Statement for the Record
of the American Federation of State, County And Municipal Employees (AFSCME)
for the
Hearing on the Transparency and Funding of State and Local Pensions
before the
Subcommittee on Oversight
Committee on Ways And Means

U.S. House of Representatives

May 5, 2011

Mr. Chairman and members of the Subcommittee, on behalf of the 1.6 million members of the American Federation of State, County and Municipal Employees (AFSCME), please include the following statement for the record on the hearing held on May 5, 2011 on the transparency and funding of state and local pensions. In particular, AFSCME would like to state its strong opposition to H.R. 567, the Public Employee Pension Transparency Act. This legislation is an unnecessary response to exaggerated problems, and it would harm state and local government employees and lead to reduced retirement security.

Pensions play an important role in the operations of state and local governments, yet retirement systems remain a small part of state and local government budgets and are not a major cause of state and local fiscal problems. In fact, according to the Boston College Center for Retirement Research, public pension expenditures account for less than 4% of state non-capital spending. Moreover, pension benefits are paid out of a trust that public employees contribute to, not out of general operating revenues, and the employee contribution rate typically amounts to 5-10% of wages and, in recent years, these rates have been raised in many states.

It is true that state and local fiscal conditions remain difficult as revenues have fallen and as Recovery Act assistance winds down, but pension obligations are not the cause. The poor national economy has been the largest contributor to the poor fiscal conditions in state and local governments, not pension costs. Starting in December 2007, the U.S. economy suffered the longest and deepest recession since World War II. More than eight million jobs have been lost, housing and retails sales declined, and sub-prime mortgage foreclosure problems resulted in slashed property values and diminished business profits, all of which contributed to state and local budgetary problems. The result was a precipitous decline in revenue. Moreover, the stock market plunge also caused huge losses in savings and retirement earnings across the board, but especially for pension earnings. Rather than overspending, state and local government budgetary problems have been primarily caused by national fiscal and economic challenges.

Unfortunately, these economic conditions provided the opportunity for opponents of defined benefit plans to attack public pensions and falsely accuse them of being the primary cause of state and local fiscal problems. They are attempting to bolster the case by grossly overestimating the liabilities of public pension plans. But, the facts tell a far different story. Most state and local government employee retirement systems have substantial assets to weather the current economic downturn and to meet current and future obligations.

The great majority of public pension funds are not in crisis. They are operating as they were designed to operate and where problems exist – they are being addressed. To deal with specific funding problems, more than half the states made significant changes to their pension plans in recent years. While some plans may be underfunded, this can be addressed by long-term solutions on a case-by-case basis.

While every investor was affected by the 2008 financial market collapse, most state and local government retirement systems have a strong track record in managing their assets and a much greater time period to recover from economic downturns than do other retirement plans. The public sector pension model is a proven vehicle for preserving a secure retirement for American workers.

Public pension plans collectively pre-funded about 80% of their future pension obligations – even after considering the steep losses in 2008 and earlier this decade. In April, 2011, the National Association of State Retirement Administrators (NASRA) reported for the period ending December 31, 2010, the median annualized public pension fund investment return over the last 20 years is 8.7% and over the last 25 years, it is 8.8%. NASRA also reported that aggregate state and local government retirement system assets are now 25% higher than on June 30, 2009. Thus, public pension investments have rebounded from recessionary declines and many are now gaining double-digit returns.

Public employee pensions are an irreplaceable source of security for public employees. Yet, average public pension benefits are far from lavish. The average retirement benefit for public employees, including firefighters and teachers, is $22,600, and for AFSCME retirees it averages $19,000. AFSCME members typically contribute towards the cost of their pension. While government employers have in some instances failed to regularly contribute to their employees' plans, public workers have contributed year in and year out.

Many of the problems that do exist relate primarily to employer underfunding and recent investment losses. Where there are significant problems, most notably in the states of New Jersey and Illinois, the primary cause is employer underfunding and recent investment losses that similarly affected defined contributions plans. For example, Governor Chris Christie of New Jersey failed to make the state's estimated pension contribution amounting to $3.1 billion in 2010 and has not committed to make this year's payment.

The so-called Public Employee Pension Transparency Act (PEPTA) is inappropriate and unnecessary. AFSCME opposes PEPTA, introduced by Reps. Devin Nunes (R-CA), Darrell Issa (R-CA) and Paul Ryan (R-WI), because it imposes a new unnecessary federal mandate requiring state and local public pension plans to use an extremely low rate of return to calculate estimated future investment gains which would have the effect of drastically inflating their reported financial liabilities. H.R. 567 would also sow unnecessary confusion because these new federal requirements would conflict with the accounting standards dictated by the Governmental Accounting Standards Board (GASB).

H.R. 567 in reality does nothing to increase transparency. Extensive public pension reporting already takes place at the state and local level where these pension plans are organized and operated. State and local plans already report all of their financial data in Comprehensive Annual Financial Reports (CAFR) which are audited and publicly available. And, as previously noted, state and local government retirement systems are also already required to adhere to the strict accounting standards set by the GASB which is an independent standard-setting body. In short, PEPTA is not needed.

H.R. 567 is an ideologically motivated attempt to reduce the retirement benefits of public sector workers, including law enforcement officers, firefighters, teachers, social workers and nurses. It is also an unwarranted intrusion into the historical and proper domain of the states. As such, AFSCME is strongly opposed to H.R. 567 and urges its rejection.