



The Hybrid Handbook

Not All Hybrids Are Created Equal

Webinar

May 12, 2021



**NATIONAL INSTITUTE ON
Retirement Security**

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Agenda

- Logistics and Introductions
- Research Review
- Q&A

THE HYBRID HANDBOOK

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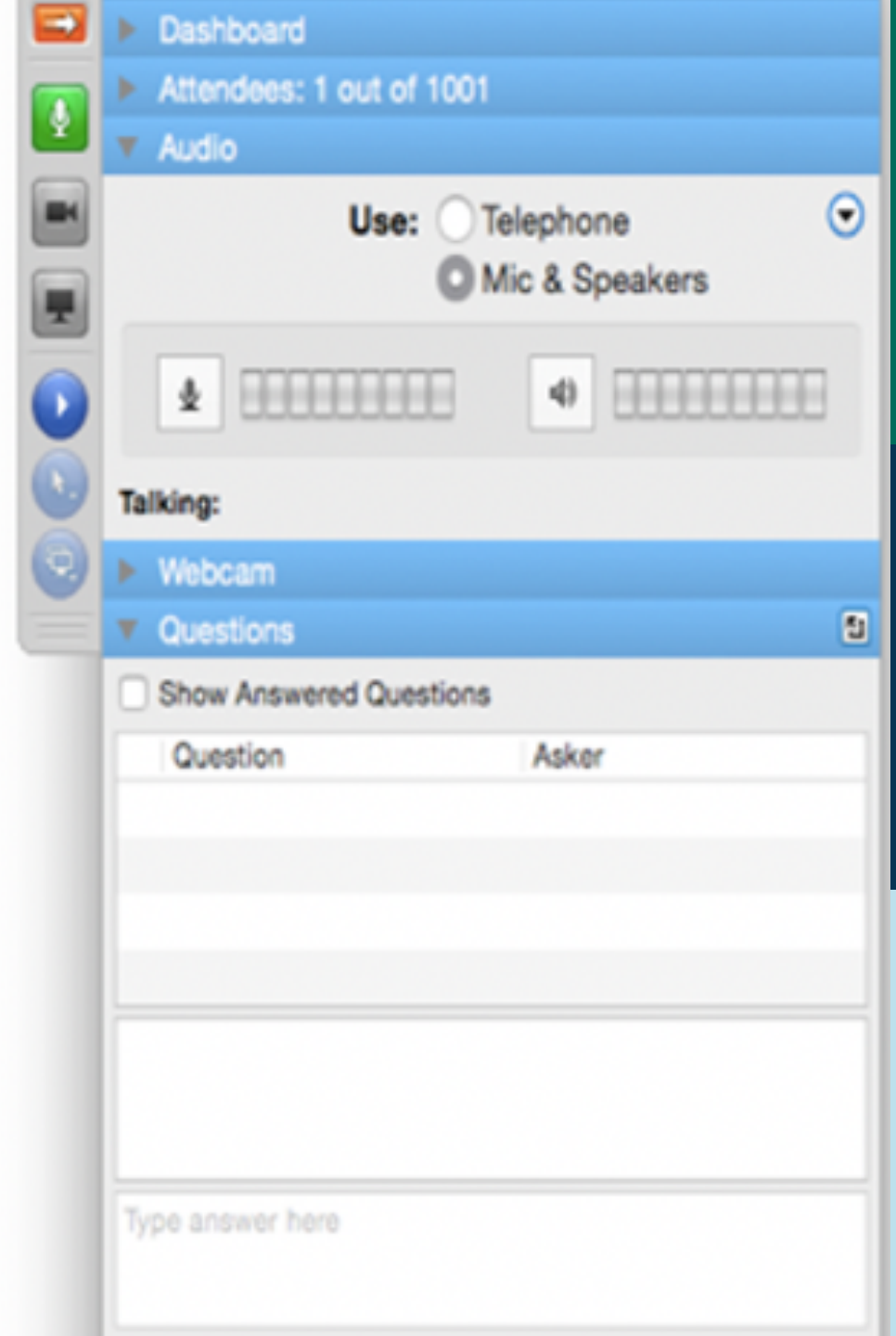


By Dan Doonan and Elizabeth Wiley

May 2021

Logistics

- Attendees in listen only mode.
- Questions are welcome. Submit using “Question” function on control panel
- Audio/technical issues during webinar: call GoToWebinar at 1-800-263-6316
- Webinar replay and slides will be posted at nirsonline.org/reports/hybridhandbook



Speakers



Dan Doonan

NIRS Executive Director and Report Co-Author

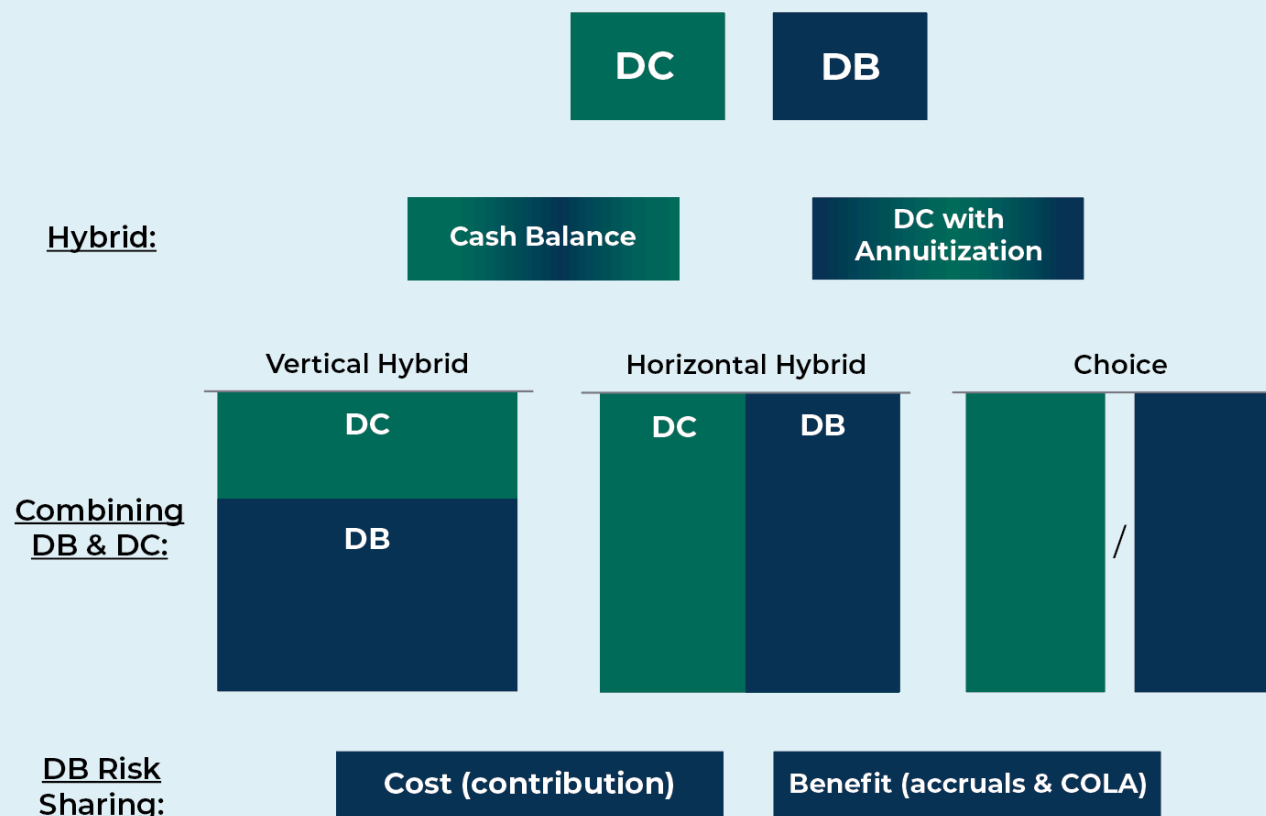


Elizabeth Wiley

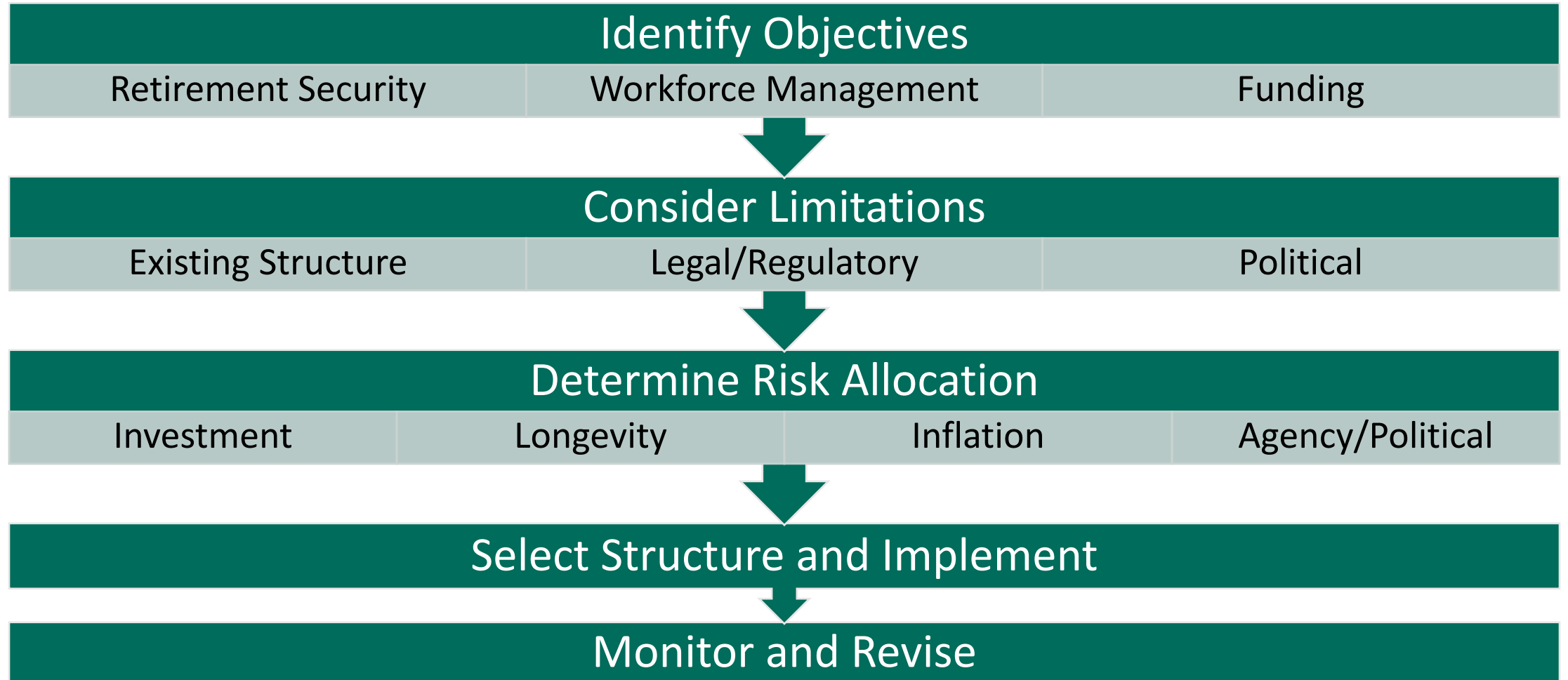
Cheiron Consulting Actuary and Report Co-Author

Variety of Plan Designs in Public Sector

Figure 1: Overview of Hybrid Retirement Systems



Design Framework



Public Retirement Plan Objectives

- Recruit
- Retain
- Retire

Workforce Management

- Full Career
- Partial Career
 - Hired Mid-Career
 - Hired Young

Retirement Security

- Sustainability
- Predictability
- Volatility

Funding

Public Plan Design Limitations

- Structural
 - Existing Plan/Transition Costs
 - Social Security Coverage
- Political
- Legal/Regulatory
 - State limitations on structure
 - Legal protections for benefits

Public Plan Risks and Allocations

Sponsor/Taxpayers

Members



Investment

Longevity

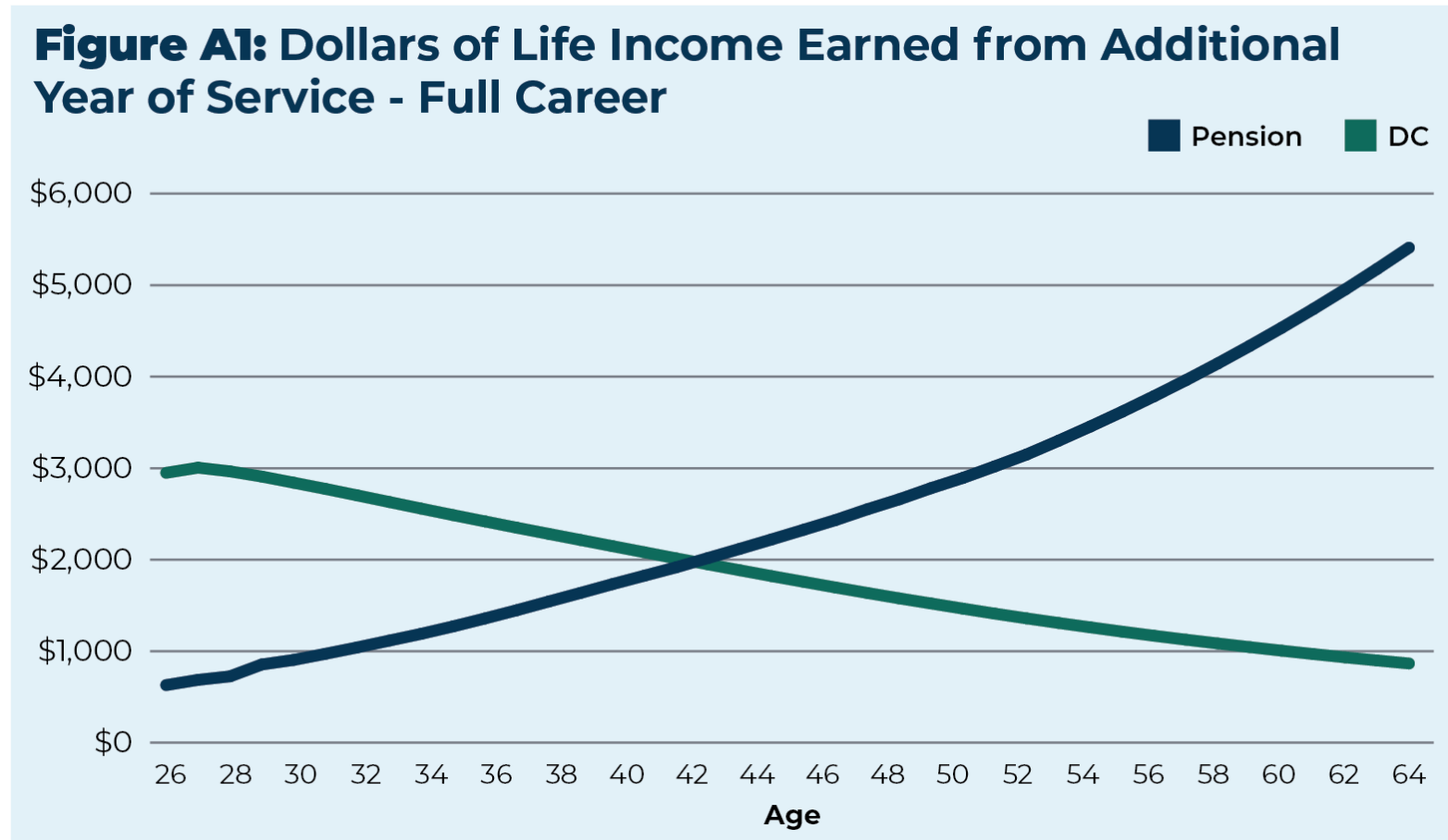
Inflation

Retirement Plan Designs Evaluated According to Several Different Metrics

Table 1: Evaluating Key Features of Various Retirement Benefits

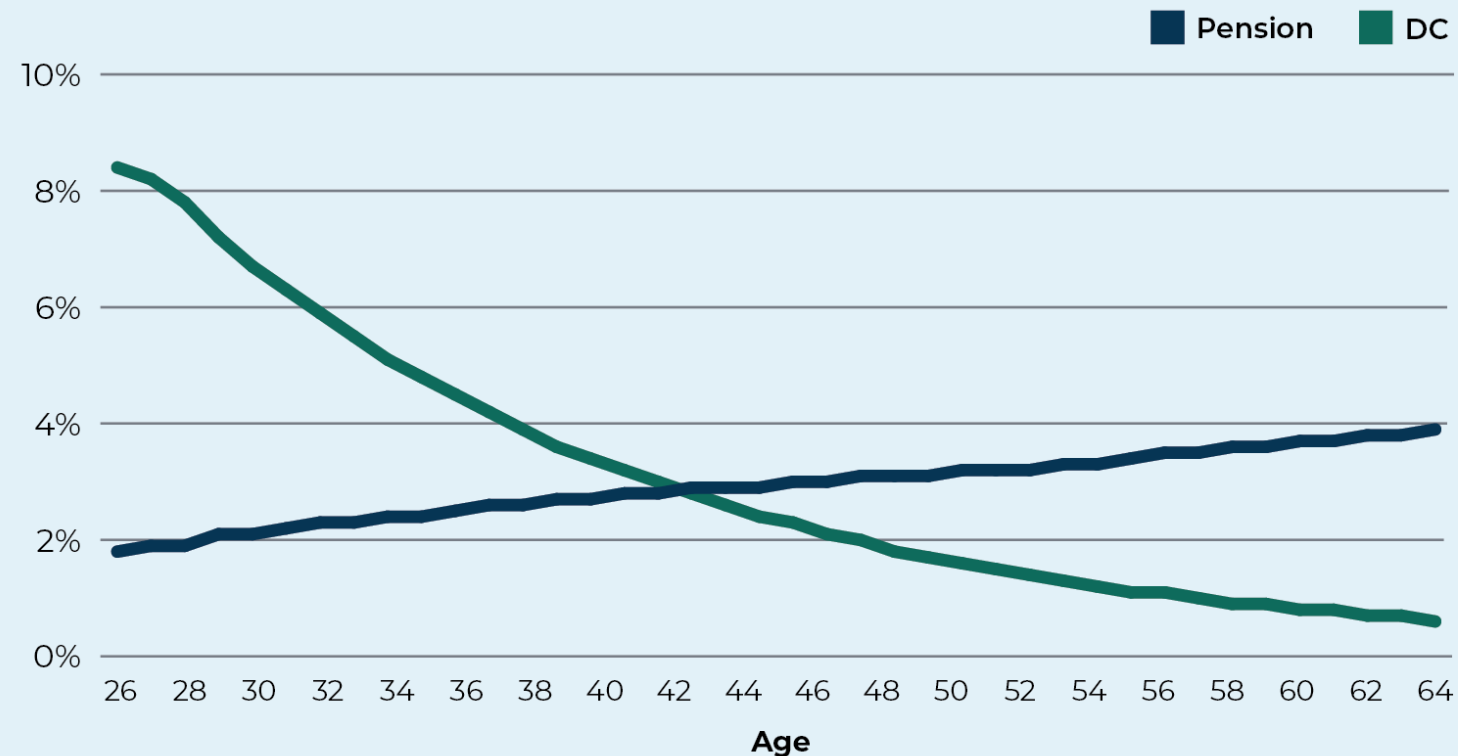
Key Features and Goals	Final Pay Pension	Cash Balance	Parallel DB/DC	Stacked DB/DC	Contribution Rate Risk Sharing DB	Variable Benefit DB	DC
Adequacy and provision of lifetime income to those who:							
• Worked a full career and retire from the plan	●	◐	◐	●	●	◐	◑
• Mid-career hire, retire from plan	●	◑	◐	◐	●	◐	◑
• Hired young, but terminated before retirement	◐	◐	◐	◐	◐	◐	◐
Purchasing power preservation in retirement	◐	◐	◐	◐	◐	◐	
Funding predictability	◑	◐	◐	◐	◐	◐	●
Funding flexibility	●	●	◐	◐	◐	●	
Benefit predictability and transparency	●	◐	◐	●	●	◑	
Workforce management effectiveness	●	◐	◐	●	◐	◐	◑

Accruals of Annual Retirement Income Vary Significantly Throughout a Worker's Career

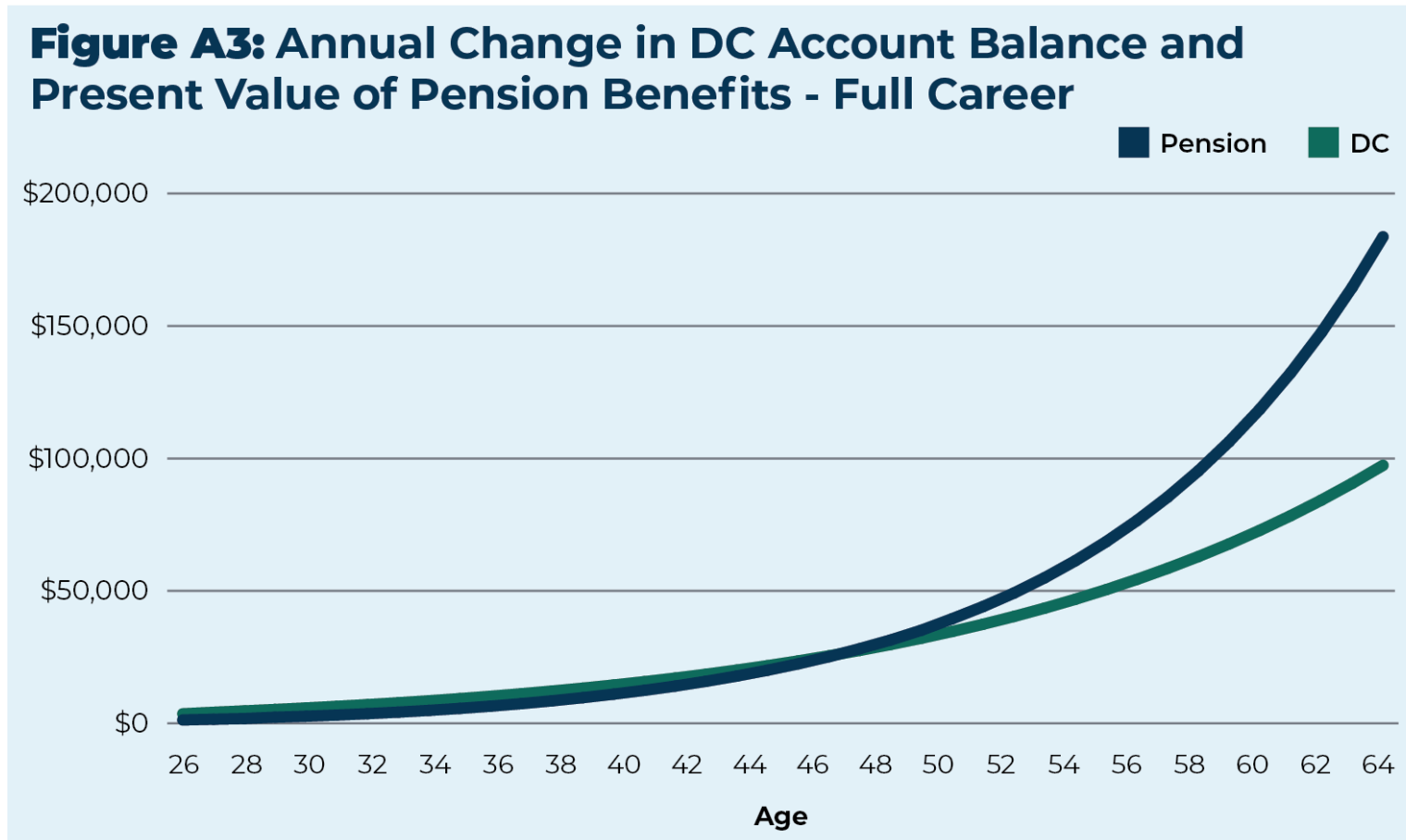


Accruals of Retirement Income as a Percentage of Pay: DB Flattens, DC Heavily Frontloaded

Figure A2: Dollars of Life Income Earned from Additional Year of Service as Percentage of Current Pay - Full Career

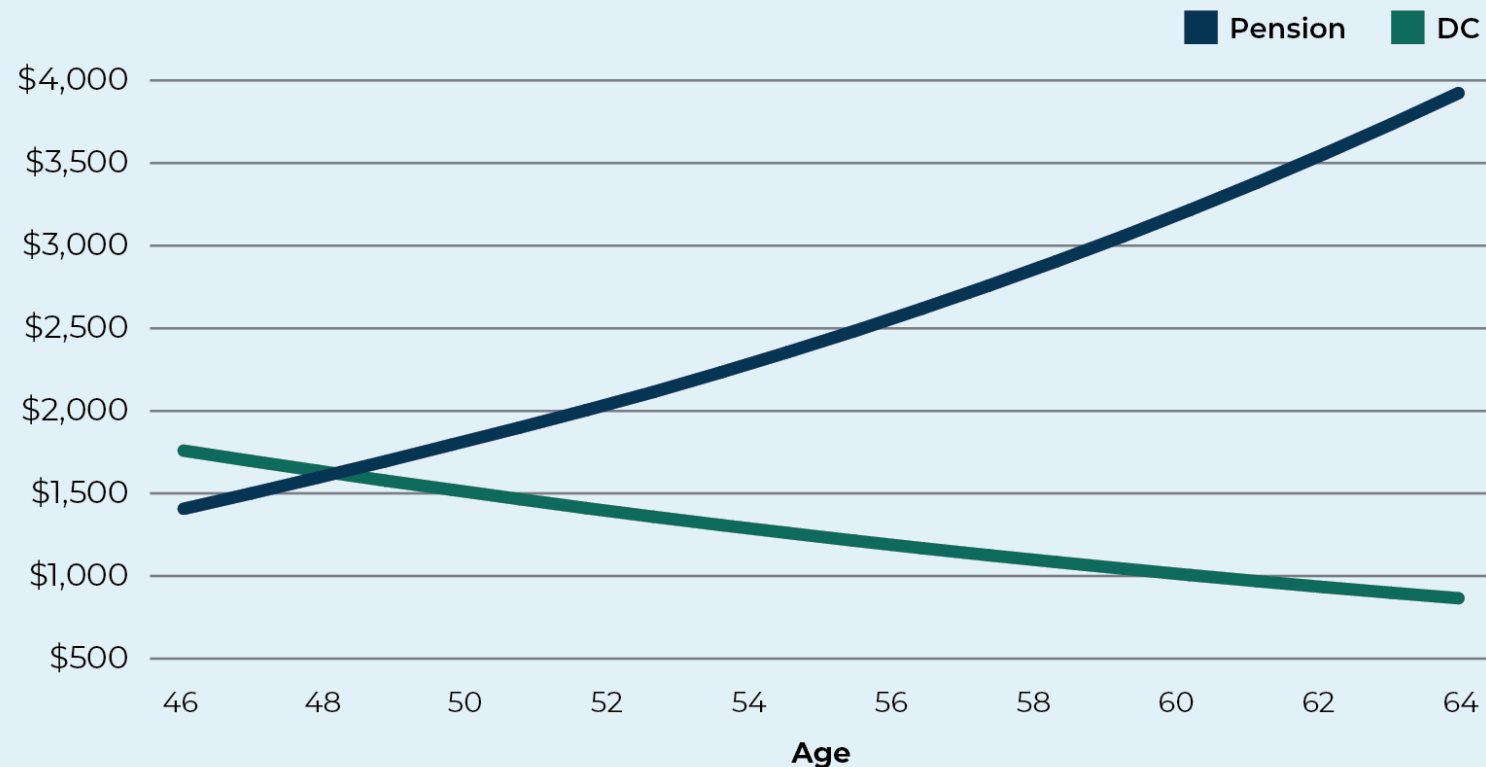


Late Growth in DC Account Balance Driven by Returns on Earlier Contributions, Not Contributions



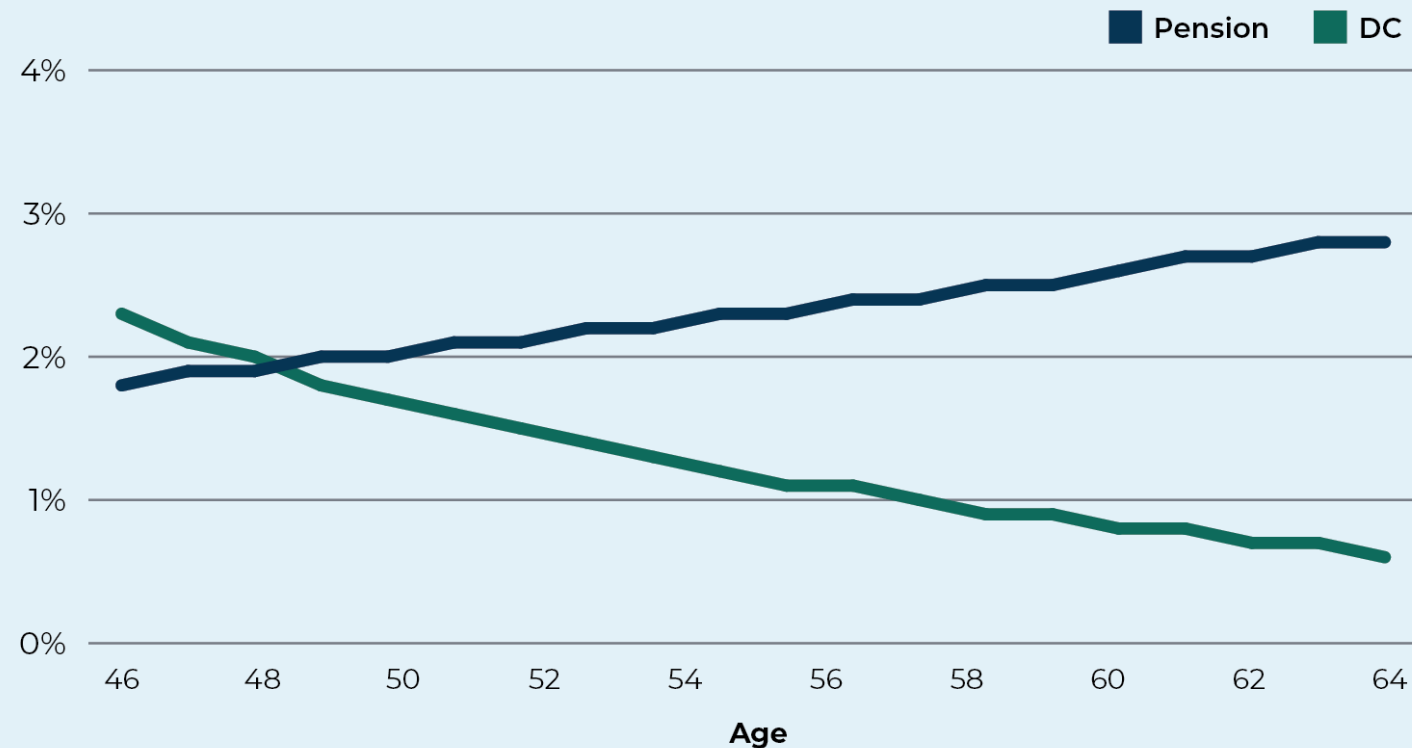
DC Accruals are Limited for Mid-Career Hires Due to Limited Years for Investment Growth

Figure B1: Dollars of Life Income Earned from Additional Year of Service - Hired at 45

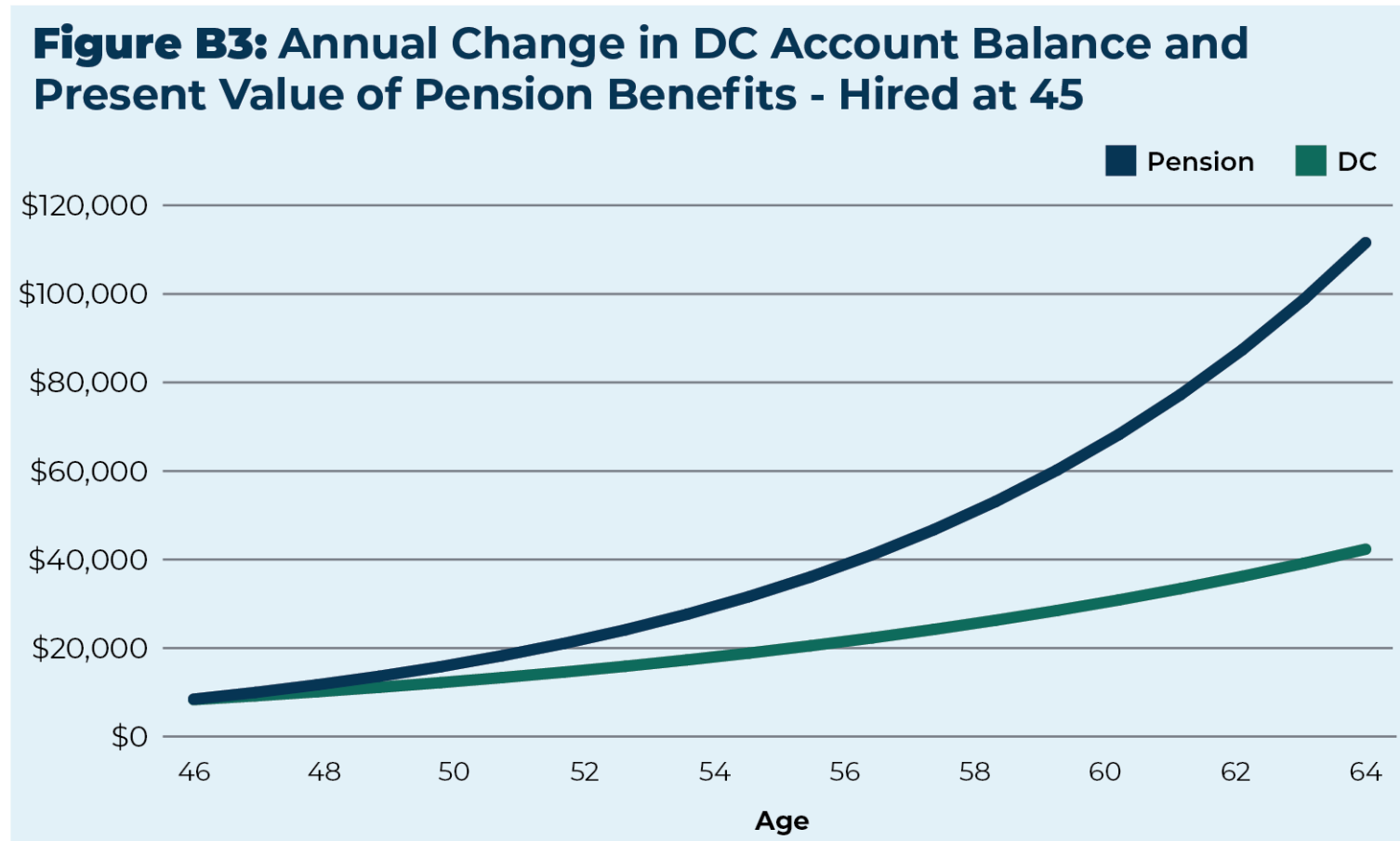


Mid-Career Hires Miss Vital Early Years in DC Plans

Figure B2: Dollars of Life Income Earned from Additional Year of Service as Percentage of Current Pay - Hired at 45

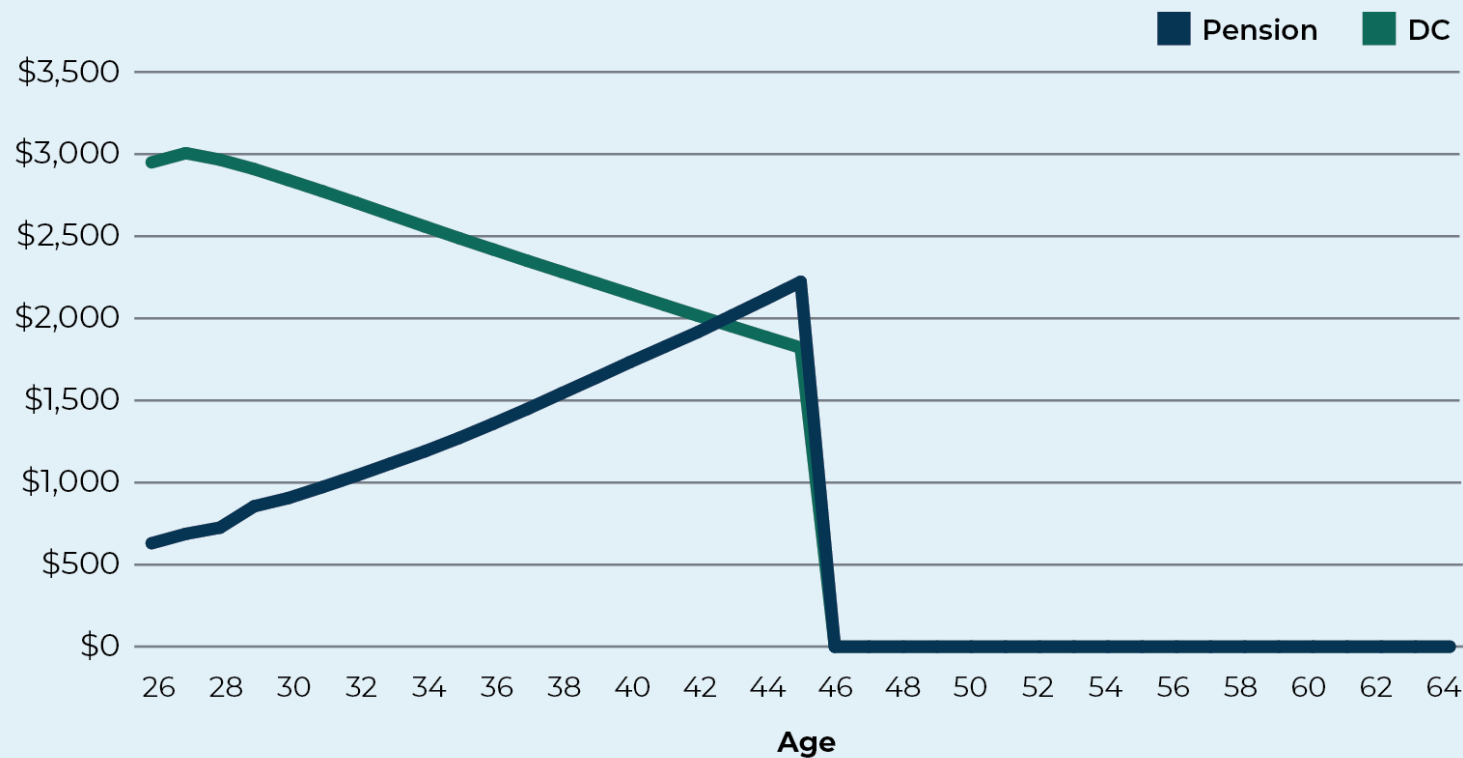


Mid-Career Hires Receive a Much Greater Benefit from DB Pension Plans



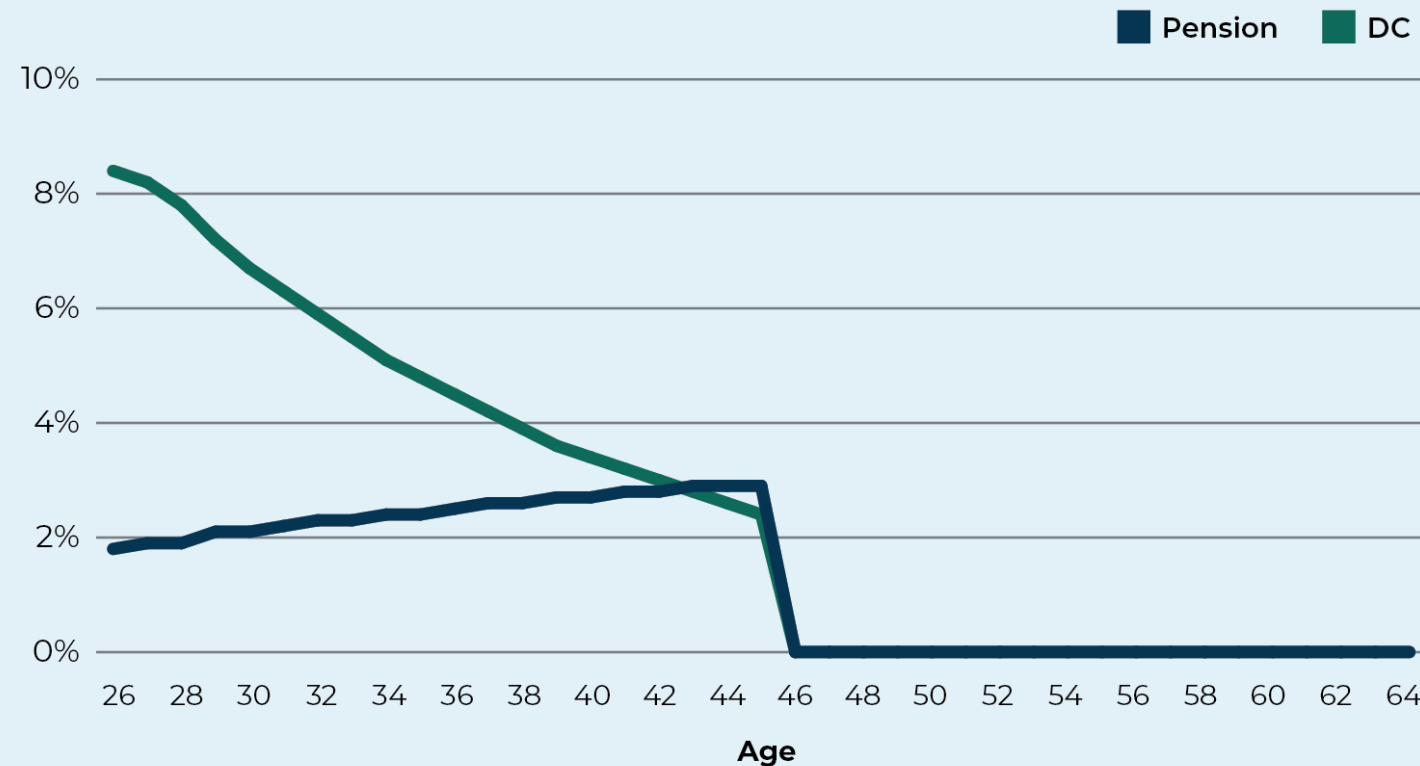
Accruals Stop at Termination with Mid-Career Exit

Figure C1: Dollars of Life Income Earned from Additional Year of Service - Working from 25 to 45

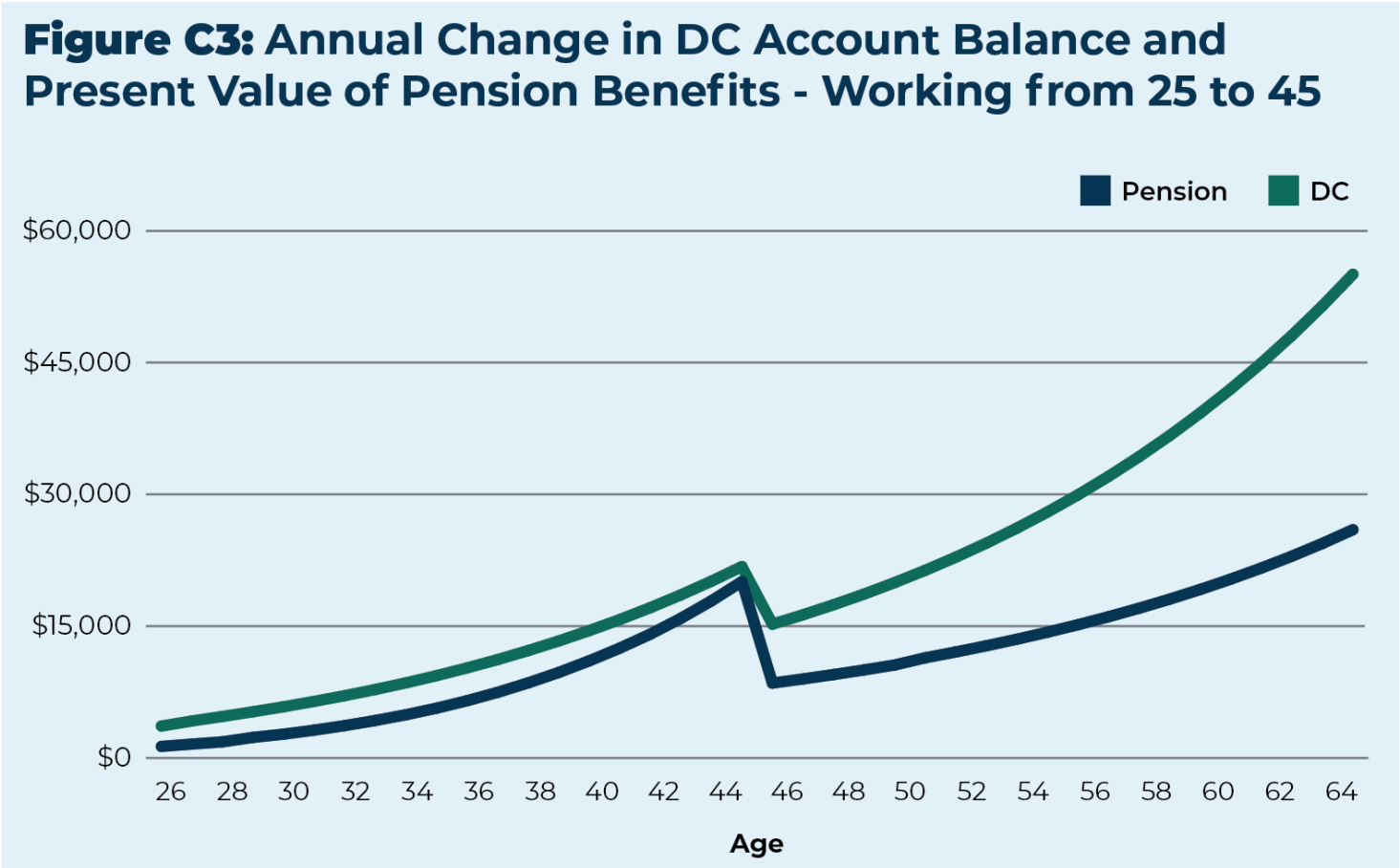


High Value of Early DC Contributions Not Impacted by Termination

Figure C2: Dollars of Life Income Earned from Additional Year of Service as Percentage of Current Pay - Working from 25 to 45



DC Account Balance Continues to Grow with Returns after Termination; DB Present Value Grows as Deferral Period Shortens

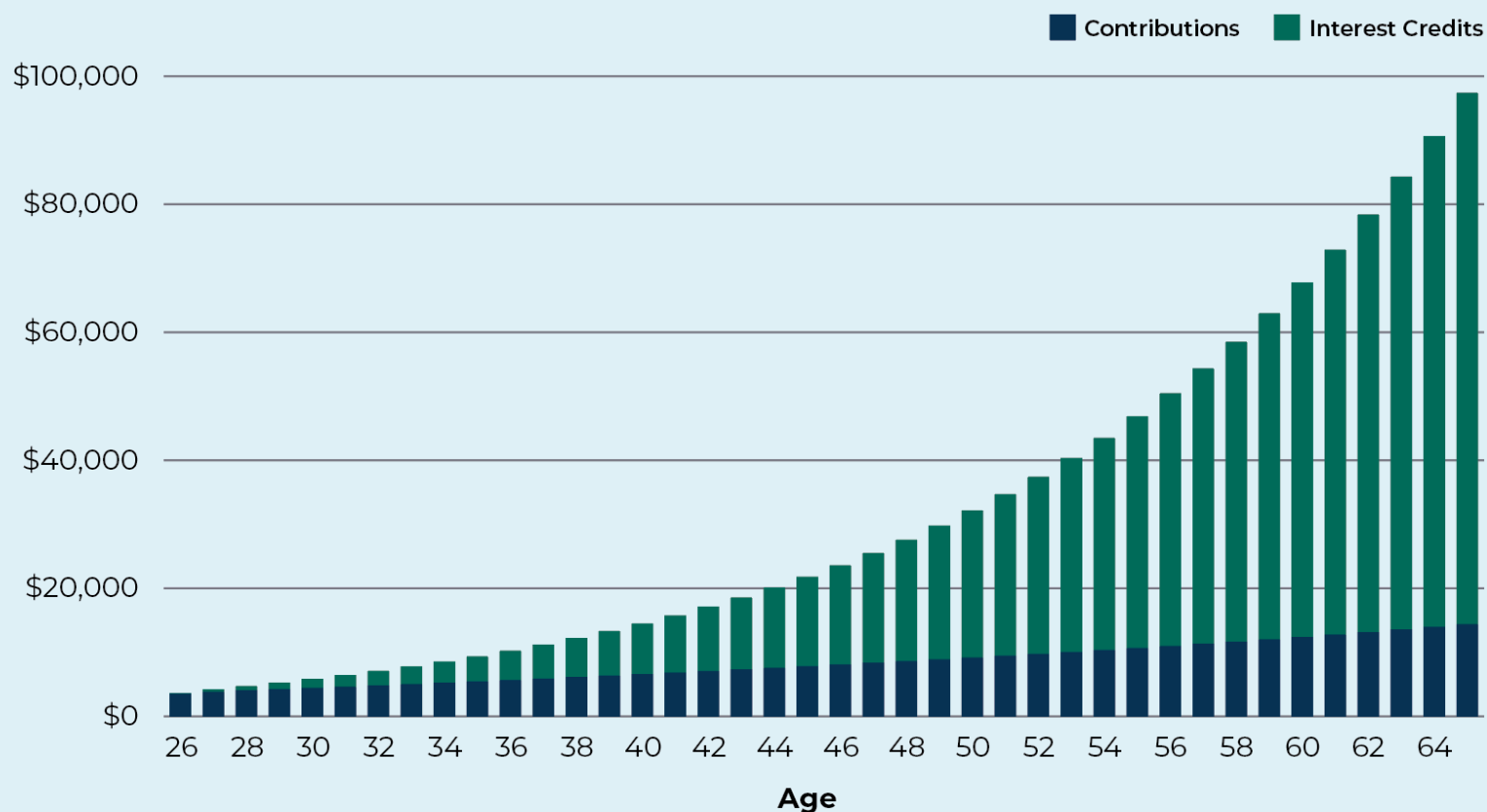


Cash Balance and DC Annuitization

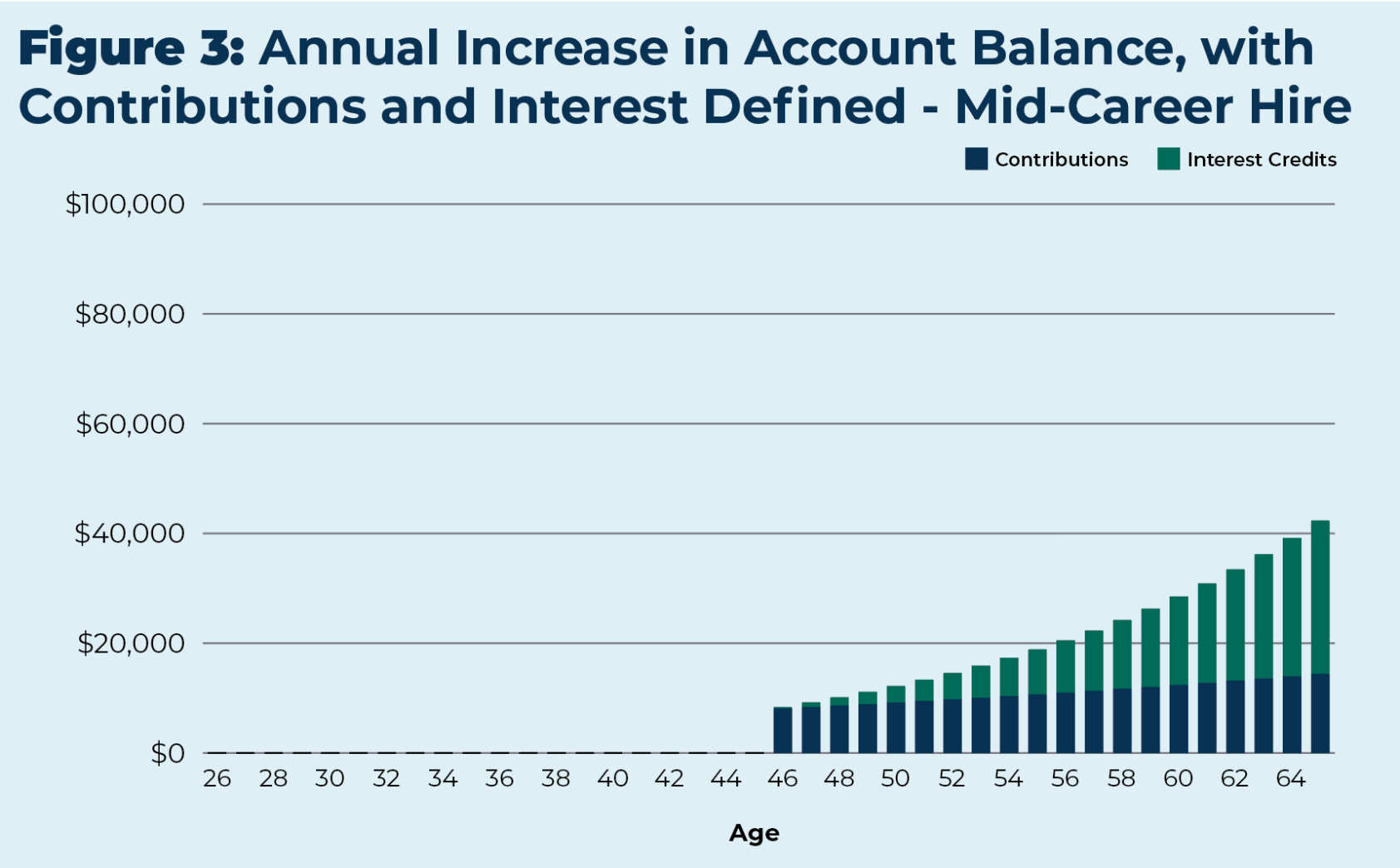
- Cash balance have existed in public sector since at least 1947
- Effectiveness at meeting objectives based primarily on:
 - Accruals
 - Interest
 - Annuitization
 - Adjustments related to inflation, both during employment and retirement
- Annuitized DC plans similar post retirement

Cash Balance Account Growth: Full Career

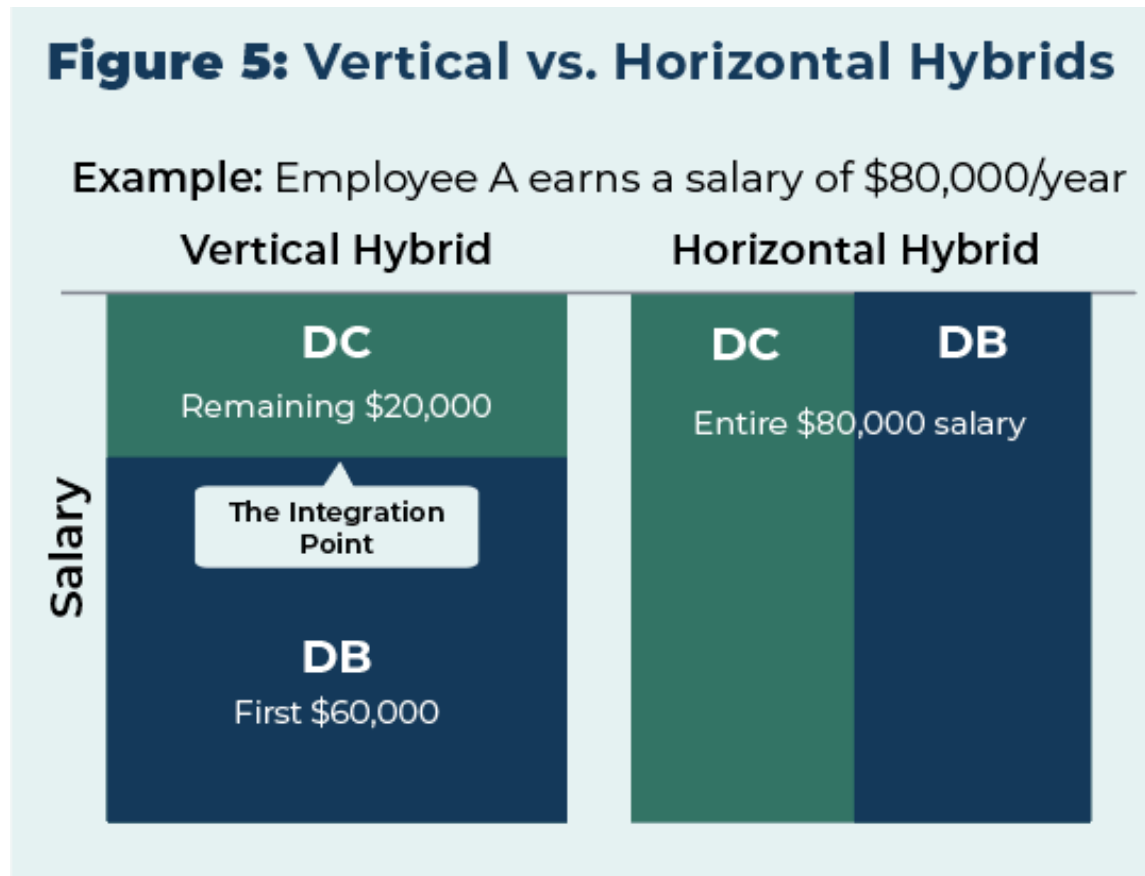
Figure 2: Annual Increase in Account Balance, with Contributions and Interest Defined - Full Career



Cash Balance Account Growth: Mid-Career Hire



Vertical and Horizontal Hybrid Plans Combine DB & DC Plans, but Apply Them to Different Portions of Salary



DB Plans Share Risk Through Benefits in Two Ways

- Post-retirement benefit adjustments
 - Adjustments limited based on funded status
 - Limitations based on investment returns
 - Suspensions
- Variable benefit accruals

Existing DB Plans Share Costs in Various Ways

**Table 2: Risk-Sharing Provisions
Present in Public Plans**

Pre-determined Contribution Split
between Employee and Employer

Actuarially Determined Employer
Contribution (ADEC) Split

Dividing Only the Normal Cost
Between Employee and Employer

Risk-Sharing Based on Investment
Returns of the Plan

Risk-Sharing Based on the Funded
Status of the Plan

DB Plans Can Offer Attractive Benefits to Non-Career Workers

- Colorado PERA: In lieu of refunding non-vested contributions, participants can choose:
 - Leave funds, which receive interest and 50% match
 - Employer match increases to 100% at age 65
 - Annuitization of non-vested benefits at cost
 - Shares access to PERA's efficiency & longevity pooling
 - Likely helps prevent leakage
- Index frozen benefits

Considerations in Implementing Design

- Transition procedures and considerations
 - Stakeholder communications
 - Investment adjustments
 - Workforce impacts
 - Legacy unfunded amortization
- Monitor and revise

Questions

