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

June 16, 2014

Daniel M. Gallagher
Commissioner
U.S. Securities and Exchange Commission
100 F Street, NW
Washington, DC 20549

VIA FACSIMILE

Dear Commissioner Gallagher:

On behalf of the national associations listed above—representing state and local governments, elected and appointed officials and public retirement systems—we are writing to express serious concern with your recent remarks before the Municipal Securities Rulemaking Board's 1st Annual Municipal Securities Regulator Summit and to share salient facts regarding state and local government retirement plans and financial reporting. In addition, we are providing information on recent initiatives by our organizations, as well as the state and local government community, to ensure the continued financial integrity and sustainability of governmental retirement programs.

We understand the SEC's interest in appropriate disclosure of state and local government pension obligations. However, your comments could lead many to believe that the disclosure issues are systemic, rather than individualized problems. Public pension funds hold some $3.6 trillion in assets, professionally managed and invested in diversified portfolios. This amount equals 16 times the annual payout of these funds, assuming no additional contributions or investment earnings.

Attached for your review is an analysis of data referenced in your remarks before the summit, as well as 2014 facts regarding state and municipal bankruptcy, municipal bonds and state and local pensions, which better discloses the common condition of state and local finance. While you may disagree with the decisions made by the Governmental Accounting Standards Board, GASB considered, discussed and rejected alternative standards as inappropriate for state and local governments.

You may not be aware of the many significant changes state and local governments have made to their retirement plans. Nearly every state and numerous local governments have made changes to strengthen their pension reserves and to ensure the sustainability of their retirement plans since the Great Recession. These changes have included increases in employee contributions to pension plans, 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; others affect current employees, retirees, or both. The Center for Retirement Research at Boston College has examined these reforms and has determined that for most plans, the reforms fully offset or more than offset the impact of the financial crisis on the sponsors' costs. Furthermore, they project that pension costs as a share of state-local budgets will eventually fall below pre-crisis levels, assuming a healthy stock market and payment of the full annual required contribution (ARC).

In addition, 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 new pension reporting standards. Sound pension funding policies not only help ensure costs and benefits remain sustainable, but also can strengthen the financial position and credit rating of the sponsoring government.

It is for this reason that our associations jointly formed a Pension Funding Task Force and released *Pension Funding: A Guide for Elected Officials*. We designed this guide to help policymakers review the effectiveness of existing funding policies and practices, and to provide recommendations on adopting new pension funding policies. Of note, our associations recommend that state and local governments continue to calculate an actuarially determined annual required contribution (ARC). For those who do, GASB's new standards will require governments to provide supplementary information regarding their actuarially determined pension contribution, the history of their funding commitment in relation to this amount, and underlying assumptions regarding this calculation and other factors that materially affect the trends in financial reporting schedules. These disclosures will be in addition to new reporting requirements on the basic financial statements that provide added financial information, as well as new calculations from ratings agencies regarding how pension obligations affect a government's creditworthiness.

State and local government pension plans are an essential part of workforce management and retirement policy. There is a consensus that governments must accumulate resources for future benefit payments in a systematic and disciplined manner during the active service life of their employees. We support the continued use of disclosures that provide relevant information to stakeholders regarding this funding commitment.

In conclusion, many modifications have been made with regard to state and local government retirement benefits and financing structures and numerous additional financial disclosures are already underway. We would greatly appreciate an opportunity to meet with you to discuss these important matters. Please feel free to contact any of the representatives from our national organizations for more information or to arrange a meeting time that is convenient for you and your staff.

Sincerely,

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Luis A. Aguilar, Commissioner, Securities and Exchange Commission
Kara M. Stein, Commissioner, Securities and Exchange Commission
Michael S. Piwowar, Commissioner, Securities and Exchange Commission
Mary Miller, Under Secretary of the Treasury for Domestic Finance
Kent Hiteshew, Director, Office of State and Municipal Finance, Department of the Treasury
Lynette Kelly, Executive Director, Municipal Securities Rulemaking Board