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EXECUTIVE DIRECTOR REPORT
May 21, 2015

Activities	Updates
Annual Budget Testimony	On April 17, 2015, DCRB appeared before the DC Council's Committee of the Whole and provided testimony on our Fiscal Year 2016 budget. Mr. Mendelson's questions focused primarily on: 1) the increase in the FY 2016 District contribution to the Fund, 2) fossil fuel divestiture, and 3) the Max 80/COLA Lookback errors. Our testimony was preceded by comments from *DC Divest*, expressing their views regarding the future of fossil fuels and their belief that DCRB should divest of its investments in fossil fuel companies.
Spring 2015 Newsletter	During the week of May 4th, DCRB's spring 2015 newsletter was distributed to active and retired members of the District of Columbia Police Officers and Firefighters' Retirement Plan and the District of Columbia Teachers' Retirement Plan. As with previous spring editions, this newsletter served primarily as a Summary Annual Report to members of the status and health of the Fund. We also announced the election of Trustees who will serve as officers of the Board for the coming year.
Teachers' Retirement Workshop	On March 30 and 31, DCRB joined forces with DCPS in presenting a Retirement Workshop for teachers who are considering retirement. This year, the Workshop was hosted by DCRB and included presentations by DCPS, DCRB, a member of the Social Security Administration's public affairs staff, and representatives of the various 403(b) plans available to DCPS teachers. A total of 44 teachers attended the Workshop.
Summer Newsletter – Teachers' Edition	Around the middle of June, DCRB will issue a newsletter especially for DCPS teachers that will reflect the information provided to attendees of the Teachers' Retirement Workshop held at DCRB in March. The content of this special *Teachers' Edition* will focus on the provisions of the Teachers' Retirement Plan and the retirement process, as well as the topics that received the most questions during the Workshop: Medicare eligibility, Social Security's Windfall Elimination Provision, and COLAs. Concurrently, a video of the Workshop will be posted to the DCRB and DCPS websites. Toward the end of the year, we are planning to publish a special edition for police officers and firefighters.
O'Rourke v. DCRB	*Joseph G. O'Rourke v. DCRB*, Case No. 14-CV-1106: Oral argument is scheduled June 11, 2015 at 9:30, at the DC Court of Appeals, 430 E Street, NW, 2nd Floor, Room 1. Mr. O'Rourke was a lateral law enforcement officer hire who did not purchase any of his prior law enforcement service and retired with 8 years of active MPD service. He claims he is entitled to longevity pay in his retirement benefit without having to purchase the prior service. Groom Law Group is representing DCRB in this matter.

Board Portal Project	The purpose of the Board Portal Project is to transition from hard copy (paper) Board materials to mostly digital documents. The Board approved an award to Diligent Board Member Services (Diligent) to host and distribute DCRB's meeting information through their portal application. DCRB's contract with Diligent is now final and training for Trustees will be scheduled later this month.
Gartner Strategic Planning Workshop	On May 4, 2015, Dr. Jerry Mechling, VP Public Sector Research, of the Gartner Group, provided DCRB's Executive Leadership Team with a workshop on IT strategic planning. The workshop focused on identifying goals, setting priorities, allocating resources, identifying milestones that measure progress, and analyzing and communicating results.
2015 Financial Disclosure Statement Filing	In March of this year, a memorandum was forwarded by our Legal Department to senior staff regarding their 2015 Financial Disclosure Filing obligation. This year, the filing process was greatly simplified and streamlined, and permitted the filing to be completed on-line. The due date was May 15, 2015. The filing is required by subordinate agency heads within the Executive Service, statutory office holders, members of specific boards and commissions, and District employees paid at a rate equivalent to an Excepted Service employee paid at a rate of grade 9 or above. Fourteen (14) DCRB employees were required to file a **Public Financial Disclosure Statement** this year. In addition, there were twelve (12) DCRB staff who were required to file a **Confidential Financial Disclosure Statement (CFDS)**. A CFDS must be completed by all designated employees who make decisions or participate substantially in areas of responsibility that may create a conflict of interest or the appearance of a conflict of interest.
Staffing	**New Hires** On March 30, 2015, **Lillian Copelin** joined DCRB's Benefits Department as its Benefits Systems Manager. Lillian has over 20 years of systems management, and project management and implementation experience that spans both the private and public sectors. Before coming to DCRB, Lillian served ten (10) years with the District Government in the District's Office of the Chief Financial Officer. For two (2) of those years, she was the OCFO's Acting Deputy Chief Information Officer. Please join me in welcoming Lillian to DCRB. **Departures** **Sue Scrapper,** who most recently served as a Business Analyst in DCRB's Investment Department, left DCRB effective May 15, 2015. **Existing vacancies** include: Sr. Financial Management and Budget Analyst (Finance); Member Services Manager, and Quality, Compliance and Projects Manager (Benefits); and Applications Developer (IT).
Recent Retirement-Related Articles and Other Materials (attached)	*"How Will Longer Lifespans Affect State and Local Pension Funding?,"* Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli, Center for Retirement Research at Boston College, April 2015 (See information on the District's Police/Fire and Teachers' Plans on the first page of the Appendix). A letter containing the joint comments of national public pension associations on bipartisan tax reform issues submitted to the Senate Tax Reform Working Group, April 15, 2015.

CENTER *for* RETIREMENT RESEARCH *at* BOSTON COLLEGE

STATE AND LOCAL PENSION PLANS

NUMBER 43, APRIL 2015

HOW WILL LONGER LIFESPANS AFFECT STATE AND LOCAL PENSION FUNDING?

*By Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli**

Introduction

The fact that people are living longer is good news from a human perspective. But longer lifespans also make defined benefit pension plans more expensive because sponsors must pay benefits to retirees for a longer period of time. The question is the extent to which state and local plans have already incorporated this pattern of continued longevity improvement into their cost estimates. For example, CalPERS – one of the nation's largest plans – revised its longevity assumptions in 2014, significantly increasing its liabilities and reducing its funded ratio by 5 percentage points. This change raises the question whether more cost increases due to longevity improvements are on the horizon. To answer the question, this *brief* explores what public plan liabilities and funded ratios would look like under two alternative scenarios: 1) if public plans were required to use the new mortality table designed for private sector plans; and 2) if public plans were required to go one step further and fully incorporate expected future mortality improvements.

The discussion proceeds as follows. The first section describes how public and private plans currently incorporate longevity improvements into their cost estimates. The second section presents a simple model that relates the impact of improved longevity to liabilities, showing that, if beneficiaries live an additional year, liabilities increase by 3.5 percent. The third section estimates the impact of changing the longevity assumptions to: 1) the new standard designed for use in the private sector; and 2) the more stringent standard that incorporates future mortality improvements. The results suggest that, under the first standard, public plans underestimate life expectancy by only 0.5 year. Adopting the second standard would increase life expectancy by 2.3 years and reduce the funded ratio of public plans from 73 percent to 67 percent. Of course, public plans vary significantly, so the impacts would be much larger for some and smaller for others.

* *Alicia H. Munnell is director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Jean-Pierre Aubry is assistant director of state and local research at the CRR. Mark Cafarelli is a research associate at the CRR.* *The authors wish to thank David Blitzstein, Keith Brainard, Gene Kalwarski and his colleagues at Cheiron, Steven Kreisberg, and Joseph Silvestri for helpful comments.*

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Estimating Longevity Improvements

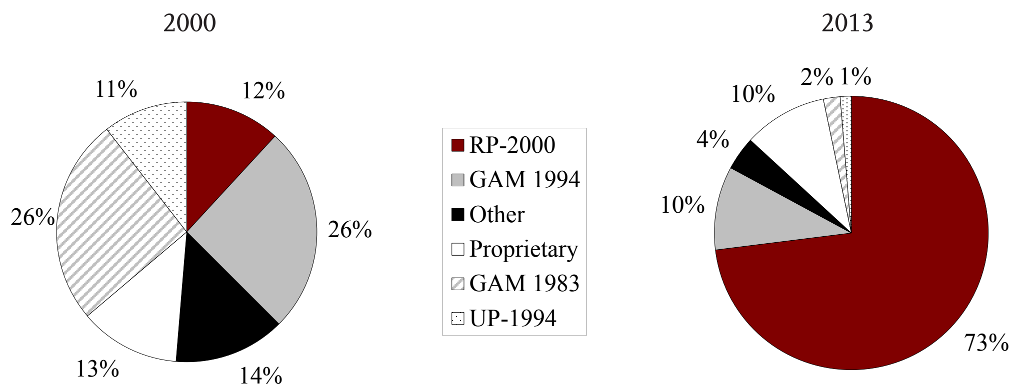
The private sector is under much more specific guidance than the public sector in terms of how to calculate expected mortality. The Pension Protection Act of 2006 directed the Internal Revenue Service (IRS) to publish mortality tables for private sector funding calculations. Currently, these IRS tables are based on the RP-2000 mortality table, which was constructed by the Society of Actuaries (SOA) with data from over 100 private pension plans for the period 1990-1994. These mortality rates are then updated using the mortality improvement Scale AA.[1] In an effort to approximate future mortality improvements, the 2014 IRS table actually uses estimated retiree mortality rates for 2021.

In 2009, the SOA initiated a new study of mortality trends, focusing on death rates of participants in private pension plans in 2006. They then applied an updated mortality improvement scale, MP-2014, to create RP-2014. It is uncertain when these new tables will be adopted.[2]

Unlike the private sector, public sector plans are not required to use a specific mortality table and, at the turn of the century, state and local plans used a wide variety of approaches (see Figure 1). By 2013, however, 73 percent of plans in the *Public Plans Database* (PPD) used the RP-2000 as their base.[3] But the base table is only the starting point; public plan actuaries make a variety of adjustments to align the tables with the expected mortality of their plan members.[4] The common adjustments are mortality improvement scales, setbacks, or some combination of the two. A mortality improvement scale specifies the pace at which mortality rates will decline each year. A setback involves applying mortality rates at younger ages to older ages. For example, a 3-year setback would use age-62 mortality rates for a 65-year old.

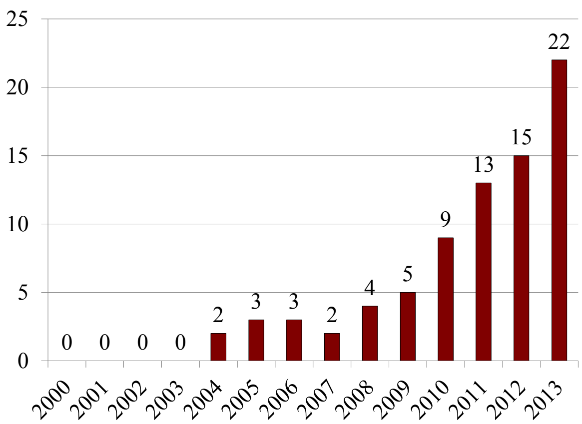
In developing mortality tables, actuaries use two different approaches: "static" and "generational."[5] The static method is a snapshot of mortality rates at a given point in time. As noted, the IRS tables used by private plans choose a point in time that is seven years in the future in an effort to partially reflect future mortality improvements. The generational method goes further, fully incorporating anticipated future improvements in longevity. Interestingly, while state and local plans primarily use a static approach, they have been gradually moving toward an explicit generational method (see Figure 2 on the next page).

Figure 1. Distribution of Mortality Tables Used by Large State and Local Pension Plans, 2000 and 2013



Note: Alabama Teachers Retirement System (2000), DC Teachers Retirement System (2013), and North Dakota Teachers Retirement System (2013) use different mortality tables for male and female retirees. For these plans, the figure reflects the male mortality tables. For a description of the various methods, see endnote 6.
Source: Various pension plan actuarial valuations.

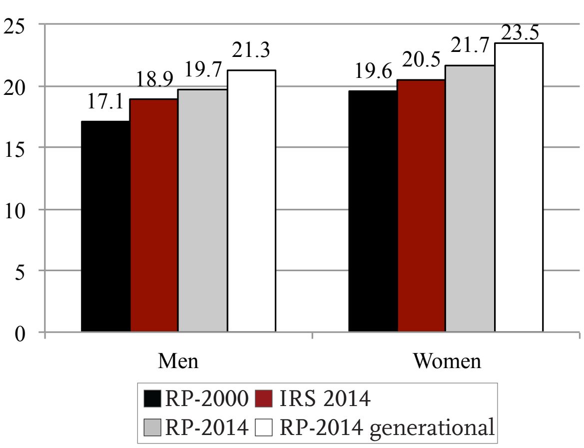
Figure 2. Number of State and Local Pension Plans Using Generational Scaling, 2000-13



Source: Various pension plan actuarial valuations.

Figure 3 compares life expectancies for men and women at age 65 from old, scaled, new, and generational tables. The first comparison shows that – between the original RP-2000 and the current 2014 IRS table – life expectancy for healthy annuitants increased by 1.8 years for men and 0.9 years for women. The second comparison – between the 2014 IRS table and life expectancy implied by RP-2014 – suggests that the IRS tables (which, as noted, actually project mortality rates in 2021) do not fully account for all the gains in life expectancy that occurred from 2000-2014.[7] The third comparison – between RP-2014 life expectancy calculated on a static basis and on a generational basis – shows that the latter adds 1.6 years for men and 1.8 years for women. The comparisons suggest that even though the IRS tables are intended to be up to date, they still show lower mortality improvements than the RP-2014. In addition, the application of generational tables to the RP-2014, which incorporate *future* improvements, would result in a further increase.

Figure 3. Life Expectancy at Age 65 for Healthy Annuitants Under Various Mortality Tables



Source: Authors' calculations from Society of Actuaries (2015); and Internal Revenue Service (2013).

How Do Differences in Life Expectancy Affect Liabilities?

The overall goal of this analysis is to calculate how much applying private sector life expectancy assumptions would affect public sector liabilities and funded status.[8] The first step is to establish a relationship between life expectancy and liabilities. To this end, we estimate a model where the present value of pension liabilities (L) is approximated as follows:

$$L = p\, b \left(\frac{1-(1+r)^{-n}}{r} \right)$$

This relationship can be transformed into a linear equation as follows:

$$\mathrm{Log}(L) = a + \beta_1 \log(p) + \beta_2 \log(b) + \beta_3 \log(r) + \beta_4 n + \beta_5 n \log(r) + \varepsilon,$$

where p is the number of participants; b is the average annual benefit; r is the discount rate; and n – our life expectancy variable – is the average length of expected future payouts.

The linear equation can then be estimated using data from the 150 state and local pension plans in the PPD over the period 2001-2013.[9] The variable of interest is life expectancy, which reflects the specific mortality assumptions for men and women for each year for each plan.[10] The PPD data suggest that the average age for current annuitants is 63 in police and fire plans and 68 in plans for teachers and general employees, so the life expectancy is calculated at those ages for each type of plan. The male-female ratio is assumed to be 80-20 for police and fire plans, 20-80 for teacher plans, and 45-55 for plans for general employees; the life expectancies for men and women are weighted to reflect these aggregate ratios.

The results in Table 1 show that state and local pension plans would see their liabilities increase by 3.5 percent for each additional year of life expectancy.[11] These results are consistent with previous research on private sector plans and hypothetical arrangements.[12]

Table 1. Factors Affecting Pension Liabilities

Variables	Coefficients
Log (p)Number of participants	0.810
Log (b)Average benefit level	0.654
Log (r)Discount rate	-0.953
Life expectancy	**0.035**
Constant	2.323
R-squared	0.953
Number of observations	1,750

Notes: The data for liabilities and participants are for retirees only. The coefficients report effects from an OLS estimation and are significant at the 99-percent level. The model includes plan and year fixed effects.
Source: Authors' calculations.

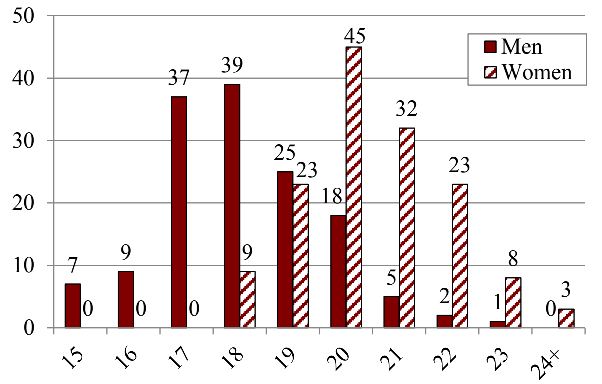
Updating Public Plan Assumptions to Static and Generational RP-2014

The results from the equation are then used to calculate what pension liabilities and funded ratios of state and local plans would be if liabilities were calculated based on the new RP-2014 mortality table and then on a generational version of RP-2014. (We are not advocating that state and local plans adopt RP-2014, since their mortality experience is quite different from private plans. Rather, RP-2014 is simply used as a benchmark.)[13]

The exercise starts with each of the 150 plans' current male-female weighted life expectancies at 63 or 68 and 2013 liabilities and assets to get a base funded ratio. Public plans show enormous variation in their life expectancies (see Figure 4). Life expectancy at 65 for men ranges from 15-23 years and for women from 18-25 years, which means that some of the high projections far exceed those implied by RP-2014.

The next step is to compare each plan's assumed life expectancy with that implied by RP-2014 and multiply that difference by 3.5 percent to estimate the

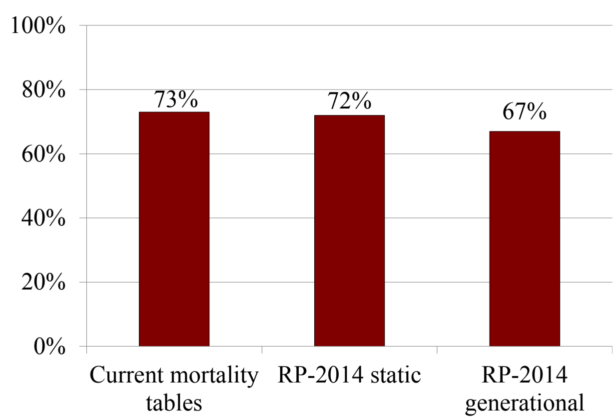
Figure 4. Distribution of State and Local Plans by Average Life Expectancy at Age 65



Source: Authors' calculations.

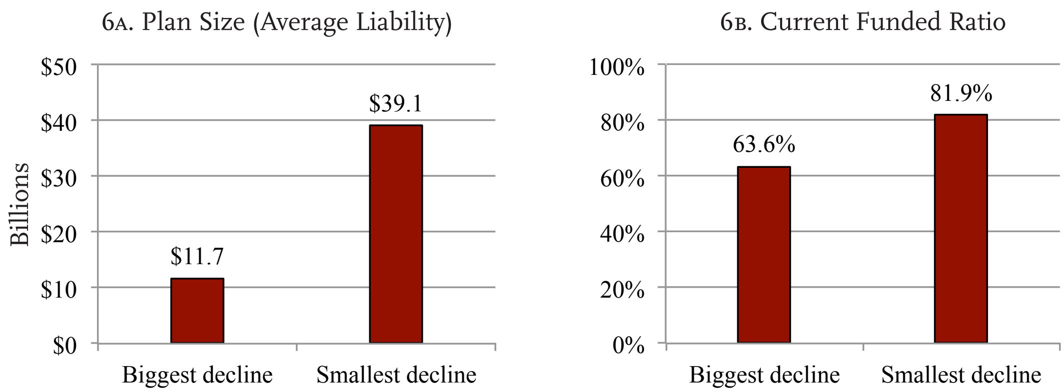
impact on liabilities. Finally, we recalculate the liabilities and reestimate the funded ratio.[14] The results of the exercise show that, on average, public plan life expectancies were 0.5 year lower than that implied by static RP-2014 tables. This difference means that liabilities would increase by 1.75 percent if plans adopted RP-2014, which would reduce the 2013 funded status of state and local plans from 73 percent to 72 percent (see Figure 5). If plans were required to adopt a generational, rather than a static, version of RP-2014, their assumptions would fall short by 2.3 years, implying an 8-percent increase in liabilities and a funded ratio of 67 percent.

Figure 5. Average Funded Ratio by Mortality Table



Source: Authors' calculations.

Figures 6a and 6b. Plan Size and Funded Ratio for Plans with Biggest and Smallest Declines in Funded Ratio from Adopting Generational RP-2014



Source: Authors' calculations.

The results for each of the 150 plans are shown in the Appendix. Three conclusions emerge from examining the individual plan data. First, the biggest decline in funded ratios occurs among the smallest plans; large plans appear to keep their life expectancy assumptions more up to date (see Figure 6a). Second, the decline in funded status appears to be inversely related to the initial funded level – that is, the worst funded plans tend have the most outdated mortality assumptions (see Figure 6b). Finally, adopting mortality assumptions designed for private plans appears to have a roughly equal impact on the funded ratio of plans for teachers (7.3-percent decline in funded ratio), general employees (7.0-percent decline), and police and fire personnel (8.8-percent decline).

Conclusion

The question underlying this analysis is whether outdated mortality assumptions are a serious problem among state and local plans. The answer appears to be "no." It's true that if plans were to adopt the generational version of RP-2014, the aggregate funded ratio would drop from an estimated 73 percent to 67 percent; but even the private sector is not considering using such low mortality rates. Simply adopting the static RP-2014 would only reduce the funded ratio from 73 percent to 72 percent. In short, public sector plans seem to be making a serious effort to keep their life expectancy assumptions up to date. The big increase in 2013 of CalPERS' liability and decline in funding was reflective of an effort to better incorporate future mortality improvements when estimating mortality, not a sign of a serious problem.[15]

Endnotes

1 For example, the mortality rate for a 65-year-old man in the RP-2000 is 1.3 percent and the annual percentage decline in mortality based on the Scale AA is 1.4 percent, so to calculate the mortality rate in 2014 requires reducing the initial rate by 1.4 percent for 14 years – producing a 2014 mortality rate of 1.1 percent.

2 Some critics suggest that, because of the sample used, RP-2014 may be biased toward faster rates of longevity improvement. See American Academy of Actuaries Pension Committee (2014).

3 The PPD is developed and maintained through a collaboration of the Center for Retirement Research at Boston College, the Center for State and Local Government Excellence, and the National Association of State Retirement Administrators. It contains data for 150 large state and local plans – 114 state and 36 local – and accounts for 91 percent of assets and workers relative to the totals reported by the U.S. Census Bureau.

4 Plan actuaries perform periodic experience studies (every three to five years for most large plans) to ensure that assumptions used by the plan align with the plan's actual mortality experience.

5 Alternative terms for "static" and "generational" projections of life expectancy are, respectively, "period" and "cohort." An example of how the two approaches differ may be helpful. Under the basic static method, for a 65-year-old in 2015 the mortality rates at 66, 67, 68 etc. are the rates applicable to individuals *currently* at those ages in 2015. In contrast, a "generational" approach would take into account that mortality rates for individuals would likely decline in the future. Thus, for a 65-year-old in 2015, the mortality rate at 66 would be that for a 66-year-old in 2016; at 67 that for a 67-year-old in 2017, etc. Since death rates are projected to decline in the future, a static calculation significantly understates how long someone is actually likely to live.

6 Each mortality table is based on different sources of actual mortality experience. The RP-2000 is described in the text. The UP-1994 (Uninsured Pensioner) tables are based on group annuitant experience from 1985-1990, the federal Civil Service Retirement System experience, and Social Security's Actuarial Study No. 107. The 1994 GAM (Group Annuity Mortality) tables are based on the same experience as UP-94 except that the GAM-94 tables include a 7-percent margin designed for insurance reserves. The 1983 GAM tables are based on insured group annuity experience submitted by Prudential and by the Bankers Life, U.S. white population statistics for the period from 1965-1978, Canadian population statistics from 1966-1976, and mortality rates for persons covered under Medicare during 1973-1977.

7 To test for consistency between the RP-2014 and the RP-2000 rates, SOA actuaries applied both the Scale AA and the Scale MP-2014 to the RP-2000 rates and concluded that the Scale MP-2014 was more accurate.

8 The following analysis builds on a similar study by Kisser et al. (2012) for private defined benefit plans over the period 1995-2007.

9 Complete historical data are not available for every plan, so the total number of observations is 1,750.

10 Life expectancy can be derived from mortality rates in three steps: 1) compute survival rates from mortality rates – that is, a 1-percent chance of dying turns into a 99-percent chance of surviving; 2) calculate the probability of, say, a 65-year-old living to 66, to 67, to 68 and so on, where each year's rate is the product of the previous survival rates; and 3) sum the conditional survival rates to determine the number of years the 65-year-old is expected to live.

11 The dependent variable is the liability for annuitants – that is, for those already retired. The percentage increase in active worker liability will be of a similar order of magnitude.

12 Antolin (2007) computes pension liabilities for a hypothetical pension fund that is closed to new entrants and finds that an unexpected improvement in life expectancy of one year per decade could increase pension liabilities by 8-10 percent. Dushi, Friedberg, and Webb (2010) find that updating the mortality tables used to estimate the pension liabilities reported on Forms 10-K, which typically reflect mortality rates in the early 1980s, would increase life expectancy at age 60 by about three years and increase liabilities by 12 percent for the average male plan participant. Kisser et al. (2012) estimate the above equation for

private defined benefit plans and find that an additional year of life expectancy increases liabilities by about 3 percent.

13 Public plans were excluded from the mortality data used to create RP-2014 because their mortality experience differed significantly from those of private plans for which the RP-2014 table was devised. In response to comments, the SOA recommended a separate study of public plan mortality experience, with the expectation that the study would include separate tables for public safety workers, teachers, and other public entities.

14 The variation in assumptions and methodology means that some rules are required to determine how plans would respond to the imposition of RP-2014. First – for plans that currently use the static method – if a plan's current life expectancy exceeds that implied by RP-2014, we assume that the plan maintains its current life expectancy under the RP-2014 static scenario. In these cases, to project life expectancy under the generational approach, we add the difference between the RP-2014 static and generational assumptions to the plan's own static assumption. Second – for plans that currently use the generational method – we calculate a new life expectancy only under the RP-2014 generational scenario and do not include any estimate of life expectancy under the RP-2014 static scenario.

15 Specifically, CalPERS shifted from virtually no projection of future mortality improvement to a 20-year static projection (the approximate duration of CalPERS' benefit payments).

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APPENDIX

Appendix Table 1. Life Expectancy and Funded Ratio for State and Local Plans under Current and RP-2014 Mortality Assumptions

Plan name	Life expectancy			Funded ratio		
		RP-2014			RP-2014	
	Current	Static	Generational	Current	Static	Generational
Total	17.9	18.4	20.2	73%	72%	67%
Alabama ERS	15.1	18.0	19.6	66	60	56
Alabama Teachers	18.1	18.2	20.4	66	66	61
Alameda County Employee's Retirement Association	17.3	18.0	19.6	76	74	70
Alaska PERS	17.6	18.0	19.6	55	54	51
Alaska Teachers	21.2	21.2	23.3	48	48	45
Arizona Public Safety Personnel	20.0	21.5	23.4	59	56	52
Arizona SRS	18.9	18.9	20.5	75	75	71
Arizona State Corrections Officers	18.8	21.5	23.4	67	61	57
Arkansas PERS	16.9	18.0	19.6	74	72	68
Arkansas Teachers	18.9	18.9	21.1	73	73	68
Boston Retirement Board	16.9	18.0	19.6	62	60	56
California PERF	18.0	18.0	19.6	83	83	79
California Teachers	18.2	18.2	20.4	67	67	62
Chicago Municipal Employees	16.2	18.0	19.6	37	35	33
Chicago Police	19.6	21.5	23.4	30	28	26
Chicago Teachers	20.2	n/a	22.3	49	49	46
City of Austin ERS	18.7	n/a	20.3	70	70	67
Colorado Municipal	18.5	18.5	20.1	73	73	69
Colorado School	18.5	18.5	20.6	60	60	56
Colorado State	18.5	18.5	20.1	57	57	54
Connecticut Municipal	16.3	18.0	19.6	88	82	78
Connecticut SERS	18.4	18.4	20.0	41	41	39
Connecticut Teachers	19.3	19.3	21.4	57	57	53
Contra Costa County	18.6	18.6	20.2	76	76	72
Cook County Employees	18.7	n/a	20.3	57	57	54
Dallas Police and Fire	19.2	21.5	23.4	76	70	66
DC Police & Fire	20.2	21.5	23.4	110	105	99
DC Teachers	19.4	19.4	21.5	90	90	84
Delaware State Employees	17.0	n/a	19.6	91	91	83
Denver Schools	16.9	18.2	20.4	81	78	72
Duluth Teachers	19.9	n/a	22.1	54	54	50
Fairfax County Schools	19.2	19.2	21.4	75	75	70
Florida RS	17.5	18.0	19.6	85	84	79

Plan name	Life expectancy			Funded ratio		
		RP-2014			RP-2014	
	Current	Static	Generational	Current	Static	Generational
Georgia ERS	15.2	18.0	19.6	71%	65%	61%
Georgia Teachers	19.0	19.0	21.1	81	81	75
Hawaii ERS	18.0	18.0	19.6	60	60	57
Houston Firefighters	20.9	21.5	23.4	87	85	80
Idaho PERS	16.8	18.0	19.6	85	82	77
Illinois Municipal	17.1	18.0	19.6	88	85	80
Illinois SERS	17.0	18.0	19.6	34	33	31
Illinois Teachers	19.1	19.1	21.3	41	41	38
Illinois Universities	18.6	18.6	20.7	41	41	39
Indiana PERF	16.4	18.0	19.6	80	76	72
Indiana Teachers	18.2	18.2	20.4	46	46	42
Iowa Municipal Fire and Police	21.5	21.5	23.4	74	74	69
Iowa PERS	16.1	18.0	19.6	81	76	72
Kansas PERS	15.5	n/a	19.6	60	60	52
Kentucky County	15.6	18.0	19.6	59	55	52
Kentucky ERS	15.6	18.0	19.6	26	24	22
Kentucky Teachers	18.4	18.4	20.5	52	52	48
Kern County Employees Retirement Association	17.4	18.0	19.6	61	60	57
LA County ERS	18.3	18.3	19.9	75	75	71
Los Angeles City Employees Retirement System	17.3	18.0	19.6	69	67	63
Los Angeles Fire and Police	20.9	21.5	23.4	83	81	76
Los Angeles Water and Power	17.3	18.0	19.6	79	77	73
Louisiana Municipal Police	20.1	21.5	23.4	64	61	57
Louisiana Schools	16.2	18.0	19.6	62	58	55
Louisiana SERS	16.2	18.0	19.6	60	56	53
Louisiana State Parochial Employees	16.5	18.0	19.6	93	88	83
Louisiana Teachers	18.0	18.2	20.4	56	56	52
Maine Local	17.0	18.0	19.6	88	85	81
Maine State and Teacher	18.2	18.2	20.4	78	78	72
Maryland PERS	15.6	18.0	19.6	63	58	55
Maryland Teachers	18.8	18.8	20.9	67	67	62
Massachusetts SRS	17.0	18.0	19.6	69	67	63
Massachusetts Teachers	17.5	18.2	20.4	56	54	51
Michigan Municipal	16.9	18.0	19.6	72	69	65

Plan name	Life expectancy			Funded ratio		
		RP-2014			RP-2014	
	Current	Static	Generational	Current	Static	Generational
Michigan Public Schools	17.0	18.2	20.4	60%	57%	53%
Michigan SERS	16.2	18.0	19.6	60	57	54
Milwaukee City ERS	18.0	n/a	19.6	95	95	90
Minneapolis ERF	17.4	18.0	19.6	74	73	69
Minnesota GERF	19.6	n/a	21.2	73	73	69
Minnesota Police and Fire Retirement Fund	22.6	n/a	24.6	81	81	76
Minnesota State Employees	18.8	n/a	20.4	82	82	78
Minnesota Teachers	20.4	n/a	22.5	72	72	67
Mississippi PERS	16.8	18.0	19.6	58	55	52
Missouri DOT and Highway Patrol	16.9	21.5	23.4	46	40	37
Missouri Local	16.5	18.0	19.6	87	82	78
Missouri PEERS	17.3	18.0	19.6	82	80	75
Missouri State Employees	17.1	18.0	19.6	73	70	67
Missouri Teachers	18.3	18.3	20.5	80	80	74
Montana PERS	17.0	18.0	19.6	80	77	73
Montana Teachers	18.9	18.9	21.0	67	67	62
Nebraska Schools	18.9	18.9	21.0	77	77	72
Nevada Police Officer and Firefighter	19.4	21.5	23.4	71	66	62
Nevada Regular Employees	17.0	18.0	19.6	69	67	63
New Hampshire Retirement System	18.6	18.6	20.2	57	57	54
New Jersey PERS	16.9	18.0	19.6	62	60	57
New Jersey Police & Fire	21.1	n/a	23.4	73	73	67
New Jersey Teachers	18.2	n/a	20.4	57	57	53
New Mexico PERA	17.3	18.0	19.6	73	71	67
New Mexico Teachers	18.7	18.7	20.9	60	60	56
New York City ERS	18.0	18.0	19.6	68	68	65
New York City Fire	21.5	21.5	23.4	54	54	51
New York City Police	21.5	21.5	23.4	67	67	63
New York City Teachers	18.2	18.2	20.4	58	58	54
New York State Teachers	18.2	18.2	20.4	88	88	81
North Carolina Local Government	15.4	18.0	19.6	100	91	86
North Carolina Teachers and State Employees	18.0	18.0	19.6	94	94	89
North Dakota PERS	18.5	18.5	20.1	62	62	59

Plan name	Life expectancy			Funded ratio		
		RP-2014			RP-2014	
	Current	Static	Generational	Current	Static	Generational
North Dakota Teachers	18.8	18.8	20.9	59%	59%	55%
NY State & Local ERS	18.0	n/a	19.6	89	89	84
NY State & Local Police & Fire	21.5	n/a	23.4	90	90	84
Ohio PERS	17.1	18.0	19.6	82	80	76
Ohio Police & Fire	19.1	n/a	23.4	67	67	58
Ohio School Employees	17.7	18.0	19.6	65	65	61
Ohio Teachers	18.7	18.7	20.9	66	66	62
Oklahoma PERS	16.7	18.0	19.6	82	78	74
Oklahoma Police Pension and Retirement System	20.2	21.5	23.4	89	85	80
Oklahoma Teachers	19.2	19.2	21.3	57	57	53
Orange County ERS	18.5	18.5	20.1	66	66	62
Oregon PERS	18.0	n/a	19.6	91	91	86
Pennsylvania Municipal Retirement System	16.2	18.0	19.6	99	93	88
Pennsylvania School Employees	18.5	18.5	20.6	64	64	59
Pennsylvania State ERS	16.2	18.0	19.6	59	56	53
Philadelphia Municipal Retirement System	14.7	18.0	19.6	47	42	40
Phoenix ERS	16.2	18.0	19.6	64	60	57
Rhode Island ERS	17.0	18.0	19.6	57	55	53
Rhode Island Municipal	17.0	18.0	19.6	82	79	75
Sacramento County ERS	17.7	18.0	19.6	83	82	78
San Diego City ERS	16.2	18.0	19.6	70	66	63
San Diego County	17.7	18.0	19.6	79	78	74
San Francisco City & County	17.3	18.0	19.6	81	79	74
South Carolina Police	18.3	21.5	23.4	69	62	58
South Carolina RS	16.8	18.0	19.6	63	60	57
South Dakota RS	17.3	18.0	19.6	100	97	92
St. Louis School Employees	16.2	18.2	20.4	84	79	73
St. Paul Teachers	19.8	19.8	22.0	60	60	56
Texas County & District	17.2	n/a	19.6	89	89	82
Texas ERS	18.2	n/a	19.8	80	80	75
Texas LECOS	18.2	n/a	23.4	73	73	61
Texas Municipal	18.3	n/a	19.9	84	84	80
Texas Teachers	19.6	19.6	21.7	81	81	75
TN Political Subdivisions	18.0	18.0	19.6	95	95	90
TN State and Teachers	18.0	18.0	19.6	93	93	88

Plan name	Life expectancy			Funded ratio		
		RP-2014			RP-2014	
	Current	Static	Generational	Current	Static	Generational
University of California	19.1	19.1	21.3	76%	76%	71%
Utah Noncontributory	17.3	18.0	19.6	82	80	76
Utah Public Safety	21.5	21.5	23.4	73	73	68
Vermont State Employees	16.7	18.0	19.6	77	73	70
Vermont Teachers	19.2	19.2	21.4	60	60	56
Virginia Retirement System	17.7	18.0	19.6	66	65	62
Washington LEOFF Plan 2	20.2	n/a	23.4	115	115	103
Washington PERS 2/3	20.2	n/a	21.8	102	102	97
Washington School Employees Plan 2/3	20.2	n/a	21.8	102	102	96
Washington Teachers Plan 2/3	21.9	n/a	24.0	105	105	98
West Virginia PERS	16.0	18.0	19.6	80	74	70
West Virginia Teachers	16.8	18.2	20.4	58	55	51
Wisconsin Retirement System	18.0	18.0	19.6	100	100	95

Source: Authors' calculations based on various actuarial valuations.

About the Center

The mission of the Center for Retirement Research at Boston College is to produce first-class research and educational tools and forge a strong link between the academic community and decision-makers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception in 1998, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

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The CRR gratefully acknowledges the Center for State and Local Government Excellence for its support of this research. The Center for State and Local Government Excellence (http://www.slge.org) is a proud partner in seeking retirement security for public sector employees, part of its mission to attract and retain talented individuals to public service. The opinions and conclusions expressed in this *brief* are solely those of the authors and do not represent the opinions or policy of the CRR or the Center for State and Local Government Excellence.

National Association of Counties (NACo)
International Association of Fire Fighters (IAFF)
U.S. Conference of Mayors (USCM)
National Education Association (NEA)
National League of Cities (NLC)
National Association of Police Organizations (NAPO)
International City/County Management Association (ICMA)
American Federation of State, County and Municipal Employees (AFSCME)
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Government Finance Officers Association (GFOA)
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National Conference of State Social Security Administrators (NCSSSA)
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National Conference on Public Employee Retirement Systems (NCPERS)
National Association of State Retirement Administrators (NASRA)

April 15, 2015

The Honorable Mike Crapo
Co-Chair, Committee on Finance Tax
Reform Working Group on
Savings & Investment
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Co-Chair, Committee on Finance Tax
Reform Working Group on
Saving & Investment
United States Senate
Washington, DC 20510

VIA ELECTRONIC MAIL: Savings@finance.senate.gov

Dear Co-Chairs Crapo and Brown:

On behalf of the national organizations listed above—representing state and local governments, elected and appointed officials, public employees and public retirement systems—we are writing in response to the request for public input regarding bipartisan tax reform. We greatly appreciate the important policy work before the Senate Finance Committee Tax Reform Working Group on Saving & Investment. Our organizations are diverse, but we have come together to urge the Working Group to ensure that any changes to the federal tax code in the area of savings and investment continue to support the ability of state and local governments to successfully design, invest, finance, and manage their public employee retirement systems.

State and local pensions are integral to national retirement policies; each is unique and issues are not systemic

State and local government pension plans currently hold some $3.7 trillion in assets and are an essential part of public workforce management and retirement policy. Public employees and their employers contribute to their pensions while they are working. Pension assets are held in trust and professionally invested in diversified portfolios over decades to prefund the cost of pension benefits for over 14 million working and 9 million retired employees of state and local government. Their long time horizon enables public funds not only to continue paying benefits to retirees and their survivors during economic declines, but also to provide a critical economic stimulus – more than $240 billion last year alone – that reaches virtually every community across the country.

State and local retirement systems are established and regulated by state laws and, in many cases, further subject to local governing policies and ordinances. Thus, each is designed to meet the distinctive needs of the sponsoring government and its employees. Differing plan designs, financial conditions, and fiscal frameworks across the country do not lend themselves to one-size-fits all solutions, but rather, require a range of tailored approaches, agreed to by the relevant stakeholders.

Most public plan sponsors have taken action; none have required federal intervention

There have been efforts over the years to impose Federal requirements on State and local government pension systems that duplicate, conflict or preempt State and local pension laws, such as recent attempts to impose onerous reporting requirements. There have also been proposals to restrict plan investment options or tax plan contributions, assets or investment gains. Finally, there have been proposals to mandate Social Security on state and local governments, despite the fact that a number of public retirement plans are structured and funded in lieu of such coverage. Ultimately, Congress has continued to recognize the importance of broad coverage, retirement savings opportunities and meaningful benefits provided to the public sector workforce. Unlike private pension plans that are preempted from State statutes and solely regulated by Federal law, State and local retirement systems are established and regulated by State and local laws, which provide strong protections for plan participants and assets.

Following the Great Recession, public employers, plans and participants, working through State and local legislative and regulatory structures, examined benefit levels and financing needed to put their retirement systems on a sustainable path. Between 2009 and 2014, every state made changes to pension benefit levels, contribution rate structures, or both. Many local governments have made similar fixes to their plans. These changes have included increases in employee contributions to pension plans, increased risk sharing and the establishment of other hybrid features, higher retirement ages and lower cost-of-living adjustments. Some modifications apply to new workers only; others affect current employees, retirees, or both. None of these reforms has required federal intervention or federal financial assistance.

Federal tax policy should support distinguishing elements of public plan design

While there have been many changes, most state and local government employee retirement systems have retained features that meet the unique needs of their workforce. The federal tax code should continue to preserve the ability of States and localities to retain these public plan characteristics that promote retirement security and workforce management, including:

- **Mandatory participation**. Most state and local governments require participation in the retirement program as a condition of employment.
- **Cost sharing between employers and employees**. Public employees typically are required to contribute 5 to 10 percent of their wages on a tax-deferred basis to their state or local pension.
- **Pooled and professionally managed assets**. By providing professional management, greater portfolio diversity and economies of scale, pooled investments in public pension trusts can earn higher returns and lower fees.
- **Targeted income replacement**. Most public pension policies aim to replace a certain percentage of pre-retirement wages to better assure financial independence in retirement.
- **Lifetime benefit payouts**. The vast majority of state and local governments do not allow for lump sum distribution of benefits; rather, they require retirees to take their pensions in installments over their retired lifetimes.
- **Survivor and disability benefits**. Many state and local pensions integrate survivor and disability protections into their retirement programs, a particularly critical feature for hazardous public sector positions.
- **Supplemental savings**. Many governmental entities sponsor a supplemental defined contribution plan in addition to the general retirement plan to allow participants to defer an additional portion of their salary in anticipation of retirement needs, and some governments provide matching contributions and automatic enrollment/escalation features to encourage participation.

State and local laws govern the design, investment policies, financing and management of public retirement systems. Any changes to Federal tax policy should support the elements of public plan design necessary to meet their diverse workforce goals, and recognize the distinctive characteristics of state and local governments when considering legislative changes that may affect their primary and supplemental retirement vehicles.

Attached for your review are "State and Local Fiscal Facts: 2015," a compendium of information regarding state and local finances, municipal bonds and public pensions that correct many misperceptions regarding the financial condition of governments and their retirement plans. Please feel free to contact any of the representatives from our national organizations listed below for more information. We would also be pleased to arrange a meeting time that is convenient for you or your staff to discuss State and local government retirement policies, as well as participate in the very important national policy dialogue needed to ensure retirement security for all Americans.

Sincerely,

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Cc: Members of the Senate Finance Committee Tax Reform Working Group on Savings & Investment:

The Honorable Richard Burr
The Honorable Johnny Isakson
The Honorable Dean Heller
The Honorable Tim Scott
The Honorable Benjamin Cardin
The Honorable Bob Casey
The Honorable Mark Warner
The Honorable Robert Menendez

Attachment (4 pages)

State and Local Fiscal Facts: 2015

State and Local Finances ■ Municipal Bonds ■ State and Local Pensions

Fiscal Condition of State and Local Governments

In the past few years, state and local government revenues have been slowly improving. While challenges remain, officials have been taking steps to replenish rainy day funds and address long-term structural imbalances.

State Finances[1] [2]

For states, 2014 brought a moderate improvement in fiscal conditions and the trend for 2015 is that improvements will continue. General fund spending and revenues are projected to increase for the fifth consecutive year based on state-enacted budgets. Since the end of the recession, states have transitioned to a sustainable period of fiscal rebuilding, but progress remains slow and fiscal challenges are likely to continue because of rising spending demands in areas such as healthcare and education and limited gains in revenue collections.

- Forty-three states enacted higher general fund spending in FY15 than in FY14.
- States have enacted minimal mid-year spending cuts over the last several years indicating that states' fiscal situations have stabilized.
- States have replenished some spending for areas cut back during the recession, such as K-12 and higher education.
- Forty-one states and the District of Columbia expect to meet or exceed their FY 2015 revenue projections.

City Finances[3]

City fiscal conditions are improving as the recession recedes. A number of factors determine the revenue performance, spending levels and overall fiscal condition. Among the factors that negatively influence city conditions are a decrease in federal and state aid and an increase in infrastructure demands, cost of services and employee compensation. Positive factors include the health of the local economy and the value of the local tax base.

Issued By:

NGA — National Governors Association

NCSL— National Conference of State Legislatures

CSG — The Council of State Governments

NACo — National Association of Counties

NLC— National League of Cities

USCM—U.S. Conference of Mayors

ICMA — International City/County Management Association

NASBO — National Association of State Budget Officers

NASACT — National Association of State Auditors, Comptrollers and Treasurers

GFOA — Government Finance Officers Association

NASRA—National Association of State Retirement Administrators

- Property tax revenue is anticipated to have positive growth for the first time in five years.
- Sales and income tax revenues continue to show positive rates of increase.
- Ending balances are nearing pre-recession highs, but are still below 2006 levels.
- For the first time since 2008, more cities are increasing, rather than decreasing, the size of municipal workforces.

Full recovery for cities is still on the horizon. The trend in 2015 and beyond will be determined by a number of factors including national employment, the real estate market, internet commerce and external policy shifts that could affect a government's long-term fiscal health.

County Finances[4]

For counties, recovery remains sluggish and uneven. Last year was one of significant growth for county economies, yet most have not returned to pre-recession levels. Notably:

- Unemployment has yet to return to pre-recession lows in 95 percent of county economies.
- Job growth accelerated in 2014, while economic output expanded and county housing markets stabilized across the country.
- Economic recovery is starting to spread, although only 65 county economies have fully recovered.

Municipal Bankruptcy

While the fiscal condition of state and local governments as a whole is improving, there are governments where fiscal stress continues. Generally, these governments' fiscal troubles are based on long-standing economic problems and other unique circumstances. It is important to note that bankruptcy, while headline-grabbing, is rare and is not an option for most localities.

- Bankruptcy is not a legal option for state sovereign entities. States have taxing authority and have constitutional or statutory requirements to balance their budgets.
- States determine whether their political subdivisions may pursue bankruptcy in the event of insolvency.
- Only 12 states authorize Chapter IX bankruptcy filings for their general purpose governments and 12 states conditionally authorize such filings. Twenty-six states have either no Chapter IX authorization or such filings are prohibited.
- Bankruptcies remain rare and are a last resort for eligible municipal governments. Since 2010, only 8 out of 37 filings have been by general purpose governments. The majority of filings have been submitted not by cities, but by lesser-known utility authorities and other narrowly-defined special districts throughout the country.[5]
- Chapter IX of the federal Bankruptcy Code does not provide for any federal financial assistance, and filing under this section of the law is not a request for federal funding.

Federal Intervention

The Founding Fathers believed in a balance between state and federal power. The 10th Amendment reads "*The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people.*" State and local governments can weather difficult economic periods and officials are taking steps to restore fiscal stability. Interference in the fiscal affairs of state and local governments by the federal government is neither requested nor warranted. Long-term issues such as outdated methods of taxation, rising health care costs and growing pension liabilities are already being discussed by state and local government leaders and changes in many areas are underway.

Municipal Bonds

Municipal securities are predominantly issued by state and local governments for governmental infrastructure and capital needs purposes, such as the construction or improvement of schools, streets, highways, hospitals, bridges, water and sewer systems, ports, airports and other public works. Between 2003 and 2013, states, counties, and other localities invested $3.5 trillion in infrastructure through long-term tax-exempt municipal bonds[6]; the federal government provided $1.43 trillion.[7]

On average, 11,000 municipal issuances are completed each year.

The principal and interest paid on municipal bonds is a small and well-protected share of state and municipal budgets:

- Debt service is typically only about 5 percent of the general fund budgets of state and municipal governments.
- Either under standard practice or as required by law or ordinance, debt service most often must be paid first before covering all other expenses of state and municipal governments.
- Municipal securities are considered to be second only to Treasuries in risk level as an investment instrument. The recovery rate of payment for governmental debt far exceeds the corporate recovery rate.

Types of Debt and Default

Municipal debt takes two forms: General Obligation, or GO Debt, backed by the full faith and credit of a general purpose government like a state, city, or county; and Non-GO debt issued by governments and special entities that is usually backed by a specific revenue source (special taxes, fees or loan payments) associated with the enterprise or borrower.

There are two types of defaults: (1) the more minor "technical default," where a covenant in the bond agreement is violated, but there is no payment missed and the structure of the bond is the same and (2) defaults where a bond payment is missed, or in the rare event that debt is restructured at a loss to investors.

From 1970 through 2014, there were 92 rated municipal bond defaults, of which only six were rated city or county governments. The majority of rated defaulted bonds were issued by not-for-profit hospitals or housing project financings.

Historically, municipal bonds have had lower average cumulative default rates than global corporates overall and by like rating category. Between 1970 and 2013, the average 10-year default rate for Moody's Aaa-rated municipal bonds was zero compared to a 0.49 percent default rate for Moody's Aaa-rate corporate bonds.[8] Furthermore, over the last five years, during which state and local governments struggled to recover from the recession, rated state and local GO defaults were remarkably low at 0.004 percent.[9]

- In the double-A rating category to which the majority of municipal ratings were assigned, average cumulative default rates are much lower for municipals than for corporates with the same double-A symbol.[10]
- There has only been one state that has defaulted on its debt in the past century, and in that case bondholders ultimately were paid in full.

Federal Tax Exemption

The federal tax exemption for municipal bonds is an effective, efficient and successful way for state and local governments to finance infrastructure. Municipal securities existed prior to the formation of the federal income tax in 1913. Since then, the federal Internal Revenue Code has exempted municipal bond interest from federal taxation. Many states also exempt from taxation the interest earned from municipal securities when their residents purchase bonds within their state. Because of the reciprocal immunity principle between the federal government and state and local governments, state and local governments are prohibited from taxing the interest on bonds issued by the federal government.

State and Local Pensions

Although some state and local government pension trusts are fully funded with enough assets for current pension obligations, there are legitimate concerns about the extent of underfunding in certain jurisdictions. In most cases, a modest increase in contributions to take advantage of compound interest, modifications to employee eligibility and benefits, or both, will be sufficient to remedy the underfunding problem.[11]

Significant Reforms Enacted

State and local employee retirement systems are established and regulated by state laws and, in many cases, further subject to local governing policies and ordinances. Federal regulation is neither needed nor warranted, and public retirement systems do not seek federal financial assistance. State and local governments are taking steps to strengthen their pension reserves and operate under a long-term time horizon.

- Between 2009 and 2014, every state made changes to pension benefit levels, contribution rate structures, or both. Many local governments have made similar fixes to their plans.[12]
- Although pension obligations in some states are backed by explicit state constitutional protections or statutes, states generally are permitted to change retiree health benefits, including terminating them, as they do not carry the same legal protections. Therefore, it is misleading to combine unfunded pension liabilities with unfunded retiree health benefits.
- Thirty-three states hold approximately $33 billion in other post-employment benefits (OPEB) assets as of FY 2013. This figure is up from 18 states reported for the period FY 2009-FY 2011. At the same time, state government units offering retiree health care benefits have declined during the past decade.[13]

Pension Finances

Public retirees and their employers contribute to their pensions while they are working. Assets are held in trust and invested in diversified portfolios to prefund the cost of pension benefits[14] for over 14 million working and 9 million retired employees of state and local government.[15] Public pension assets are accumulated, invested, and paid out over decades, not as a lump sum.

- Public employees typically are required to contribute 5 to 10 percent of their wages to their state or local pension. Since 2009, 36 states have increased required employee contribution rates.[16]
- As of September 30, 2014, state and local retirement trusts held $3.7 trillion in assets.[17]
- For the vast majority of state and local governments, retirement systems remain a small portion of their budget. On average, the portion of combined state and local government spending dedicated to retirement system contributions is four percent.[18] Current pension spending levels vary widely and are sufficient for some entities and insufficient for others.
- Funded levels - the degree to which a plan has accrued

assets to pay expected benefits for current and future retirees - among pension plans vary substantially. Although a number of plans are more than 100 percent advance-funded, on average, the funded level in 2013 was 72 percent, and 22 percent were less than 60 percent funded.[19]

- Many public pension plans have reduced their return assumption in recent years. Among the 126 plans measured in the Public Fund Survey, more than one-half have reduced their investment return assumption since FY2008. The median return assumption is 7.75 percent. For the 25-year period ending June 30, 2014, the median annualized public pension investment return was 8.8 percent; the 10-year median was 7.3 percent.[20]

Endnotes

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1502 EXECUTIVE OFFICERS OF THE BOARD

1502.1 The Board shall elect one (1) of its members to be Chairman. The Chairman shall be the presiding and chief executive officer of the Board. The Chairman shall be elected for a term of one (1) year but may be removed from that position by a vote of two-thirds of the members of the Board. (D.C. Code § 1-711(b) (10) (2001)) Such removal proceedings shall be accompanied by Bill of Particulars.

1502.2 The Chairman shall serve ex officio as a voting member of all committees and shall be counted for purposes of a quorum.

1502.3 The Board shall elect from its membership a Secretary who shall serve for a term of one (1) year but may be removed from that position by a vote of two-thirds of the members of the Board. Such removal proceedings shall be accompanied by Bill of Particulars. The Secretary shall have the following responsibilities.

(a) Overseeing the preparation of the minutes of all regular and special meetings of the Board (in sufficient detail to indicate the votes and positions taken by the members);

(b) Assisting the Chairman and Executive Director in developing meeting agenda;

(c) Coordinating all Board correspondence, documents and minutes;

(d) Overseeing correspondence with all Fund participants; and

(e) Conducting all regular and special meetings of the Board in the absence of the Chairman.

1502.4 In case of a vacancy in the office of Chairman, the Secretary shall serve as Acting Chairman until the Board elects a new Chairman.

1502.5 The Board shall elect from its membership a Treasurer who shall serve for a term of one (1) year but may be removed from that position by a vote of two-thirds of the members of the Board. Such removal proceedings shall be accompanied by Bill of Particulars. The Treasurer shall have the following responsibilities:

(a) Ensuring official copies of all financial records, reports, and filings are maintained by staff;

(b) Ensuring the preparation of all financial statements or reports;

(c) Authorizing disbursements from the Funds' assets and reporting disbursements to the Board;

(d) Reviewing and accepting, in conjunction with the Board's Chairman, the Mayor's certification of retirement payrolls and data pursuant to § 126 of the District of Columbia Retirement Reform Act of 1979, D.C. Code §1-716 (2001);

(e) Monitoring obligations incurred by the Board against its appropriated budget and providing financial status reports to the full Board periodically;

(f) Monitoring the budgeting and accounting functions performed by the staff;

(g) Performing other functions as instructed by the Board; and

1502.6 In case of a vacancy in the offices of the Chairman and the Secretary, the Treasurer shall serve as Acting Chairman until the Board elects a new Chairman.

1502.7 The Board shall elect from its membership a Parliamentarian who shall serve for a term of one (1) year but may be removed from that position by a vote of two-thirds of the members of the Board. Such removal proceedings shall be accompanied by Bill of Particulars. The Parliamentarian shall be responsible for advice to the Chairman and the Board on matters of parliamentary procedure.

1502.8 The Board shall elect from its membership a Sergeant-At-Arms who shall serve for a term of one (1) year but may be removed from that position by a vote of two-thirds (2/3) of the members of the Board. Such removal proceedings shall be accompanied by Bill of Particulars. The Sergeant-At-Arms shall be responsible for preserving order at Board meetings and supervising implementation of Board decisions with respect to maintaining order during Board activities.

1502.9 Whenever a vacancy occurs in the position of Chairman, the Secretary shall convene the Board within fourteen (14) days after notice of the vacancy. At that meeting, the Board shall elect one (1) of its members as Chairman for the remainder of the outstanding term.

1502.10 Whenever a vacancy occurs in the position of Secretary, Treasurer, Sergeant-At-Arms, or Parliamentarian, the Board shall, at the first Board meeting following the occurrence of the vacancy, elect one (1) of its members to fill the vacancy for the unexpired term.

1502.11 For purposes of these rules, a "vacancy" of a position shall occur upon the expiration of a member's term, resignation, death, or any disability which, in the opinion of the holder of the position prevents the holder of the position from carrying out his or her duties; or by removal of an Executive Officer pursuant to relevant provisions under §§1502 et seq. herein.

1502.12 Effective for terms beginning in 1990, an Executive Officer of the Board as described under §§1502 et seq. herein, shall not serve in the same position for more than two consecutive terms. Executive Officers shall be elected at a Board meeting in February of each year with office terms beginning in February and ending the following February.

1502.13 Members who serve as Parliamentarian and Sergeant-At-Arms may also hold other Executive Offices, except Chairman.

SOURCE: Notice of Final Rulemaking published at 49 DCR 10792-94 (November 29, 2002).

Survey of State Retirement Systems
Board Officer Positions
as of May 11, 2015

	Public Employee Retirement Systems	Chairman	Chair	Chairperson	Vice Chair	PRESIDENT	VICE PRESIDENT	Secretary	Treasurer	Sargent at Arms	Parliamentarian
	District of Columbia Retirement Board - Website	**X**									
	District of Columbia Retirement Board - Photo Card		**X**					**X**	**X**	**X**	**X**
1	Alabama - The Retirement Systems of Alabama		X		X						
2	Alaska - Division of Retirement and Benefits		X		X						
3	Arizona - State Retirement System		X								
4	Arkansas - Public Employees Retirement System										
5	California - Public Employees Retirement System					X	X				
	SanDiego City Employees Retirement System					X	X		X		
6	Colorado - Public Employees Retirement System		X								
7	Connecticut - Public Employees Retirement System			X				Secretary of the Office of Policy and Management	State Treasury		
8	Delaware - Office of Pensions		X								
9	Florida - Division of Retirement		X								
10	Georgia - Employees Retirement System		X		X						
11	Hawaii - Employees Retirement System		X		X						
12	Idaho - Public Employees Retirement System	X									
13	Illinois - State Retirement System			X							
14	Indiana - Public Employees Retirement System	X									
15	Iowa - Public Employees Retirement System			X	Vice Chairperson						
16	Kansas - State of Kansas Public Employees Retirement Sys.			X	Vice Chairperson						
17	Kentucky - Kentucky Retirement System		X		X						
18	Louisiana - Association of Public Employees					X	X	X	X		
19	Maine - Public Employees Retirement		X		X						
20	Maryland - State Retirement and Pension System	X			Vice Chairman						
	Baltimore Employees Retirement System			X	X				X		
	Montgomery County Retirement Plans		X		X				X		
21	Massachusetts - State Employees' Retirement System	X RETIREMENT BOARD	X INVESTMENT BOARD								
	Massachusetts Municipalities	Board Administrator									
22	Michigan - Office of Retirement Services					X	X	X	X		
23	Minnesota - Public Employees Retirement Association					X	X				
24	Mississippi - Public Employees Retirement System	X		X							
25	Missouri - State Employees Retirement System		X		X						
26	Montana - Public Employees Retirement System					X	X				
27	Nebraska -Public Employees Retirement System			X	X						
28	Nevada - Public Employees Retirement System										
29	New Hampshire - Retirement System		X								
30	New Jersey - Public Employees Retirement System		X		X						
31	New Mexico - Public Employees Retirement Association		X		X						
32	New York - State & Local Retirement			X							
33	North Carolina - Retirement Sys. Dept. of State Treasurer		State Treasurer								
34	North Dakota - Public Employees Retirement System	X									
35	Ohio - Public Employees Retirement System		X								
36	Oklahoma - Public Employees Retirement System		X		X						
37	Oregon - Public Employees Retirement System		X		X						

Survey of State Retirement Systems
Board Officer Positions
as of May 11, 2015

	Public Employee Retirement Systems	Chairman	Chair	Chairperson	Vice Chair	PRESIDENT	VICE PRESIDENT	Secretary	Treasurer	Sargent at Arms	Parliamentarian
38	Pennsylvania - State Employees Retirement System	X									
39	Rhode Island - Public Employees Retirement System		X		X						
40	South Carolina - Retirement Systems		X								
41	South Dakota - Retirement System		X		X						
42	Tennessee - Consolidated Retirement System		X		X			X			
43	Texas - Public Retirement Systems		X								
44	Utah - Retirement Systems			X	X						
45	Vermont - State Employees' Retirement System		X		X						
46	Virginia - Retirement System	X									
	Fairfax County - Retirement Systems	X			Vice Chairman				X		
	Fairfax County Teachers			X	Vice Chairperson						
47	Washington - Department of Retirement Systems										
48	West Virginia - Consolidated Public Retirement Board	X			Vice Chairman						
49	Wisconsin - Retirement System		X		X			X			
	Wisconsin - Investment Board		X		X			X			
50	Wyoming - Retirement System		X								

	Public Employee Retirement Systems	Chairman	Chair	Chairperson	Vice Chair	PRESIDENT	VICE PRESIDENT	Secretary	Treasurer	Sargent at Arms	Parliamentarian
	Officer Titles used by the States	9	27	8	22	6	6	4	3	0	0
	% of States who use specific titles	0.18	0.54	0.16	0.44	0.12	0.12	0.08	0.06	0	0
	Officer Titles used by other Public Employee Retirement Sys	2	3	2	5	0	0	1	2	1	1

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TO: BOARD OF TRUSTEES

FROM: EDWARD SMITH, CHAIRMAN

DATE: **MAY 21, 2015**

SUBJECT: BENEFITS COMMITTEE REPORT

The Benefits Committee met on Thursday, May 14, 2015. The following report reflects Benefits Committee discussions, activities and projects presented at the meeting.

Benefits Department Monthly Statistics

The Benefits Department continued to increase its processing during the month of April with over 218 new claims, of which 118 were completed and moved to payment status. The Member Services Unit received 2,580 telephone calls from members and other entities in the month of April 2015 and 113 walk-in customers. Also in the month of April 2015, the Department has prepared, scanned and validated more than 2,975 documents into FileNet. More details for tracking operational performance of the Benefits Department for the month are identified in the attached monthly payroll statistical report. (See attachment 1)

DC Tax Update

Shortly after the April 1st payroll, Member Services received numerous calls regarding an increase in District taxes. Benefits staff researched the questions determined that an initial 2015 Tax Update published by the DC Office of Tax & Revenue (OTR) in December 2014 had incorrect tax tables. OTR published a corrected 2015 DC tax withholding table in late January 2015; however, the ODCP Bureau of Fiscal Services' (BFS) technical support team loaded the December 2014 update into STAR production instead of the January 2015 update. BFS technical support implemented the corrected tax tables, and the May 1st payments reflected the correct DC tax withholding amounts. The attached chart indicated that the largest impact to individual members was $60. (See attachment 2)

iCore Phone System Changes

To address numerous concerns related to the iCore phone system, Benefits Staff has worked with the IT Department to make several changes, including improvements to the phone voice message, which will assist callers in communicating with a Member Services representative or leaving messages. Benefits will continue to monitor the iCore phone system to assess the need for additional changes.

Max 80/Lookback COLA Errors Update (As of May 7, 2015)

The Office of DC Pensions has provided the following update to the Max80/Lookback COLA activities:

- 566 letters were sent January 23, 2015 to inform annuitants of the change to their benefit. ODCP could not easily provide data on the letters by error type (Max 80, Cola Lookback, Misc Errors)
- 25 demand letters have been sent to annuitants who have overpayments subject to collection and did not request reconsideration of the benefit change. An additional 89 letters will be sent as annuitants' due process rights expire.
- 171 requests for reconsideration of the benefit change have been received, of which 5 have been denied.
- ODCP has received 31 congressional inquiries related to the project.
- ODCP has received one FOIA request.

Disability Income Review Updates

On April 23, 2015, the second and final income verification letters were issued via certified mail to non-respondent retirees under age 50 receiving disability benefits under the Police and Firefighters' Retirement Plan. To date, we have received 124 (74%) complete responses from the first mailing on March 2, 2015 to 168 annuitants. After May 15, 2015, the date the annual income report must be submitted to DCRB, Benefits staff will perform additional due diligence by contacting the annuitants who have not responded and are scheduled to receive third notices informing them of our intent to suspend their annuities for noncompliance. Beginning May 16th, Benefits staff will begin reviewing the returned responses to determine how many resulted in (1) disability terminations due to restoration to earnings capacity and (2) disability reductions due to exceeding the earnings limitation.

Police and Firefighters Retirement and Relief Board (PFRRB) Presentation

Lela Jones from PFRRB made a presentation at the Benefits Committee Meeting providing their process for assessing eligibility for optional and disability retirements. The presentation was well received by all. A copy of the presentation is attached. (See attachment 3).

Teacher Workers' Compensation Update

DCPS Teachers' Plan participants receiving workers' compensation do not currently have pension contributions deducted from their workers compensation benefits. However, the Plan requires employee contributions to be made to the Plan while receiving workers' compensation.

DCRB staff discussed having the mandatory contributions deducted from the workers' compensation which is administered by the Office of Risk Management (ORM). Per ORM, this is a programming issue which would be costly to the District (about $250,000) and consequently has not been a priority.

DCRB staff will pursue the issue further and explore what options are available.

Attached are several Plan Administration items for which the Benefits Committee is seeking action from the Board.

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TO: BOARD OF TRUSTEES

FROM: LYLE BLANCHARD, CHAIRMAN

DATE: MAY 21, 2015

SUBJECT: LEGISLATIVE COMMITTEE REPORT

The following report reflects activities of interest since the March Board Meeting.

COUNCIL OF THE DISTRICT OF COLUMBIA

B21-0157, "Fiscal Year 2016 Budget Request Act of 2015"

This proposal would approve appropriation of $136,115,000 from local funds for the Police Officers and Firefighters' Retirement System; $44,469,000 from local funds for the Teachers' Retirement System; and $32,302,000 from the Teachers' and Police Officers and Firefighters' Retirement Funds for the District of Columbia Retirement Board.

Status: Chairman Mendelson introduced the bill on April 2, 2015. The bill was referred to the Committee of the Whole on April 14, 2015.

UNITED STATES CONGRESS

H.R. 606, "Don't Tax Our Fallen Public Safety Heroes Act"

This proposed bill amends the Internal Revenue Code to clarify that state-based survivor benefits on behalf of a public safety officer who has died as the direct and proximate result of a personal injury sustained in the line of duty are exempt from federal tax.

Status: Rep. Erik Paulsen introduced the bill in the House of Representatives on January 28, 2015. The bill passed in the House on May 12, 2015 and in the Senate on May 14, 2015. The enrolled bill is now under consideration by the President.

HEARINGS

DCRB's annual agency budget oversight hearing was held on April 17, 2015 at 2:00 p.m. before Chairman Phil Mendelson, Chair of the Committee of the Whole. The Legislative Committee thanks Trustee Blanchard for testifying on behalf of the Board.

The Committee of the Whole will convene for a Budget Markup of agencies coming under its purview on May 14, 2015 at 4:00 p.m. in the Council Chambers, 1350 Pennsylvania Ave., NW, Room 500, Washington, D.C.