

Annual Report



An annual report on activities for NCPERS members • May 2005

The Voice for Public Pensions

Thank You

A Message from
President Robert Podgorny

Pension battles in Washington and Sacramento, soaring health care costs, access to health care for retirees—it's been an exciting year of changes and challenges as your president.

Despite the many issues and challenges, our record in the past year, outlined in this report, is one of which we can all be proud. To sum up our activities the board and staff have shown true leadership in defending our pensions, health care and other benefits.

With so many pension plans under attack, it's no wonder that last summer's membership recruitment plan

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Pension Battles Become an Issue For All Americans

From the proposed privatization of Social Security at the federal level to calls for eliminating defined benefit pensions at the state level, Americans in the private and public sectors are considering historically significant proposals to dramatically alter programs they've been counting on for their retirement years.

As Congress and many state legislatures consider radical, far-reaching pension reform measures, NCPERS has been a consistent advocate for its members, ensuring that hasty changes—made more in the interest of cutting expenses, rather than improving employee or retiree

benefits—are defeated.

Here are a few examples of our work in the last year.

President Bush's Social Security Reform Proposal

In Washington we have worked with members of Congress to identify the problems with President Bush's plan to privatize Social Security. This campaign was supported by those who attended our 2005 Legislative Conference (see page 3 for details).

NCPERS also sent to Congress a unique proposal for addressing the funding shortfall the Social Security program faces in 2052. The NCPERS proposal differs substantially from the Bush proposal. Although calling for investments in equities, NCPERS proposes an investment approach without the high-risk personal accounts President Bush has endorsed. (Contact NCPERS Headquarters for details of the proposal.)

California Pension Proposal

Governor Arnold Schwarzenegger's recently withdrawn plan to replace the existing California public employee pension program was strongly opposed by NCPERS. The radical proposal, which the governor will propose again in 2006, also galvanized public employee organizations nationwide.

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President Bob Podgorny greets Rep. Ben Cardin (D-MD), at the 2005 Legislative Conference (see story on page 3).

Health Care Task Force Continues Its Work

With many retirees spending increasing portions of their pensions on health care, the work of the Task Force on Health Care Benefits continues to be an NCPERS priority.

In 2002, NCPERS established the Task Force to provide context, scope, and possible solutions for public sector employers and pension systems to the

makes 25 specific recommendations.

In 2004, the Task Force published *Second Report: NCPERS Task Force on Health Care Benefits of Public Employees and Retirees*, which lists the findings of a health benefits survey of NCPERS members.

The Task Force published its third report this year: *Creating a Retiree*

benefit program that sponsors and funds employ. Currently, public employers and unions are working closely on these trusts, as they address a problem that affects all employers and employees.

Health Care Enhancement for Local Public Safety (HELPS) Retirees Proposal

Another Task Force initiative is a new federal legislative proposal to enhance health care for public safety employees.

Public safety retirees need the ability to use up to \$5,000 of pre-tax money for health insurance premiums. The NCPERS proposed legislation would provide up to \$5,000 on a pre-tax basis to retired public safety officers and their dependents for use toward health care insurance and long-term care insurance premiums.

The heart of the proposal would exclude from gross income the distributions from retirees' pensions used for health insurance premiums. The limit on this income exclusion is \$5,000 a year. Retirees could use disbursements from their governmental defined benefit pension plans, or their 403(b), or 457 defined contribution plans for this purpose.

There are two important reasons why this proposal would be extremely beneficial for retired public safety officers. First, most of these individuals work under a mandatory retirement age well before 65. Second, many were hired before 1986; therefore, they are ineligible for Medicare.

Currently, many public safety retirees use more than 80% of their pension checks to pay for health insurance. In other extreme cases, pensioners write monthly checks to cover the difference between their pension benefits and their health insurance premiums.

This bill was introduced last month with bipartisan support. You'll see additional information on the bill in an upcoming issue of *Monitor*. ❖

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daunting health care crisis facing our nation. Although NCPERS' main goal is focused on preserving and protecting the pensions of public sector employees, retiree health care benefits are a part of many pension plans.

If the spiraling costs of health care are left unaddressed, future retirees could lose their entire pension benefit to the cost of health insurance premiums. Worse, they could be forced to forego health care treatment and protections and join the 45 million Americans without health care insurance. Although some retired public employees have yet to face this problem, a significant and growing number do. Those who are facing this problem now need help. Others will very likely face the health care cost problem sometime in the near future.

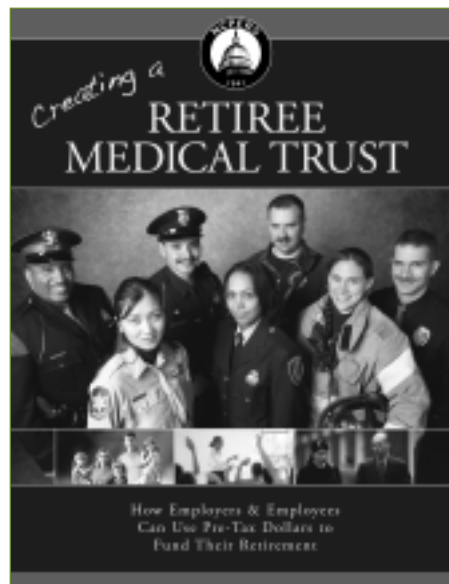
New Publications Published

The task force met again in Washington in 2004 to discuss several issues, notably its series of reports.

In 2003, the Task Force released *First Report: NCPERS Task Force on Health Care Benefits of Public Employees and Retirees*. It defines the problem from the public sector perspective and

Medical Trust: How Employers & Employees Can Use Pre-Tax Dollars to Fund Their Retirement.

A Retiree Medical Trust (RMT) is one remedial step the Task Force rec-



ommends public employers take to curb the burden of health care costs on future retirees. As the booklet explains, NCPERS encourages plan sponsors to investigate every responsible strategy to manage health care costs.

The RMT must be part of this investigation and can be an important component of a comprehensive health

Pension Battles

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Schwarzenegger's plan includes a proposal to implement a constitutional amendment to eliminate defined benefit plans for all government employees statewide—local, county and state employees of every pay grade.

Although the amendment is unlikely to pass in the state legislature, a public referendum on the issue is possible.

The proposed California pension program changes would create a new defined contribution plan that would be prospective, affecting employees hired after July 1, 2007. Employees in the defined benefit plan would have the options of moving into the new defined contribution plan.

NCPERS took several steps to fight the proposal:

- Developed and distributed information on why the Schwarzenegger proposal is bad public policy.
- Identified supporting data to show why defined benefit plans are good for both employees and governments.
- Conducted focus groups to test these arguments, to ensure that our message is clear and persuasive.
- Created a public relations campaign to educate voters, lawmakers.
- Leads a coalition of public employee organizations to fund a coordinated campaign against the proposal.

NCPERS also testified on February 24 before the California Senate Budget Committee's Subcommittee 4, General Government, about the flaws in the governor's proposal. ❖

Proxy Voting Statement

There are simple, inexpensive and effective steps that trustees can take in the corporate governance arena to safeguard the equity investments of their beneficiaries in the future.

The first is to adopt a voting policy that ensures that their funds' shares in publicly-traded companies are voted from a shareholder perspective, instead of rubberstamping whatever the companies recommend on such fundamental issues as boards of directors, auditors, compensation, and shareholder rights.

This year, to help its members in this area, NCPERS adopted a model proxy voting policy. The policy enables them, at no expense, to direct their equity managers or proxy voting agents how to vote on the most common and recurring issues.

NCPERS recommends that all public pension plans adopt proxy voting guidelines. To receive a copy, contact NCPERS by email (info@NCPERS.org) or phone (1-877-202-5706). ❖

Leg. Conference Delegates Fight Social Security Proposal on Capitol Hill

NCPERS held its 2005 Legislative Conference in Washington, DC, February 8-9, at the Holiday Inn on Capitol Hill. More than 270 participants heard from congressional and industry representatives about issues affecting public pension plans.

This year's speakers and panels focused much of their attention on the Bush Administration's proposals for privatizing the Social Security system. Another key topic was California Governor Arnold Schwarzenegger's

plan to eliminate the current defined benefit pension plan for California government employees.

The annual event is hosted by NCPERS, with participation by the National Council on Teacher Retirement and the National Association of State Retirement Administrators.

The 2006 Legislative Conference will be held February 6-8 at the Holiday Inn on the Hill. See the NCPERS website for details. ❖



NCPERS members hear about the 2005 legislative agenda in Washington this February.

Thank You from the President

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attracted so many new members. We are growing because retirement systems nationwide see the benefits of working together in the association with the most distinguished record of working to preserve some of the best—and safest—retirement plans in America. NCPERS continues to serve as The Voice for Public Pensions.

Our pension funds are in a critical time. The challenges we face in the nation's capitol are compounded by those we face in our states and local areas, where local and state officials are struggling to balance the competing demands of budget crises with fair and equitable public employee benefits.

Legislative activism is an essential part of our strategy to defend public

employee pensions—and we need your help in this campaign. We need you every February, talking with your representative or senators in Washington, DC, or back home at any time of the year. We need you in the halls of your state capital, meeting with the governor and state legislators.

All of these elected officials must hear from you about our pension concerns and why they are important. As trustees and administrators, you are the experts on public pension issues, so share your knowledge and insights. ♦

Robert Podgorny
President, NCPERS

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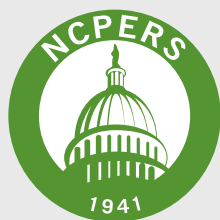
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WELCOME, NEW MEMBERS!

For those new members attending their first NCPERS Annual Conference, welcome! This annual report is just one of many resources we hope you'll take advantage of as NCPERS members. Here are some of them:

- **Legislative Representation**—You'll enjoy full-time representation on Capitol Hill and state legislative tracking, and you can participate in our national grassroots lobbying network.
- **Trustee Education**—Learn the latest news at our legislative conference (held February 6-8, 2006, in Washington, DC), our annual conference (April 30-May 4, 2006, in Ft. Lauderdale, FL), and an annual two-day trustee educational seminar April 28-29, which precedes the annual conference. See our website (www.NCPERS.org) for details on all these events.
- **Pension Information**—You'll receive our monthly and quarterly newsletters and can access our web site, which offers timely updates on breaking news, and research studies on public pension issues.



What else can we do for you? Please let us know if you need additional information or resources by calling us at 1-877-202-5706 or by sending an email to info@NCPERS.org.