Achieving Retirement Security While Balancing Cost Predictability in Benefit Plan Design

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In-Depth: Risk-Sharing and Public Retirement Plans, NASRA

Distilling Retirement Plan Outcomes

- The effect on a pension plan of an actuarial experience that differs from expectations can be distilled to one or both of two factors:
  - Required cost
  - Available benefits
  - *Money in and money out*

Public Plan Reforms Since 2010

- Reforms enacted in nearly every state in recent years have been unprecedented in number and the magnitude of changes
- An overarching theme of reform has been shifting of risk from employers and taxpayers to plan participants
- Combined with risk-sharing features in place previously, these changes have produced an abundance of risk sharing plan designs

Public Plan Reforms Since 2010

- Reforms vary widely due to
  - Diversity of legal protections
  - Size and scope of the plan’s pension challenge
  - Plan sponsor fiscal condition and political climate
- Each state and plan is unique
  - Any changes should reflect individual conditions and circumstances

Defining Risk-Sharing Up Front

- Pension reforms are enacted via a political process
- Some reforms resulted in reduced benefit levels or higher costs for current plan participants, including, in some cases, retirees
- Establishing risk-sharing provisions in advance allows all stakeholders to know the rules, rather than changing them after the fact
- Clearly-defined plan provisions promote fairness, transparency, and confidence in the integrity of the system

Risk-Sharing in Three Forms

- Variable benefits
  - Especially COLAs but also rates of benefit accrual
- Variable employee contribution rates
- Hybrid plans
  - DB-DC and cash balance

Variable Benefits Features: South Dakota

- South Dakota Retirement System
  - Fixed employee and employer contribution rates
  - The COLA is adjusted annually and other benefits may be adjusted further as needed
  - Akin to collective defined contribution plans seen in Europe: the employer contribution rate is immutable

Variable Benefits: Louisiana

- For state employees and teachers
  - The provision of a COLA and its amount are contingent on actual inflation, plan funding level, and investment performance
  - Subject to legislative approval
  - Limited to first ~$60k of annual benefit

Variable Contributions: Pennsylvania

- For state employees and teachers hired after since 2011
  - Within a specified floor and ceiling, employee contribution rates may change based on investment performance and the plan's funding level

Variable Contributions: Utah

- Utah Retirement Systems
  - For those hired since 7/1/11
  - Maximum employer contribution rate of 10 percent of employee pay (12 percent for public safety)
  - Employees may choose a DB or a DC plan
  - If the cost of the DB plan ever exceeds the maximum, employees pay the difference

Variable Benefits *and* Contributions: Houston

- City of Houston retirement plans
  - Establishes a target contribution rate, equal to the actuarially determined rate
  - If the plan's actuarial experience causes the contribution rate to rise or fall from the target by more than five percent, a series of prescribed changes is implemented
  - Changes include actuarial methods and assumptions, employee contribution rates, and employee benefit levels

Variable Benefits *and* Contributions: Colorado

- Colorado PERA
  - Potential changes are tied to employer payment of required contributions and to plans' progress toward eliminating the unfunded liability
  - Employee and employer contribution rates and the COLA may rise or fall, with limits on the annual and total change

Variable Benefits *and* Contributions: Maine

- For local government employees
  - Employee contribution rates are set at 45% of the total required rate, with a ceiling
  - Rate may rise or fall depending on actuarial experience of the plan
  - COLA may be reduced if its payment would cause required plan cost to rise above established maximum