



## GASB Seeks Comments on Pension Accounting, Reporting for Pension Plans

The Governmental Accounting Standards Board (GASB) has issued an Invitation to Comment (ITC) on Pension Accounting and Financial Reporting. The ITC is intended to obtain feedback from constituents at an early stage of the Board's reexamination of its pension accounting and financial reporting standards. Interested parties are encouraged to review and provide input on the ITC by July 31, 2009.

The ITC addresses key issues related to pension accounting and financial reporting that were raised during the research phase of this project. The topics considered in the ITC include the process on which pension accounting and financial reporting should focus; recognition of liabilities and expenses; measurement of unfunded pension obligations; the use of actuarial methods; and reporting by government employers in cost-sharing multiple-employer pension plans and reporting by pension plans themselves.

The input received in response to the ITC will help the Board determine whether modifications to current pension standards should be proposed in order to better meet the financial reporting objectives of accountability and decision usefulness, including enabling users of financial reports to

assess the extent to which interperiod equity has been achieved.

"The GASB is committed to ensuring that its standards, including those associated with pension benefits, lead to information reported that is useful for making decisions, and assists users of financial reports to assess accountability," said Robert H. Attmore, GASB chairman.

Written comments may be submitted through an Internet-based form or addressed to the Director of Research and Technical Activities, Project No. 34, and emailed to [director@gasb.org](mailto:director@gasb.org) or mailed to the GASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116.

A public hearing on the ITC is scheduled during the Board's regular meeting on August 26, 2009, beginning at 8:30 a.m., at the GASB offices in Norwalk, CT. Interested individuals or organizations may participate in the public hearing in person or by telephone. The deadline for written notice of intent to participate in public hearing: July 31, 2009.

NCPERS will be providing comments, and intends to attend the public hearing in order to ensure that our interests are heard.

### Withholding Amounts Changed for Pension Payments

As a result of the federal stimulus bill passed earlier this year, concern is rising among pension funds and pensioners that retirees will be stuck with an unintended tax liability due to a change in withholding.

The stimulus package included a "Making Work Pay" tax credit of up to \$400 for working individuals and up to \$800 for married taxpayers. On or before April 1, employers will reduce the amount of federal income tax withheld from workers' paychecks, leading to slightly more take-home pay from each check. The idea is to put more money in people's pockets during the slow economic time so they'll spend it and boost the economy.

Public and private pension recipients, however, do not qualify for the credit unless they have other earned income from an employer. But, the IRS has ordered that retirees' withholding amounts must be changed, even if they don't qualify for the credit. Application of the new withholding table to retirees and dependents will result in those persons being under-withheld, thereby resulting in additional tax liability which otherwise could have been avoided.

Millions of retired public employees and their survivors who receive retirement benefits are on a fixed income, and most do not receive social security. Exposing them to additional and unexpected tax liability is directly contrary to the purpose of the stimulus package.

Accordingly, NCPERS is taking the position that the revised withholding tables should not be applied to payments received from state and local government retirement systems. NCPERS Executive Director Hank Kim will this week send a letter to the IRS asking the agency to withdraw the requirement that the new withholding tables be used for retiree benefit payments.

## Shareholder Action is Growing—and Meeting with Success.

A number of NCPERS members have been active in recent years on issues of corporate governance in the companies in which they hold stock. Shareholder activism has gained prominence since the late 1980s when CalPERS began an aggressive effort to improve corporate governance. Since then a more public pension funds and labor unions have sought to influence public company decision-making and governance through shareholder proposals and proxy voting.

This year, funds and unions such as Kansas City Fire Fighters,

Philadelphia Public Employees, and the Miami Fire Fighters—not to mention the larger public funds such as CalPERS and NYSTRS—have been working to bring about reform on a number of issues, including political contributions, say on pay, golden coffins and requiring independent compensation consultants. Targets of shareholder activists include Citigroup, Lockheed Martin, Merck, Verizon, Pulte, Allstate, Wal-Mart, Caterpillar and others.

The funds have had some success. Shareholder proposals were withdrawn at Johnson & Johnson and Metlife when the companies agreed to the use of independent compensation consultants—those who do not provide any other service to the company, such as providing employee benefits—to determine appropriate compensation for high-level executives. A conflict arises when a consultant provides other services, because it may be more likely that an extraordinary compensation recommendation may be made in order to assure future business in other service areas. The actions were initiated by Kansas City Fire Fighters and Philadelphia Public Employees.

The Kansas City Fire Fighters (with the AFL) also were successful in urging Occidental Petroleum to modify its “golden coffin” provision. Golden coffins refer to the paying out of extraordinary benefits to survivors of a top executive. Many companies claim that these payments are in lieu

of insurance policies, but, for example, if Brian Roberts, CEO of Comcast were to die, his estate would be awarded \$298 million. Similarly, the estate of Robert Iger of Disney would benefit to the tune of \$62 million.

The Miami Fire Fighters last year worked brought a shareholder proposal for an advisory vote on a company’s compensation report (say on pay), which is designed to give shareholders meaningful input on a company’s approach to executive compensation without micromanaging the intricacies of individual plans. That proposal is still pending.

NCPERS believes that public funds and institutional investors who engage in corporate governance actions should be commended for their efforts to reign in corporate excesses and, as a result, induce good behavior in the boardroom.

## Judge Voids Collective Bargaining Agreements

A decision was reached last month in a court case that could have far-reaching implications for public employees. A judge in California ruled that that the city of Vallejo, CA can reject existing collective bargaining agreements with its firefighters and electrical workers. In his decision, Judge Michael McManus of the U.S. Bankruptcy Court for the Eastern District of California said heightened protections given to unionized

## Maryland



Baltimore City Council President Stephanie C. Rawlings-Blake has tapped a business-group leader to head a commission examining the city's troubled fire and police pension system. Donald C. Fry, president and CEO of the Greater Baltimore Committee, accepted the invitation from Rawlings-Blake and City Councilman William H. Cole IV the review. In announcing Fry's appointment, Rawlings-Blake indicated that despite measures recently crafted to address the crisis, the changes are inadequate to deal with long-term challenges. NCPERS Board Member Capt. Stephan Fugate, chairman of the pension board of trustees, said that he supports the effort but that proposals to reduce benefits would be "out of the question" and "off the table." The issue that needs to be resolved is how current benefits can be paid for, he said. Baltimore Mayor Sheila Dixon also had called for an independent review of the fire and police system, and she said that Fry would be an appropriate person to lead such an effort. The city is set to put \$82 million into the fund this year. Next year, the fund could request \$110 million, and the city obligation could reach \$171 million if the pension board adopts recommendations from its actuary that would lower projected investment returns from one part of the fund.

## Colorado



A bill to merge Denver Public Schools' retirement system into the statewide system was introduced earlier this month in the Colorado Senate—. Senate Bill 282 would make the 14,500-member system a separate division in the Colorado Public Employees' Retirement Association, which has 400,000 members. A merger of the two systems has been unsuccessfully attempted a number of times. Among the components of the bill: the legislature would set the contribution rates for Denver as it does for the rest of PERA; new employees would get the same benefits as PERA's new employees; and DPS retirees would be able to join PERACare, which offers health benefits.

## Arkansas



Arkansas' lawmakers this year worked on a number of public fund related issues, including benefit increases for a number of public funds in the state and a merger of the Arkansas State Police Retirement System into the public employees system. In merging the investments of the financially strapped Arkansas State Police Retirement System into the public employees system, the legislature decided to retain a separate board of

trustees for the state police system and infuse \$9 million in state funds into the system to shore it up. Legislators also agreed to benefit increases for Arkansas Local Police and Fire Retirement System, but the members—not their employers—will have to pay for it, as well as benefit for certain members of the Arkansas Judicial Retirement System and the Arkansas Public Employees Retirement System, as well as for members of the Arkansas Teacher Retirement System when it can afford the increases. Arkansas' six public retirement systems collectively lost more than \$2 billion of the value of their investments in the quarter ended December 31. The investments fell to about \$14.4 billion.

## New Hampshire



Under legislation recently approved by the New Hampshire House of Representatives, police officers and firefighters would have to work five years longer and be five years older to qualify for a public pension. Currently, public safety employees can retire with a pension after having attained age 45 with 20 years of service. The bill would raise the minimum service requirement to 25 years and police officers and firefighters would have to be 50 before they could collect a pension. The House passed the bill by a vote of 267-67.

The number of people struggling without access to basic health care during these tough economic times has skyrocketed from 56 million to 60 million in just two years, according to the National Association of Community Health Centers (NACHC). The increase can be attributed to a host of factors that include a worsening shortage of primary care doctors in needy communities and a growing scarcity of providers willing to treat the uninsured or publicly insured. The number of medically disenfranchised grew three times faster than the total U.S. population, a clear sign that access to primary care is worsening and reaching middle-class American families, even among those who do have insurance. With plant closings and job losses mounting from the economic downturn, and people increasingly finding themselves suddenly uninsured or underinsured, the issue has reached crisis proportions.

Additionally, Families USA, a national health care advocate for consumers, recently announced that 86.7 million Americans (nearly one in three) under age 65 were uninsured at some point during 2007 and 2008, based on data from the Census Bureau and the Agency for Healthcare Research and Quality.

With that in mind, President Obama and Congressional leaders have advocated for legislation to ensure that America's uninsured and underinsured are able to access healthcare. It is nearly guaranteed that Congress will debate healthcare reform this year. What is not so clear is what manner of reform proposals will be introduced, and whether there exists enough political will to pass legislation that would cover every American. Also unclear is whether the reforms, if enacted, would be incremental—various elements becoming effective over a number of years—and how far-reaching they might be.

It is clear that the private sector healthcare and insurance system we have now is not adequate to meet the needs of every American. It is time that we make sure every American receive care as a basic right. We need to ensure that the reformed system addresses all vulnerable populations and does not leave gaps for individuals in our community or in essential services, and that a necessary safety net is created with all Americans receiving equal coverage. However, this must all be done in a sustainable manner that is economically viable.

NCPERS has for many years been working to address this issue with legislators and other interested parties. In fact, NCPERS has worked extensively with the National Coalition on Health Care, which represents some 80 organizations, including major companies, unions, retirement systems, medical institutions, higher education institutions, and healthcare organizations. The Coalition's Executive Vice President Mark Goldberg last month gave a presentation at the NCPERS Annual Legislative Conference on healthcare reform and suggested that now might be a golden opportunity for reform to pass. He said that we are at a "policy window," which is a point at which wholesale change "occurs at specific points in time, on specific issues, when there is widespread belief that the issue involved is at a crisis point, and that there are reasonably auspicious political circumstances which would allow the changes to move forward."

If Mr. Goldberg is correct, we may finally see a true reform of the healthcare system in the United States, and very soon. Until then, we will keep working on our end to make sure that the issue remains one as relevant to Congress as it is to working Americans.

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employees of private businesses do not apply to those employed by bankrupt municipalities.

Facing a \$9 million budget shortfall, the City of Vallejo filed a petition for bankruptcy protection in May 2008, which allowed the City to attempt to renegotiate contracts with employees, vendors and others. When attempts to renegotiate stalled, the city filed a motion to reject collective bargaining agreements with the IAFF, the IBEW, the Vallejo Police Officers Association, and the Confidential, Administrative, Managerial and Professional Association of Vallejo, leading to the judge's decision. Prior to the judge's ruling, the Vallejo Police Officers Association and the Confidential, Administrative,

Managerial and Professional Association reached supplemental collective bargaining agreements with the City.

Concern runs high among many in the public sector that this ruling may now set a precedent for other municipalities that are having financial troubles, and may in fact be an inducement to declare bankruptcy in order to break collective bargaining agreements.

IAFF Local 1186, the Vallejo Police Officers Association and IBEW Local 2376 have indicated they will appeal the decision, saying in a joint statement, "We have consistently maintained that the City of Vallejo must look at raising necessary revenues from a host of sources, not

just additional cuts from the paychecks of city employees. This appeal will hopefully grant the City Council of Vallejo the time it needs to develop a truly comprehensive plan that restores the budget while stopping the exodus of city staff who protect Vallejo's neighborhoods.

"Allowing the City of Vallejo to declare bankruptcy so that they can slash the salaries of public safety and key city services will only make our community less safe by driving out the best employees. Vallejo is already dangerously understaffed."

NCPERS is carefully following this case, as it may have far-reaching implications for public employees across the nation.

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