Charting a Course to Sustainability for State Pensions

National Conference of State Legislatures
Annual Summit
August 3, 2022

David Draine, Senior Officer
Strengthening Public Sector Retirement Systems
Overview

- Successful states have been able to provide public workers with a secure retirement benefit while keeping costs stable.

- What are the common characteristics of the pension policies in the states that have had these results?

- How can we measure fiscal sustainability?

- What can policymakers in other states and cities learn from these examples and apply in their home jurisdictions?
Top-tier States Model Fiscal Sustainability

Five states—Idaho, Nebraska, South Dakota, Tennessee, and Wisconsin—have paired well-funded pension plans with stable contribution rates.
Spotlight on Three State Pension Plans: No-One-Size-Fits-All

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

- Wisconsin Retirement System—Shared risk design
- South Dakota Retirement System—Adjustable benefits
- Tennessee Consolidated Retirement System—Risk managed hybrid
Common Characteristics of Successful Pension Policy

- All three states have an explicit policy to manage risk.
- These policies are built around maintaining stable contributions in the face of both short-term market volatility and long-term shortfalls in investment performance.
- Variable benefits, particularly adjustable COLAs, play a large role in these risk-management policies.
- Ongoing review of whether policies continue to meet objectives and to make reforms when needed.
Measuring Fiscal Sustainability: Predictable Costs

The contribution policies, plan designs, and risk-management tools in WI, TN, and SD are sufficient to keep pension benefits well-funded while maintaining predictable costs.

![Bar chart showing change in contribution rate for different states between 2008 and 2014, and between 2014 and 2020. New York shows a significant drop, while others show smaller changes or increases.](pewtrusts.org)
How Do We Measure Fiscal Sustainability?

- Solvency is measured by whether the operating cash flow ratio is below -5%.

- Debt reduction is based on whether employer contributions are enough to keep the funding gap stable or to pay down pension debt.

- Cost predictability is based on the range of employer contribution rates.

Cost Predictability
Only five states had stable costs and debt reduction

Debt reduction
In 2022, 38 states met or exceeded this benchmark

Solvency
All 50 states met this test in 2020
Lessons from successful states

- Ensure actuarial funding is met.
- Manage to a target cost.
- Variable cost of living adjustments are a powerful stabilizer.
- Fiscal sustainability allows benefits that matches workforce needs and retirement goals.
- Conduct stress testing and risk analysis.
Key takeaways

- Good policy can allow states to offer robust retirement benefits while keeping costs stable and maintaining healthy balance sheets.
- Successful states have different policies but share a deliberate approach to managing risk and volatility.
- Fiscal sustainability requires policies that preserve plan solvency, keep pension debt stable or shrinking, and keeps contributions predictable.
- Policymakers can learn from these examples, including planning for risk, use of variable benefit designs, innovative funding policies, and tools for retirement readiness.
Don’t miss out!
Visit booth #721 in the exhibit hall to meet policy experts from The Pew Charitable Trusts.