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The National Conference on Public Employee Retirement Systems

NCPERS: Who We ARE

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public-sector pension funds, representing more than 550 funds throughout the United States and Canada. We are a unique network of public trustees, administrators, public officials, and investment professionals who collectively manage approximately $3 trillion in pension assets. Our core missions are federal Advocacy, conducting Research vital to the public pension community, and Educating pension trustees and officials—it’s who we ARE.

Who do we benefit? The approximately $2.9 trillion in public pension assets in the United States is managed on behalf of 7.3 million public retirees and 14.5 million active public servants who provide vital services, such as law enforcement, fire and rescue, education, healthcare, and more, to our communities. Currently, NCPERS member pension funds provide a modest retirement benefit—an average of $21,800 per year—that helps afford a secure retirement for our public servants and heroes.

Public pensions are financially sound and good for the economy. On average, the nation's public pension plans are well funded. Almost all public plans require employee contributions, and all public plans invest their assets in growth vehicles that earn additional income. According to a recent National Institute on Retirement Security study, state and local pension plans had a total economic impact of more than $358 billion, supported more than 2.5 million American jobs, and provided more than $57 billion in annual federal, state, and local tax revenue in a single year. Each taxpayer dollar invested in state and local pensions supported $11.45 in total economic activity, while each dollar paid out in benefits supported $2.36 in economic activity.

Public pensions are regulated by state and federal laws. All public plans are governed by federal and state laws that regulate how those plans are established and the level of benefits they can provide. Public plans are also governed by comprehensive financial reporting standards established by the Governmental Accounting Standards Board (GASB). These standards provide the framework for the annual financial audits that most governments contract to independent accounting firms. Because credit rating agencies pay close attention to the auditor’s report in assessing a government’s credit quality, there is significant incentive to adhere to the GASB’s standards. Although public plans are not subject to many of the provisions of the federal Employee Retirement Income Security Act (ERISA) of 1974, state fiduciary laws governing public plans often reflect ERISA’s language.
The Secure Choice Pension

Background

On September 14, 2011, NCPERS unveiled the Secure Choice Pension (SCP) plan, a new proposal for a public – private partnership to restore retirement security to the private sector. The SCP is aimed at enhancing retirement security in the private sector by providing workers who currently do not have a pension plan with a guaranteed, lifetime retirement income that would be immune to stock market fluctuations and economic downturns.

At the same time, the proposed SCP would provide the flexibility and portability that the increasingly mobile private work force needs, while spreading investment risks and costs over large pools of plan participants and employers.

As envisioned by NCPERS, each state would establish its own SCP, to be administered by a board of trustees made up of public and private representatives. Private sector employers would join an SCP, allowing their employees to participate in that SCP. Both the participating employers and employees would make regular contributions to the SCP.

SCPs would give participants the benefits of lower costs, because of the efficiencies and economies of scale available to large pension plans. It would also give private sector participants the benefits of higher returns because SCP assets would be pooled and managed by professionals.

At retirement, the SCP would provide participants with a guaranteed pension payment for life, with an opportunity for increased payments in good economic times. Plan participants would enjoy a guaranteed minimum retirement income, but the SCP’s trustees would be able to declare a “dividend” during a strong economy that would increase that benefit.

At best, most private sector employees have only two of the three legs of the retirement stool. They have Social Security and some have personal savings, which includes 401(k)s. SCPs are a way to bring back the third leg of the stool for those workers who currently don’t have a pension. Even workers who diligently save can see their nest eggs significantly diminished by an unexpected economic downturn. And private sector companies – especially small employers – are increasingly reluctant to bear all of the risk a traditional defined benefit pension plan entails.

The SCP is a desperately needed alternative. It would address the private sector retirement security crisis through a guaranteed, affordable, sustainable pension that draws on the lessons learned from successful public pension plans. The SCP is a powerful alternative whose time is now.
The Secure Choice Pension (continued)

**Legislative History**

NCPERS seeks to introduce SCP enabling legislation in the 112th Congress.

**NCPERS Position**

*NCPERS supports the Secure Choice Pension proposal and seeks to introduce enabling legislation.* While the SCP would be a state based program, it would implicate some ERISA rules and the federal tax code. Thus, enabling federal legislation that would provide waivers from certain provision of ERISA and the IRC would be necessary.

- Retirement security is a problem for all Americans. Pension plans are the most effective and efficient means of ensuring an economically viable retirement. Numerous surveys show that the vast majority of American workers would prefer a pension in addition to personal savings that include 401(k)s and Social Security to guarantee financial security in retirement.

- The proposed Secure Choice Pension (SCP) plan allows private companies and individuals to participate in a state-sponsored pension plan for the private sector. This model extends to all Americans the benefits of a proven, cost-effective retirement system that will provide guaranteed income for life in retirement.

- What would be the benefits of SCPs?
  - Businesses: Small to mid-size businesses can now compete with larger companies in recruiting and retaining qualified employees through an attractive retirement option that they currently cannot afford to offer. For large businesses, participation reduces their retirement plan administration costs.
  - Taxpayers: SCPs will not cost taxpayers any state money because they will be funded entirely by employer and employee contributions. In fact, taxpayers will benefit because an expanded and strong middle class with financial security in retirement will decrease the strain of public assistance programs on state budgets.
  - Participants: Individuals will have a new secure choice for retirement that offers them a guaranteed monthly income stream when they retire and an attractive option beyond 401(k)s and other self-directed plans.
  - States: A state with an SCP would have a competitive advantage when trying to attract out-of-state businesses. Furthermore, a state with a strong pension system for its citizens upon retirement will benefit from their increased economic activity. Studies show that for every pension dollar paid out, $2.36 in economic activity is generated. Most individuals, nearly 90 percent, retire in the communities they worked in. Without an adequate retirement income, a state’s retiree population cannot continue to be active consumers and taxpayers and will be increasingly at risk of relying on the publicly funded safety net.
Public Employee Pension Transparency Act

Background

Last February, Representative Devin Nunes (R-CA) and Senator Richard Burr (R-NC) introduced H.R. 567 and S. 347 the Public Employee Pension Transparency Act (PEPTA). These bills would require state and local government pension plans to report to the Secretary of the Treasury the funded status of those plans. Specifically, PEPTA would require state and local governments to provide Treasury specific funding information to the Treasury based on the market value of assets and liabilities using “risk free” rates.

The bills would also require that the information be made publicly available via a searchable website. Noncompliant plan sponsors would be ineligible for issuing bonds exempt from federal taxation. In addition, the legislation would prohibit the federal government from providing any financial assistance or bailouts to public pension funds in the future.

Legislative History


NCPERS Position

NCPERS opposes the Public Employee Pension Transparency Act. This legislation represents a fundamental lack of understanding regarding the strong accounting rules and strict legal constraints already in place that require open and transparent governmental financial reporting and processes at the state and local levels.

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• State and local governments have not and are not seeking a so-called federal bailout for their retirement systems. On the contrary, for the past several years, state and local government employers, employees, retirees, and taxpayer organizations have been forging meaningful changes to their systems to improve and enhance pension sustainability over the long term. More states enacted significant legislation in 2010 and 2011 to modify their retirement plans than in any other time in recent history. None of this activity presumes any federal financial assistance.

• State and local pension systems collectively have prefunded nearly four-fifths of their future pension liabilities – even when accounting for the steep losses in 2008 and earlier this decade. Although every investor was affected by the 2008 financial market disaster, state and local retirement systems have a strong track record in managing their assets and a much greater time to recover than do other retirement plans. The public-sector pension model is a proven vehicle for preserving a secure retirement for American workers and for lessening reliance on public assistance.

• Pension fund asset values have been growing since March 2009, with the most recent data showing that current assets are approximately $2.9 trillion. The Government Accountability Office found that, on the whole, public pensions are financially secure and positioned to meet their long-term pension obligations and that, even after the market decline, aggregate public pension funding levels are around 76 percent.
Defined Benefit Plan Fixes for Public Safety Employees

Background

Internal Revenue Code Section 72(t)(10) allows retired public safety employees beginning at age 50 to take distributions from their defined benefit (DB) pension plans without paying the 10 percent early distribution tax. Section 72(t)(10) recognizes that, due to the nature of the profession and, in many cases, to mandatory retirement ages, public safety employees typically retire earlier than do those in the general population.

Unfortunately, since implementation of Section 72(t)(10) in August 2006, two issues have arisen that need to be corrected. First, public safety employees between the ages of 50 and 55 who chose to roll over their distributions into a 457 plan and then decide to take distributions from the 457 plan are subjected to the 10 percent early distribution tax until age 59 1/2.

Second, public safety employees who retired before age 55 and before enactment of 72(t)(10) and opted to annuitize their benefit to avoid the 10 percent early distribution tax and who, after the enactment, decided to take a modified distribution from their plans are subjected to a 10 percent recapture tax on the previous annuitized distributions.

Legislative History


NCPERS Position

NCPERS supports fixes to Section 72(t)(10) that would:

- Exempt qualified retired public safety employees between the ages of 50 and 55 from the 10 percent early distribution tax on 457 distributions that have been rolled over from defined benefit pension plans.

- Exempt from the 10 percent recapture tax qualified retired public safety employees who opted for annuitized benefits prior to enactment the Pension Protection Act Section 828, but who now want to modify their distribution.
Mandatory Social Security Coverage

Background

The Social Security system provides coverage for all private-sector employees. However, when the system was established in 1935, state and local government employees were excluded. Over the years, even though public-sector employees are given the choice of joining Social Security, many choose not to be included. Instead, they rely on their own retirement and benefit programs tailored to their occupational needs. In many instances, these retirement programs predate the Social Security system. These state and local government retirement systems are prefunded and, in most cases, require a contribution by both the employer and the employee.

Whereas the public pension systems enjoy solvency and stability, the Social Security system is projected to run out of money in approximately 50 years. One proposal to extend the solvency date of Social Security is to cover all public-sector employees under Social Security. Although mandatory Social Security coverage would extend the solvency date by two years, all agree that in the long term, it would burden the Social Security system even more and ruin public-sector pension plans that have succeeded in providing comfortable retirements to countless public employees.

Legislative History

If Social Security becomes an issue in the 112th Congress, we anticipate additional legislation and more discussions about mandatory coverage of public-sector employees.

NCPERS Positions

- **NCPERS opposes expanding Social Security coverage to noncovered state and local government employees.** Public-sector employers were required to create separate pension plans for their employees when they were excluded from Social Security. Requiring Social Security coverage would undermine these plans and place unnecessary financial burdens on state and local government employers and employees.
Mandatory Social Security Coverage (continued)

- **Making Social Security mandatory would have little impact on the projected funding shortfalls of Social Security.** However, such a move would greatly affect public employees. Public employees not covered would be required to pay an additional 6.2 percent in payroll taxes, in addition to what they are now required to contribute to their public pension plans. The same would be true for the employer.

- **Mandatory Social Security coverage would be costly to states and localities.** States and local employers would be required to pay an additional 6.2 percent in payroll taxes, on top of what they already contribute to the pension fund. This additional burden would increase California’s annual expenditures by more than $2.3 billion. Ohio would be forced to pay an additional $1 billion annually, and Texas, Illinois, Colorado, Massachusetts, and Louisiana all would pay hundreds of millions of dollars more each year.

- **Mandatory Social Security would be disruptive to existing retirement programs.** Many public employers would be unable to absorb the higher costs. They would be required to continue funding their respective retirement plans, in addition to the Social Security tax. Many of these plans are established constitutionally; to make such a change would require legislative action and/or constitutional amendments.