

National Association  
of State Retirement  
Administrators  
(NASRA)

National Conference  
on Public Employee  
Retirement Systems  
(NCPERS)

National Council  
on Teacher  
Retirement  
(NCTR)

Submission to the President's Advisory Panel on  
Federal Tax Reform

June 10, 2005

Submitter Category:  
Organizations and Associations

Jeannine Markoe Raymond

NASRA  
444 N. Capitol St., NW  
Suite 234  
Washington, DC  
20001  
202-624-1417  
[jeannine@nasra.org](mailto:jeannine@nasra.org)

Frederick H. Nesbitt and  
Hank H. Kim

NCPERS  
444 N Capitol St. NW  
Suite 221  
Washington, DC  
20001  
202-624-1457  
[fred@ncpers.org](mailto:fred@ncpers.org)  
[hank@ncpers.org](mailto:hank@ncpers.org)

Cynthia L. Moore

NCTR  
1601 N Kent St.  
Suite 803  
Arlington, VA  
22209  
703-243-1667  
[cmoore@nctr.org](mailto:cmoore@nctr.org)

**Executive Summary**  
**of Submission by the National Association of State Retirement**  
**Administrators, National Conference on Public Employee**  
**Retirement Systems, and National Council on Teacher**  
**Retirement**

The President has charged the panel to, among other things, evaluate options that “promote long-run economic growth and job creation, and better encourage work effort, saving, and investment, so as to strengthen the competitiveness of the United States in the global marketplace.” Our organizations believe this is best accomplished by retaining and strengthening employer-sponsored retirement plans of State and local governments. These plans

- Serve as economic engines that support and fuel the financial marketplace;
- Encourage work effort that assists taxpayers in recruiting and retaining trained, experienced first responders and educators; and
- Promote savings and retirement self-sufficiency that permit retirees to remain participants in the economy rather than relying on public assistance.

National Association  
of State Retirement  
Administrators

National Conference  
on Public Employee  
Retirement Systems

National Council  
on Teacher  
Retirement

June 10, 2005

Sent via Electronic Mail

The Honorable Connie Mack,  
Chairman  
The Honorable John Breaux,  
Vice Chairman  
The President's Advisory Panel on Federal Tax Reform  
1440 New York Avenue, NW, Suite 2100  
Washington, DC 20220

Dear Gentlemen:

We appreciate the opportunity to participate in the debate on tax reform. Like you, we believe our tax system can and should be improved. But our belief is balanced by the concern that certain reforms could undermine tax provisions that play a critical role in the U.S. economy.

The President has charged your panel to, among other things, evaluate options that “promote long-run economic growth and job creation, and better encourage work effort, saving, and investment, so as to strengthen the competitiveness of the United States in the global marketplace.” Our organizations believe this is best accomplished by retaining and strengthening employer-sponsored retirement plans of State and local governments. These plans

- Serve as economic engines that support and fuel the financial marketplace;
- Encourage work effort that assists taxpayers in recruiting and retaining trained, experienced first responders and educators; and
- Promote savings and retirement self-sufficiency that permit retirees to remain participants in the economy rather than relying on public assistance.

## **Background about Retirement Systems of State and Local Governments**

State and local government retirement systems comprise a substantial segment of national pension assets and membership. More than 14 million workers – ten percent of the nation’s workforce – and six million annuitants and their beneficiaries are covered by these programs. We believe that a fair and objective analysis of the nation’s public pension structure will reveal that this system of pension benefits is working for all relevant stakeholders—taxpayers, public employers, and public employees.

The majority of pension revenue comes from investment earnings, not contributions from State and local employers or our employees. In fact, for the 20-year period ended in 2002, 62 percent of all public pension fund revenue came from investment earnings; 12 percent came from employee contributions and just one-fourth was paid by taxpayers.

The combined membership of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS) and the National Council on Teacher Retirement (NCTR) includes representatives from over 500 public pension plans covering in excess of 18 million State and local employees, annuitants, and beneficiaries. Our members include State, local, teacher, and public safety retirement officials in all 50 States, the District of Columbia, and U. S. territories who are collectively responsible for pension assets totaling over two trillion dollars. The data for these comments come from the Public Fund Survey of NASRA/NCTR and the U.S. Census Bureau and were compiled by NASRA.

## **State and Local Government Retirement Plans are Economic Engines that Support and Fuel the Financial Marketplace**

As a group, State and local government retirement plans are in good financial condition and are on average nearly 90 percent funded. The more than \$2 trillion in assets held in trust for employees of State and local government not only are a large source of the nation's retirement assets, *but also are an important source of liquidity and stability for financial markets*. These assets are professionally invested in diversified portfolios that include domestic and foreign corporate equities; bonds issued by the U.S. government, foreign governments, and corporations; real estate; and private equity.

State and local retirement systems distribute over \$120 billion annually in pension and other benefits, an amount that exceeds the entire economic output of 22 states and the District of Columbia. These distributions are a key source of economic stimulus and activity that reaches literally every city and town in the nation. The superior investment returns generated by professionally-managed defined benefit plans, relative to those produced by individuals participating in defined contribution accounts, increase the funds available for benefits and reduce required taxpayer contributions. When these additional benefits are distributed, *they provide an important and continuous source of stimulus not only to local and State economies, but also to the nation's economy as a whole.*

## **State And Local Government Retirement Plans Encourage Work Effort That Assists Taxpayers In Recruiting And Retaining Trained, Experienced First Responders And Educators**

The employees covered by State and local government retirement plans provide services that are essential to protecting and serving the public. Approximately one-half of all State and local government workers are teachers or otherwise employed in an education-related capacity. When combined with police officers, firefighters, and correctional officers, these groups comprise nearly two-thirds of all State and local government employees. *States and localities must continue to have access to the tools needed to recruit and retain qualified and trained personnel in these key areas.*

## **State And Local Government Retirement Plans Promote Savings And Retirement Self-Sufficiency That Permit Retirees To Remain Participants In The Economy Rather Than Relying On Public Assistance**

Ninety percent of State and local government employees have a defined benefit (DB) plan as their primary retirement benefit. As you know, a key characteristic of DB plans is that they provide a pension benefit that is assured for life, protecting retirees from the risk of outliving their assets.

The average annual benefit for a retired public employee participating in a DB plan is around \$20,000, and most public pension plans provide some form of cost-of-living adjustment to protect pension benefits from the effects of inflation. While fairly modest, this average benefit is enough to keep most retired public workers out of poverty, particularly when combined with the Social Security benefit that most retired public employees receive. Also, most public pension plans have vesting periods of five years or less, which allows even those retirees with shorter careers in public service to receive a benefit that is assured for life. **This benefit structure has a dual advantage. It promotes self-sufficiency in retirement and helps retirees avoid reliance on public assistance.**

Under federal tax incentives, States and localities are permitted to establish and regulate retirement plans that meet their unique needs. This effective structure should be preserved. The regulatory framework is made up of State constitutions, statutes, case law, and regulations that are responsive to the unique and changing needs of each State. Most plans are overseen by independent boards of trustees who are responsible for making decisions solely in the interest of plan participants. Congress has worked over the years to refine the tax code to address the unique policy issues affecting State and local plans. ***Abandoning these longstanding and effective provisions in the name of tax simplification would be counterproductive, impose immense burdens on State and local workers and their employers, and undercut successful State and local retirement policies.***

Similarly, any modifications to tax laws should strengthen, not weaken, retirement savings in State and local government retirement programs. Provisions that would have a significant negative impact on such savings were recently outlined in a staff report of the Joint Committee on Taxation to “further consistency in the tax system.” For example, options in the report affecting our retirement programs include the proposed repeal of pick-up arrangements under Section 414(h)(2) of the tax code. The repeal would have the effect of imposing an immediate tax increase on first responders, teachers and other public employees around the country. *While tax simplification can produce great benefits, a one-size-fits-all approach may not address the needs of the public sector’s diverse workforce and legal framework, or have any positive effect on retirement savings.*

**Preserve Incentives for Employer-Sponsored Retirement Plans, Including those of State and Local Governments**

The important, overarching story of State and local retirement plans is that they work. Any recommended changes to the federal tax system should ensure these programs continue. Long-standing federal policy supporting employer-sponsored retirement plans, including those provided by State and local governments, should be preserved.

Sincerely,

Jeannine Markoe Raymond

NASRA

Frederick H. Nesbitt  
and  
Hank H. Kim  
NCPERS

Cynthia L. Moore

NCTR