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Pensions Promote Retirement Security
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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 500 funds throughout the United States. We are a unique network of public trustees, administrators, public officials and investment professionals who collectively manage over $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 more than $3 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, health care, and more to our communities. Currently, NCPERS member pension funds provide a modest retirement benefit—an average of $20,400 per year—that helps to afford a secure retirement for our public servants and heroes.

Public pensions are financially sound and good for the economy. The nation’s public pension plans on average are funded at 87 percent. Most public plans require member contributions, and almost all public plans invest their assets in growth vehicles that earn additional income. According to the U.S. Census Bureau, state and local pension plans accumulated $2.3 trillion in investment earnings from 1982 through 2005, compared with total employer (taxpayer) contributions of $885 billion and employee contributions of $435 billion. Consequently, taxpayers paid 24 percent of the total amount paid into public plans during this period, with the remaining 76 percent coming from investment earnings and employee contributions. Every dollar taxpayers paid into public plans generated an additional three dollars returned to the economy through retirement income.

Public pensions are regulated by state and federal laws. All public plans are governed by federal and state laws that regulate how they are established and the level of benefits they can provide. Public plans also are governed by comprehensive financial reporting standards established by the Governmental Accounting Standards Board (GASB). These standards provide the framework for the annual financial audits most governments contract to independent accounting firms. Since 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. While public plans are not subject to many of the provisions of the federal Employee Retirement Income Security Act of 1974 (ERISA), state fiduciary laws governing public plans often reflect ERISA’s language.
Healthcare Enhancement for Local Public Servants (HELPS II)

BACKGROUND

In the 109th Congress, NCPERS’ legislative priority was the Healthcare Enhancement for Local Public Safety (HELPS) Retirees Act. The HELPS Retirees Act allows a yearly disbursement of up to $3,000 pre-tax from a governmental defined benefit pension, 403(b) or 457 plan to retired public safety officers for use toward health care insurance and/or long-term care insurance premiums. The disbursements, which are made directly to health insurance plans, are tax-free. The HELPS Retirees Act was signed into law on August 17, 2006 as part of the Pension Protection Act of 2006 (P.L. 109-280). It took effect on January 1, 2007.

Prior to the HELPS Retirees Act, retirees paid for their health or long-term care insurance premiums with after-tax dollars. Beginning in January 1, 2007, eligible public safety retirees are able to use pre-tax dollars from their qualified pension plans to pay for insurance premiums. For retirees who are in the 25 percent federal marginal tax rate bracket, this could be a tax savings of up to $750 per year!

For the 110th Congress, NCPERS’ number one legislative priority is to expand this tax benefit to all public teachers. The Healthcare Enhancement for Local Public Servants (HELPS II) legislation would expand this benefit to allow a yearly disbursement of up to $3,000 pre-tax from a governmental defined benefit pension, 403(b) or 457 plan to retired public education personnel for use toward health care and/or long-term care insurance premiums.

LEGISLATIVE HISTORY

NCPERS expects to have legislation introduced that would allow public teachers to pay health insurance premiums on a pretax basis.

NCPERS POSITIONS

NCPERS supports Healthcare Enhancement for Local Public Servants (HELPS II). Our provision would permit distributions from public educator retirees’ defined benefit or defined contribution plans to pay for health care insurance and long-term care insurance premiums on a pre-tax basis up to $3,000 annually.
Interest Rate Fix for Public Pensions

BACKGROUND

The Pension Protection Act of 2006 (P.L. 109-280) was a 900+ page bill that was primarily aimed at addressing many issues concerning private sector pensions. However, included in the bill were a number of provisions that affected public plans. One such provision, Sec. 701, states that in order to comply with the Age Discrimination in Employment Act (ADEA), the rate of interest used by a defined benefit plan can be no greater than a “market rate of return,” which the federal government will set at some future time.

Most governmental pension plans credit interest in some fashion. State statutes and/or local ordinances guarantee numerous types of interest credit that could be in excess of this new federal limitation. The Sec. 701 interest rate cap is meant to address issues that arise in private sector pensions under ERISA, but are inappropriate for public sector pensions. Public sector pensions are governed and regulated by state and local laws. Public pension beneficiaries are afforded protection under most state constitutions.

LEGISLATIVE HISTORY

PPA Technical Corrections bills H.R. 3361 and S. 1974 were introduced in August 2007. However, an interest rate fix for public plans needs to be added to both bills.

NCPERS Positions

NCPERS supports adding language in H.R. 3361 and S. 1974 to fix the interest rate cap for governmental plans. The PPA Technical Corrections bills should be amended by adding the following paragraph, which would amend Section 4(i) of the Age Discrimination in Employment Act of 1967:


For governmental plans as defined in the first sentence of Section 414(d) of the Internal Revenue Code, rates of interest that are established by or in accordance with a statute, ordinance, administrative procedure, collective bargaining agreement or other public process, shall be treated as market rates of return calculated pursuant to a permissible method of crediting interest under this clause.

NCPERS supports passage of H.R. 3361 and S. 1974 with the language above included.
DB Plan Fixes for Public Safety Employees

BACKGROUND

Sec. 828 of the Pension Protection Act of 2006 (P.L. 109-280) amended 26 U.S.C. 72(t) to allow retired public safety employees beginning at age 50 to take distributions from their defined benefit pension plans without paying the 10 percent early distribution tax. Sec. 828 was enacted recognizing that—due to the nature of the profession and in many cases mandatory retirement ages—public safety employees typically retire earlier than the general population. 26 U.S.C. 72(t)(2)(A)(v) permits all other retirees to take distributions without the 10 percent tax beginning at age 55.

Unfortunately, since implementation of PPA Sec. 828 two issues have arisen that need to be fixed. First, public safety employees between the ages of 50 and 55 who chose to roll over their distributions into a 457 plan and then 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 Sec. 828 and opted to annuitize their benefit to avoid the 10 percent early distribution tax, and who after the enactment of Sec. 828 decide to take a modified distribution from their plans, are subjected to a 10 percent recapture tax on the previous annuitized distributions.

LEGISLATIVE HISTORY

NCPERS expects to have legislation introduced that would correct the rollover distribution and recapture tax issues for retired public safety employees.

NCPERS POSITIONS

NCPERS supports legislation to fix Sec. 828 issues. Our legislation will amend 26 U.S.C. 72(t) to:

- 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 a qualified governmental pension plan.

- Exempt from the 10 percent recapture tax qualified retired public safety employees who opted for annuitized benefits prior to enactment of Sec. 828, but 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, public sector employees were given the choice of joining Social Security, but many public employees chose 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 require a contribution by both the employer and employee, in most cases.

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 110th Congress, we anticipate additional legislation and more discussions about mandatory coverage of public sector employees.

NCPERS POSITIONS

• NCPERS opposes expanding Social Security coverage to non-covered 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.

• 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% in payroll taxes in addition to what they are now required to contribute to their public pension plan. The same would be true for the employer.
Mandatory Social Security Coverage (continued)

• **Mandatory Social Security coverage would be costly to states and localities.** States and local employers would also be required to pay an additional 6.2% 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.

• **It 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 and to make such a change would require legislative action and/or constitutional amendments.
Comprehensive Health Care Reform

BACKGROUND

Our health care system is broken. The skyrocketing costs, inefficiencies, uneven quality of care, and administrative nightmares are threatening to undermine a system that was once the envy of the world. While the U.S. still is a leader for medical research and innovation, and people from all over the world flock to our country for advanced medical treatment, for everyday Americans with normal medical needs, health care is becoming unaffordable, inaccessible, or inadequate.

The public is starting to take notice of the state of crisis of our health care system. In national polls and surveys, health care consistently ranks as a top priority issue for Americans. Further, states are taking the initiative and enacting state programs to reform the health care system. For example, in 2006, Massachusetts and Vermont enacted legislation to ensure all residents have health insurance. Likewise, California is close to passing a law to give all children in the Golden State health insurance.

Although state initiatives are great first steps, our health care crisis is too big for states to handle alone. The federal government will need to reform our national health care system and Medicare—preferably sooner, rather than later. NCPERS supports a comprehensive reform of our nation’s health care system so that all Americans have access to affordable and quality health care.

LEGISLATIVE HISTORY

NCPERS is working with a national health care coalition and congressional leaders to bring about a comprehensive health care reform.

NCPERS POSITION

• NCPERS supports the National Coalition on Health Care’s (NCHC) five specifications for comprehensive health care reform.

NCPERS will work in concert with NCHC to enact legislation that will:

• Provide universal coverage for all Americans.
• Manage costs so health care will be affordable.
• Improve health care quality and safety.
• Establish equitable financing measures to limit or eliminate cost-shifting.
• Simplify administration to reduce administrative complexity and costs.

• Although NCPERS supports comprehensive health care reform, such an historic undertaking may take some time to enact. Thus, we further support proposals that provide some relief for public sector retirees.

These proposals include HELPS II and the following initiatives.
Comprehensive Health Care Reform (continued)

- NCPERS supports reforming the Medicare system to make it financially sound, including supporting legislation to allow Medicare to negotiate directly with drug companies to make Medicare Part D effective and affordable. The financial solvency of the Medicare fund is vital to ensure that all citizens continue to receive quality health care at affordable prices.

- NCPERS supports federal legislation that safeguards participants of employer sponsored health plans from loss or reduction of their health benefits once they retire. All Americans should have the peace of mind that the reasonable health benefit expectations of retirees are fulfilled.
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