

Suggested Practices in Public Pension Policymaking



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Polycymaking for public pensions

- **Consider the views of plan stakeholders**
 - Public employers, public employees, taxpayers, recipients of public services
- **Forums:**
 - Legislative hearings
 - Task force or commission
 - Retirement board hearings

Retirement Board and Task Force or Commission

- Retirement board study
 - Board is already assembled, with members who are knowledgeable of the existing retirement plan arrangement and issues
- Task force or commission
 - If seated with proper mix of appointees, can strengthen credibility of process and outcomes
- Both formats
 - Provide a forum for examination and discussion
 - Can raise knowledge and awareness of key issues
 - Can deflect focus and criticism from elected officials

Task force or commission composition

- Find balance
 - Among political parties, legislative houses, and group size
 - Members should bring credibility and expertise to the discussion
 - Avoid diluting the group with politically-based appointees
- Right-size it
 - Large enough to ensure stakeholder groups are represented; small enough to allow discussion and deliberation

Task force or commission members

- Seek a group leader/chairperson with experience developing consensus and producing outcomes
- A human resources professional with knowledge and experience of both defined benefit and defined contribution plans is critical
- Have an actuary available as a ready source of context and expertise

Focus on the process

- Seek light, not heat: the process is more important than the outcome:
 - A process that is open, transparent, deliberative , combined with credible group membership will build knowledge and raise awareness of relevant issues and policy proposals
- “Getting to Yes”
 - Focus on interests, not positions

Colorado PERA Board Listening Tour

- In 2009, the Colorado PERA conducted an eight-city statewide listening tour
 - One or more board members were present, along with top staff
 - PERA officials described the situation facing the system and its actuarial and policy options
 - Allowed the public and plan participants to comment and ask questions
 - Produced recommendations for pension reform that were adopted by the legislature virtually unchanged

Task force/commission outcomes

- Identify and propose multiple policy proposals and options
 - Seek a spectrum of policy options
 - Don't put all your policy eggs in one basket
 - Consider allowing majority/minority opinions

Task force/commission

- Consider establishing mechanisms to require legislative review of pension costs and policies, and avoid hasty decisions
 - Georgia, Oklahoma, and Missouri, for example, require review of actuarial effects and costs before pension proposals can move forward. In Georgia, proposed pension legislation cannot be taken up until the following session.
- Establish a mechanism to require payment of all required pension contributions, including a mechanism for instances of sharp volatility
 - See Virginia 2010

Identifying and evaluating pension proposals

- Focus first on policy “whats,” and let experts identify the “hows”
- What do you want the retirement plan to accomplish?
 - Employee retention/longevity
 - Low turnover
 - Stable costs
 - Employee-employer cost-sharing
 - Encourage hiring/retention of older workers
 - Reduced employer risk
 - Etc.

Don't do this (real-life examples)

- Don't require unanimous task force or commission support of recommendations
- Don't exclude pension plan participants from serving on a task force or commission
- Don't huddle in an office with the governor and other legislative leaders over a weekend and emerge with a pension reform bill on which you demand (and receive) an immediate vote, in an effort to placate bond rating agencies

Recognize respective roles and responsibilities

- Policymaker's job: establish the retirement system governance structure, plan design (benefits structure), and financing arrangements
- Pension board's job : ensure retirement plan is complying with laws and standards, and plan's mission is being fulfilled.
- Trustees are fiduciaries, responsible for ensuring benefits are paid, contributions are collected, controls and oversight mechanisms are in place.
- As fiduciaries, pension boards should be given broad authority in personnel (hiring, firing, and compensation); procurement (selection of service providers); budgeting; and setting of investment policies.

Other good practices

- Find an objective, respected expert, someone who
 - understands and can articulate and champion the legitimate objectives of all stakeholders
 - has impeccable credibility and is trusted by all groups
 - can point out unreasonable requests and expectations
 - seeks consensus among stakeholder groups
 - might be the retirement system director, a public or private actuary, or an HR professional
- Ask: “what elements of retirement plan design can achieve the objectives of all plan stakeholders?”

Examples of elements of plan design

- Contributions
 - From whom and how much; should they vary?
- Vesting period
- Who bears what risks, e.g., investment, longevity
- How much income should the plan replace
 - For short-term workers?
 - For long-term and career workers?
- How should the plan treat those who leave before qualifying for a retirement benefit?
- Cost-of-living adjustments
- Etc.

Other pension policies to consider

- A sunset provision on new plan designs and financing arrangements
 - Creates flexibility
 - Allows opportunity at a future date certain to revisit and refine
 - Should be accompanied by assurance that benefits earned cannot be taken back
- Seek stability in plan design and cost
 - Retirement plans and human resources policies rely on long-term stability of plan design and costs
- Consider optimal elements of both DB and DC plans
 - Core DB with supplemental DC, either optional or mandatory

Thank you !

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