April 28, 2015

The Honorable Orrin Hatch
Chairman
Committee on Finance
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

On behalf of the National Council on Teacher Retirement (NCTR) and the National Conference on Public Employee Retirement Systems (NCPERS), representing the majority of state and local government retirement system participants, we congratulate you on your chairmanship of the Senate Finance Committee. We look forward to working with you in the new Congress on issues related to one of the most important challenges that the nation faces: the retirement security of the American people, whether publically or privately employed.

In this regard, we want to assure you that the state of public pensions is strong, and growing stronger every day. For example, according to the recent “Wilshire 2015 Report on State Retirement Systems: Funding Levels and Asset Allocation,” the funding ratio for the 131 state-sponsored defined benefit retirement systems covered in its study was 80 percent in 2014, up from 74 percent in 2013.

This provides clear evidence that, overall, our member systems are significantly recovering from the steep market decline of 2008-09. Furthermore, they are doing so while also providing (1) vital income for millions of retired public workers; (2) an important economic stimulus throughout the country, especially in rural areas; and (3) critical help in keeping the elderly from falling into poverty, thereby avoiding increased public assistance costs to Federal, state and local taxpayers.

Indeed, we would note that, as of 2013, public pension asset values were above their peak in 2007, and that this remarkable comeback was accomplished while also distributing more than $1 trillion in benefits to more than eight million retirees and their survivors during that period. Considering that the 2008-09 market decline reduced public pension asset values by one-fourth, and the funds have distributed benefits continuously since, the fact that asset values are above their pre-crash level is truly remarkable.
We would also point out that public pensions have been able to achieve this strong recovery while requiring just four percent of state and local spending on average. This should come as no surprise, given that the defined benefit (DB) pension model, on which most of our members’ systems are based, is a far more cost-efficient means of providing retirement income as compared to other retirement models such as individual defined contribution (DC) accounts, according to a new report from the National Institute on Retirement Security (NIRS).

This NIRS study calculates that the economic efficiencies embedded in DB pensions enable these retirement plans to deliver the same retirement income at a 48 percent lower cost than 401(k)-type DC accounts, making them particularly appropriate for use in the public sector, in our opinion.

Finally, as part of this commendable recovery from the historic financial crises of the last decade, since 2009 every state has also made changes to pension benefit levels, contribution rate structures, or both. In the vast majority of cases, they have done so while retaining the core elements of the DB model: predictable, adequate retirement benefits that are guaranteed for life; shared employer-employee financing; pooled investment and longevity risks; and mandatory participation.

We therefore also want to congratulate you for your stated support for a retirement security model based on a benefit that a participant cannot outlive. We appreciate as well your interest in removing Federal barriers that might constrain States in their efforts to fashion pension reforms that meet their own unique needs.

However, any Federal action intended to enhance this overall process should be as free as possible from any restrictions or mandates, and should preserve, to the maximum extent possible, the ability of each state to design the program that best addresses its unique interests and requirements. Accordingly, we have serious concerns with the proposed “Annuity Accumulation Retirement Plans” as set forth in Title 1 of S. 1270, the “Secure Annuities for Employees (SAFE) Retirement Act,” as introduced in the 113th Congress.

First, we do appreciate the fact that the “Annuity Accumulation Retirement Plans” are optional and would not be mandated by the Federal government for use by state and local governments. However, should a government elect to adopt such an approach in providing retirement benefits to state and local government employees, we very much object to a Federally-mandated structure that would impose an administratively burdensome, overly restrictive “one-size-fits-all” process on the purchase of annuities from private sector companies for such use.
State and local government retirement programs have evolved over the years—in some cases, over a century—in a manner that is unique to each jurisdiction. There was no “template” imposed on the evolution of these pension programs, and as a consequence, each one is different from another, and addresses both the overall preferences of the plan sponsor with regard to public employment compensation, as well as the often unique human resource management needs of that governmental unit.

We would welcome the opportunity to discuss this and other concerns that we have with the “Annuity Accumulation Retirement Plans” proposal, as contained in S. 1270, at your convenience. However, the proposed amendments in the SAFE Retirement Act are not limited solely to removing whatever current impediments may exist in the present structure of the Internal Revenue Code (IRC) that might inhibit an annuity purchase option to be utilized, while leaving the details of the optional implementation of such an approach to the plan sponsor. Therefore, we respectfully oppose it as currently drafted.

Sincerely,

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