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July 21, 2006

The Honorable Charles E. Grassley, Chairman
United States Senate Committee on Finance
135 Hart Senate Office Building
Washington, DC 20510

The Honorable Max Baucus, Ranking Member
United States Senate Committee on Finance
511 Hart Senate Office Building
Washington, DC 20510

Dear Senators Grassley and Baucus:

I am writing about your letter dated July 10, 2006, to the Government Accountability Office (GAO) in which you asked for a study of the funding status of public employee defined benefit (DB) pension plans. On behalf of the Wisconsin Department of Employee Trust Funds (ETF), I want to bring several aspects of these pension plans, including the Wisconsin plan, to your attention in light of your GAO request.

In your letter to the GAO, you note that many workers in the private sector who "played by the rules" for their entire careers find themselves with no or significantly reduced pension benefits in retirement. You imply that the same is likely to happen in the public sector. ETF administers pension and other fringe benefits for over 530,000 current and former Wisconsin state and local government employees. The Wisconsin pension plan, known as the Wisconsin Retirement System (WRS), is a DB pension plan providing lifetime retirement benefits for public workers across Wisconsin (with the exception of employees of the City and County of Milwaukee), including police officers, firefighters, prison guards, and school teachers. The promises that the WRS makes to Wisconsin's public servants are promises that are kept. State statutes and court decisions make it very clear in Wisconsin and in most other states that pensions earned by public employees during their careers must be paid in retirement. In short, state and local government workers in Wisconsin who participate in the WRS will not be left in the lurch when they retire, like so many of their friends and neighbors in the private sector.

You also note in your GAO request that many public sector plans are more poorly funded than their private sector counterparts. You suggest that because there is no Pension Benefit Guaranty Corporation (PBGC) coverage for public sector plans, the burden of unfunded plans will fall directly on state and local taxpayers and public employees. I want to assure you that public pension plans are fully aware of the heavy responsibility they carry and that they continue to work responsibly and aggressively to make sure their systems are soundly funded.

According to the National Association of State Retirement Administrators, public pension plans, as a whole, are funded at approximately 86% of their current and future liabilities, with several funded at over 95%. The WRS, for example, is funded at 99.5% of its liabilities. The WRS relies on a sound funding structure that pre-funds benefits using stable, actuarially-determined contributions and prudent, professional investment strategies. Additionally, ETF applies stringent cost controls to benefit administration and, therefore, consistently keeps these costs low.

Wisconsin's elected officials also recognize the important role that sound governance plays in operating a strong public pension system and, accordingly, allow the plan's trustees to manage the system in an appropriate manner. The trustees have chosen to focus on the long-term financial health of the WRS and have not opted for contribution holidays or questionable funding assumptions that so often produce short-term benefits at the expense of the system's long-term viability. In most cases, private sector plans had the same options available to them. For whatever reason, many of those plans made very different funding choices. The results of those choices are now creating a heavy burden for the PBGC and, potentially, for U.S. taxpayers. As stewards of a very valuable resource, trustees of public pension plans know that they must act responsibly to ensure the long-term strength and vitality of their systems.

Finally, you asked the GAO to examine the correlation between DB plans' overall funding status and post-retirement health care liabilities. There is no question that the issue of funding health care for retirees is one that this country needs to discuss. However, I must stress to you that the funding of pension benefits and the financing of retiree health care benefits are two very different issues and should not be confused. We know that many states and local units of government do not pre-fund their retiree health care obligations and therefore have large unfunded obligations for these benefits. This will become more clear when the new accounting rules for Other Post Employment Benefits (OPEB) take effect later this year. But by mixing pension funding and health care funding in your GAO request, I am concerned that you have laid the groundwork for these issues to be inextricably linked in the minds of lawmakers and the public to the ultimate detriment of public DB pension plans around the country.

In conclusion, ETF welcomes the GAO study of public pension plans. We do not shy away from public scrutiny of the WRS. The WRS, like most other public pension plans, undergoes rigorous public audits and actuarial reviews on a regular basis. I believe the GAO's work will show policymakers and the public how responsible and effective public DB pension plans are and how those plans may serve as models for the private sector. The discussion of public sector DB plans that will invariably ensue, however, should be part of a broader national discussion about retirement income security for all Americans.

Thank you for your consideration.

Sincerely,

David A. Stella
Deputy Secretary

cc: The Honorable Herbert H. Kohl
The Honorable Russell D. Feingold
The Honorable David M. Walker – Comptroller General of the United States
Leigh Snell – Lussier, Gregor, Vienna & Associates – NCTR Federal Government Relations Director
Jeannine Markoe Raymond – NASRA Director of Federal Relations