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to the

Subcommittee on Oversight
Committee on Ways and Means

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

On behalf of the more than 2.1 million members of the Service Employees International Union, I am pleased to submit the following written testimony to be included in the public record for the House Ways and Means Subcommittee on Oversight hearing on "Transparency and Funding of State and Local Pension Plans."

Nurses, school employees, child protection and social service workers, librarians, higher education workers, highway workers, court clerks, and other essential state and local public employees are our neighbors, colleagues, and taxpayers in communities across our country. When they retire, their average pension is $1,888 per month, or $22,653 annually, after years of service. Many public employees do not receive Social Security, making their public pension plan their only source of retirement security after years of hard work and dedicated service to their communities.

Public employees make contributions to their retirement plans every pay check, with the rest of the payments to pension plans coming from investment earnings and state and local employer contributions. Stable and secure public pension plans are essential to the well-being of millions of hardworking Americans and retirees. Therefore, SEIU opposes H.R. 567, the *Public Employee Pension Transparency Act* (PEPTA), which was discussed by the Subcommittee on Oversight at its hearing. This legislation has little to do with enhancing pension plan transparency and more to do with undermining the ability of state and local governments to manage what otherwise are very reasonably funded public pension systems. H.R 567 is a threat to public pension plan solvency; if enacted, would be an unnecessary federal intervention into state and local fiscal accounting responsibilities; and would undermine retirement security for millions of workers across the country, providing very little useful information to taxpayers or bondholders.

This written testimony further explains our reasons for opposing H.R. 567.

First, we oppose federal regulation of how state and local government pension systems are funded. If PEPTA were to become law, it would likely be the first time the federal government has taken on the responsibility of regulating the funding of state and local pension funds. Indeed, there is no need for federal intervention. Consider the following:

- City and state governments are already making unprecedented changes to benefits and contribution requirements to improve pension system funding levels. In the past few years, nearly two-thirds of states have made changes to benefit levels, contribution rate structures or both; many local governments have made similar fixes to their plans.[1]
- State and local government retirement systems are already transparent. They are already required to report all financial data in audited, publicly available comprehensive annual financial reports.
- Pension costs are manageable and benefit levels are reasonable. The portion of state and local government spending dedicated to retirement system contributions is only about 3 percent.[2] Part of the reason that pension costs are affordable is that public employees contribute a significant portion of their annual salaries toward their future benefits—typically 5 percent to 10 percent—to their state or local pension, and these contribution rates are being raised in many state and local governments. According to the Census Bureau, the average annual state and

[1] NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems.
[2] NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems.

local pension benefit is $22,653.[3] Indeed, public defined benefit plans are vital for providing a secure retirement to millions of public employees, many of whom do not receive Social Security benefits.

While the bill makes a point of prohibiting any future federal bailout of state or local pension funds, despite the fact that no state or local pension fund has ever requested any type of federal bailout, the bill could actually increase the possibility of a future federal bailout by laying the groundwork for federal oversight of local and state pension funds. H.R. 567 would create a precedent for a federal role in overseeing these pension funds where no such precedent currently exists.

Second, there is no basis for requiring pension funds to use a "risk-free" rate for discounting the value of future liabilities. Pension systems generally use the expected value of returns on their investments to discount the value of future liabilities. The logic of using expected values, rather than the risk-free rate, stems from two related facts. First, state and local governments are better able to bear risk than individual investors or even private sector pension systems. If the market experiences a downturn, state and local pension funds can easily cover their pension obligations from the current funding flows combined with the sale of non-equity assets. Moreover, city and state governments do not have on-going risk concerns as exist with corporations.

Experience has shown that since 1985, actual investment returns have exceeded average assumptions. For the 25-year period ended 2009, the median public pension investment return was 9.25 percent.[4] Moreover, for the year ended June 2010, this return was 12.8 percent.[5]

It is worth noting that in 2006, Congress rejected this requirement for corporate pension plans because, just as the private sector argued, the requirements would increase cost and volatility, and would lead to the transmission of irrelevant information.

It is also important to note there are a host of undesirable consequences of requiring public funds to use a risk-free rate to value future liabilities, including unnecessarily forcing current taxpayers to bear a much larger share of the cost of funding retirement systems and introducing considerable volatility to the annual pension contribution levels that, from a budgetary standpoint, creates unmanageable uncertainty.

Third, the Government Accounting Standards Board—an independent, nonpolitical board of experts—already establishes strict accounting standards to which all state and local pension funds must adhere. The board is expected to propose new disclosure requirements this summer.

Fourth, it is absolutely inappropriate and certainly a dangerous precedent to strip city and state governments of their ability to issue tax-exempt bonds for what would amount to a violation of a reporting requirement. First, the punishment should fit the crime in tax policy as in criminal justice, and preventing governments from having access to the lowest cost of capital in order to enforce a reporting requirement is a violation of that fundamental policy tenet. Second, the composite effect of H.R. 567 will likely be higher borrowing rates for cities and states that will ultimately shrink the total

[3] Cited in Testimony of Iris J. Lav, Senior Advisor, Center on Budget and Policy Priorities, Before the House Ways and Means Committee Subcommittee on Oversight, Hearing ON Transparency and Funding of State and Local Pensions, May 5, 2011.

[4] NASRA Issue Brief: Public Pension Plan Investment Return Assumptions.

[5] The Public Fund Survey.

amount of spending on job-creating capital projects. Worse, jeopardizing state and local government access to tax-exempt borrowing for something as minor as violating a reporting requirement would undoubtedly undermine state and local economies.

Most importantly, the real impact of H.R. 567, if it were to become law, would be to undermine the retirement security for millions of workers. By inflating the real cost of providing defined retirement benefits to public employees—mostly teachers, firefighters and public safety workers—support for these otherwise superior systems for delivering retirement benefits would undoubtedly wane. We believe the result of this legislative overreach if enacted would spell the beginning of the end of defined benefit pension plans in the public sector. We suspect the authors of this legislation may have that outcome in mind, as they try to make the public sector mimic more closely the private sector, where federal regulation has hastened the virtual demise of defined benefit pensions. Public sector defined benefit pension funds serve the unique needs of public employers and employees alike, which differ in significant ways from those of the private sector, and we firmly believe PEPTA would be detrimental to the interests of all stakeholders in the public employee retirement system, including taxpayers and municipal bond investors, as well as employees and employers.