnel in these and other positions is critical to the continuous and reliable delivery of taxpayer services.

We share your interest in providing a secure retirement for American workers, particularly those that have spent a career in public service—protecting the homeland, caring for the sick, and educating our children. We believe many public sector systems indeed are innovative models that could be emulated to ensure responsible and prudent pension funding and management of assets.

We welcome the opportunity to work closely with the Committee as it seeks to understand the issue of public pensions and encourage you to consult with us in the future.