

Current Issues in State Retirement Policy

NCSL Legislative Summit

July 27, 2010 – Louisville, Kentucky



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Challenges for Pension Sponsors

- Demographics?
- Investments?
- Funding?



Remember, when it comes to pensions ...

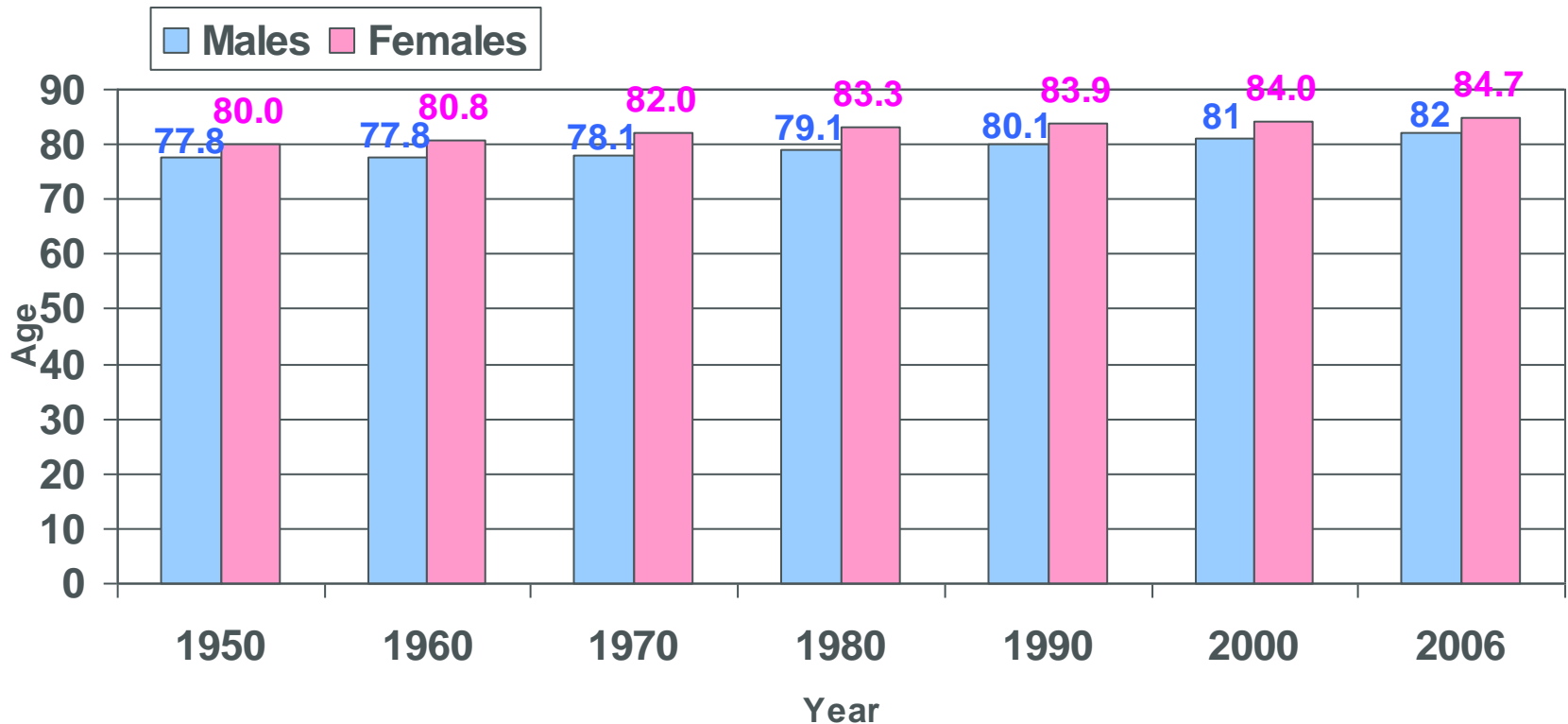
- Solid facts underpin good decisions
- Small adjustments today can have big impacts decades hence
- No silver bullets, quick fixes





Living longer
Blessing or curse?

Life Expectancy at Age 65: Slow, gradual, predictable trend



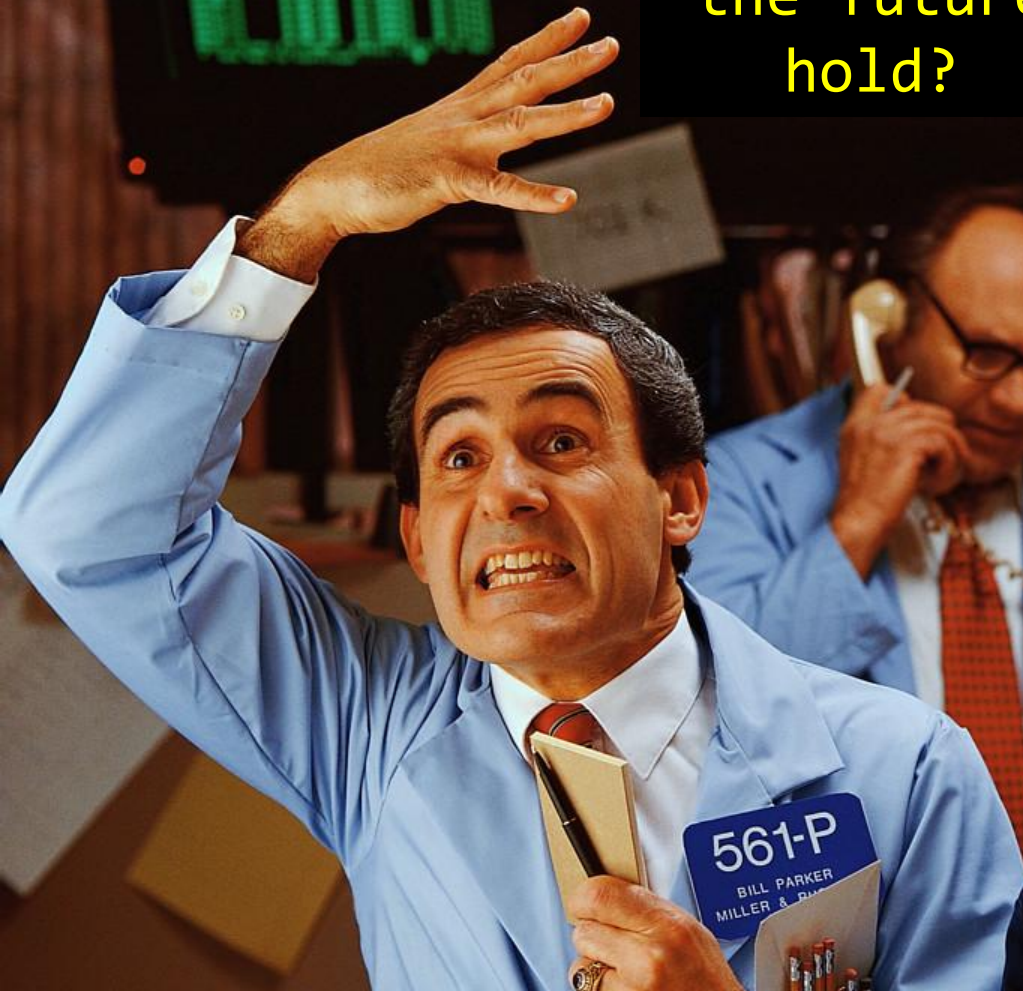
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Longer lives increase cost, but not much

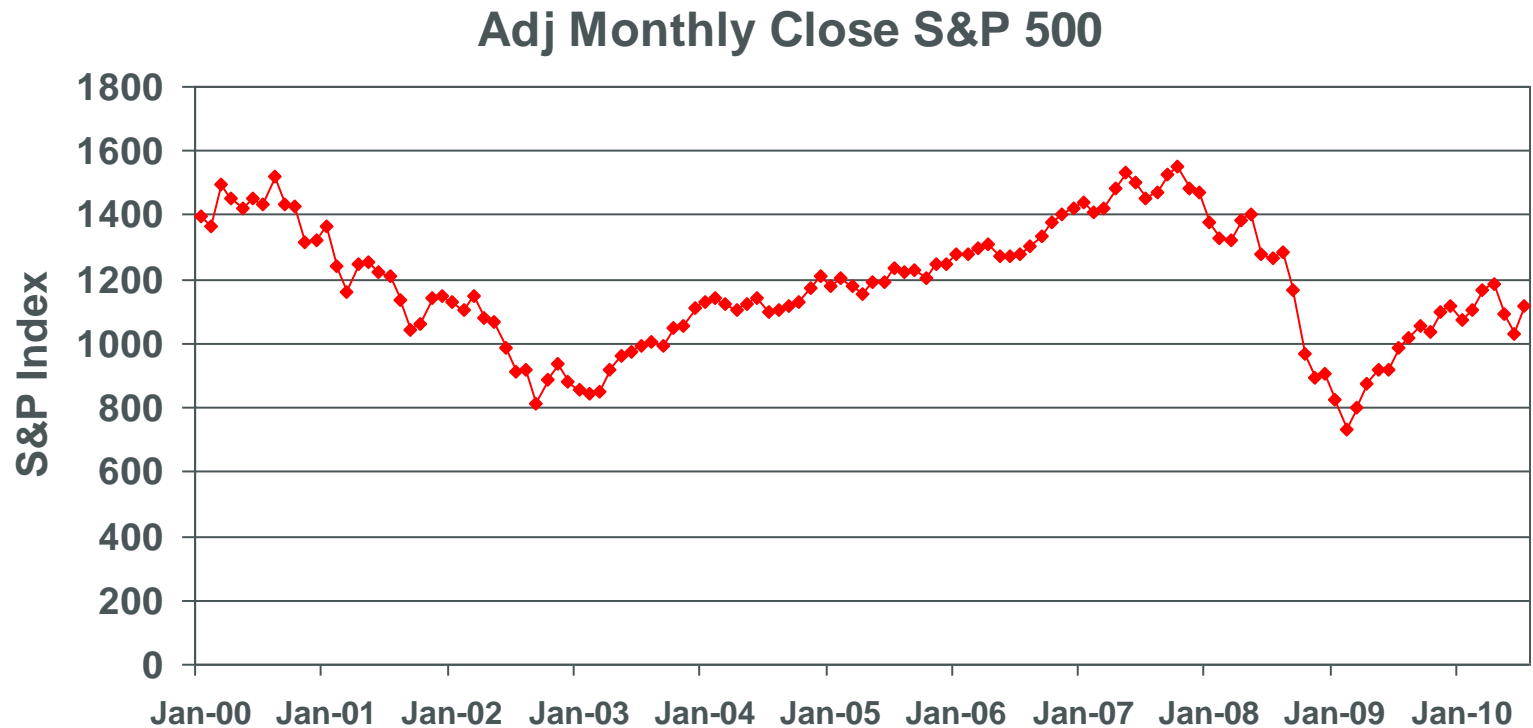
- Older Americans *are* living a bit longer than in past – with each passing year, life expectancy increases by an average of about 1 month.
- Improvements in longevity are **gradual** and **predictable**, so they can (and should) be anticipated and pre-funded.
- Longer lifespans do increase pension costs, but by a **manageable amount** – about one half of one percent of payroll for a typical plan.



Investments:
What does
the future
hold?



Rough ride for US equities recently



Pensions have longer term horizon

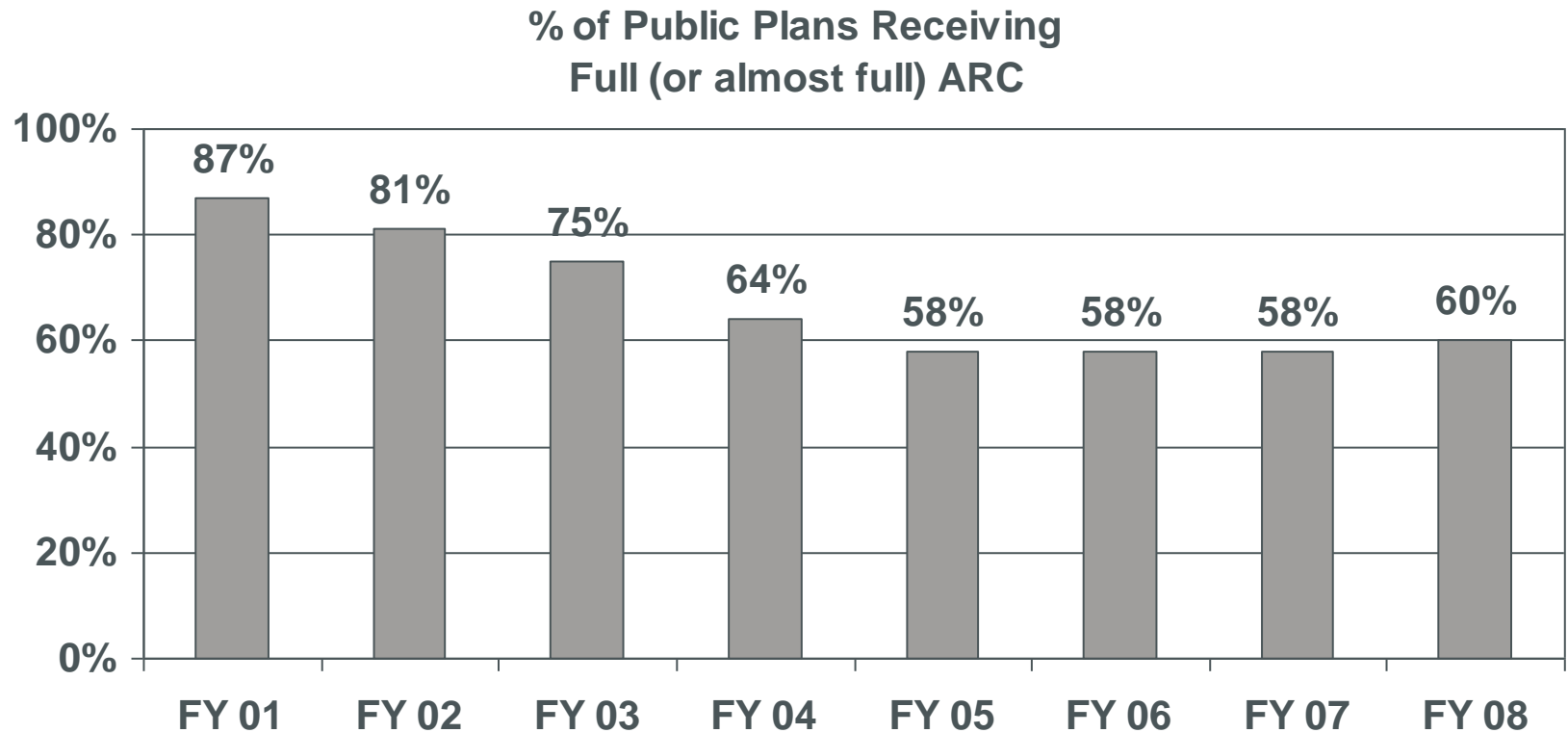
- Over long periods, equities have returned 10%+ per year (including reinvested dividends)
- NIRS research illustrates public pensions invest for the long haul
- Public pensions have a solid track record over long periods – median return was 9.25% per year over the last 25 years



What should our funding plan look like?



Funding discipline among public plan sponsors



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Pension shortfalls mostly manageable

- Shortfalls in public plans could be filled with additional contributions of 2.2% of payrolls (*Source: Boston College Center for Retirement Research*)
- Great variance around this average
- Majority of states that had kept up with funding before crisis can make modest adjustments – rest may face hard choices



Now what ...?

- Strive for data-driven decision-making
- Remember, you are managing *beyond* the current crisis
- Be wary of offers of silver bullets and/or “solutions in search of a problem”



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