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Public Employee Retirement Systems
The Voice for Public Pensions

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August 24, 2007

The Honorable Charles B. Rangel
Chairman, Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Jim McCrery
Ranking Member, Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman and Ranking Member McCrery:

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest national, nonprofit public pension advocate. For more than 65 years, we have been the principal trade association working to protect the pensions of America's public employees.

I write on legislation now before Congress that could have enormous negative impacts on the economy, public pension funds, and the many public employees who depend on defined benefit pensions for their retirement security. At a time when the markets and our economy seem to be struggling, S. 1624 and H.R. 2834 could conceivably intensify the volatility now roiling the equities markets.

Both of these tax proposals target pension funds by substantially raising taxes on private equity funds. It is unreasonable to think that increasing the tax burden on private equity funds will not be borne, in some measure, by the pension funds who today benefit from the industry's performance. And, to compensate for this, pension plan sponsors will be forced to make up the difference by increasing pension contributions or allowing the unfunded liabilities of public pension plans to increase.

Private equity investment returns have provided billions of dollars of investment profit for pension plans, and these gains have helped support the stability of public retirement plans across the nation, relieving taxpayers of some of that burden. In fact, nearly three-quarters of public pension plan assets are the result of investment returns. The proposals in Congress will undercut these returns to the pension funds that benefit workers and retirees.

On behalf of more than 500 public pension funds representing nearly $3 trillion in assets, we remind you of the pension beneficiaries who will bear the burden of these tax increases: your state's first responders, firefighters, police officers, teachers,

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State, county and municipal employees, and members of the judicial system—in short, all of the public employees who serve the citizens of your state.

It is important to note that eighty percent of the profits from private equity investments go to the limited partners, investors like our pension funds. Public pension funds invest in private equity to meet the long-term commitments to employees who retire after their many years of public service. Most pension fund managers will tell you that they do this because private equity has provided significantly better returns than publicly traded equities have.

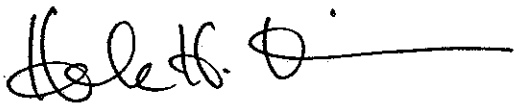
Between 1980 and 2005, the top-quartile private equity firms delivered 39.1 percent annualized net returns, significantly beating the S&P 500 and other public market indices. Those superior returns helped strengthen public pension funds and defined benefit retirement plans for our members across the country.

We consider it our duty to state our opposition to S. 1624 and H.R. 2834. NCPERS does not believe that your intent with these tax bills it to jeopardize the pension plans of the many dedicated, hardworking public employees you represent. Unfortunately, that will likely be the result, should these bills become law.

In closing, we request that you carefully consider the impact that both of these bills or any similar legislative action increasing taxes on private equity will have on pensions. The impact is real and potentially great.

I would be pleased to answer any questions you may have regarding our position. I can be contacted at (202) 624-1456 or at hank@NCPERS.org.

Sincerely,



Hank H. Kim, Esq.
Executive Director & Counsel

cc: Members of the Committee on Ways and Means