



Statement for the Record
at a Hearing Before the
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives

May 5, 2011

Transparency and Funding of State and Local Pension Plans

Submitted on Behalf of the

National Association of Counties
National League of Cities
United States Conference of Mayors
International City/County Management Association
National Association of State Auditors Comptrollers and Treasurers
International Public Management Association for Human Resources
National Council on Teacher Retirement
National Association of State Retirement Administrators

On behalf of the national organizations listed above, representing state and local governments, officials and public retirement systems, we submit the following comments for the public record.

In response to the recent unparalleled financial market decline that impacted all investors, state and local governments have been reviewing the long-term sustainability of their retirement systems. These governments, their plans and their employees (who share in the financing of their pension), working through state and local legislative and regulatory structures, have made an unprecedented number of changes to benefit levels, financing structures, or both, and more continue to do so. Given the differing plan designs, financial conditions and fiscal frameworks across the nation, a diverse range of solutions will be required for each, and one-size-fits all federal mandates will only serve to hinder rather than help state and local recovery efforts.

State and local governments have rigorous accountability requirements set in statute and through regulation, and follow stringent accounting standards in accordance with Generally Accepted Accounting Principles (GAAP). Similar to how financial reporting requirements for federal agencies are set by the Federal Accounting Standards Advisory Board (FASAB), reporting for state and local governments and their pension plans are adopted by the Governmental Accounting Standards Board (GASB). Both FASAB and GASB were established recognizing fundamental differences between governments and businesses, which require unique accounting and financial reporting standards essential for public accountability and for an efficient and effective functioning of government.

State and local government retirement systems follow GAAP standards established by GASB and are currently required to report all of their financial data in Comprehensive Annual Financial Reports (CAFRs), which are audited, publicly available and can be easily accessed by anyone. The CAFR contains considerable information about the pension fund's liabilities, asset values, assumptions, rates of return, annual required contributions, as well as other pertinent information. State and local retirement systems are also subject to open records statutes, Freedom of Information Acts, open meeting and sunshine laws, and other public accountability requirements.

Federal proposals such as H.R. 567 would levy a whole new and conflicting Federal reporting regime on top of these existing state and local structures. In addition, they would paint a misleading picture of public finance and impose costly measures far more conservative than Federal law requires even of corporations. Further, the legislation threatens the current tax exempt status of state and local government bonds if any of the numerous and complex calculations imposed are deemed insufficient by Federal agencies.

Thus, our organizations wrote to all members of Congress earlier this year to register our strong opposition to H.R. 567, noting this legislation creates a dangerous precedent with regard to federal taxation and regulation of state and local governments. In addition, the proposal represents a fundamental lack of understanding regarding the operations and funding of public pensions and the strong accounting rules and strict legal constraints already in place requiring open and transparent governmental financial reporting and processes.

GASB is an independent standard-setting body that regularly reviews the reporting requirements of states and localities. H.R. 567 inappropriately preempts a formal, multi-year project in which GASB has been examining its current accounting and reporting standards for state and local government pensions, and in which proposed new disclosure requirements are expected shortly.

Further, this legislation ignores the extensive efforts made at the state and local levels to close short-term budget deficits as well as address longer-term obligations such as pensions. Inaccurate and misleading descriptions of the state of public finance and pensions are unhelpful and Federal intrusion into areas that are the fiscal responsibility of state and local governments are unwarranted. At a time when Congress and the Administration are both discussing the need to remove regulatory barriers, it makes little sense to impose disruptive and costly federal mandates that interfere with state and local government recovery efforts already underway, do not allow states and localities to adopt tailored solutions to meet their unique long-term needs, and set a dangerous precedent with regard to Federal taxation of state and local government bonds.

We welcome the opportunity to work with the Committee as you further examine these important issues. We have attached a fact sheet on public pensions for your review, as well as a summary of what H.R. 567 does and does not accomplish. If you have any questions or would like additional information, please do not hesitate to contact our organizations' legislative representatives:

Deseree Gardner, National Association of Counties, (202) 942-4204

Neil Bomberg, National League of Cities, (202) 626-3042

Larry Jones, United States Conference of Mayors, (202) 293-7330

Elizabeth Kellar, International City/County Management Association, (202) 962-3611

Cornelia Chebinou, National Association of State Auditors Comptrollers and Treasurers, (202) 624-5451

Barrie Tabin Berger, Government Finance Officers Association, (202) 393-8467

Tina Chiapetta, International Public Management Association for Human Resources, (703) 549-7100

Leigh Snell, National Council on Teacher Retirement, (540) 333-1015

Jeannine Markoe Raymond, National Association of State Retirement Administrators, (202) 624-1417

Attachments (2)