Models for Public Pensions: A data-driven, evidence-based framework for building a successful system

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Strengthening Public Sector Retirement Systems
Overview and Takeaways

Overview
➢ Growing disparity in fiscal health across U.S. public pension plans.
➢ Best-funded states follow effective risk management policies, correlated with favorable outcomes on cost predictability and retirement security.

Takeaways
➢ No one-size-fits-all solutions for strengthening public retirement systems.
➢ Model plans provide a path to retirement security while achieving fiscal stability and preserving inter-generational equity.
State and Local Pension Debt as a Share of Gross Domestic Product

After nine years of economic recovery, aggregate pension debt remains at historically high levels

Note: Data reflects Federal Reserve data as of Q1 2018, prior to a change in the Fed’s methodology for calculating pension liabilities.
Source: Federal Reserve Board
Funded Status and Contribution Rates for Top/Bottom 3 Funded States

South Dakota, Tennessee, and Wisconsin maintained well-funded pension plans while keeping costs stable.
Habits of Highly Successful Retirement Systems

➢ Fiscal discipline – making annual required contributions.

➢ Effective risk management and cost sharing policies.

➢ Path to retirement security across the workforce.
Spotlight on Five State Pension Plans: No-One-Size-Fits-All

Well funded (>90%) with strong risk management policies, outcomes for retirement security

Plans Identified by Pew:

- Nebraska – State and County Employees Pension Plans
- South Dakota Retirement System (SDRS)
- Tennessee – Public Employees Retirement Plan
- Utah Retirement System (URS)
- Wisconsin Retirement System (WRS)
How Do We Define Success?

➢ Financial Stability
   o Costs are sustainable and predictable across the economic cycle.

➢ Intergenerational Equity
   o Benefits for current workers are funded by current taxpayers.

➢ Retirement Security
   o Provide a path to retirement security consistent with workforce goals.
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.