

**National Governors Association
National Conference of State Legislatures
The Council of State Governments
National Association of Counties
National League of Cities
The U.S. Conference of Mayors
International City/County Management Association
National Association of State Auditors, Comptrollers and Treasurers
Government Finance Officers Association
National Council on Teacher Retirement
National Association of State Retirement Administrators**

July 17, 2013

Bob Stein
Chair
Blue Ribbon Panel on Public Pension Plan Underfunding
Society of Actuaries
475 North Martingale Rd., Suite 600
Schaumburg, Illinois 60173

Dear Mr. Chairman:

On behalf of the national associations listed above—representing state and local governments, officials and public retirement systems—we are writing to help inform the Society of Actuaries (SOA) blue ribbon panel of our associations’ initiatives to ensure the sustainability of defined benefit pension plans.

We also would like to offer the expertise of our members as the panel moves forward with its mandate to consider how to strengthen plan funding. We encourage the panel to reach out to our members to benefit from their perspectives and backgrounds, as well as to ensure that the panel’s conclusions regarding plan funding are driven by well-informed, balanced insights and information.

Pensions are an integral component of cost-effectively managing a workforce that delivers vital public services, as well as meeting state and local government retirement security policies. For these reasons, state and local governments continue to take steps to strengthen their pension reserves and ensure the long-term sustainability of their retirement systems. Forty-five states and numerous local governments enacted major changes in their retirement plans from 2009-2012. These changes have included increases in employee contributions to pension plans, longer vesting periods, increased risk-sharing and other hybrid features, reduced benefit levels, higher retirement ages and lower cost-of-living adjustments. Some modifications apply to new workers only, while others affect current employees and/or retirees.

Generally speaking, employers with well-funded pension plans take a long-term approach to estimating investment returns, adjust their demographic and other assumptions as needed and consistently pay their actuarially determined contributions in full each year. Like the SOA, our national associations recognize that the importance of properly financing state and local government retirement systems has never been greater, particularly in light of the Governmental Accounting Standards Board’s Statement

No. 68. Sound pension funding policies can not only help ensure costs and benefits remain sustainable, but also can strengthen the financial position and credit rating of the sponsoring government.

In order to help inform the discussion regarding ways in which governments approach the funding of their pension plans, our associations jointly formed a Pension Funding Task Force and released [Pension Funding: A Guide for Elected Officials](#) earlier this year. We designed this guide to help policymakers review the effectiveness of existing funding policies and practices, as well as to provide recommendations on adopting new pension funding policies. In particular, the guide recommends that pension funding policies be based on the following general policy objectives:

- Base a pension funding policy on actuarially determined contributions;
- Build funding discipline into the policy to ensure that promised benefits can be paid;
- Maintain intergenerational equity so the cost of employee benefits is paid by the generation of taxpayers who receives services;
- Make employer costs a consistent percentage of payroll; and
- Require clear reporting to show how and when pension plans will be fully funded.

The guide also suggests that a sound pension funding policy addresses at least three core elements of pension funding in a manner consistent with the policy objectives: actuarial cost method, asset smoothing method, and amortization policy. To best meet these objectives, the guide encourages policymakers to stay within established parameters but also consider:

- Using the entry age normal actuarial cost method;
- Examining a five-year period for asset smoothing; and
- Amortizing the unfunded actuarially accrued liability over periods that focus on matching participant demographics and managing contribution volatility.

Our associations have collectively developed a brief [summary](#) to help stakeholders understand the differences between new pension calculations and their intended purpose and audience. In addition, several of our associations have developed best practices and resolutions consistent with the Pension Funding Task Force guide, but which provide a greater level of specificity with regard to their practical application.

State and local government defined benefit pension plans are an essential part of workforce management and retirement policy. It is widely acknowledged that the appropriate way to attain reasonable assurance that pension benefits will be sustainable is for a government to accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefiting employees. Our recommendations regarding what constitutes a sound funding plan for state and local government employers seeking to provide an equitable, sustainable defined benefit pension will help bring us closer to our mutual goal of ensuring such plans are appropriately funded going forward.

We encourage the panel to consider all of these resources as it moves forward in its deliberations.

If you have questions or would like additional information, please feel free to contact any of the representatives from our national organizations.

Sincerely,

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