Enduring Challenges
Exckeding the Experiences of States that Closed Pension Plans

Webinar
August 13, 2019
2:00 PM ET
Agenda

• Introductions
• Research Review
• Q&A
Webinar Logistics

- Attendees in listen only mode.

- Questions welcome. Type question using “Question” function on control panel, and we will answer.

- Audio, technical issues during webinar, call GoToWebinar at 1-800-263-6317.

- Webinar replay will be available.
Speakers

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About This Study

• Provides case studies of four states – Alaska, Kentucky, Michigan and West Virginia – where new employees were moved from defined benefit (DB) pensions to defined contribution (DC) or cash balance retirement plans.

• Examines outcomes of benefit changes & evaluates impacts including funding and benefit implications.
Four Key Findings

1. Switching from DB to DC/cash balance plan did not address existing pension underfunding as promised. Instead, costs increased.

2. Responsible funding is key to managing legacy costs.

3. The switch resulted in greater retirement insecurity for employees.

4. Workforce challenges are emerging as a result of the benefit changes.
Overview: Alaska

• Alaska closed DB pensions to new hires in 2006. New employees in DC-only plans.

• Taxpayer costs are substantially higher and funding challenges remain.

• Pension is maturing, which may impact future investment strategy.

• In a state where recruitment and retention can be difficult, public workforce challenges are emerging.
Alaska PERS: Contributions Have Increased, but Funding Holds Steady

2015 contributions were 232% of ADC

*Funded status reflects pension benefits only, not post-employment healthcare
Alaska TRS: Contributions Have Steadily Increased; Lump Sum Improves Funding

2015 contributions were 528% of ADC

*Funded status reflects pension benefits only, not post-employment healthcare
Employees’ Retirement Security Has Plummeted in DC Plan

Pay Replacement Ratios for Alaska Public Employees Working from Ages 25 to 60

Source: Authors’ calculations. TRS members do not participate in Social Security or SBS, while PERS employees vary by employer.
Increased Workforce Challenges

- Rural, remote state that faced workforce challenges before benefit changes

- Alaska’s Department of Public Safety officials cited the lack of a DB pension as a key obstacle to recruiting, retaining state troopers.
  - Costs $190,000 (and 12-18 months) to train and certify a new state trooper

- Nine former Alaska Teachers of the Year contend that the lack of a DB pension harms recruiting and retaining teachers in state.

Sources: Alaska DPS: Recruitment and Retention Plan Overview: 2018-2023, Why Teach in Alaska?
Overview: Kentucky

- New hires switched to cash balance in 2013; Legislation included funding reforms

- KERS Non-Hazardous pension was deeply underfunded; Solvency was a growing concern.

- Since then, funding ratio has worsened, falling from 23.2% to 12.9%.
Overview: Kentucky

- Key factors:
  - Contribution.
  - Erosion of plan assets (cash flows, not returns).
  - Discount rate reduced dramatically
- 76% of plan liabilities owed to inactive participants.
- Only 1-in-3 workers are in the cash balance plan.
Kentucky ERS Non-Hazardous

- New tier has had little impact on plan cash flows thus far.

- Improved funding discipline and lower discount rate helped drive contributions up to a level more in-line with outflows by 2017.

- Contributions are now 85.2% of pay.
Kentucky ERS Funding Reforms: Funding has improved since 2015
Cash Balance Impacts Employees

- Pay replacement projections impacted by return assumptions.
- Cash balance account is guaranteed, but not the conversion to life income.
- With high contribution rates, conversion factors may become a legislative target in the future.
- Erosion of terms may discourage members from choosing life income options.
Overview: Michigan

• Plan covering state workers closed 22+ years ago and state still working on funding SERS.

• Plan now has six retirees per worker.

• Retirement security eroded:
  – Average account balance is about $87,000 which is about $300/month in retirement.
  – In contrast, average DB benefit is $1,895 per month.
Michigan SERS: Unfunded Liabilities Grew


Unfunded Liability

Amount in millions of dollars

Michigan SERS: Taxpayer Contributions Rising

Michigan SERS: Employer Contribution and Funded Status

Employer Contribution ($ millions)

Funded Status

% Funded

Employer Contribution (in millions)

0 100 200 300 400 500 600 700 800

0% 20% 40% 60% 80% 100% 120% 140% 160%

Overview: West Virginia

- DB plan switched to DC plan to address underfunding.
- Funding did not improve; DC savings were inadequate.
- Re-opened DB plan.
- State committed to paying down unfunded liability, now on track.
  - Funding ratio improved to 70% in 2018, from 25% in 2005.
- Career educators have improved retirement security.
Increased Discipline: Contributions Average 107% of ADEC Since 2009
Funding Improved Substantially

West Virginia TRS: Funded Status

% Funded

Questions