The Public Employee Pension Transparency Act
("PEPTA" HR 567/S 347)

State and local governments have rigorous accountability requirements set in statute and through regulation, and follow stringent accounting standards in accordance with Generally Accepted Accounting Principles. HR 567 and S 347 would nevertheless levy a whole new and conflicting Federal reporting regime on top of these existing state and local structures, paint a misleading picture of public finance, and impose costly measures far more conservative than Federal law requires even of corporations. Further, the legislation threatens the current tax exempt status of state and local government bonds if any of the numerous and complex calculations imposed are deemed insufficient by Federal agencies.

What the bill does:

- ***Creates a worrisome precedent regarding federal regulation of state and local governments and taxation of their bonds***
  - Mandates a costly and complex layer of Federal reporting on top of existing state and local accounting and reporting.
  - Gives Federal regulators sweeping powers to impose duplicative requirements on State and local governments already struggling to comply with existing Federal paperwork burdens.
  - Jeopardizes state and local financing of infrastructure and other critical needs by stripping the tax exempt status on bonds issued by state and local governments if new regulations are not met to the regulators' satisfaction.
  - Creates confusion as to which entities are required to report information to the Federal government and penalizes state and local governments that issue municipal bonds for simple, unintended reporting errors.
  - Threatens far-reaching and unintended consequences for the municipal bond market and the economy as a whole.

- ***Falsely depicts the true condition of state and local governments and their retirement systems***
  - Requires state and local governments to report as though they are invested only in U.S. Treasuries, not the diversified portfolios actually in use. This would create a false picture of the true condition of public pension plans and mislead taxpayers, alarm retirees, frighten investors and confuse policymakers.
  - In 2006, Congress rejected similar public reporting requirements for corporate pension plans because the private sector argued, just as the public sector is now, that such reporting significantly increased costs and volatility, and was irrelevant. The U.S. Chamber of Commerce testified that "these calculations are among the most burdensome and costly procedures a plan can ever endure," "would not provide relevant information in the majority of cases," and "this information would unduly alarm plan participants."
  - Creates the false impression that one state's pension system can be directly compared with that of another state by ignoring important differences in the sovereign entities and political subdivisions that sponsor these programs, as well as the unique demographic make-up, cost-of-living, inflation factors, mortality rates, and fiscal condition of each.

What the bill does <u>NOT</u> do:

- ***Does NOT lower taxpayer costs***
  - The Federal government does not guarantee state and local government employees' pensions, and no public pension plan is asking for Federal financial assistance. This is a red herring.
  - At a time when both Congress and the Administration want to remove regulatory barriers, this bill would impose complicated, costly Federal mandates that will only interfere with state and local recovery efforts.

- ***Does NOT increase transparency and understanding regarding state and local government retirement systems***
  - PEPTA is not about transparency. Public pension reporting is already transparent.
  - State and local government retirement systems are currently required to report all of their financial data in Comprehensive Annual Financial Reports (CAFR), which are audited, publicly available and can be easily accessed by anyone. The CAFR contains considerable information about the pension fund's liabilities, asset values, assumptions, rates of return, annual required contributions, as well as other pertinent information.

- ***Does NOT improve public pension accountability***
  - State and local government retirement systems are already required to adhere to strict accounting standards set by the Governmental Accounting Standards Board (GASB). This independent standard-setting body regularly reviews the reporting requirements of states and localities.
  - PEPTA inappropriately preempts a formal, multi-year project in which GASB has been examining its current accounting and reporting standards for state and local government pensions and is expected to issue proposed new disclosure requirements in mid-2011.
  - In 2010, an unprecedented number of states made changes to their pension benefits, contribution requirements, or both, and many more states are expected to follow suit in 2011 – all done without the need for Federal intervention.
  - One-size-fits-all Federal mandates that interfere with state and local government recovery efforts already underway, do not allow states and localities to adopt tailored solutions to meet their unique long-term needs, and set a dangerous precedent with regard to Federal taxation of state and local government bonds, simply make poor public policy.