



National Conference on Public Employee Retirement Systems

The Voice for Public Pensions

December 4, 2023

U.S. Office of Management and Budget
725 17th Street, NW Washington, DC 20500

RE: [200.431] Compensation - Fringe Benefits

The National Conference on Public Employee Retirement Systems (NCPERS) is the largest trade association for public pensions, representing approximately 500 plans, plan sponsors, and other stakeholders throughout the United States and Canada. Organized as a 501(c)(3) non-profit, we are a unique network of trustees, administrators, public officials, and investment professionals who collectively oversee more than \$4 trillion in retirement funds managed on behalf of seven million retirees and nearly 15 million active public servants — including firefighters, law enforcement officers, teachers, and other public servants.

We appreciate the opportunity to provide comments on a particular section of the proposed revisions to certain sections of Office of Management and Budget (OMB) Guidance for Grants and Agreements, released on October 5, 2023, on behalf of the hundreds of state and local government retirement systems we represent.

The purpose of this letter is to communicate to the OMB, and the relevant federal agencies, very important comments that deserve the OMB's complete attention. This comment letter was prepared with input from the actuarial firms Gabriel, Roeder, Smith & Company and Segal, both of which have extensive experience providing actuarial services to public retirement systems.

Currently, §200.431 provides for the reimbursement of pension plan costs and incurred employer contributions, for certain identified positions in state and local governmental entities, provided that: (1) Such policies meet the test of reasonableness, and (2) The methods of cost allocation are not discriminatory. Based on Circular A-21 as revised 5/10/2004, a cost is to be considered reasonable based on a number of facts and circumstances. In practice to date, it is our understanding, based on the consistent communication from OMB to various retirement systems and participating employers, that full reimbursement will be provided as long as the pension contribution is based on an actuarially determined contribution (or not in excess of an actuarially determined contribution using reasonable parameters in situations where the contribution rate is established in an applicable government statute). However, proposed §200.431(g)(6)(v) contains the new following restriction: *"In all cases, the payments for unfunded pension costs may not exceed the contribution rate of the employee's current pension costs."* **It is our strong opinion that this proposed restriction contradicts the "test of reasonableness" principle and should be omitted when the regulations are finalized.**

First, the proposed limit on reimbursing the pension cost related to the unfunded liability appears to be arbitrary, is somewhat unclear, and directly contradicts the standard of an actuarially determined contribution using reasonable parameters. State and local governments develop actuarial funding policies in order to systematically fund their pension plans. These policies specifically address funding of current pension costs and unfunded pension costs separately and account for relevant parameters including the demographics of the group and the risk profiles of the

funding entities. We believe the OMB should continue to support the full funding of actuarial contributions as they work to fund the benefits promised to each employee.

Second, pension contributions incurred by state and local governments are subject to a high level of scrutiny by the systems themselves, as well as a multitude of other stakeholders (i.e. legislators, taxpayers, and participating employers). Thus, the contribution requirements determined by state and local government pension systems are already subject to significant pressure to be reduced and minimized. Contributions paid by participating employers are reasonable and appropriate, although may actually be lower than an optimal amount for some state and local government systems.

Finally, contribution rates are established for all participating employers of a state or local government retirement system regardless of Federal reimbursement eligibility. Only a percentage of participating members earning benefits are eligible for Federal reimbursement of pension cost. Requiring an alternate reimbursable contribution amount that differs from the actuarially determined contribution would create administrative complexities for systems and employers, and perhaps even an incentive to underfund benefits. Federally reimbursable employees might require a separate actuarial valuation where their ongoing costs were calculated as the basis for the reimbursable amount, as these calculations are outside the scope of the current actuarial valuation process.

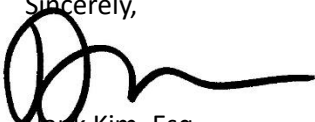
Unfunded liabilities have generally occurred because of a combination of actual experience less favorable than expected (including mortality improvements and financial challenges such as the Great Financial Recession) and a decade long trend of actuaries making the necessary and reasonable recommendations to update mortality assumptions and lower investment return expectations. Furthermore, retirement system stakeholders have become increasingly focused on more sound funding policies that include a shift away from amortization policies that result in negative amortization and contribution backloading, to amortization policies that result in a more immediate reduction in the dollar amount of the unfunded actuarial accrued liability. These trends have contributed to increased contribution rates for many state and local government retirement systems. The increased contributions for those applicable systems have been very much needed as they have provided an improvement in benefit security and governance.

Finally, our comments also apply to the reimbursement of post retiree health plans (PRHP) discussed in §200.431(h).

In summary, we implore the OMB to give careful consideration to this issue to ensure that participating employers of public retirement systems will continue to receive the much-needed full reimbursement of their pension and retiree medical plan costs as they currently do under the present reimbursement rules.

We would be happy to discuss these comments with representatives of OMB if you have any specific questions. Please let us know if you would like to schedule a follow-up discussion.

Sincerely,

A handwritten signature in black ink, appearing to read 'Hank Kim', with a stylized flourish extending to the right.

Hank Kim, Esq.
Executive Director & Counsel