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Get Ready for the Legislative Conference

NCPERS is preparing to host its Annual Legislative Conference. The 2009 conference will take place in Washington, D.C., February 1-3 at the Hyatt Regency Capitol Hill. Public fund trustees and plan administrators from across the country will convene in the nation's capitol to learn about how the 2008 elections will affect the legislative and regulatory agendas, and meet with their elected representatives on Capitol Hill.

The annual legislative event provides a forum for public fund trustees and plan administrators to discuss important legislative and regulatory issues that may affect their funds. Participants will hear from a variety of experts on critical issues affecting public retiree benefits, including: newly enacted PPA technical corrections, the efforts to expand HELPS to all public employees, as well as an overview of the administration's goals for public plans and the financial services community.

Previous Legislative Conferences have brought senior administration officials, members of Congress, and Washington insiders to help educate fund members about the nation's political and regulatory system. The keynote session for the February conference will feature one of the nation's most notable political analysts, Charlie Cook. He is expected to discuss the results of the 2008 Congressional and Presidential elections, and what they mean for the country's future.

Cook is publisher of *The Cook Political Report*, and political analyst for the National Journal Group, where he writes weekly for National Journal magazine and *CongressDailyAM*. He also writes a regular column for the *Washington Quarterly*, published by the Center for Strategic and International Studies, and is a political analyst for NBC News.

The annual event also gives NCPERS members the opportunity to recognize political leaders for their exceptional contributions on behalf of public employees in promoting and protecting retiree benefits. During this year's conference, NCPERS will present a special award to Rep. Earl Pomeroy (D-ND), a longstanding member of the House Ways and Means Committee, honoring him for his tireless efforts working to advance retirement security by strengthening defined benefit pension plans for all workers.

The Legislative Conference is a unique opportunity for NCPERS members to learn about the political, legislative, and regulatory processes that affect important issues regarding public employee retirement systems, and where NCPERS members can go meet face-to-face with their Members of Congress. Effective lobbying requires that elected representatives understand the issues before them. NCPERS members have a compelling story to tell about public sector defined benefit plans, and the Legislative Conference is where public plan trustees and administrators can learn the necessary tools to forcefully advocate on the issue of retirement security.

Please join us in Washington, D.C., for the 2009 Annual Legislative Conference—and if you have already made plans to attend, remember to schedule your appointment with your Members of Congress prior to the conference.

PPA Technical Corrections Bill Passed

On December 23, President George W. Bush signed the Worker, Retiree, and Employer Recovery Act of 2008, which was passed earlier in the month by the House and Senate. On December 10, the House passed by unanimous consent the bill, which was then referred to the Senate, where it passed by unanimous consent on December 11.

Included in H.R. 7327 are amendments and technical corrections to the Pension Protection Act of 2006. Among the changes, the legislation modifies the tax treatment of certain state medical reimbursements to beneficiaries and provides for a one-year moratorium on required minimum distributions from individual retirement accounts and defined contribution plans for 2009.

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More importantly for NCPERS members, the legislation also fixes the governmental defined benefit plan interest crediting rate and a clarification to extend the public safety retiree health exclusion to self-insured plans. Lastly, H.R. 7327 included a legislative fix that supplements an earlier administrative fix for the Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act. The legislative correction addresses an initial misinterpretation by the IRS and confirms that self-insured health plans are eligible to accept direct payments from pension plans for health plan premiums. NCPERS lobbied for more than a year to have those these issues included in the bill.

NCPERS continues to lobby for changes to the Pension Protection Act of 2006 that were not included in the Worker, Retiree and Employer Recovery Act, including a DROP fix for a tax issue for public safety retirees that arose when the PPA was passed, as well as for HELPS II, an extension of the $3,000 tax benefit for health plan premiums to all public service retirees.

Senate Finance Committee Takes Up Health Care Reform

Lawmakers on Capitol Hill are trying to figure out how to balance health care concerns in view of the tremendous economic difficulties that Americans are now facing. In November, the Senate Finance Committee heard testimony from business, labor, and policy experts regarding proposed legislation that would reform the nation's health care system. The hearing followed the release of a "Call to Action" by committee chairman, Sen. Max Baucus (D-Mont.), regarding the initiative.

"We are clearly facing a significant recession," said Baucus. "The economic downturn means more individuals could lose health coverage for themselves and their families. And that's at a time when savings are low and credit card debt and medical costs are high. Medical bills could force a growing number of families into bankruptcy. Comprehensive health reform legislation must be a part of any successful economic recovery plan."

In the "Call to Action" document, Baucus argues that the problems inherent in the nation's health care system are tied to the current economic crisis, and that healthcare reform is a necessary step in strengthening the economy. He believes that his plan will lead to universal health care coverage, lower health care costs, and overall improved quality of care. Baucus has already won strong support for the plan among many highly-regarded economists and health care policy advocates, and hopes the Senate will take up the legislation in the early days of the 111th Congress.

"In the decade ahead, our traditional employment-based health insurance system is likely to deteriorate drastically for low-wage employees," said Uwe Reinhardt, James Madison Professor of Political Economy at Princeton University, who testified before the committee. "The perfect storm in health care is fueled by the fact that the gross wage base that supports the living expenses of most American families tends to grow at an annual compound rate of less than half the rate at which total health spending per capita grows in this country. Simple arithmetic dictates that his differential growth will inexorably price more and more lower-income Americans out of health insurance. There is no mechanism now that could eliminate this divergence in growth rate over the next half decade or more."

The Senate Finance Committee has spent a significant amount of time studying the issue in preparation for an expected comprehensive health care reform initiative. Baucus has held numerous hearings and roundtables discussions in an effort to gain support for his plan, but other legislative proposals are expected to be under consideration during the new Congress, including plans drafted by Sen. Ted Kennedy (D- Mass.) and Rep. John Dingell (D-Mich.), as well as Sen. Ron Wyden (D-Ore.). The architects of those plans are vying aggressively for support among various stakeholder groups.

"The growing price of health insurance is creating two Americas," said Amitabh Chandra, assistant professor of Public Policy at Harvard University's Kennedy School of Government, " – one with Americans who lack health insurance and are subject to great uncertainty about medical expenses, and another whose members carry expensive health insurance policies which promise great hope, but relative to price, offer little when outcomes and patient satisfaction are actually measured. Supporting health care reform may seem imprudent at a time when Congress has added $700 billion to the federal budget deficit, but some reforms could improve the quality of health care while reducing federal spending on health care."

The Baucus proposal has three major elements: increased access, healthy system reform, and financing. Under the plan, all Americans would be required to obtain health care coverage, which would be enforced through the tax system. Employers would have the choice of providing health care coverage or contributing, on a percentage-of-payroll basis, to a fund for the uninsured. And small businesses would be offered a new tax credit to purchase health insurance for employees. Additionally, a Health Insurance Exchange would be established to organize affordable health options, and an Independent Health Coverage Council would make decisions that would help to guarantee that affordable health insurance options are available.

Ivan Seidenberg, chairman and CEO of Verizon Communications, represented the views of the corporate business community, which he says struggles to provide adequate health care coverage for workers. “Rampant cost increases in the medical system mean we’re paying more for less value,” said Seidenberg. “Health care costs are inhibiting job creation and damaging our ability to compete in global markets. They are also imposing a major strain on the household incomes of many Americans. In these times of financial insecurity, maintaining jobs and retaining health care benefits is an enormous strain on both employees and employers.”

The panel of witnesses who appeared before the committee all agreed that the Obama Administration should continue to make health care reform a top priority despite the troubles facing the economy, emphasizing the role of health care costs in driving up government spending. The Baucus proposal closely matches Obama’s own health care reform proposals. President-elect Obama has chosen former South Dakota senator Tom Daschle as his Secretary of Health and Human Services appointee. If confirmed by the Senate, Daschle will lead then new administration’s proposed overhaul of the nation’s health care system and oversee a new White House Office of Health Reform.

Andy Stern, president of the Service Employees International Union, said that the current health care system forces man American workers to make impossible choices. “Do they pay their premium share or pay for groceries?” Stern asked. “Do they pay their mortgage or take their prescription every other day? Does fear of the future and increased co-pays mean postponing doctor visits and treatments? With these kinds of choices facing working people today, it’s hard to argue that health care isn’t tied to the economic crisis.”

Indeed, there is overwhelming evidence that burdensome health care costs often have a catastrophic effect on the lives of millions of Americans, as well as adversely affecting the U.S. economy as a whole. According to the Commonwealth Fund, there are now 72 million Americans struggling with medical debt, many of whom thought they had insurance that protected them. Some studies have suggested that inability to pay off medical bills accounts for nearly half of all bankruptcies.

“With 46 million uninsured and another 25 million underinsured, the United States is the only developed country that does not guarantee health coverage for all its citizens,” said Baucus. “Consumers, businesses, labor, providers, plans, manufacturers, and state and local governments are signaling that they are ready and willing to engage in serious and comprehensive reform of a health system in crisis. It is the duty of the next President and the next Congress to reform America’s health care system. Congress must take up and act on meaningful health reform legislation that achieves universal coverage while also addressing the underlying problems in our health system.”

In the STATES

Tennessee

Governor Steve Beshear recently proposed changes to the state pension systems that he says could save cities, counties and school districts $37 million in the next year. Under the proposal, cities and counties would have 10 years instead of five to pay their portion of employees' retirement into the system. The Kentucky Retirement System and the Kentucky Teachers Retirement System face shortfalls of at some $27 billion. Because of changes to government accounting standards, there was an increase in the amount of unfunded liability in the pension in 2006. Local governments and school districts were asked to increase their payments to the pension system over five years. By spreading the payments over 10 years, cities, counties and schools would see a decrease in payments that would gradually increase over time, which would mean local governments would actually pay more over the 10-year period than over five years. Gov. Beshear said that the increased payments would likely come when the economy rebounds. The board of the Kentucky Retirement System must approve the change, but when the issue was discussed at a November meeting of the KRS board, there was little support for the measure and it was never voted on. The board is expected to reconsider the governor's proposal.

Pennsylvania

Philadelphia Mayor Michael Nutter is seeking sweeping concessions on salary, work rules, health care and pension benefits in early contract negotiations with the city's police and fire unions. In preliminary four-year offers delivered to police and fire union leaders on Dec. 31, the city proposed no pay increases and the adoption of contract provisions—such as involuntary furloughs of up to 30 days each year—that could significantly decrease police and firefighter salaries, which now average, respectively, $63,000 and $69,000 a year, including overtime. Nutter's proposal also would would reduce pension benefits and require police officers and firefighters to increase their contributions to the pension fund from 5 percent of their salaries to 8 percent. The offer was roundly criticized by both the Fraternal Order of Police and International Association of Firefighters Local 22. In a letter to members, FOP Lodge #5 President John McNesby described the offer as "insulting." The unions have submitted their own initial offers, but negotiations are expected to take at least six months.

North Dakota

North Dakota's pension funds for state employees and teachers each lost more than 20 percent of their value last year. During 2008, the Teachers' Fund for Retirement fell 28.5 percent while the Public Employees Retirement System fund dropped 25 percent, said Steve Cochrane, director of North Dakota's Retirement and Investment Office. The Standard & Poor's index of 500 stocks declined 37 percent during the year. The executive director of the North Dakota Public Employees Retirement System, Sparb Collins, said legislators may want to consider whether to increase the state's pension fund contributions to gradually recoup losses, otherwise the funds will take much longer to recover the ground they lost in what was a disastrous year in the stock market. Cochrane and Collins testified at a joint meeting of the state's House and Senate appropriations committees, which have jurisdiction over state employee pay and benefit proposals.

Nevada

Nevada's Public Employees Retirement System has lost more than $4 billion on investments since July, according to system executives. Testifying before a legislative panel in mid-December, the system's investment officer, Ken Lambert, indicated that the system is doing better than most retirement funds across the nation. Lambert said the value of the system's retirement fund has dropped 19 percent since July 1—from $22.2 billion to $18 billion—because of the decline in the stock market. Despite the significant losses this year, the fund has averaged an annual gain of 10.2 percent, well over it's goal of eight percent. But some legislators, concerned about budgetary constraints, are seeking ways to reduce the state's long-term costs, including increasing contributions, reducing benefits or increasing the retirement age. Nevada's retirement system provides benefits to 37,000 retired public employees. There are approximately 104,000 active members of the system.

Washington

The Board of Directors of the Seattle City Employees Retirement System (SCERS) last month took action to divest in companies that have business

STATE continues

Executive Director's Corner

Hank H. Kim, Esq.
Executive Director
& Counsel

The arrival of a new year always brings with it a sense that great things are in store. It is a hopeful time, and it is a time when we resolve to do a great many things. Perhaps it is to lose weight, or to quit smoking, or to be a better person. Those are great resolutions. But what else could we resolve to do? I'm just spit-balling here, but what about this: I resolve to become more active on the issues related to my position as a pension professional? I think that's a great resolution, and I would encourage everyone to join me in making it!

Now, having made that resolution, let's turn our attention to what we can do to bring it to fruition. It's no accident that the first article in this issue is on the Legislative Conference. It is one of our most important conferences each year, and one that has the potential to most directly affect the public pension community as a whole. Why? Because it is at this conference that attendees have the opportunity to meet their elected representatives in Congress. And, as I've said time and again, it's important that we—all of us—build relationships with our political leaders, because they have the power to help us enormously and, in equal measure, they have the power to hurt us. Your attendance at the conference and your willingness to build a relationship with your Congressional delegation can help make the difference on legislative issues that are expected in the coming year. And mark my words, there are going to be a number of issues that affect retirement security this year: from economic stimulus legislation to healthcare and tax legislation. So, I'm asking that you join us for the legislative conference in February as a first step toward fulfilling that resolution.

NCPERS, first and foremost, is an organization dedicated to preserving and promoting defined benefit pension plans. So, we are an advocacy and educational organization. We also like to do a little research. Just for fun, I'm going to throw some numbers out here and I want you to guess what they are. Okay, that's not really fair, but I promise I'll explain them. Let's start with 56-31, then 45-42, and finally 93 and 41. Any idea what they might be? Here's a hint, NCPERS commissioned a nationwide survey of 1,200 voters on election day. We developed five questions that were asked of the respondents to the survey, and for the first time, we're sharing the retirement-related responses here.

So, the first set of numbers (56-31) is the percentage of voters 55-years old and older who think traditional defined benefit plans are a more secure retirement vehicle than 401(k)-style plans. The second set of numbers is the spread when younger respondents are included: 45 percent view DB plans as stronger while 42 percent think 401(k)s are stronger. That makes sense, as many workers under the age of 55 may never have been part of a DB plan, and don't know the comparative advantages.

The third number is the response rate to this question: Do you have a very favorable, somewhat favorable, somewhat unfavorable, or very unfavorable impression of public servants such as police officers, firefighters, teachers and nurses? 93 percent of respondents have a very or somewhat favorable impression of public servants, which I find greatly inspiring. And the last number (41) is the percentage of respondents who have family members that are public servants.

So, how does this relate to our resolution? Well, simply put, we can now use those numbers. We know that public servants have a high favorability rating, let's figure out how to put that to good use. We now know that nearly half the nation has a family-member who is a public servant. Let's figure out how to get them talking to their friends and families about the positive benefits of retirement security. We know that we need to do a better job of educating people—young and old—on the differences between DB and DC plans, and why DC plans are so dangerous. So, let's go do it!

With all of us resolved to being more active on advancing defined benefit plans and retirement security, I imagine 2009 is going to turn out to be great. Happy New Year!

Continued from STATE *News*

interests in Sudan. The board voted unanimously for a policy that would allow SCERS to take quick action to stop investment of city employees' retirement funds in companies that have business interests in Sudan. Taking into account the board's fiduciary obligations to members of the System as its top priority the policy "gives favorable consideration to investments in securities of companies that meet a high ethical and social standard of conduct…". A resolution calling for divestment of funds and no further investment in companies with business interests in Sudan was introduced by Mark McDermott, Personnel Director for the City of Seattle, and also passed unanimously at the December 1 meeting. The Seattle City Employees Retirement System joins other municipalities and public entities across the country who have adopted similar policies.

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