Model Retirement Systems: Putting Tools and Metrics into Practice

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Seminar on Pensions Topics

Susan Banta – Research Director
Strengthening Public Sector Retirement Systems
Putting Theory Into Action

➢ Ensuring financial stability – stress testing and risk reporting are key

➢ Cost sharing – different models and implementation issues

➢ Managing changes in economic and investment return outlook

➢ The role of clear objectives in strengthening retirement systems
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Colorado Public Employees Retirement Association

Pre-reform (2010) reports provided policymakers and budget officials with the tools necessary to evaluate the pension system.
Colorado’s 2015 Analysis

Signal Light developed a clear and concise framework to evaluate risk of fiscal distress

### About Signal Light

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<thead>
<tr>
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<td>Dark Green</td>
<td>100% Funded by 2041 (30 years from 2011)</td>
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<tr>
<td>Green</td>
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<tr>
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23% Probability
Stress Testing in Action: Colorado

Stress Testing analysis helped to facilitate comprehensive and lasting reform

Sources: Analysis by The Pew Charitable Trusts and The Terry Group based on publicly available Comprehensive Annual Financial Reports (CAFRs), actuarial reports and valuations, other public documents or as provided by plan officials.
Stress Testing in Action: Connecticut

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Projected Employer Contributions
6.9% Returns, SERS and TRS Combined

Sources: Analysis by The Pew Charitable Trusts and The Terry Group based on publicly available Comprehensive Annual Financial Reports (CAFRs), actuarial reports and valuations, other public documents or as provided by plan officials.
Emerging Trend: States that Have Enacted or are Considering Adopting Stress Testing Requirements

Note: Of the states that have adopted stress testing requirements by statute, at least four (WA, CA, VA, HI) have produced at least two stress testing reports as of January 2019. Map is as of August 2019.
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Cost Sharing is Used in Traditional DB Plans

28 DB plans in 18 states have formal cost sharing policies
Alternative Plans are the Default or Mandatory Option in 17* states

Seven of the 10 default hybrid plans have been adopted since 2006

Notes:
• In cases where a state has more than one alternative plan, the plan type with the greater number of participants is marked on the map. This includes Indiana where workers choose between a hybrid and DC plan, Michigan where state workers are in a DC plan and teachers choose between a DC or hybrid plan, and Utah where workers choose between a hybrid and DC plan. Twelve states total offer a default or optional hybrid plan.
• Texas provides a cash balance plan to over 400,000 local workers through the state’s Texas Municipal Retirement System and Texas County and District Retirement System.
• Washington’s current default is a hybrid plan but will change to a DB plan starting July 2, 2020.
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