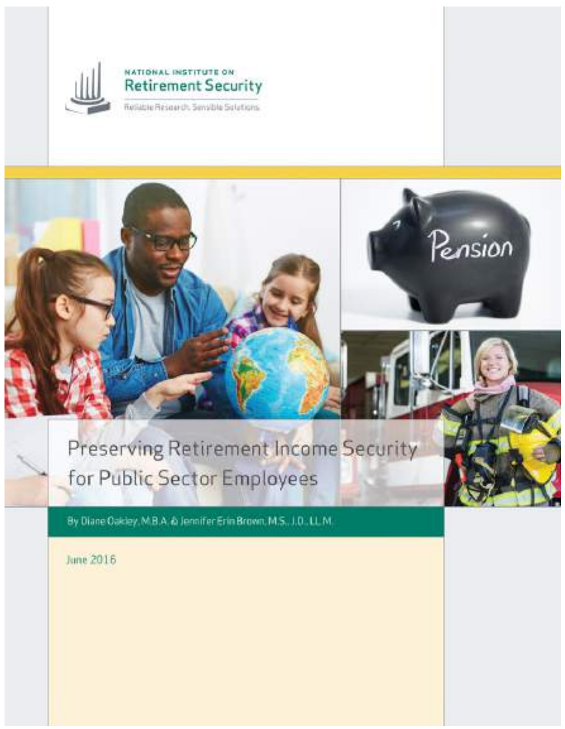
NEW Research

Preserving Retirement Income Security for Public Sector Employees



Webinar
Wednesday, July 13, 2016
2:00 PM ET

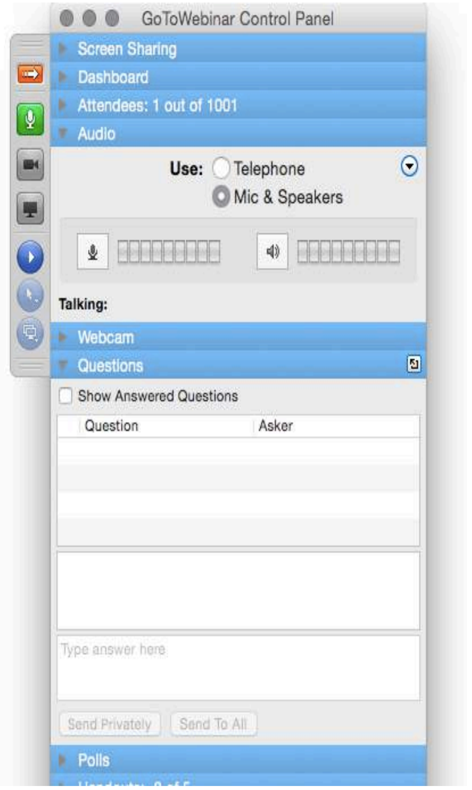
NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

Agenda

- Logistics & Introductions
- Research Review
- Q&A

Webinar Logistics

- Attendees in listen only mode.
- Questions welcome. Type question using “Question” function on your control panel, and we will answer.
- Research, supporting materials available at www.nirsonline.org.
- Encourage distribution of information - @nirsonline #portability #retirementincome
- Audio, technical issues during webinar, contact GoToWebinar at 1-800-263-6317.
- You will receive email with link to replay of webinar.



Speakers

Diane Oakley
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Why NIRS Considered Both Portability and Preservation of Retirement Income

1. NIRS public opinion research found Americans equally value portability of retirement benefits and income security from a monthly retirement check.

2. Concerns that mobile workers derive lower benefits from coverage under public defined benefits pension plans.

3. A lack of understanding in how modest changes in public DB pensions can accomplish both retirement goals while preserving cost effectively lifetime retirement income that public employees value.

Methodology

- NIRS surveyed 89 public pension plans in order to analyze:
  - Plan types;
  - Employee contribution rates;
  - Vesting requirements;
  - Interest rates paid on withdrawn employee contributions;
  - Refunds of member accounts;
  - Re-deposits of employee contributions; and
  - Ability to purchase service credits.
- For new members that join plans.
- All survey results from 89 public pension systems published in the Appendices to the report.
- Not all systems replied to data request. As such, some data that published obtained through public sources including the Public Plan Database, NASRA reports and the systems' websites.

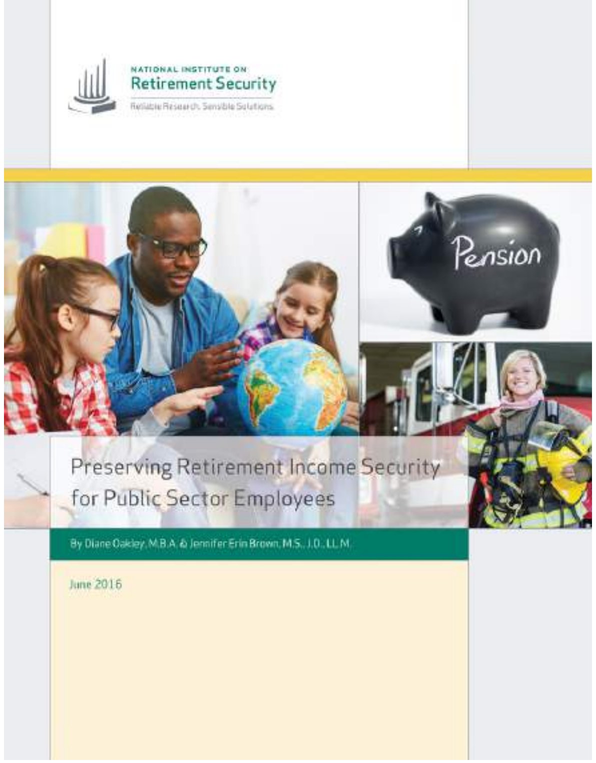
Key Findings on Portability and Preservation of Retirement Benefits

1. Almost all of public retirement systems surveyed offer a DB pension plan.

2. Many public pension plans have adopted features allowing individuals changing jobs to retain, even increase benefits.

3. Nearly all public DB systems allow purchase of additional service credits to increase benefits.

4. Many plans have features increasing benefits for short, moderate term employees.



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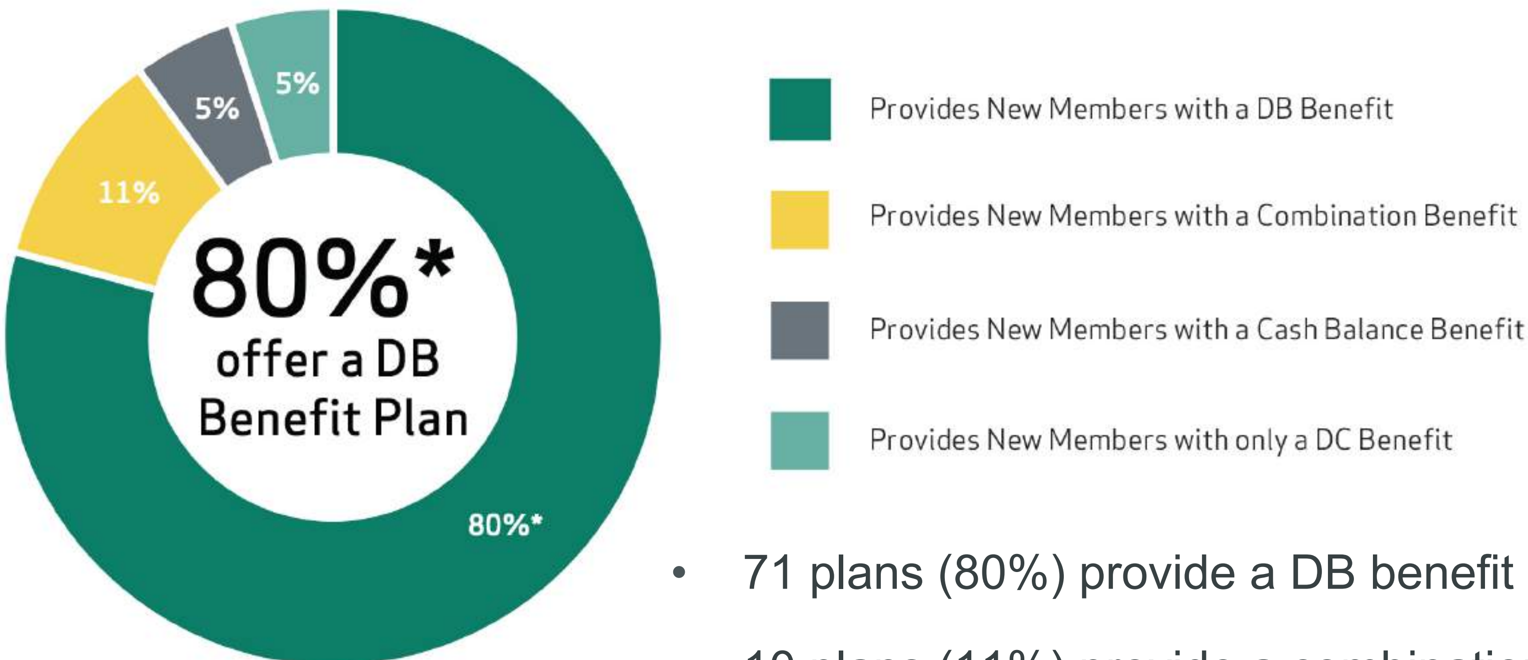
Most Public Pension Systems Offer New Members with a Traditional DB Pension



Source: Authors' Calculations.
*Totals may not add up exactly due to rounding.

- 71 plans (80%) provide a DB benefit
- 10 plans (11%) provide a combination benefit
- 4 plans (5%) provide a cash balance benefit
- 4 plans (5%) provide only a DC benefit

Most Pension Systems Surveyed Require Five Years of Service or Less to Vest

Source: Authors' Calculations.

- 13 plans require < 4 YOS to vest
- 39 plans require 5 YOS to vest
- 29 plans require 10 YOS to vest
- 4 plans require 7-8 YOS to vest
- 3 public safety plans require 15 YOS or more to vest

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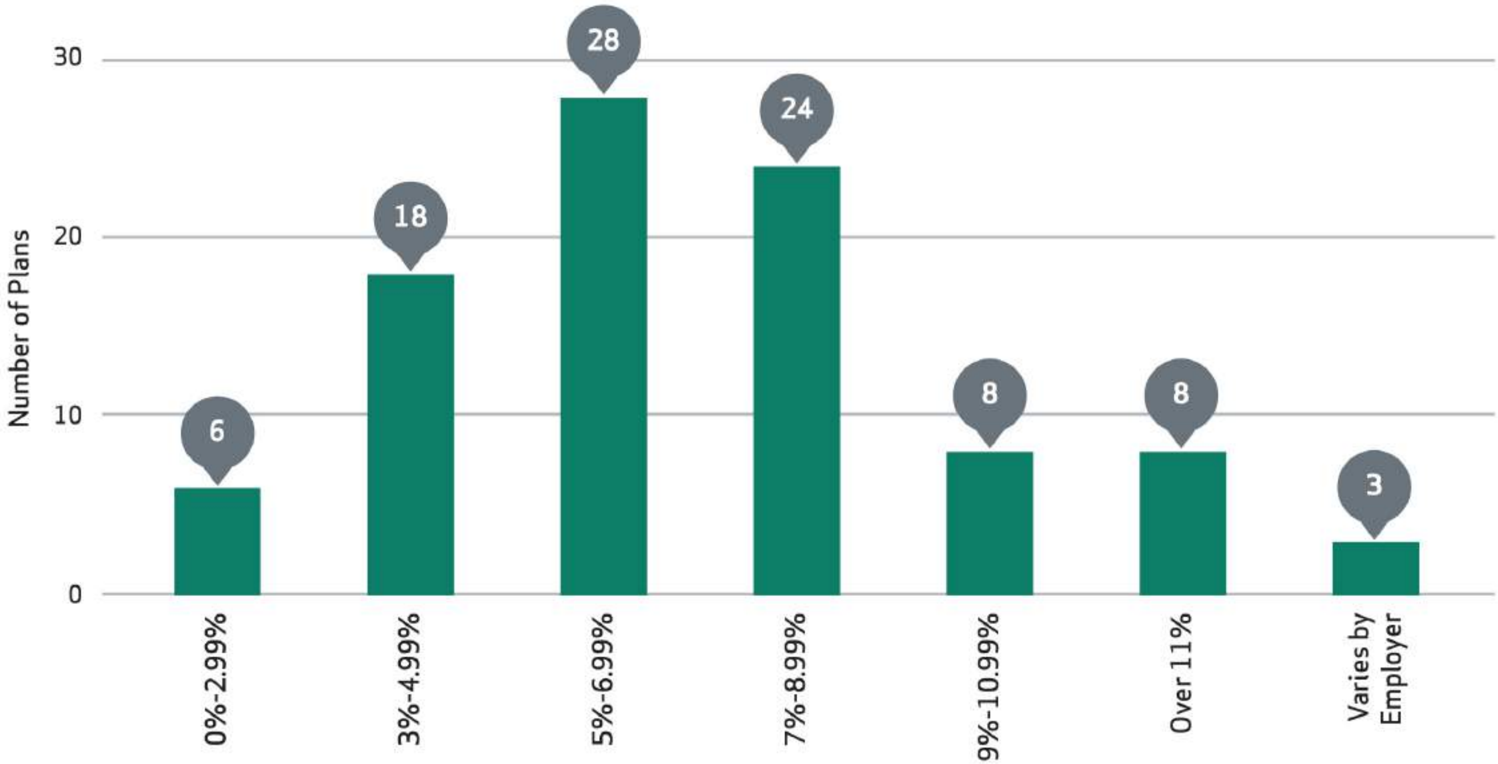
The Average Employee Contribution is 6.68% of Pay for New Members



- Contributions range from 0%-14.5% of pay.
- Average rate of 6.68% and median of 6.2%

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71% of Public Pension Systems Provide Employees with Interest on Contributions

- Interest rates vary widely, with a highest rate of 8.7%.
- Average of 3.86% and a median of 4%.

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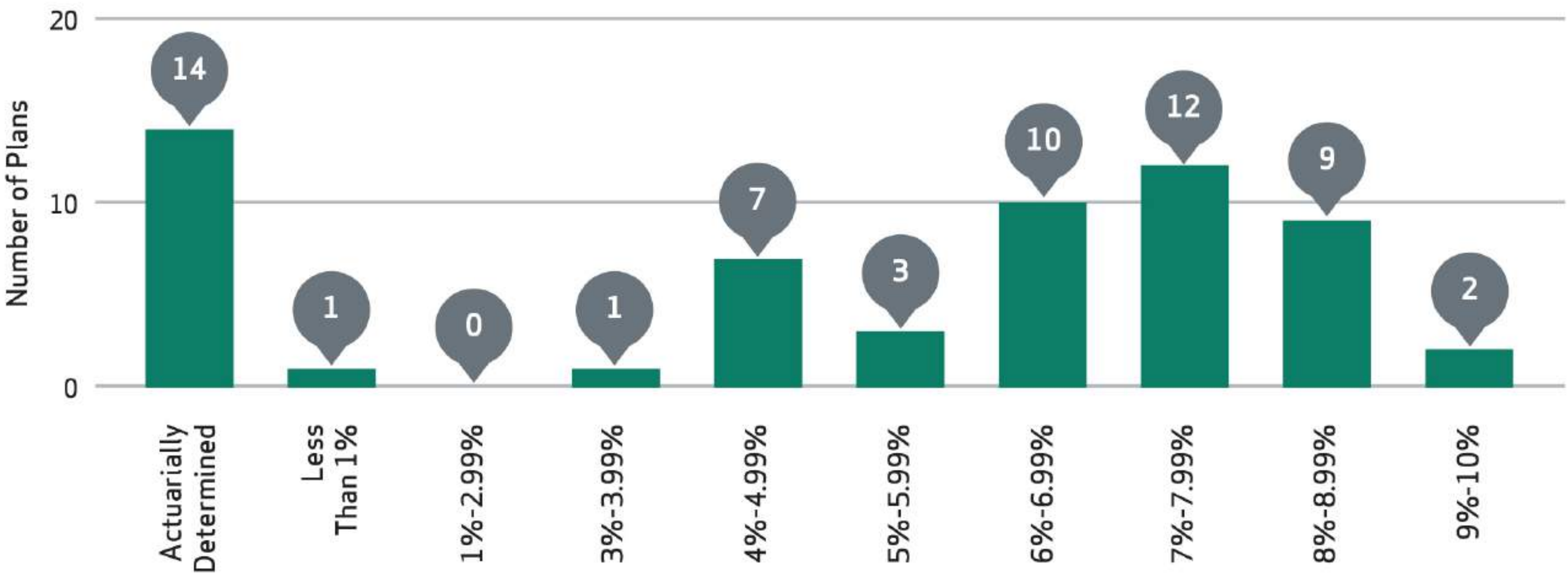
Most Public Pension Plans Allow Members to Later Rejoin System, Repay Refunds



- 59 systems allow for members to rejoin and pay interest
- Range from 0.1% to 10% interest
- Average of 6.46% and a median of 6.7%

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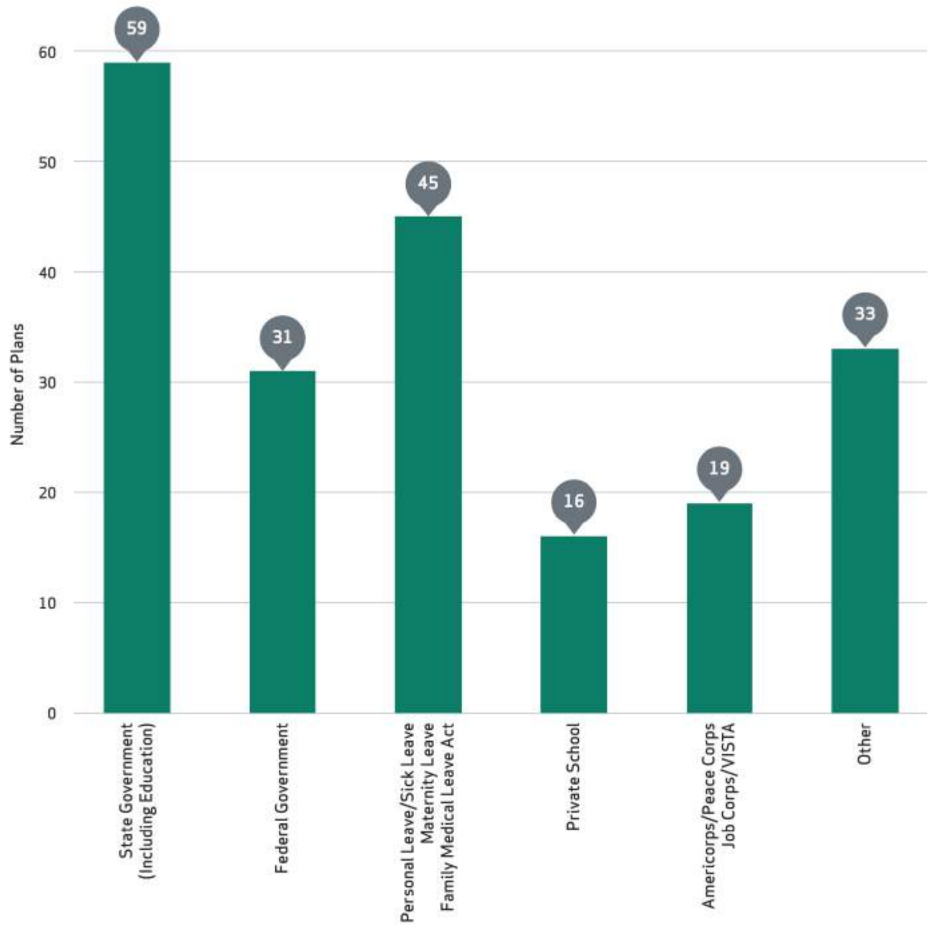
Nearly All Public Pension Systems Allow Members to Purchase Additional Service Credits



- 59 plans allow purchase of State Government Service
- 31 plans allow purchase of Federal Government Service
- 45 plans allow for FMLA/ personal leave
- 16 plans allow for purchase of private school service
- 19 plans allow for AmeriCorps or Job Corps service

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Nearly All Public Pension Systems Allow Members to Purchase Additional Service Credits (continued)

33 plans allow purchase of additional service including:

- Adoption leave credit
- Fulbright scholarship
- Homebound teaching
- Legislative staff internship
- Private employment
- Teacher corps
- Workman's Compensation

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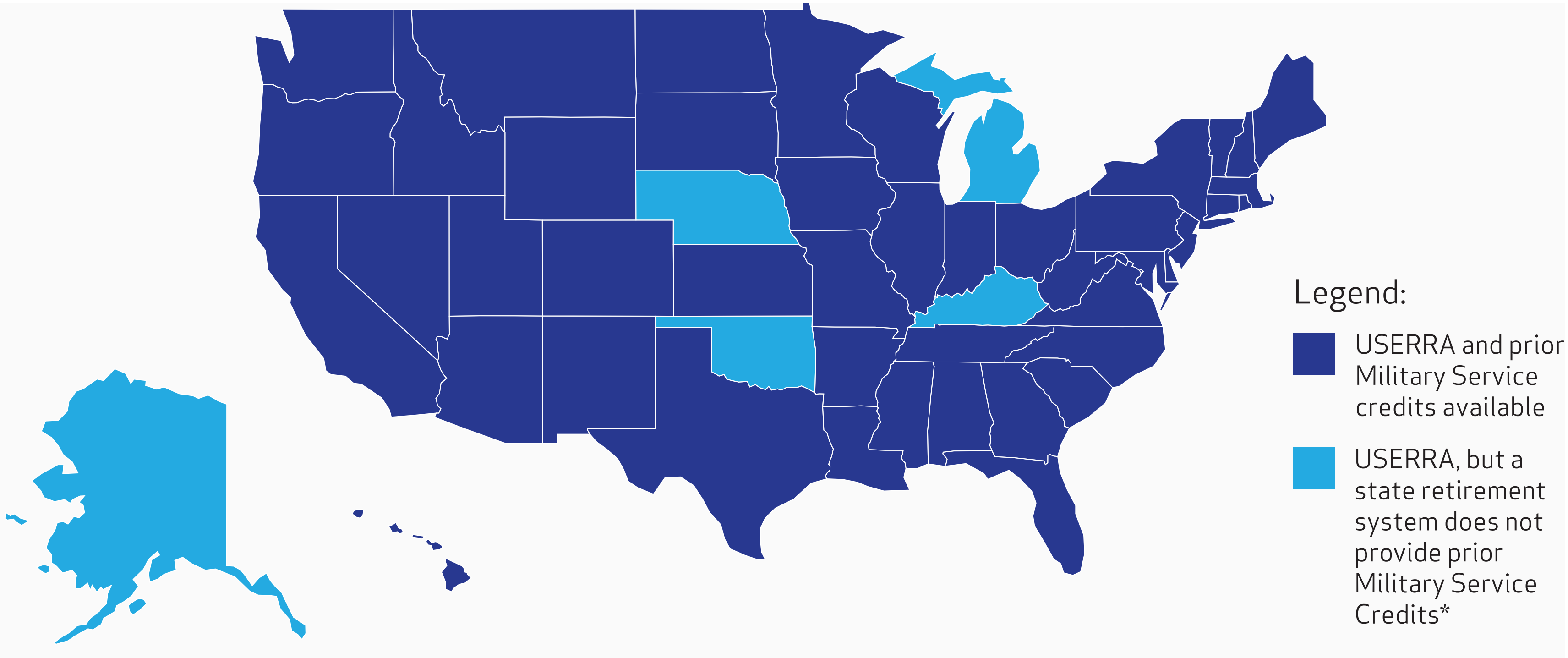
Nearly Every State Retirement System Goes Beyond the Requirements of USERRA



- In 70% of the states, members can purchase five or more years of military service credits.

North Dakota PERS Portability Enhancement Program (PEP)

- North Dakota PERS offers its employees an optional retirement feature to provide greater portability.
- Under the PEP, an employee can vest in the employer portion of the DB plan by participating in a supplemental DC plan.
- For every dollar that the employee invests in the DC plan (up to four percent of salary per year), PERS reallocates one dollar from the employer contribution to the DB plan into the member’s account, which accelerates the vesting for that amount sooner.
- Should the employee leave ND PERS, they can withdraw the larger member account and transfer the value to another plan.

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Colorado PERA: DB Plan Provides the Most Income Replacement

	Starting Age: 40 Years Worked: 3	Starting Age: 40 Years Worked: 10	Starting Age: 25 Years Worked: 20	Starting Age: 35 Years Worked: 30
PERA	4.4%	13.0%	20.6%	72.2%
DB/DC Side-by-Side	0.8%	11.7%	20.1%	54.4%
Cash Balance	2.7%	9.1%	17.1%	26.3%
Self-Directed DC	3.0%	10.0%	19.7%	28.3%

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Colorado PERA Benefit to Encourage Members to Preserve Benefits

- After termination, if PERA member leaves account with PERA until age 65, the individual can receive higher income benefit based on **100% match of the employee's contributions compounded with credited interest to retirement age.**
- Should a vested employee request a refund of money in PERA after termination, the refund includes a 50% match of employee's account. Non-vested employees receive only value of account as a refund.
- Even non-vested employees maintaining PERA accounts until 65 also receive 100% match on value accumulated in employee's account at retirement.
- PERA members may convert accounts into an annuity at PERA assumed rate of return, which is less costly than purchasing an annuity from an insurance company.

Colorado PERA Special Benefit, cont.

10 YEARS OF SERVICE								
Hire Age	Salary at Date of Hire	Age at Termination	Lump Sum Payable at Termination, including the employer match on the employee contributions			Lump Sum Payable at Age 65 (option to convert to montly annuity)		
			Employee Contributions with Interest	50% Employer Match	Total	Employee Contributions with Interest	100% Employer Match	Total
25	$25,000	35	$31,400	$15,700	$47,100	$76,200	$76,200	$152,400
40	$45,000	50	$51,400	$25,700	$77,100	$80,100	$80,100	$160,200

Source: Gabriel, Roeder, Smith & Company.

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Colorado PERA Special Benefit (continued)

3 YEARS OF SERVICE								
Hire Age	Salary at Date of Hire	Age at Termination	Lump Sum Payable at Termination, including the employer match on the employee contributions			Lump Sum Payable at Age 65 (option to convert to montly annuity)		
			Employee Contributions with Interest	No Employer Match	Total	Employee Contributions with Interest	100% Employer Match	Total
25	$25,000	28	$6,700	$0	$6,700	$19,900	$19,900	$39,800
40	$45,000	43	$11,700	$0	$11,700	$22,500	$22,500	$45,000
55	$55,000	58	$14,200	$0	$14,200	$17,400	$17,400	$34,800

Source: Gabriel, Roeder, Smith & Company.

Other Plan Features that Encourage Preservation of DB Income

Wisconsin Retirement System's Money Purchase Feature

- Active employees participate in DB pension, DC account simultaneously
  - DB benefit is calculated by multiplying YOS x 1.6% x the average o the employee's highest three years' earnings.
  - Money purchase feature computes a retirement annuity benefit based on the money in the employee's account. At retirement, the amount in the money purchase account is annuitized at an assumed five percent interest rate.
- Employee receives the higher of either the DB benefit or the money purchase annuity.

Unique Plan Features that Encourage Preservation of DB Income, cont.

Teachers Retirement Association of Minnesota Deferred Retirement Annuity

- For members who leave before age 55 and are vested, the amount of deferred annuity income would increase by two percent each year from the year of termination until age 55

Unique Plan Features that Encourage Preservation of DB Income, cont.

Washington State's ERS3, TRS3 and SERS 3 Plans

- Employees who choose to withdraw DC account values face no loss of income from DB component.
- In fact, if a former employee, who worked for the state of Washington for at least 20 years, leaves job before age 65, deferring retirement until age 65 increases his or her income by approximately 3% for each year.
- Employees can start a reduced DB income as early as age 55 (with ten years of service).

New Combined Benefit for South Dakota Public Employees (SDRS)

Pension income for current vested, terminated members increases at the COLA rate up to retirement date.

New generational benefit structure starts on July 1, 2017.

- Offers increased benefit multiplier for most members while eliminating some prior subsidies within plan.
- Adds new Variable Retirement Accounts funded from employer contributions and earnings at plans investment return. Account is payable as a lump sum, a rollover or a supplemental pension benefit at retirement, but not as a member refund.

Questions?

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