

# **Contemporary Challenges to Retirement Security: the Public Sector Experience**

Keith Brainard  
Research Director

National Association of State Retirement Administrators

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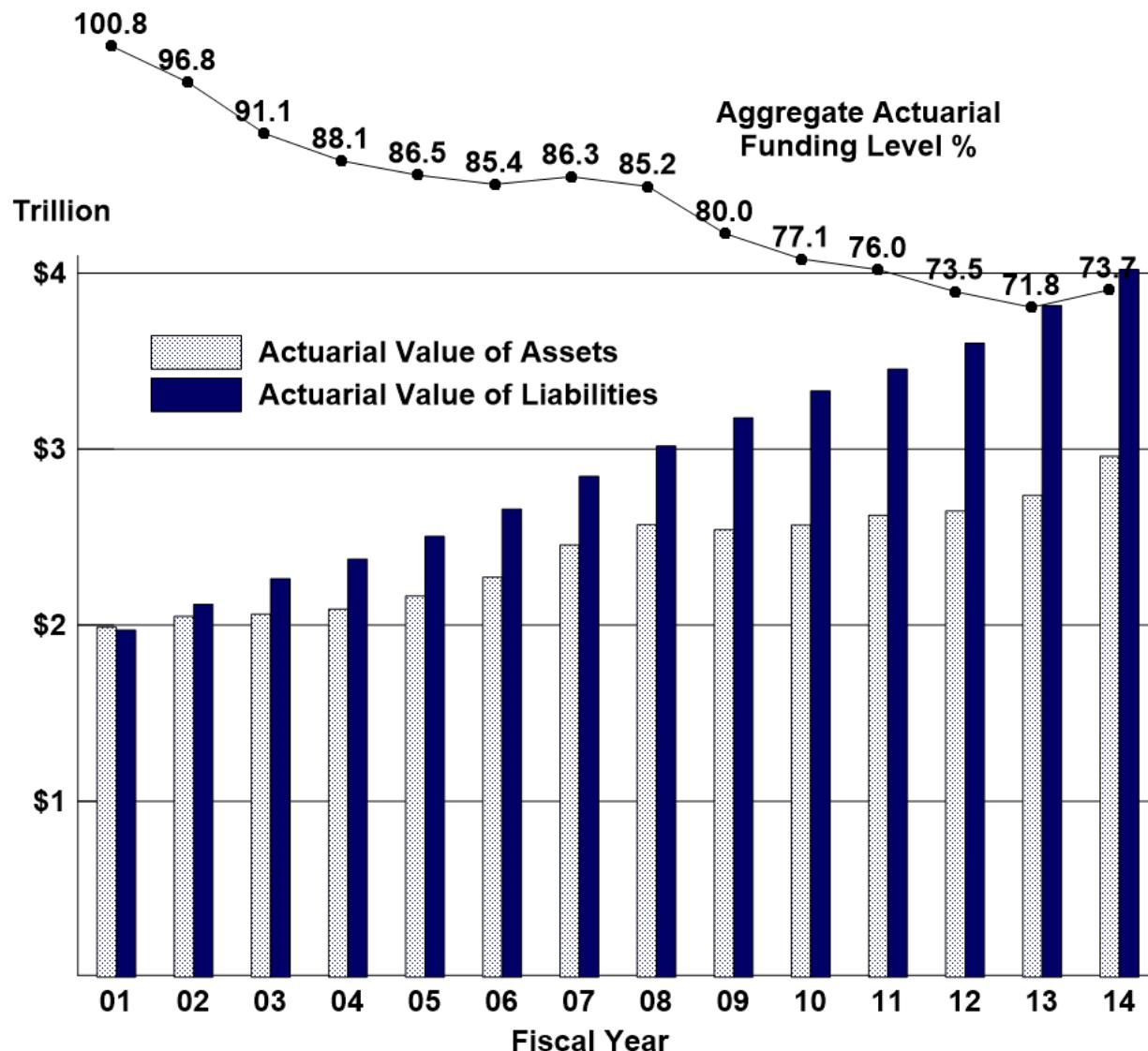
# The Major Challenges to Public Sector Retirement Security

- ▲ For some state and local pension plans, unfunded pension liabilities threaten pension plan sustainability
- ▲ Employees whose primary retirement benefit is a defined contribution plan face the perils of inflation, investment, and longevity risk
- ▲ Most public pension plans face the challenge of achieving long-term rates of investment return that are consistent with their assumed rate of return

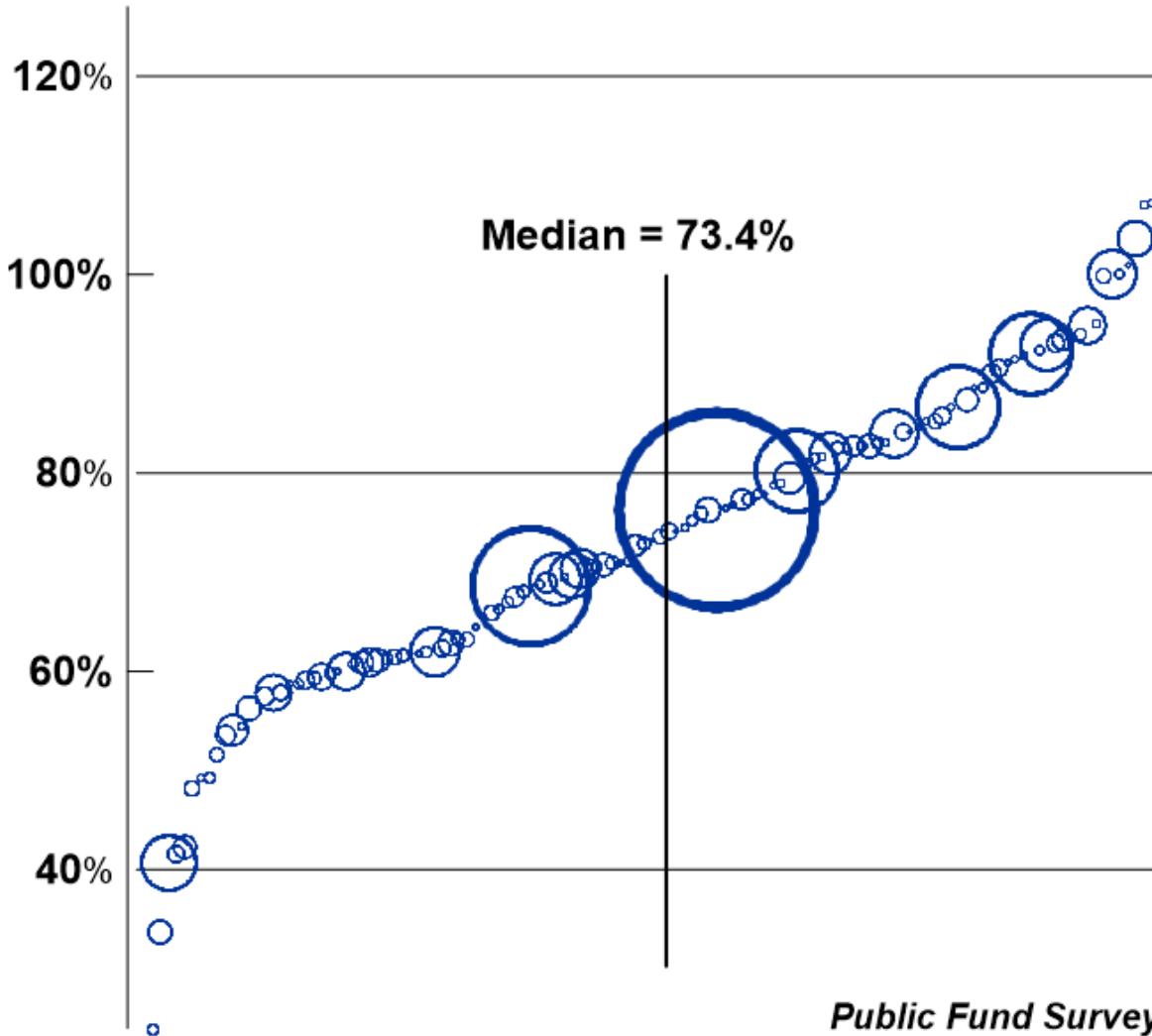
# A 50,000-foot view of public pensions in the U.S.

- ▲ ~\$3.6 trillion in assets
- ▲ ~14 million active (working) participants
  - ▲ 12+ percent of the nation's workforce
- ▲ 9.56 million retirees and their survivors receive ~\$250 billion annually in benefits
- ▲ Annual contributions = \$166 billion
  - ▲ \$121 billion from employers; \$45 billion from employees
- ▲ Of 4,000 public retirement systems, the largest 75 account for 80+ percent of assets and members
- ▲ Aggregate funding level = ~74%

# Aggregate Public Pension Funding Level, FY 01 to FY 14



# Latest Public Pension Funding Levels



*Size of bubbles  
is roughly  
proportionate  
to size of plan  
liabilities*

Public Fund Survey  
March 2016

# Key Facts About the Public Pension Community

- ▲ Approximately 85 percent of state and local government workers participate in some form of a traditional pension plan
- ▲ Virtually all others are in a defined contribution plan
- ▲ Public pension benefit levels have declined in recent years for many new hires and some already on the job
- ▲ Employee contribution rates have increased

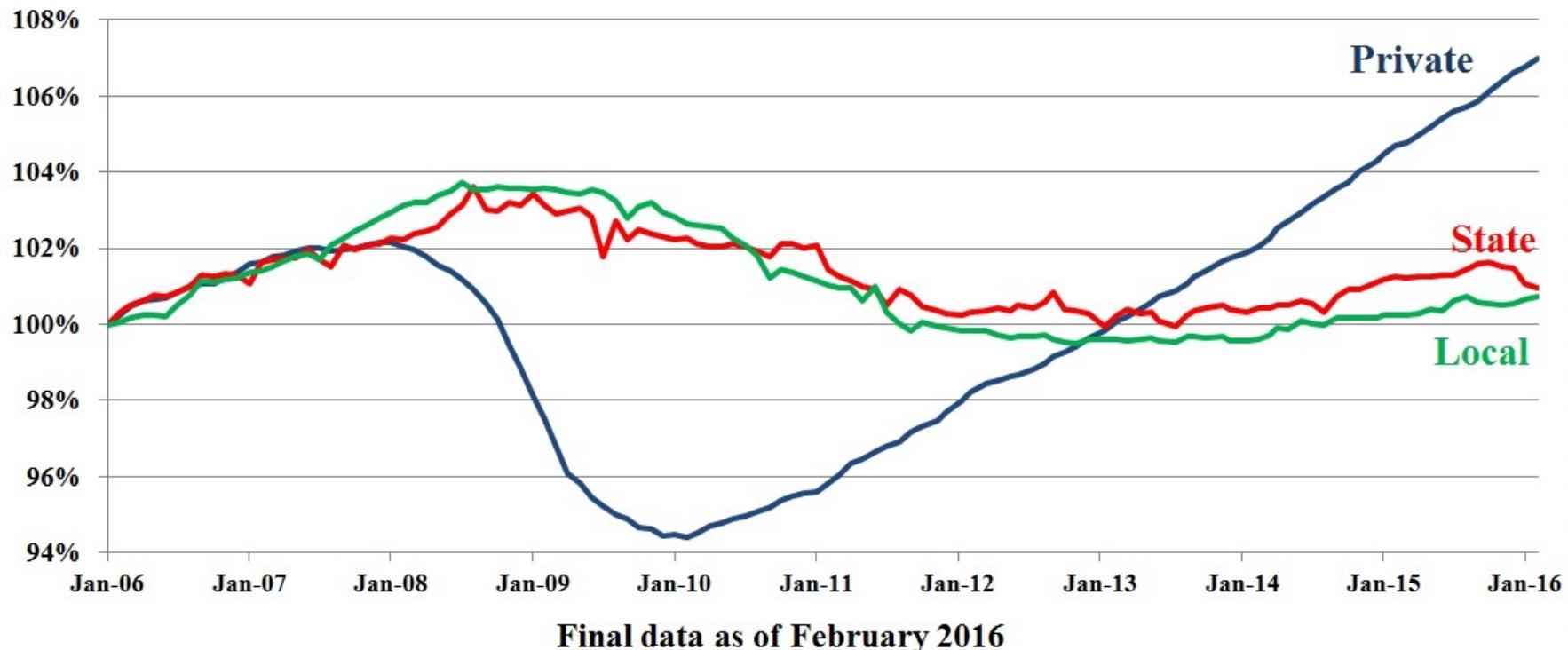
# State and Local Government Workers and Social Security

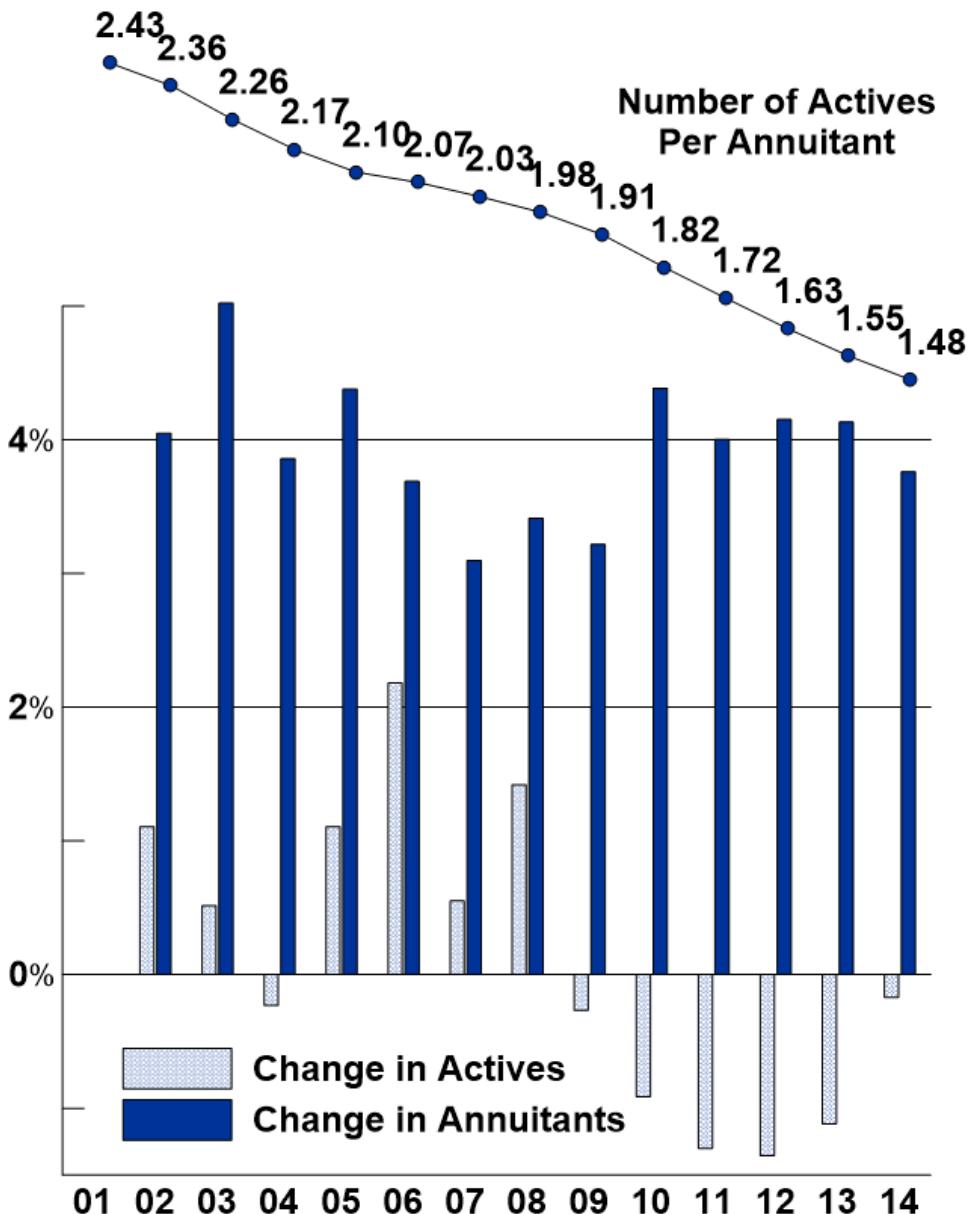
- ▲ Twenty-five to thirty percent of state and local government workers do not participate in Social Security, including:
  - ▲ 40 percent of public school teachers
  - ▲ A majority of firefighters and police officers
  - ▲ Most to all workers in Alaska, Colorado, Louisiana, Massachusetts, Maine, Nevada, and Ohio
  - ▲ New hires in Alaska since July 2006 have only a defined contribution plan

# Key Facts About the Public Pension Community

- ▲ A typical public retirement benefit for a 20-year employee will replace roughly 35 percent of final average salary
- ▲ ~50-55 percent for a 30-year employee
- ▲ Public safety workers usually will be higher
- ▲ Those who do not participate in Social Security generally receive larger pension benefits

# Relative change in private and state & local government employment, Jan-06 to Feb-16



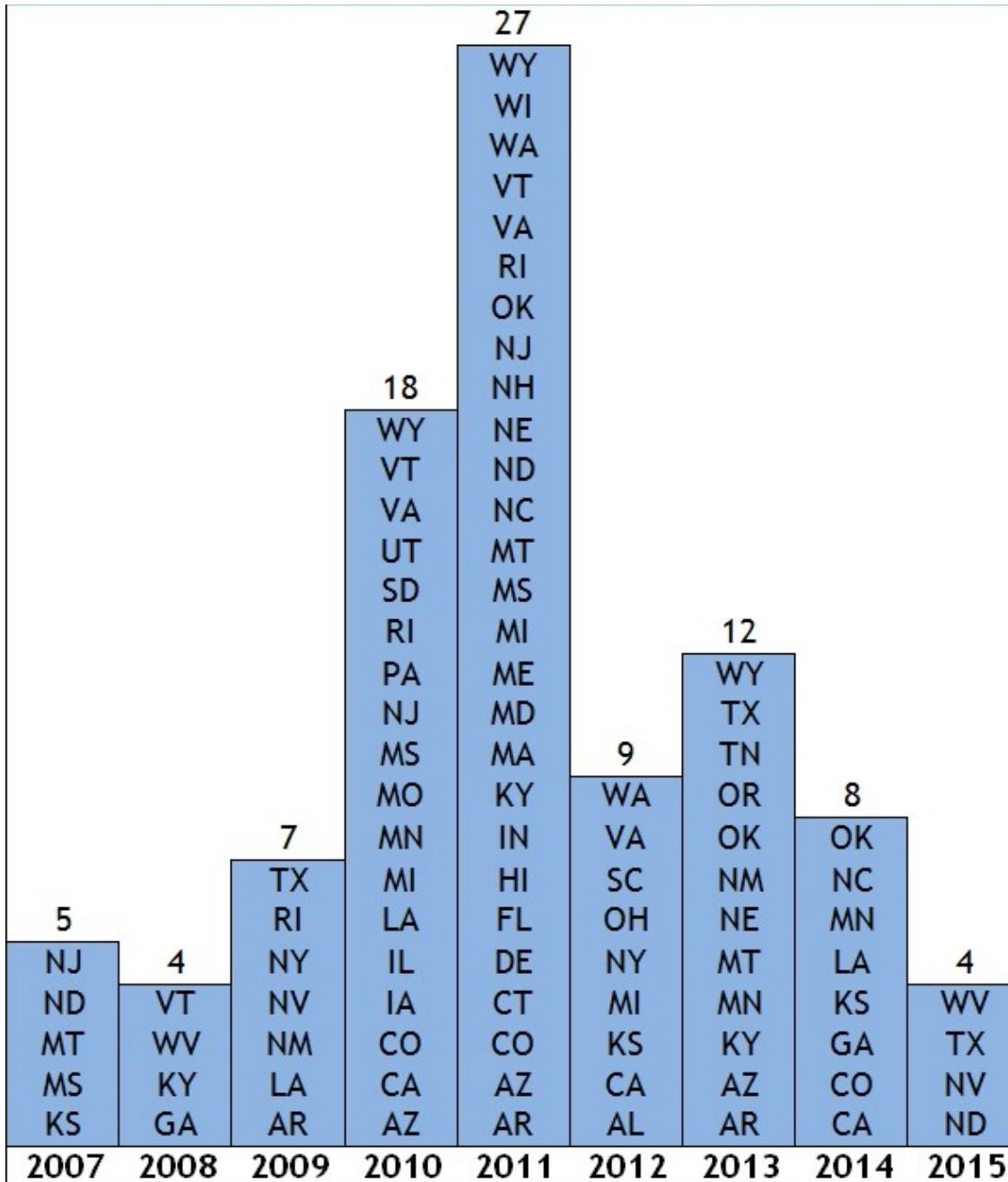


Median  
change in  
membership,  
FY 01 to  
FY 14

Public Fund Survey   Fiscal Year  
March 2016

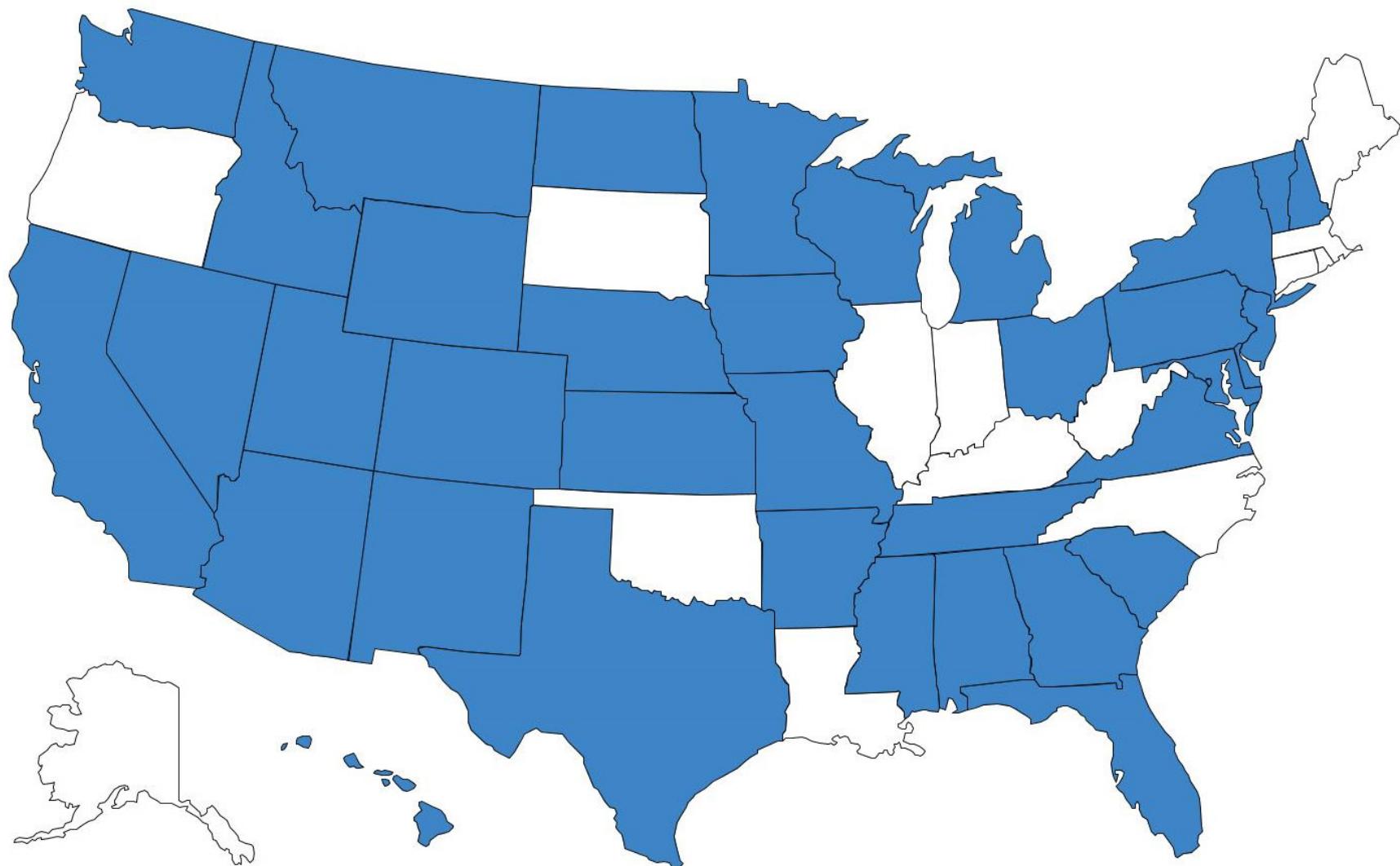
# Pension reforms in recent years

- ▲ Nearly every state modified public pension benefits, raised employee contributions, or both, from 2009 to 2014
- ▲ Lower benefits:
  - ▲ higher retirement age
  - ▲ more required years of service
  - ▲ lower multiplier
  - ▲ longer vesting period
  - ▲ reduced, suspended or eliminated COLAs
- ▲ Increased use of hybrid retirement plans
- ▲ Two new defined contribution plans:
  - ▲ Oklahoma new state hires as of 11/1/15
  - ▲ Elected officials in Arizona since 2013

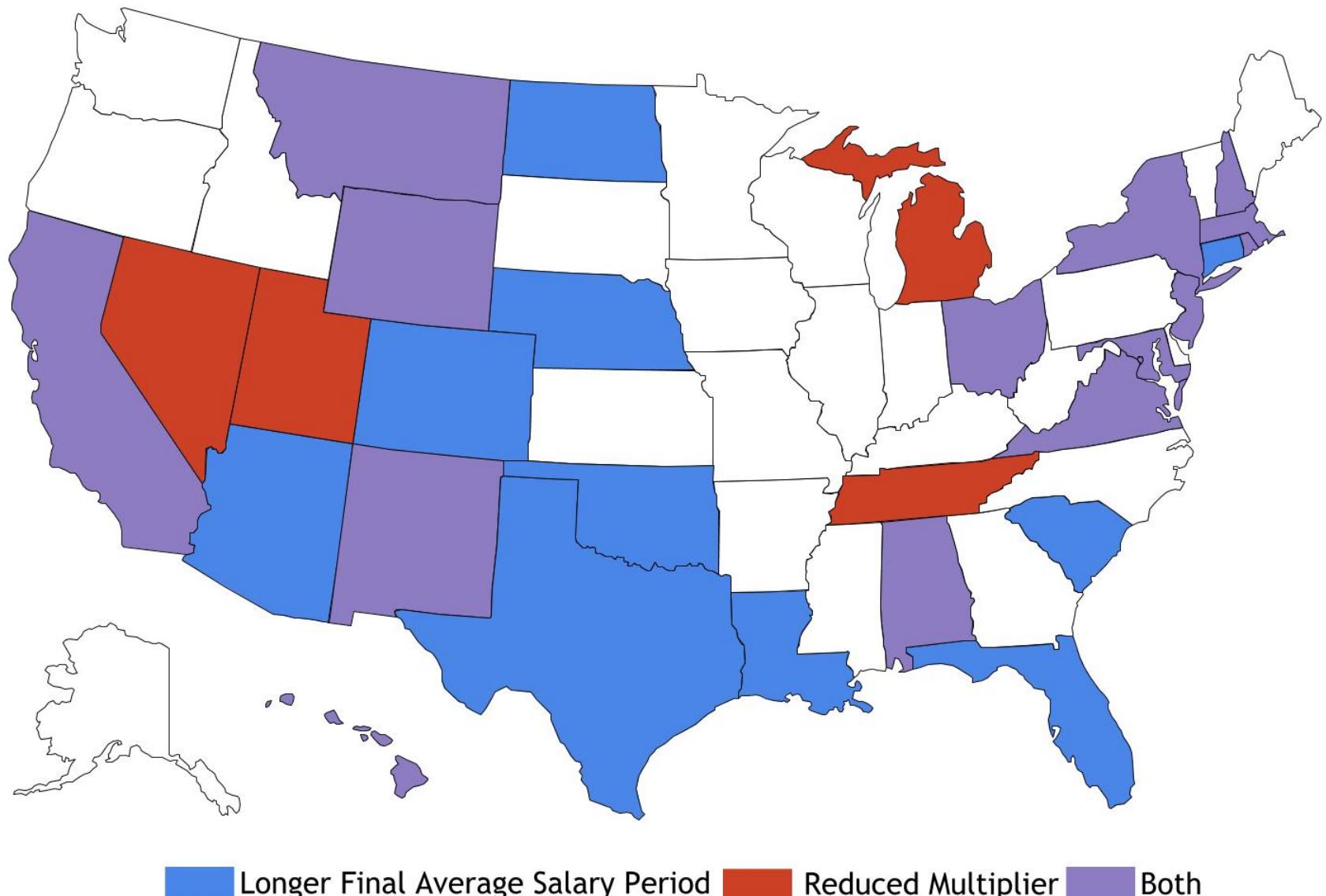


**States that  
reformed  
pension  
plans, by  
year, 2007-  
2015**

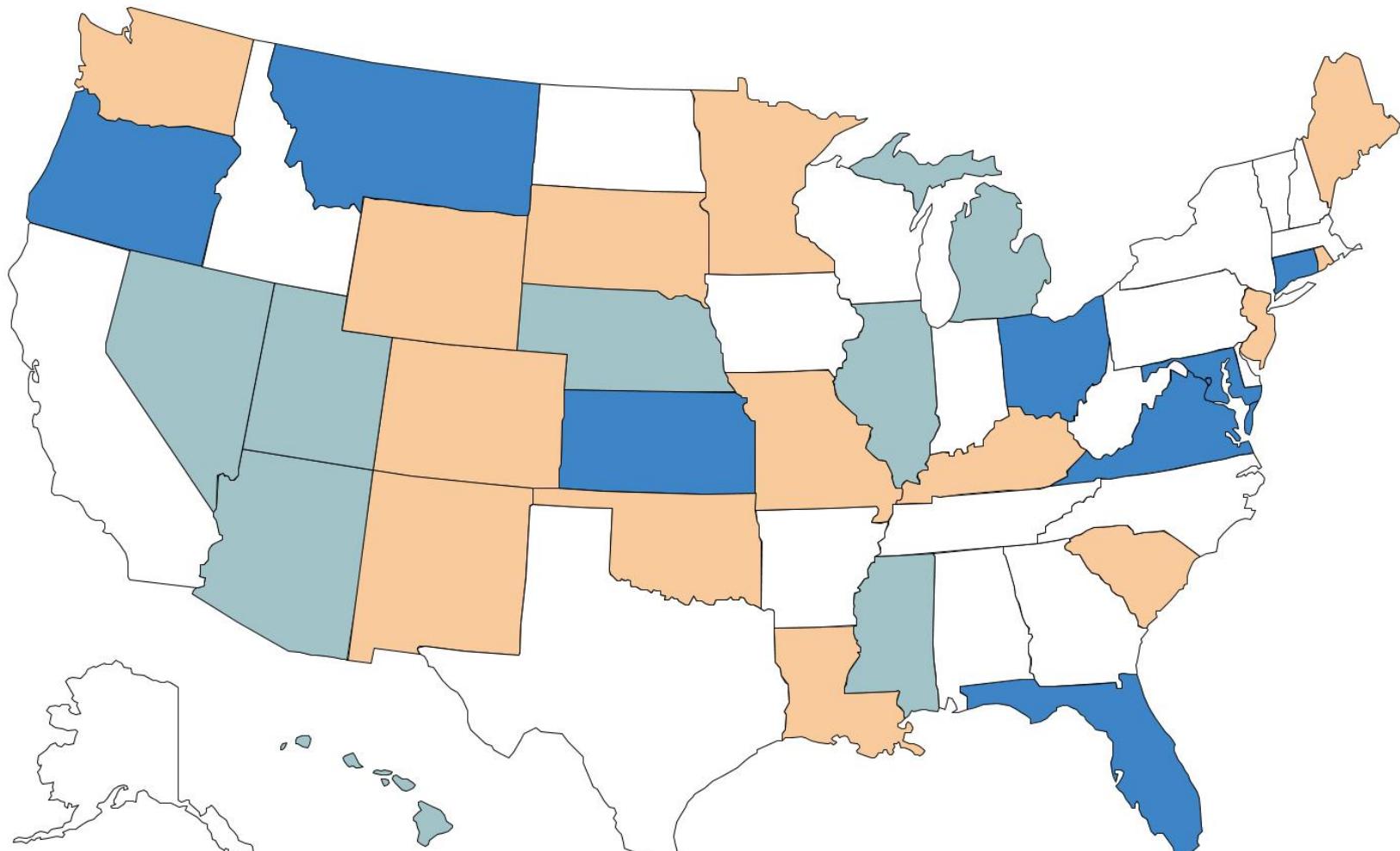
# States that increased employee pension contribution rates



# States that reduced employee pension benefits

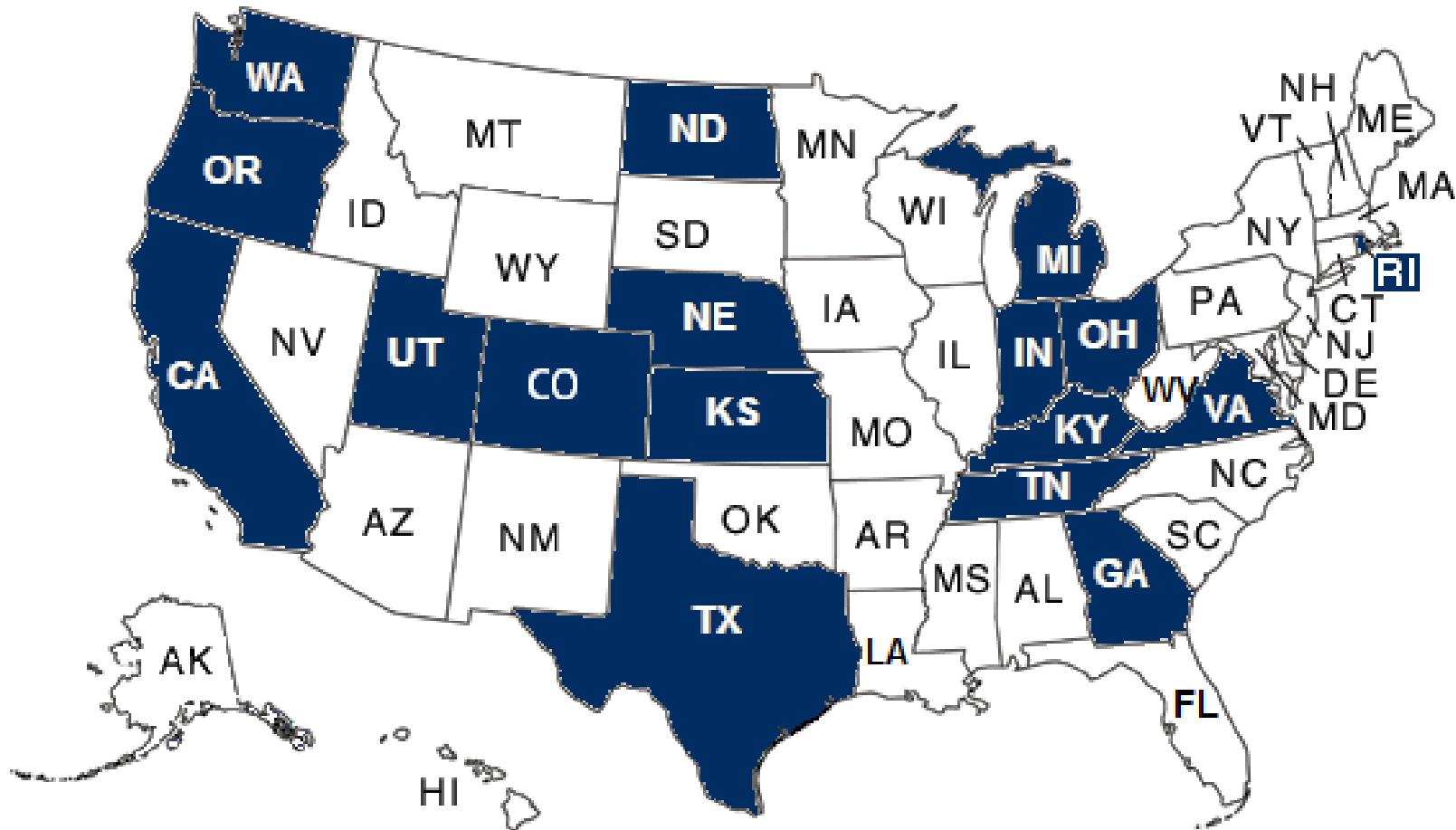


# States that reduced automatic COLAs



[Legend: Teal = Affecting New Hires Only, Blue = Affecting Current Employees & New Hires, Orange = Affecting Retirees]

# States with hybrid plans



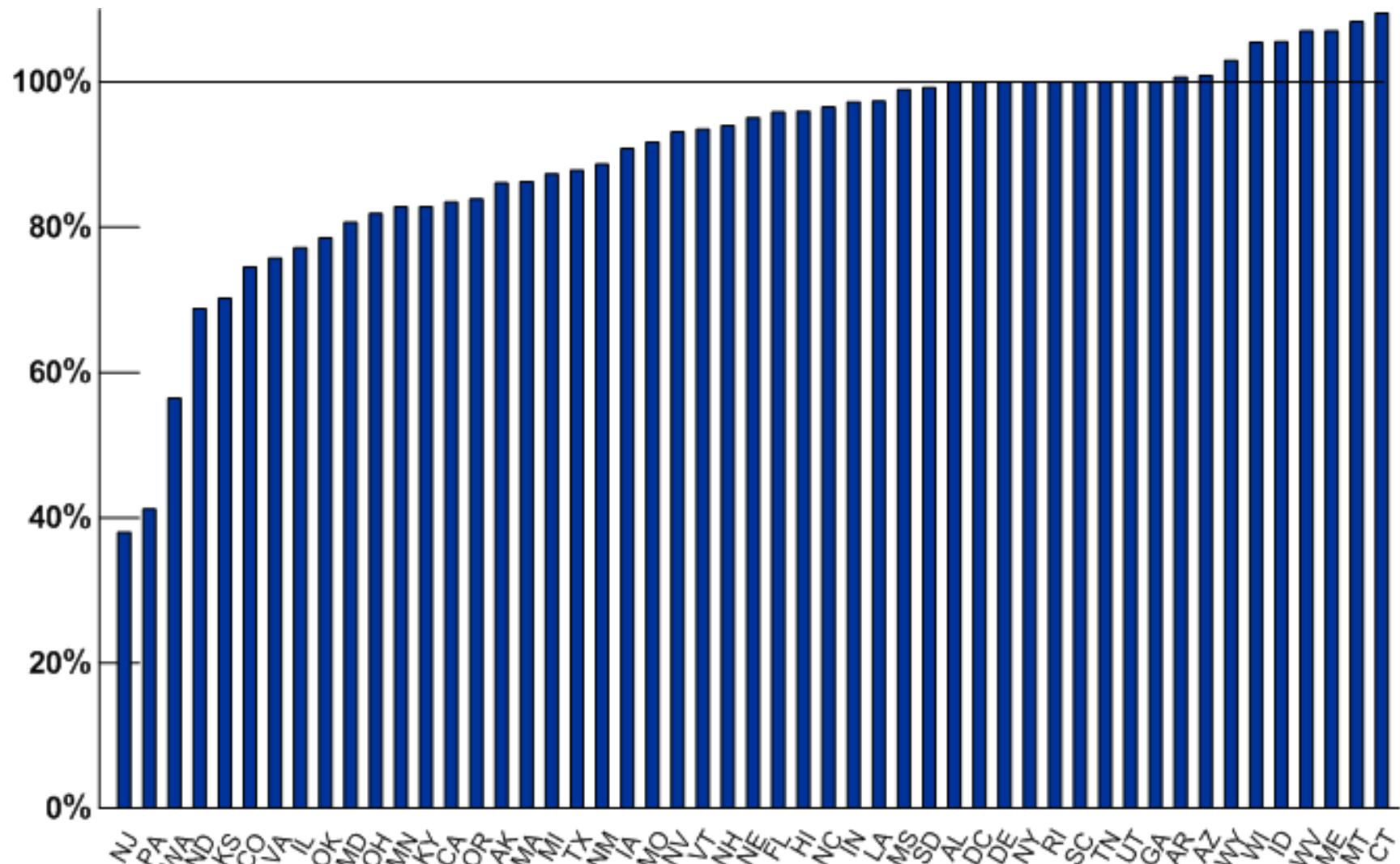
# Combination hybrid plans

- ▲ Combo DB-DC plans feature a traditional, more modest pension combined with a defined contribution plan
  - ▲ Mandatory: GA, IN, MI, OR, RI, TN, UT, VA
    - All but Indiana were established since 2004
  - ▲ Optional in OH, WA

## Statewide cash balance plans

- ▲ Cash balance plans feature pooled assets with notional accounts that pay a guaranteed minimum interest rate, with possibility of sharing “excess” investment earnings
  - ▲ Texas, for county and many municipal employees
  - ▲ Nebraska, for state and county workers
  - ▲ California, for some community college employees and as a supplement for K-12 teachers
  - ▲ Colorado, for most local public safety officers
  - ▲ Kentucky, for state and local workers (not teachers)
  - ▲ Kansas for all new hires since 1/1/15

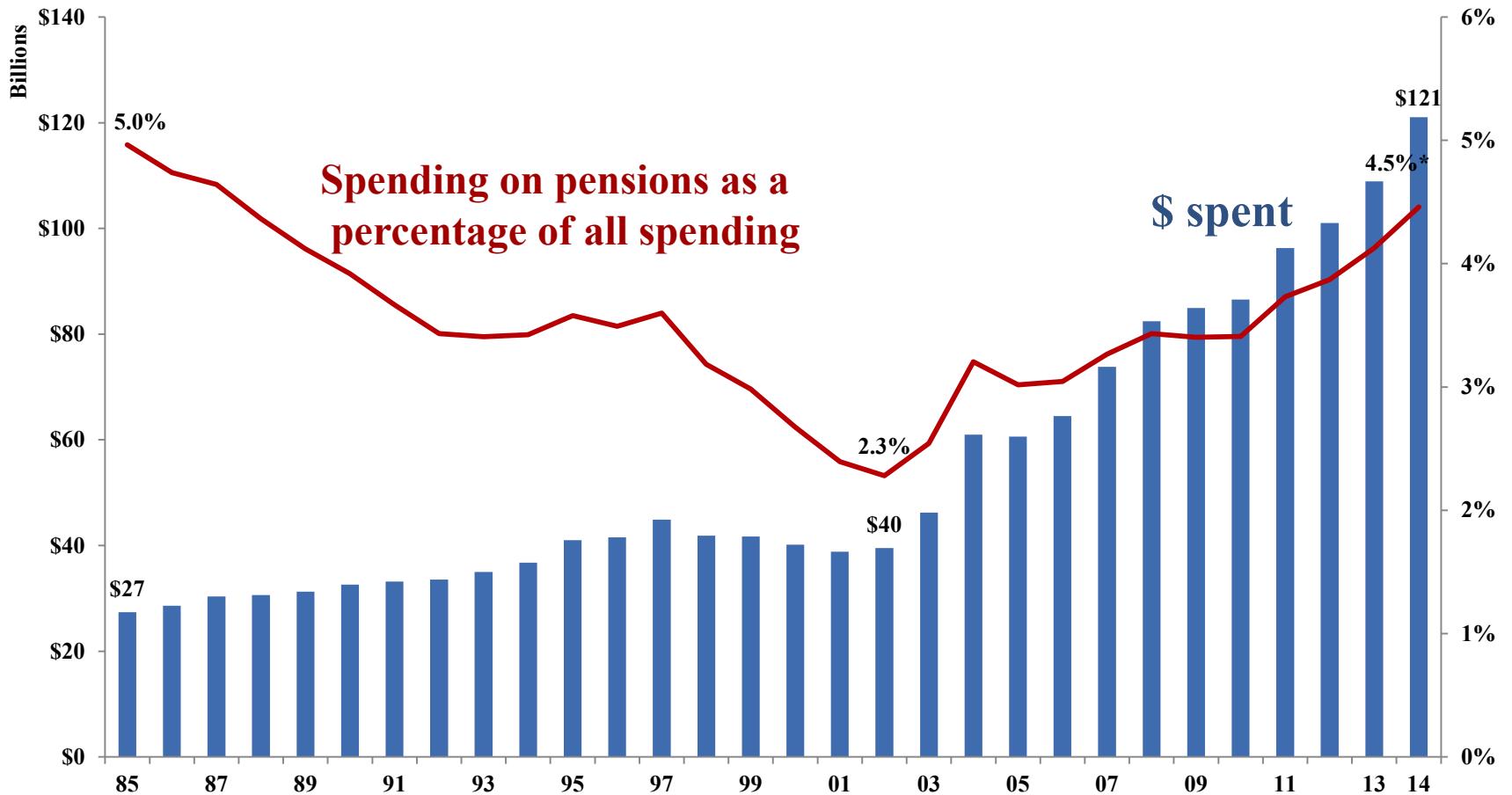
# Weighted average contribution experience by state, FY 01 to FY 13



"The Annual Required Contribution Experience of State Retirement Plans, FY 01 to FY 13," NASRA

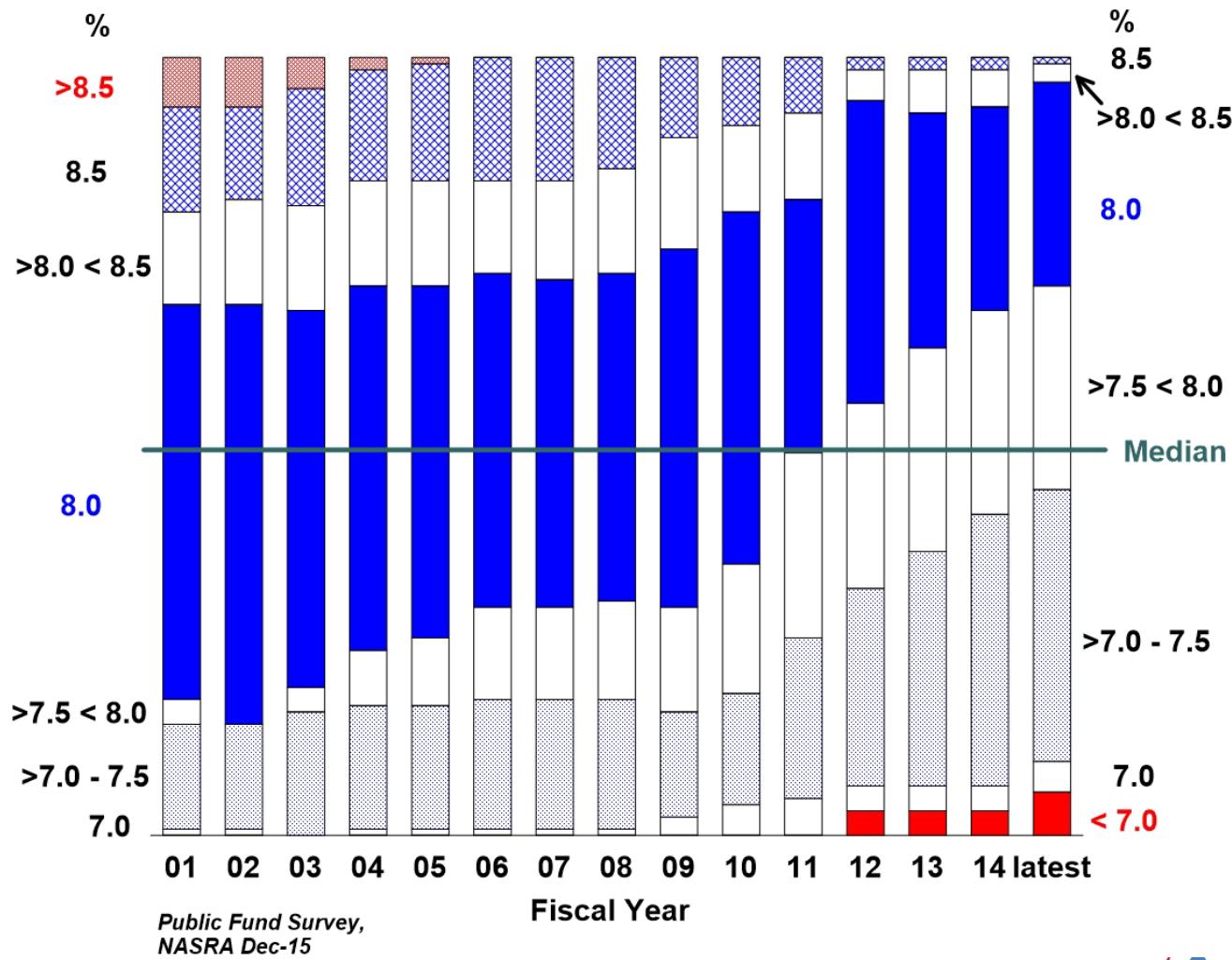


# Employer (taxpayer) spending on public pensions, 1984 to 2014

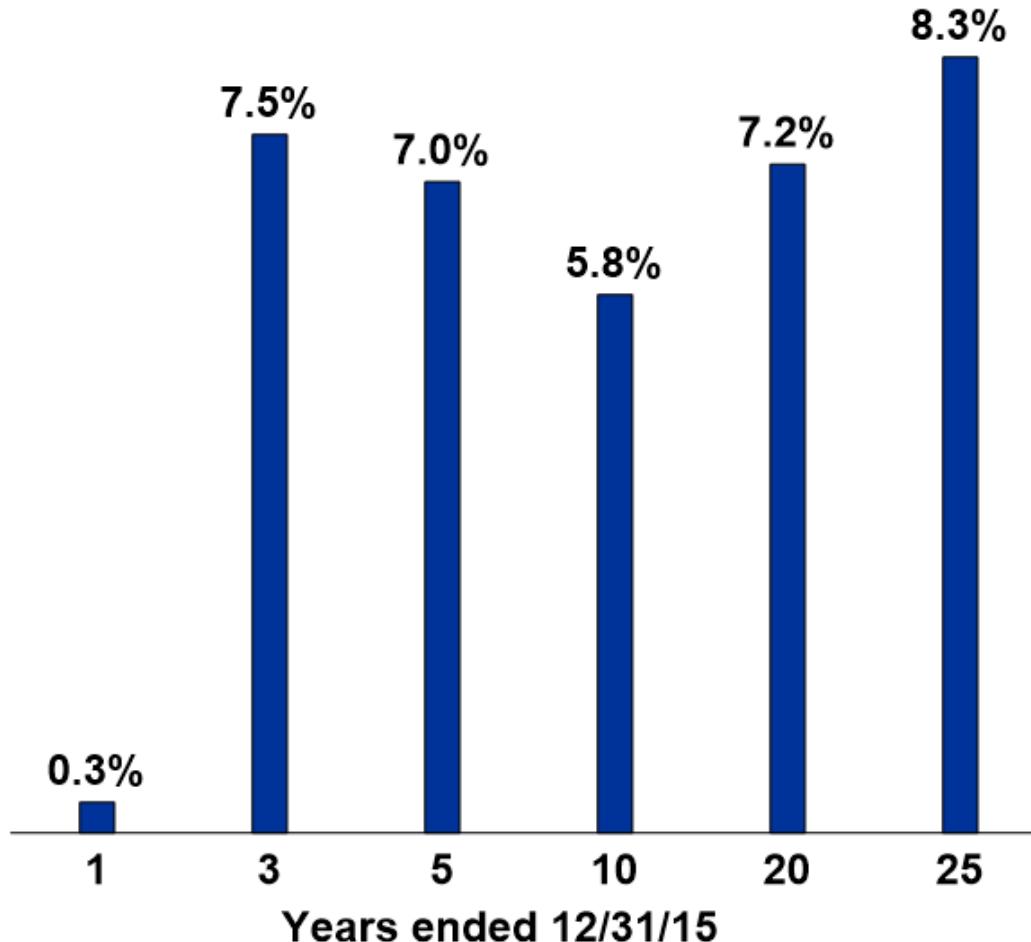


Source: NASRA, AARP

# Change in distribution of investment return assumptions, FY 01 to present



# Median annualized public pension fund investment returns for selected periods ended 12/31/15



Callan Associates

 NASRA

▲ [www.nasra.org](http://www.nasra.org)

▲ [keith@nasra.org](mailto:keith@nasra.org)

▲ 202-624-8464