AFL-CIO
American Federation of State, County and Municipal Employees (AFSCME)
American Federation of Teachers (AFT)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employees Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)
National Education Association (NEA)
Service Employees International Union (SEIU)

February 12, 2013

Timothy Blake, Managing Director, Public Finance Group
Kathyanne Cohen, Vice President, Regulatory Affairs
Marcia Van Wagner, Vice President/Sr. Analyst, Public Finance Group
Moody's Analytics
New York, New York

Dear Timothy, Kathyanne, and Marcia:

On behalf of the national organizations listed above, we want to thank you for taking the time to come to Washington, D.C., to discuss the Moody's proposal to adjust pension liability, asset, and cost information reported by state and local governments and their pension plans. While we share the goal of improving transparency in the reporting of public pension plan liabilities, we continue to be very concerned with several aspects of this proposal. Having the opportunity to engage in a candid, comprehensive discussion of these concerns was, therefore, very much appreciated.

We value your recognition that some components of your proposal might need to change, including the treatment of adjusted annual pension contributions and the relationship between pension liabilities and bonded debt. We also would like to reiterate several specific points that were made at our meeting:

- We want to once again stress our strong conviction that your proposed adjustments will actually reduce transparency and consistency in the analysis of public pension plans. The application of one-size-fits-all measures belies the unique composition of these plans and would produce the illusion of comparability by ignoring the individual characteristics, historic performance, and risk profiles of each.

- There is great diversity in public pension fund risk profiles, target and actual asset allocations, and investment returns, with current allocations ranging from less than 15 percent to more than 70 percent for public equities; from 12 percent to nearly 60 percent for fixed income; and from zero to 50 percent for so-called "alternatives."
- Pension plans' methodological choices and actuarial and economic assumptions are not selected randomly. Each one must fit together both conceptually and practically. Your proposed adjustment of pension data, however, would rely on a pick-and-choose approach that, while "feasible" to implement, bears little conceptual or practical relationship to the plans you seek to analyze. Discount rates, inflation assumptions, amortization periods, and the basis on which amortized amounts are determined are just some of the moving pieces your methodology scrambles.
- You noted during the meeting that adjusted pension data would be factored into a broader and more detailed analytical framework used by Moody's to assess risk. However, the public release of adjusted pension data without the public release of the broader and more detailed framework would give the impression that the adjusted data are meaningful and understandable on their own, regardless of whatever explanatory notes you include with the release.
- Caution should be used when naming the various metrics that Moody's uses. For instance, if a particular figure is not intended "to be a prescriptive funding strategy," Moody's should take care to name that figure in a manner that avoids confusion (avoiding words like "contribution"). We've already seen articles claiming that the new Moody's contribution amount will cause cities to go bankrupt. Similarly, the term "unfunded liability" carries a very specific meaning. Moody's should avoid taking that well defined term and publishing new figures under the same label.
- To the extent that Moody's moves forward with the adjustment of pension data for ratings purposes, we urge that you not make the Moody's adjusted data figures public, in order to avoid reducing transparency by creating confusion with regard to the financial health of employers and their retirement systems. To the extent that you wish to make your analysis of pension data public, we urge that you release only relative plan rankings or develop a method to score the relative health of plans, as opposed to releasing figures that will be read as a new set of contribution and unfunded liability measures.
- Now that the new GASB standards have been issued and implementation is imminent, the introduction of a competing methodology for determining pension liabilities and related measures would be counterproductive. Any release of the underlying adjusted data should at least wait until the new standards for pension accounting and financial reporting have been fully implemented.

Again, thank you very much for your time and consideration.

Sincerely,

AFL-CIO: Karin S. Feldman, Benefits and Social Insurance Policy Specialist (Kfeldman@aflcio.org)
AFSCME: Dan Doonan, Labor Economist (DDoonan@afscme.org)
AFT: John Abraham, AFT PLUS Member Benefits (jabraham@aft.org)
NASRA: Jeannine Markoe Raymond, Director of Federal Relations (jeannine@nasra.org)
NCPERS: Hank Kim, Executive Director (hank@ncpers.org)
NCTR: Leigh Snell, Director of Federal Relations (lsnell@nctr.org)
NEA: Joel Solomon, Senior Policy Analyst (jsolomon@nea.org)
SEIU: Chris Jeffrey, Senior Pension Analyst (chris.jeffrey@seiu.org)