

National Association of Counties (NACo)
National League of Cities (NLC)
United States Conference of Mayors (USCM)
International City/County Management Association (ICMA)
National Association of State Auditors Comptrollers and Treasurers (NASACT)
Government Finance Officers Association (GFOA)
International Public Management Association for Human Resources (IPMA-HR)
National Council on Teacher Retirement (NCTR)
National Association of State Retirement Administrators (NASRA)

April 15, 2013

The Honorable Pat Tiberi, Chairman
Pensions/Retirement Tax Reform Working Group
Committee on Ways and Means
United States House of Representatives
106 Cannon House Office Building
Washington, DC 20515

The Honorable Ron Kind, Vice Chairman
Pensions/Retirement Tax Reform Working Group
Committee on Ways and Means
United States House of Representatives
1502 Longworth House Office Building
Washington, DC 20515

Dear Mr. Chairman and Mr. Vice Chairman:

The national organizations listed above—representing state and local governments, officials and public retirement systems -- appreciate this opportunity to provide comments to the Pensions/Retirement Working Group regarding the effect of comprehensive tax reform on retirement savings.

State and local government pension funds hold some \$3 trillion in assets in trust for approximately 15 million working and more than 8 million retired employees of state and local government and their surviving family members.

In the past, many public plans were operated on a pay-as-you-go basis. Since then, states and localities have worked to advance-fund pension benefits by requiring employees and employers to contribute enough to a pension trust during employees' working years to pay for their pension benefits. As a result, by 2000, assets in most public pension trusts equaled or exceeded expected pension payments. Even at the market low of the most recent and unprecedented financial downturn, there was still over \$2 trillion set aside in public pension trusts.

Furthermore, public pension trusts are designed to cope with market volatility and have done so repeatedly – the past 25 years alone have included three economic recessions and four years of negative median public fund investment returns. Despite the significant financial challenges of the last

decade, most states and cities in recent years have paid all or most of their required pension contributions.

Some have consistently received far less, but public pension problems are not systemic in nature. As with most public pension issues, the problems and their answers are not black and white, but rather, vary widely from state to state and plan to plan, with each having its own unique road to recovery.

In addition, state and local government retirement systems are highly transparent entities. Systems providing benefits for the vast majority of employees of state and local governments publish audited annual financial reports in compliance with Generally Accepted Accounting Principles set by the Governmental Accounting Standards Board (GASB), financial reporting guidelines set forth by the Government Finance Officers Association (GFOA), in addition to sunshine laws in every state.

On the whole, state and local government pensions have weathered the financial crisis and continue their extensive efforts to modify their plans to ensure their long-term sustainability. According to the National Conference of State Legislatures, 44 states have 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.

Finally, public pensions are helping the economy. Public employees live in every city and county in the nation, and more than 90 percent retire in the same jurisdiction where they worked. The \$200 billion in annual benefits distributed from pension trusts are a critical source of economic stimulus to communities throughout the nation, and act as an economic stabilizer in difficult financial periods. Recent studies have documented public retirement system pension distributions annually generate over \$73.4 billion in federal tax revenue, more than \$59.7 billion in annual state and local government tax revenue, and provide a total economic impact of more than \$1 trillion.

In summary, under the current tax treatment of employer-provided retirement plans, the public pension community offers a robust retirement savings and delivery process that is both cost-efficient in terms of providing a retirement benefit that cannot be outlived, as well as flexible enough to accommodate necessary modifications to ensure sustainability. These systems are laboratories of change, constantly testing creative solutions to improve the retirement security needs of the public workforce while respecting the unique characteristics and demographics of each jurisdiction, and doing so without the need for any federal mandates. Furthermore, no state has requested federal government aid to fund its pension obligations.

As you consider possible reforms of the federal tax code, we urge you to “do no harm” to this current system of support for employer-provided retirement plans. Care must be taken so that the tax treatment of retirement savings continues to support real retirement security for American workers, both public-sector as well as private-sector, and maintain the quality of life for future generations of retirees.

Sincerely,

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