Achieving Retirement Security while Balancing Cost Predictability in Benefit Plan Design

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ALEENA OBERTHUR, RESEARCH MANAGER
STRENGTHENING PUBLIC SECTOR RETIREMENT SYSTEMS

Metrics for Measuring Retirement Security

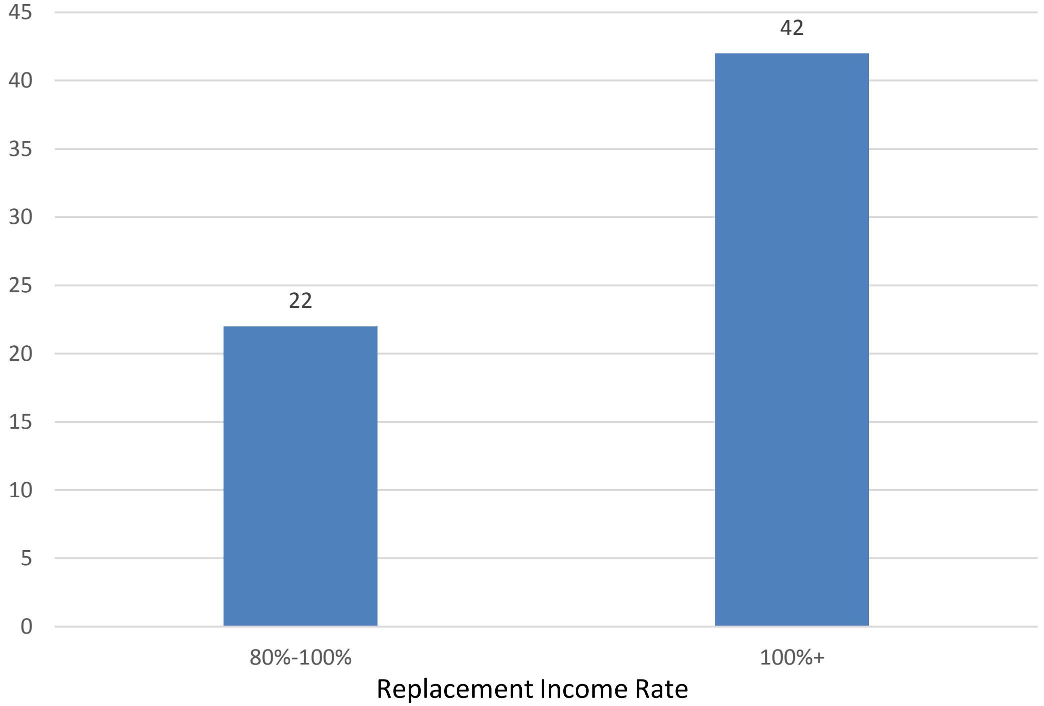
- **Replacement income:** the percentage of a worker's final take-home pay expected to be replaced, on average, in retirement.

- **Retirement savings rate:** the level of savings, expressed as the percent of annual salary, that an employee can withdraw when leaving employment.

*For more details, see The Pew Charitable Trust's fact sheet on steps for providing support and technical assistance to public sector retirement systems.

Replacement Income for Career Workers Under State and Teacher Plans

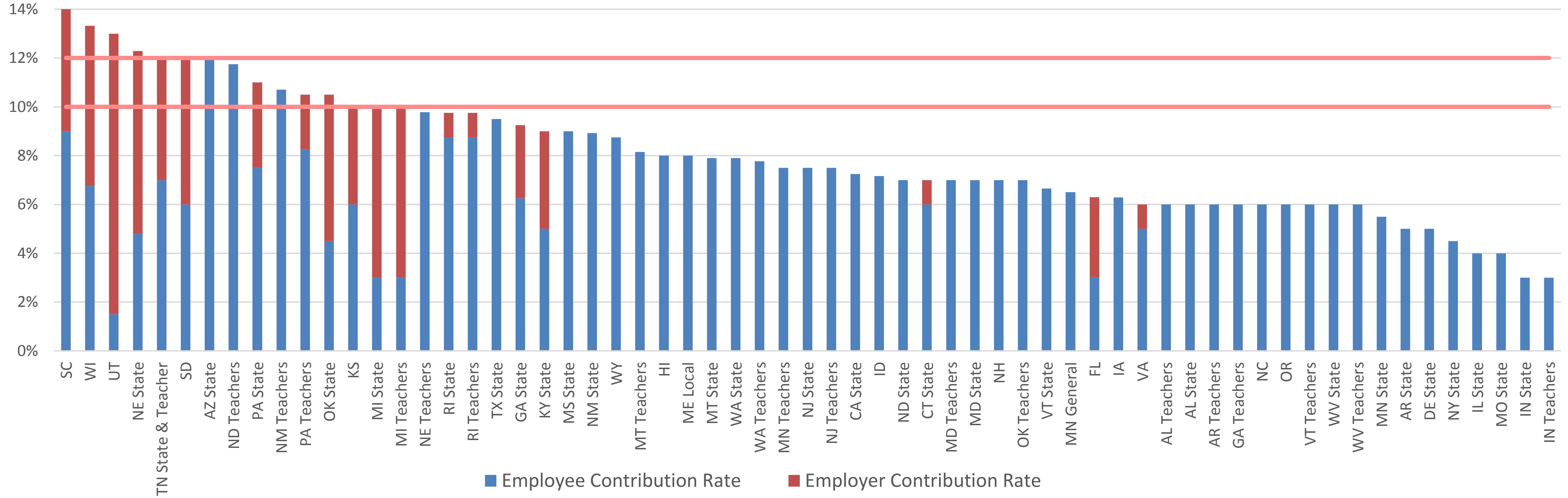
Most plans provide a benefit that, along with Social Security, matches or exceeds final take-home pay



Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
Notes: Replacement income is adjusted for Social Security and inflation, taking into account COLA provisions. Shown as a percent of take-home pay, which accounts for discontinued employee contributions to the state retirement plan, Social Security and Medicare. Assumes 40 years of service with a start age of 25 and retirement age of 65. Analysis based on 64 state and teacher plans that participate in Social Security.

Savings Rate for State and Teacher Plans

Three quarters of plans that participate in Social Security have a savings rate below 10 percent



Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
Notes: In cases where participants have multiple plan options, the default plan is shown unless the take-up for the optional plan is greater than 10%. For South Carolina and Utah, the savings rate shown is for the optional DC plans due to relatively high take-up rates of the plans. In case of Montana, North Dakota and Indiana, the take-up rates for the optional DC plan is below 10%, so the savings rates for default DB or hybrid plan is shown instead. Analysis includes 64 state and teacher plans that participate in Social Security.

Well-Funded Plans Have A Range of Designs and Cost Sharing Features

Model retirement systems achieve cost predictability and meet retirement security goals

Plan	Plan Type	2017 Funded Ratio	Risk Sharing/ Predictable Costs*	Career Replacement Income**	Retirement Savings Rate > 10%
Wisconsin Retirement System	Defined Benefit w/ Money Purchase	103%	✓	✓	Yes
South Dakota Retirement System	Defined Benefit	100%	✓	✓	Yes
Tennessee – Public Employees Retirement Plan	DB/DC Hybrid	97%	✓	✓	Yes
Nebraska – State and County Employees Pension Plans	Cash Balance	110%	✓	✓	Yes
Utah Retirement System	DB/DC Hybrid with Optional DC	90%	✓	✓	Yes

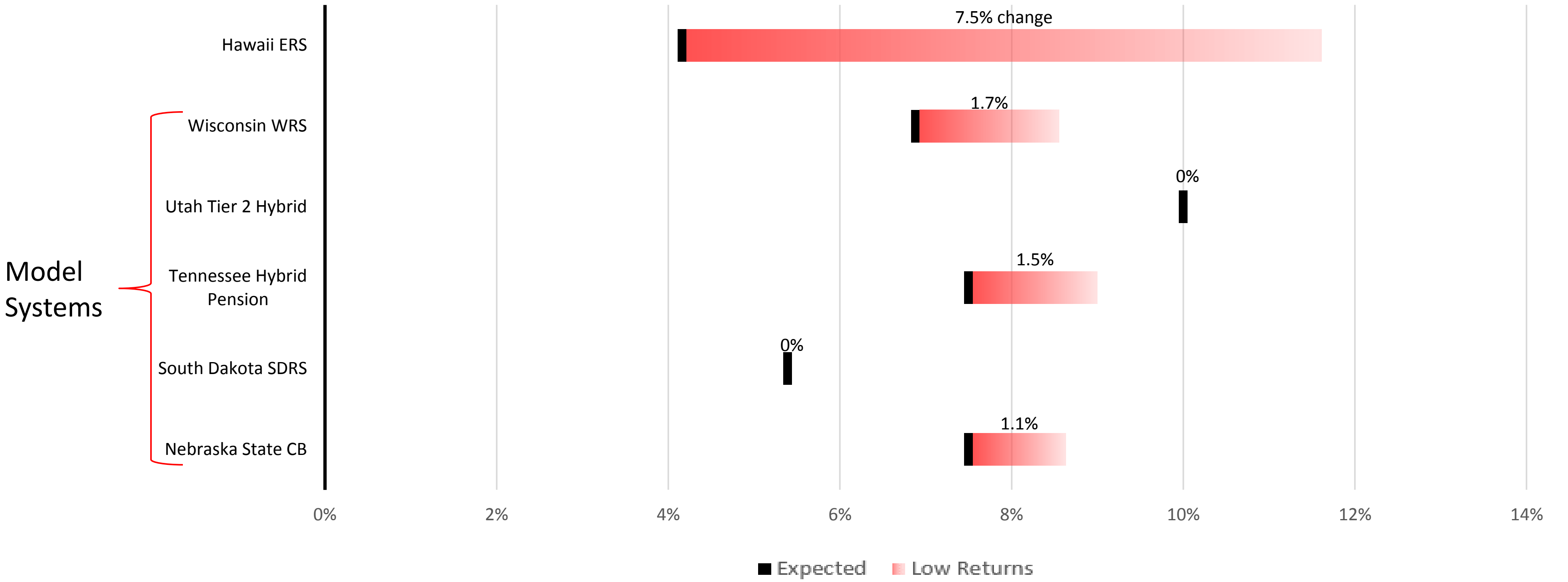
*Criteria is met if the potential increase of expected employer costs, expressed as a percent of payroll, in a lower than expected return scenario is less than two percentage points and if the range of employer contributions rates between 2007 and 2017 is less than five percentage points.

**Criteria is met if the retirement benefit is at least 90 percent of take-home pay, on average in retirement, including Social Security.

Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.

Employer Cost Sensitivity under Expected and Low Returns

Less than two percentage point increase in employer cost for the five model retirement systems



Sources: Comprehensive annual financial reports, actuarial reports and valuations, other public documents, or as provided by plan officials.
Notes: In South Dakota and Utah there is no expected change in employer cost. Employer cost is based on latest tier of employees. Low returns are assumed to be 5%, expected returns are the plans' discount rate (7% for HI, 7.2% for NC, 7.2% for WI, 6.95% for UT, 7.25% for TN, 6.5% for SD, and 6% for NE).

Lessons Learned from Well-Funded States

- Pre-defined, automatic rules.
- Margin of safety in assumptions.
- Transparency and communication.
- Variable COLA and adjustable contributions.

Aleena Oberthur
aoberthur@pewtrusts.org
pewtrusts.org/publicpensions