Statement of the National Education Association

To the

Subcommittee on Oversight
Committee on Ways and Means

Hearing on
"Transparency and Funding of State and Local Pension Plans"

May 5, 2011

The National Education Association, representing 3.2 million public educators working in classrooms across the country, respectfully submits this statement for the record in conjunction with the above-referenced hearing. We thank the Subcommittee for the opportunity to provide these comments.

NEA strongly believes that all working Americans – public and private sector employees alike – deserve a secure retirement. Part of the American dream is to be able to retire with dignity and security after a lifetime of hard work. Yet, increasingly, more Americans are facing unattractive choices – having to work indefinitely (if they can find a job and are physically able), living in poverty, or being forced to look for assistance from family or government. Without adequate retirement income, older Americans will lack the resources that allow them to live independently, afford health care, and contribute to the economy.

We are deeply concerned by rhetoric and actions being taken at the state level that place the blame for state budget crises on public employees and public sector pensions. We believe the focus on pensions as a solution for budget shortfalls is misplaced, and will only undermine the secure retirement earned by public employees and further jeopardize economic recovery.

Pension Plans Not in Crisis

Public pension plans are not in crisis. Participants do not all retire on the same day and draw down their pensions. On the contrary, pensions are funded and paid out over decades.[1] Pension liabilities are being misused by opponents of public pension plans to confuse the long-term nature of pension obligations with short-term debt obligations. They have created the misguided impression that drastic and immediate measures are needed to avoid an imminent fiscal meltdown.

The truth, however, is that public employee retirement systems have substantial assets. There is currently $2.7 trillion already set aside in pension trusts for current and future retirees[2]. Boston College

---

[1] *Facts You Should Know, State and Local Bankruptcy* Municipal Bonds, State and Local Pensions, ICMA, National Governors Association, National Conference of State Legislatures, Council of State Governments, National Association of Counties, National League of Cities, U.S. Conference of Mayors, National Association of State Budget Officers, National Association of State Auditors, Comptrollers and Treasurers, Government Finance Officers Association, and National Association of State Retirement Administrators, February 2011.

[2] Ibid.

researchers project that public pension funds are sustainable and have sufficient assets to pay benefits now and into the future.[3]

The recent Pew Center report, "The Widening Gap: The Great Recession's Impact on State Pension and Retiree Health Care Costs," may cause unnecessary alarm because the data do not reflect current market conditions. The Pew report is based on the 2008 and 2009 period, following the stock market crash, and the condition of anyone's portfolio during that period would be dismal. Like all investors, public employee pension plans were hit by the downturn in the stock market, but they are durable and efficient and over time, they can recover their losses. Most state and local government employee retirement systems have substantial assets; those that are underfunded are taking steps to strengthen funding.

In contrast to the Pew report, new research by the National Conference on Public Employee Retirement Systems (NCPERS) paints a much different, much more accurate, and far more positive picture. Based on the most recently reported data, public funds had an average one-year return of 13.5 percent. Funds participating in the study reported a 20-year average of 8.2 percent. The NCPES report also found that, "although media coverage has focused on a handful of troubled funds, most funds are managed responsibly and maintain strong funding levels. On average, funds are 75.7 percent funded and continue to work toward full funding.[4]

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. It is not the fault of public employees that some states did not make adequate pension contributions in the past or that Wall Street practices caused the recession and the loss of jobs and billions of dollars in investments. Nevertheless, in the past few years, nearly two-thirds of states have made changes to benefit levels, contribution rate structures, or both, and many local governments have made similar fixes to their plans.[5] Only a year after suffering record investment losses, many of the nation's largest public pension plans are reporting double-digit percentage gains for the budget year that ended in June 2010.

It is important to note that the majority of public employee pension benefits are funded by returns on fund investments—about 75 percent. Although the amount contributed by employers to fund benefits often varies from year to year, the average amount is currently about 9.5 percent, while employees contribute about 6 percent of their salary. 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.[6]

Economic Contributions of Public Employee Pensions

Public employee pension checks represent a vital, continuous source of spending in every state, city, and community across America. Some 7.3 million retired Americans receive a monthly pension check, which translates into enormous economic benefits. Spending by retirees provides stability to national, state, and local economies, especially during tough economic times.

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

---

[3] Can State And Local Pensions Muddle Through?, *Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby, Center for Retirement Research at Boston College, March 2011*

[4] 2011 NCPERS Public Fund Study, Preliminary Results, April 2011. Study conducted by National Conference on Public Employee Retirement Systems and Cobalt Community Research

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

[6] *The Wage Penalty for State and Local Government Employees*, Center for Economic and Policy Research; *Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years*, Center for State and Local Government Excellence/National Institute on Retirement Security

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. For example, expenditures made from state & local pension benefits for fiscal year 2005-2006:

- Had a total economic impact of more than **$358 billion**;
- Supported more than **2.5 million American jobs** that paid more than **$92 billion** in total compensation to American workers;
- Supported more than **$57 billion** in annual federal, state, local tax revenue;
- Had large multiplier effects. Each taxpayer dollar invested in state and local pensions supported **$11.45** in total economic activity, while each dollar paid out in benefits supported **$2.36** in economic activity;
- Had the largest impact on the manufacturing, health care, finance, retail trade, and accommodation and food service sectors.[7]

Great Public Schools and Retirement Security

Protecting the economic future of public school employees is not only the right thing to do, it is the smart thing to do - it ensures a high quality workforce and a healthy economy. But, in order to retain the most accomplished individuals in our classrooms, we need to take care of them now and in the future. This country demands a lot from its teachers and others who work in public schools and rightly so. Education professionals enter and stay in the profession, not for the money, but because they are dedicated to helping their students learn and prepare for the future. They don't expect to be wealthy, but they do expect and deserve a decent retirement.

Defined benefit plans are a proven tool for retaining accomplished public sector professionals. They provide public sector workers with a more secure and predictable pension than other types of retirement plans. Yet, plan benefits for education employees are modest. The pension of a full career education employee replaces only a portion of the salary earned while working, and educators' salaries are so low that their pension provides only a modest living in retirement. 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.

The Public Employees Pension Transparency Act

NEA opposes the Public Employees Pension Transparency Act (PEPTA), which would require sponsors of state and local government employee pension plans to report funding information annually to the Secretary of the Treasury. Governments failing to do this would lose their ability to issue tax-exempt debt until they comply. The bill would use different measures for the required reporting than those used to fund plans. The measures are also different from what the Governmental Accounting Standards Board (GASB) requires.

Rather than providing meaningful measures, PEPTA could create a distorted picture of plan funding. The bill will not provide transparency as stated. Instead, it will create different measures than plans currently use – creating confusion among decision-makers and potentially leading states to abandon public pension plans.

Conclusion

The real key to viable employee pension plans is to ensure that our economy continues to recuperate in a healthy and responsible way. Instead of looking at taking away retirement security from public employees and demanding unneeded action to change their benefits, we should protect them while working to restore retirement security for all American workers.

---

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