Achieving Retirement Security
While Balancing Cost Predictability in Benefit Plan Design

Keith Brainard, NASRA
December 2019
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