

United States Senate Committee on Finance

For Immediate Release

Monday, July 10, 2006

Grassley, Baucus Seek GAO Review of Public Pension Plans' Funding

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today asked the Government Accountability Office to study the funding status of public pension plans, citing concern that many such plans are poorly funded and have no back-up source for guaranteed benefit payments, as private pension plans have.

The text of the senators' request letter follows.

July 10, 2006

The Honorable David M. Walker
Comptroller General of the United States
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Walker:

We are currently conferencing pension legislation that would revise the funding of private sector defined benefit plans. The weak funding rules that currently apply have resulted in plans terminating with billions of dollars of unfunded liabilities. These terminations have pushed the Pension Benefit Guaranty Corporation's deficit to over \$23 billion and have led to major losses in retirement income for workers.

Retirees and workers who "played by the rules" all their careers now find themselves with far lower actual or future retirement income than on which they had counted. Many of the same forces that impacted private sector defined benefit plans impact public sector defined benefit plans. Because of different rules, many of the public sector plans are even more poorly funded than their private sector equivalents. There is no PBGC to back up these plans; the burden would fall directly on state and local taxpayers and on our Nation's teachers, police and firefighters.

In addition, changes to financial reporting requirements for state and local governments will mean new recognition of retiree health benefit commitments. Such health benefits are also an important element of public employee retirement resources; governments may face the choice of significant tax increases or benefit reductions.

To help us better understand the fiscal and other challenges facing state and local retirement plans and to help public employees avoid the benefit losses and reduced accruals experienced by their private sector counterparts, we would ask GAO to explore a variety of issues regarding state and local DB pensions and the accompanying retiree health benefits. These include:

--What is the general financial health of state and local government DB plans and how has it changed over the last decade?

--How widespread is the provision of retiree health benefits by state and local government employers, in terms of cost and employee coverage, and what is the funded status of these plans? How has this changed in the last decade?

--To what extent do state and local government employers and employees benefit from the federal tax expenditure for defined benefit pension plans?

--To what extent will recent changes in applicable accounting standards affect the funding and transparency of state and local public employer plans as well as their financing of retiree health benefits?

--What are the implications of these trends for state and local government employee retirement security and retirement security generally?

Sincerely yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member