No Quick Fix: Closing a Public Pension Plan Leads to Unexpected Challenges

Research Webinar

December 6, 2023

NATIONAL INSTITUTE ON
Retirement Security
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Agenda

- Logistics and Introductions
- Research Findings
- Q&A

Speakers

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NIRS Executive Director

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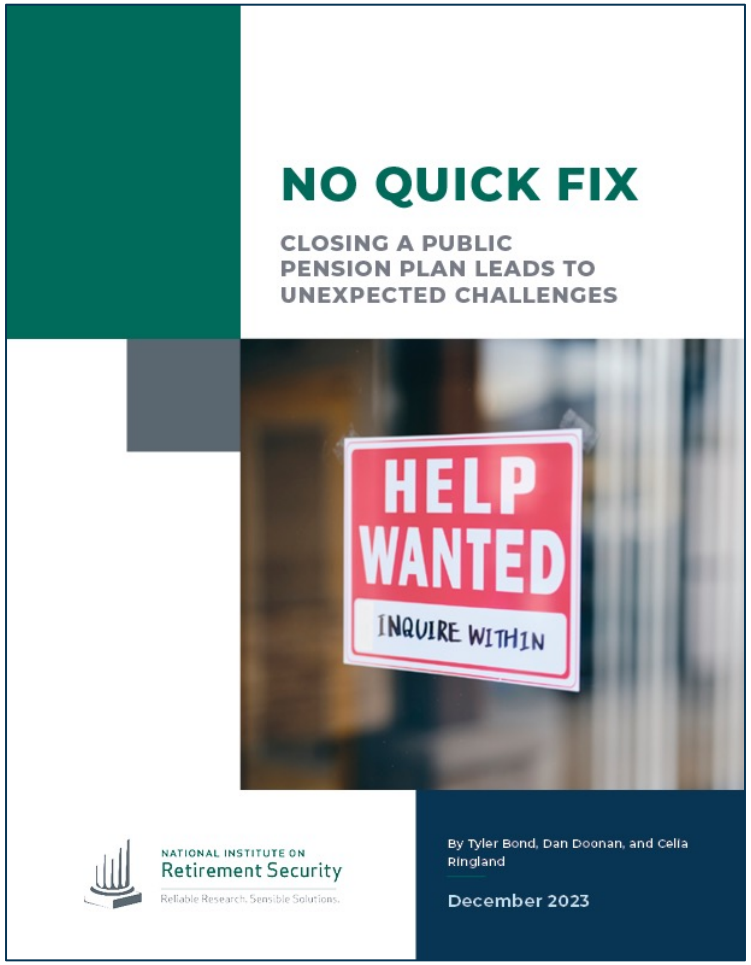
NIRS Research Director

Why This Research?

- Few states have closed their public pension plans, so it's important to examine the experiences of those that have.
- More years of data are providing a more complete picture of the experiences in these states.
- It is important to understand what closing a plan will look like over time, given that it is often proposed.



Key Findings

- Employer costs have increased significantly since closing or making major changes to a pension plan.

- The importance of properly funding a pension plan stands out. Often, poor funding either led to the decision to close the plan or continued after the plan was closed.

- Plan cash flows have become more negative over time as demographics shift within the plan.

Key Findings, Continued

- Retention of public employees has become more difficult without a DB pension plan.

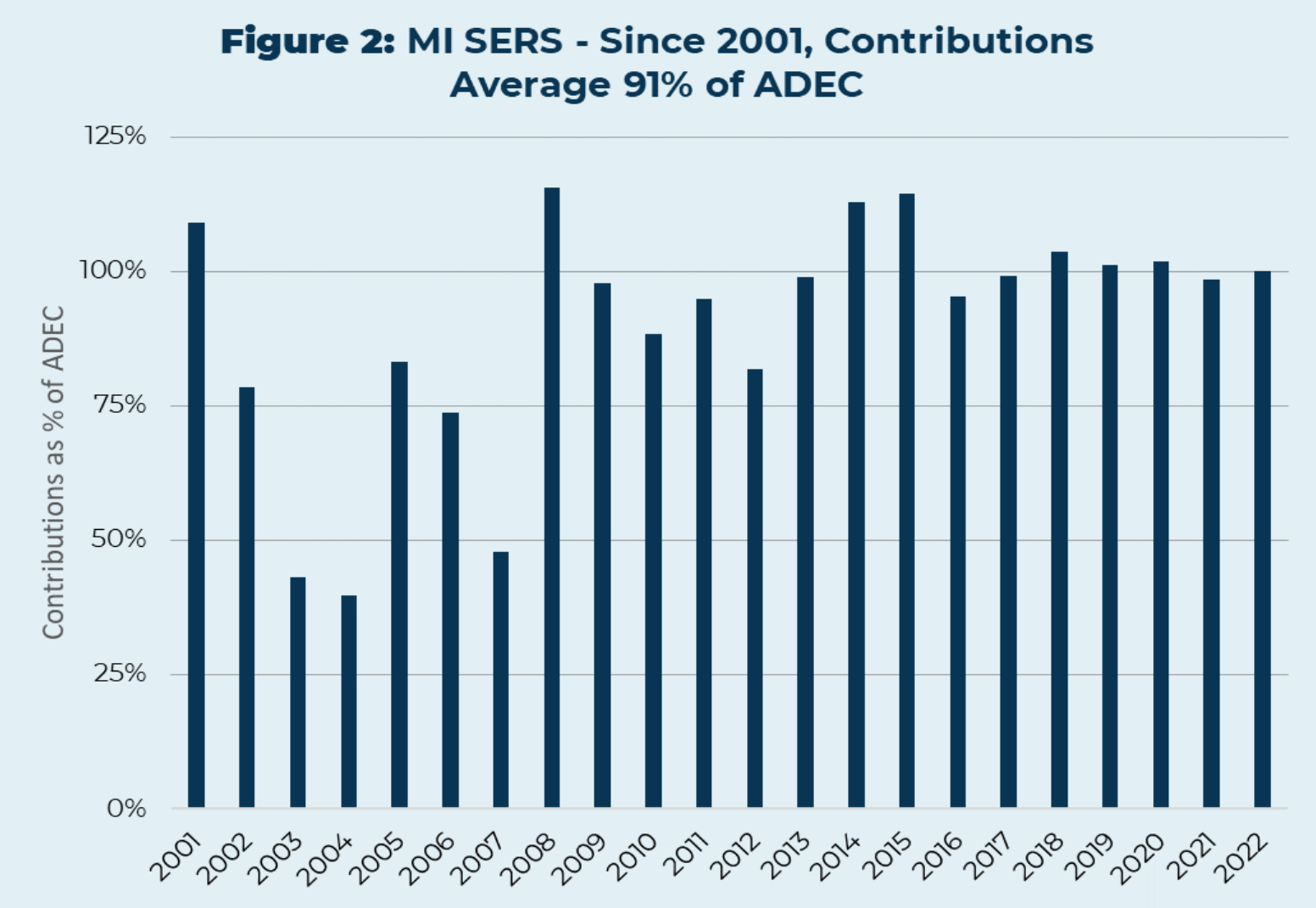
- Many workers are cashing out their DC plan account balances when they leave their public sector job rather than rolling over that money to allow it to continue to grow for retirement.

- WV TRS shows that reopening a closed pension plan is a viable option.

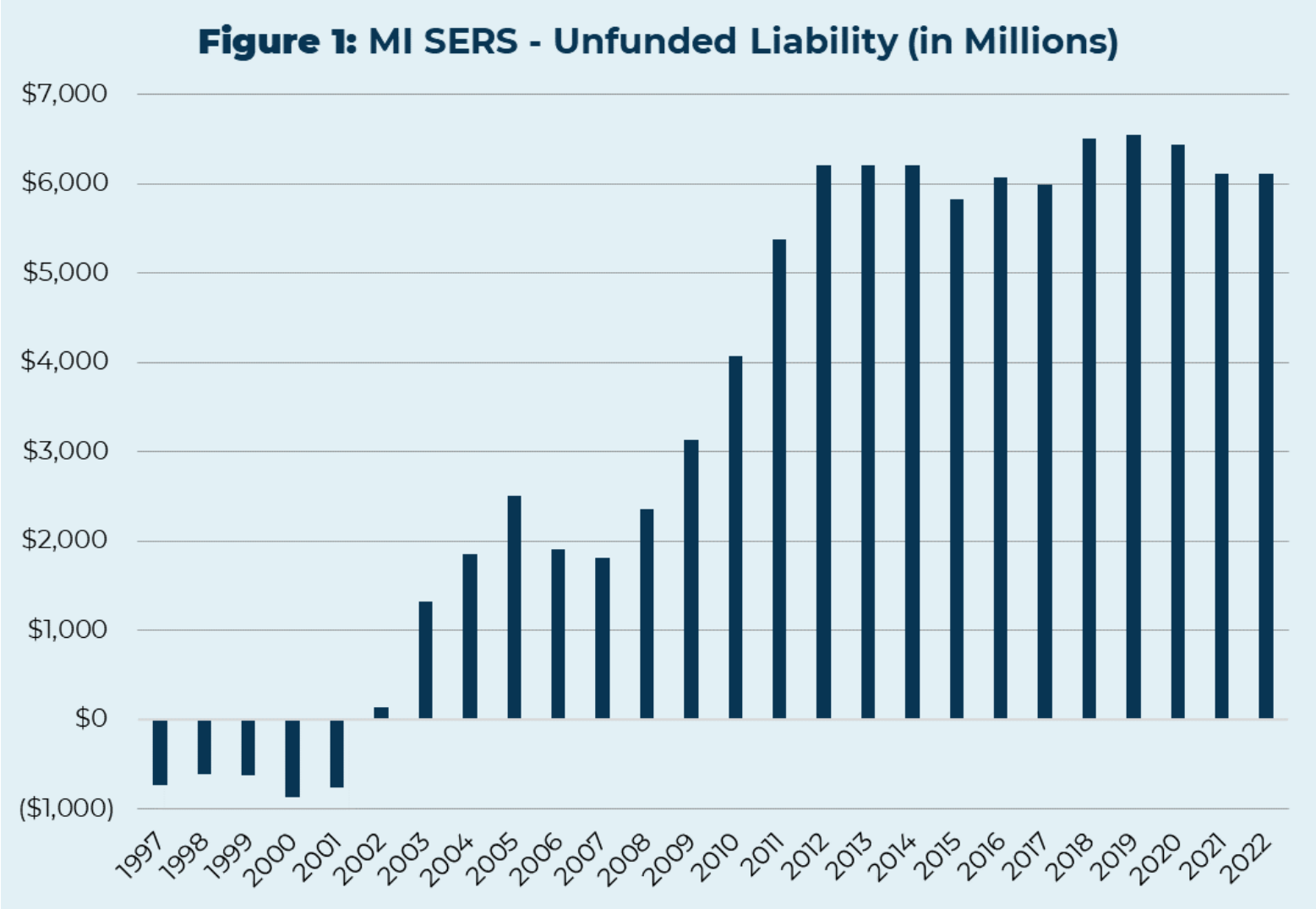
Michigan State Employees' Retirement System (SERS)

- Public Act 487 closed the Plan to new hires after March 31, 1997
- Was presented as a way to provide "advantages some people feel DC plans offer to both employers and employees"
- SERS was 109% funded at the time

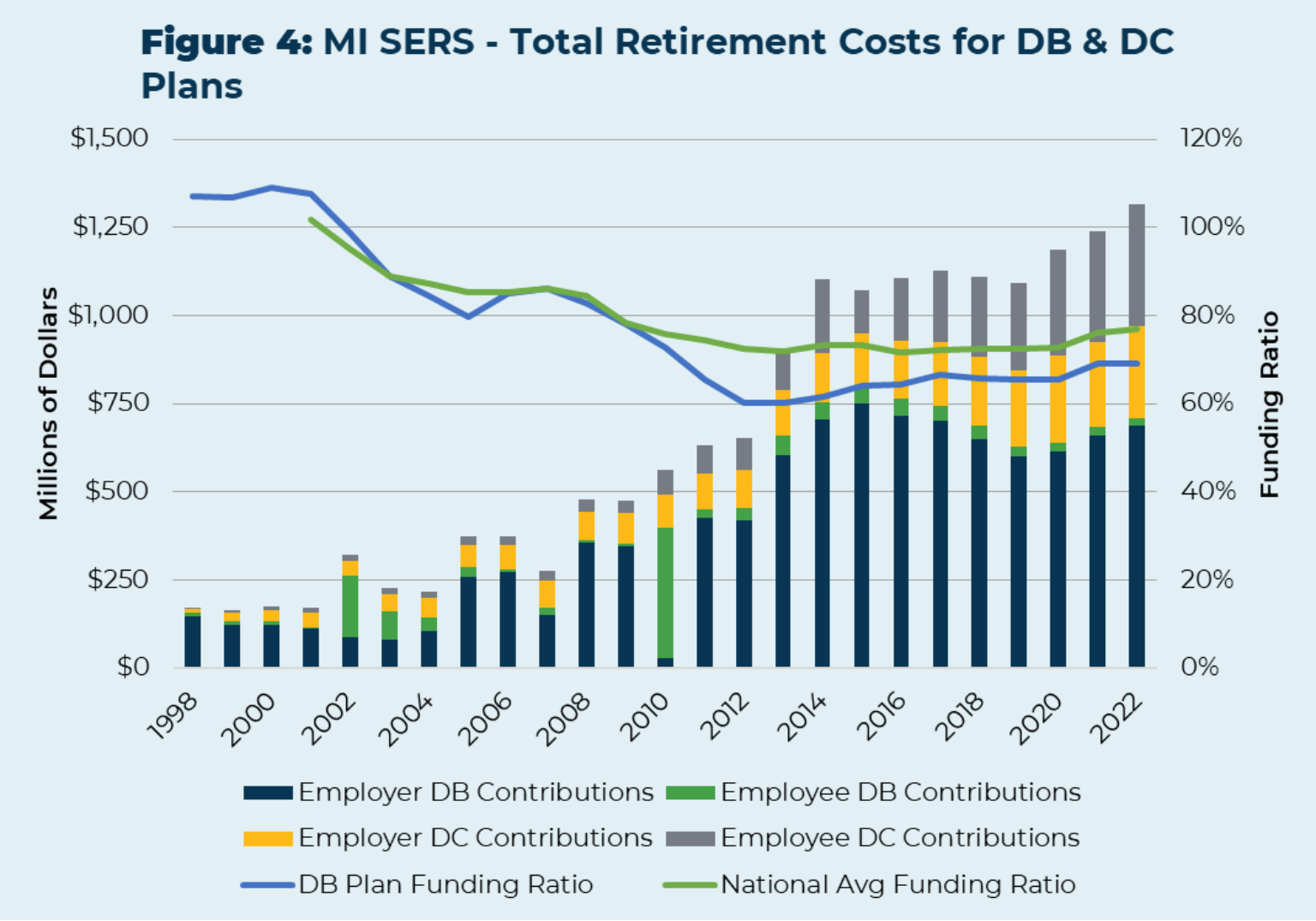
MI SERS: Uneven Contribution History



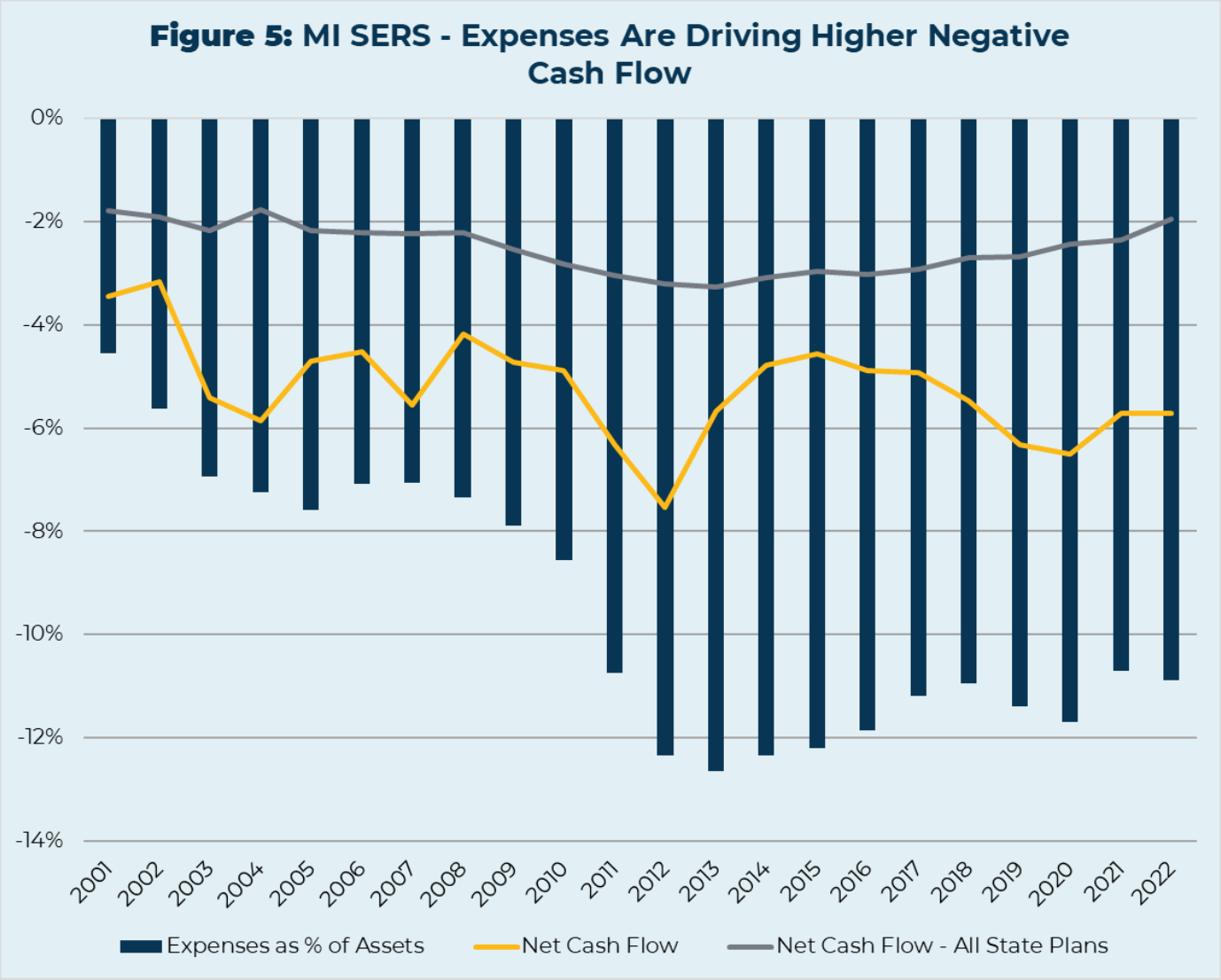
MI SERS: UAL Up Significantly Since Closure



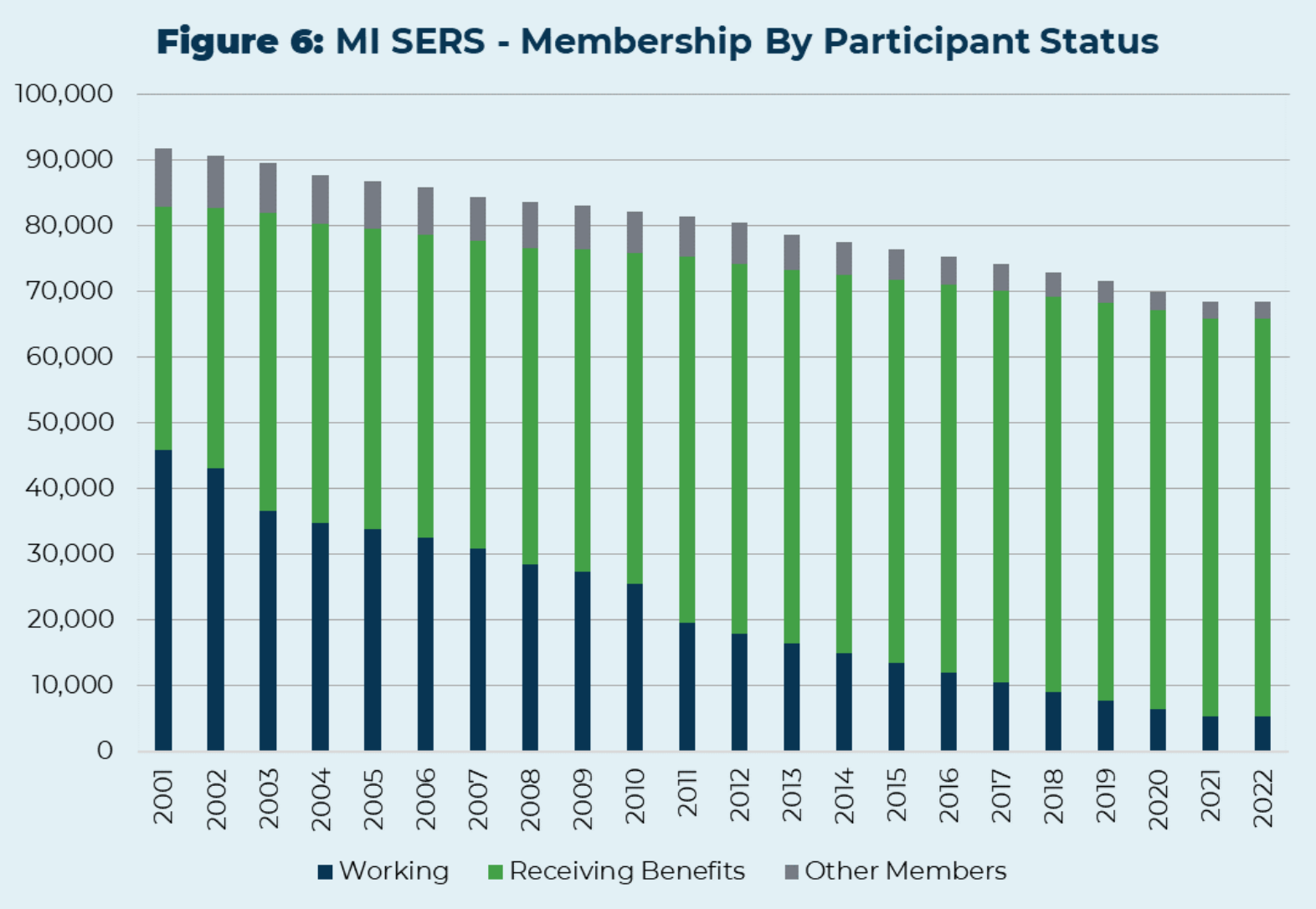
MI SERS: Costs Up; Funding Ratio Down



MI SERS: Growing Negative Cash Flow



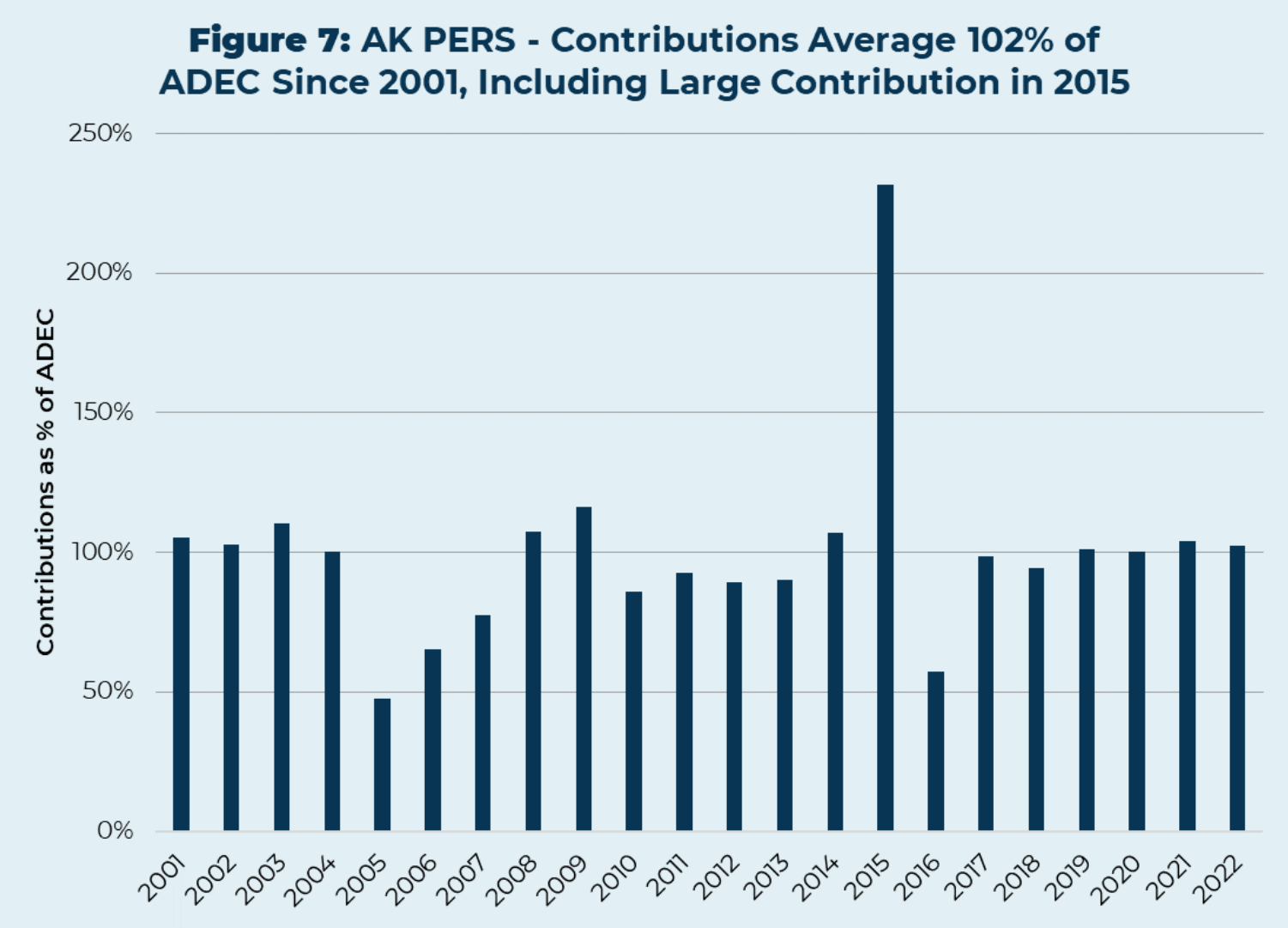
MI SERS: Active Members Are Declining



Alaska PERS and TRS

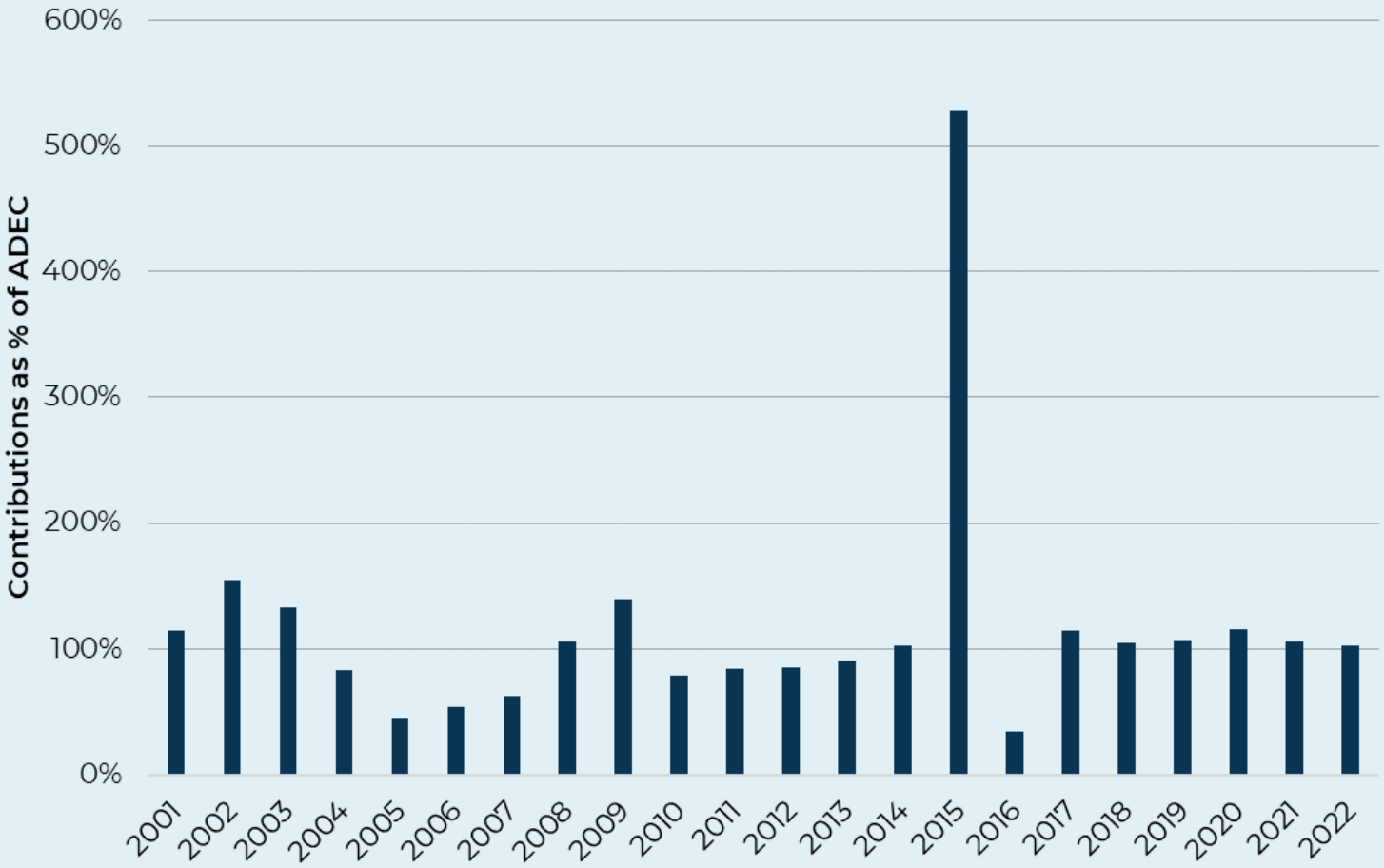
- Plans closed effective June 30, 2006
- Some workers have a DC and Social Security, others have DC and Supplemental Savings, while many (including teachers) have a DC and no Social Security.
- Unlike Michigan SERS: The political momentum behind closing the pension plans was driven by the state's unfunded liability.

AK PERS: Highly Uneven Contributions

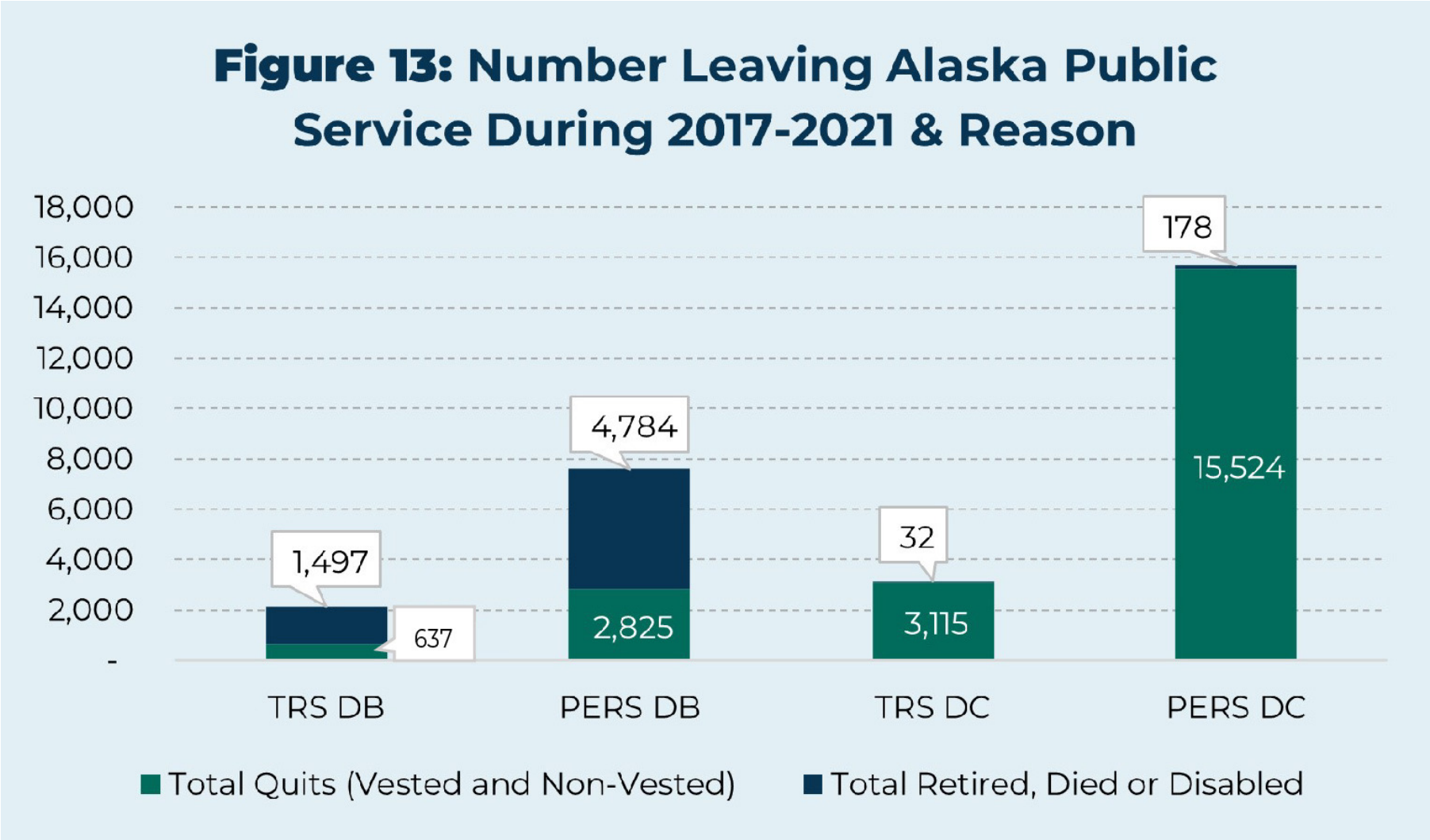


AK TRS: Impactful 2015 Contribution

Figure 8: AK TRS - Contributions Average 126% of ADEC Since 2001, Including Large Contribution in 2015

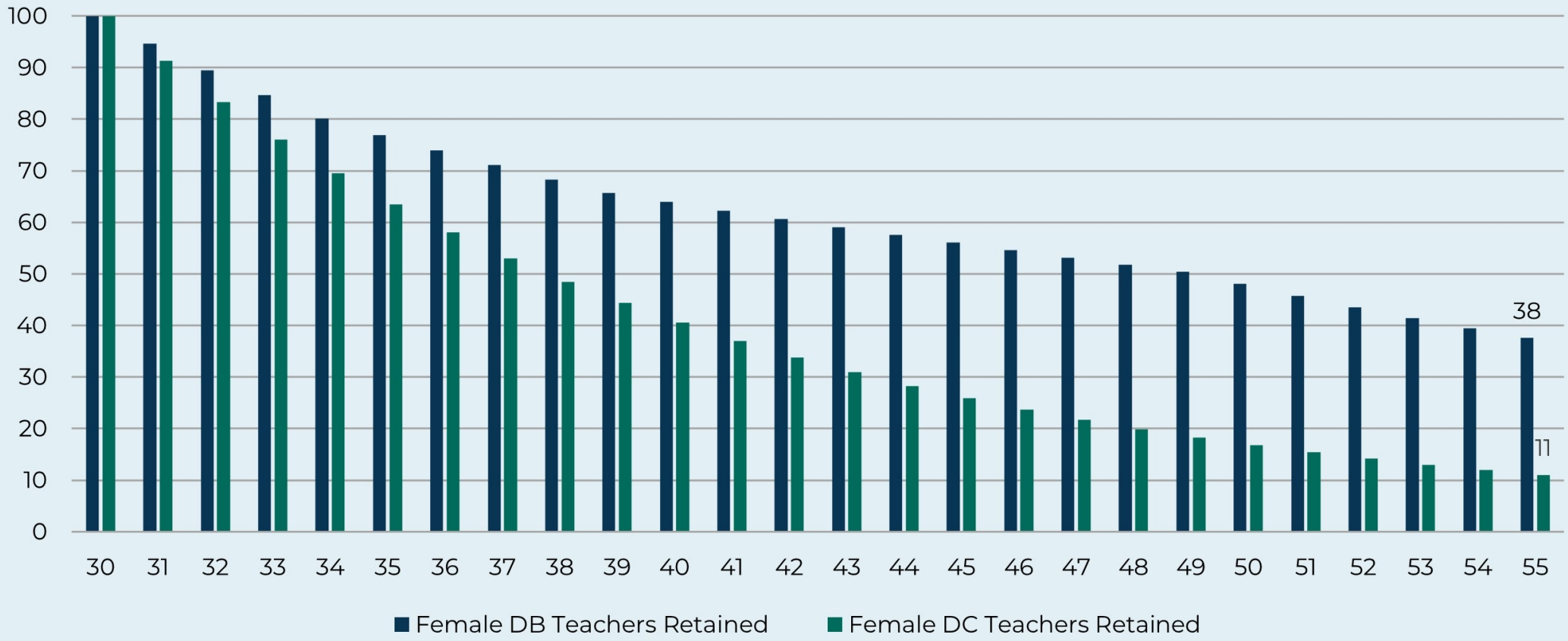


AK: More Quits Than Retirements in DC Plans



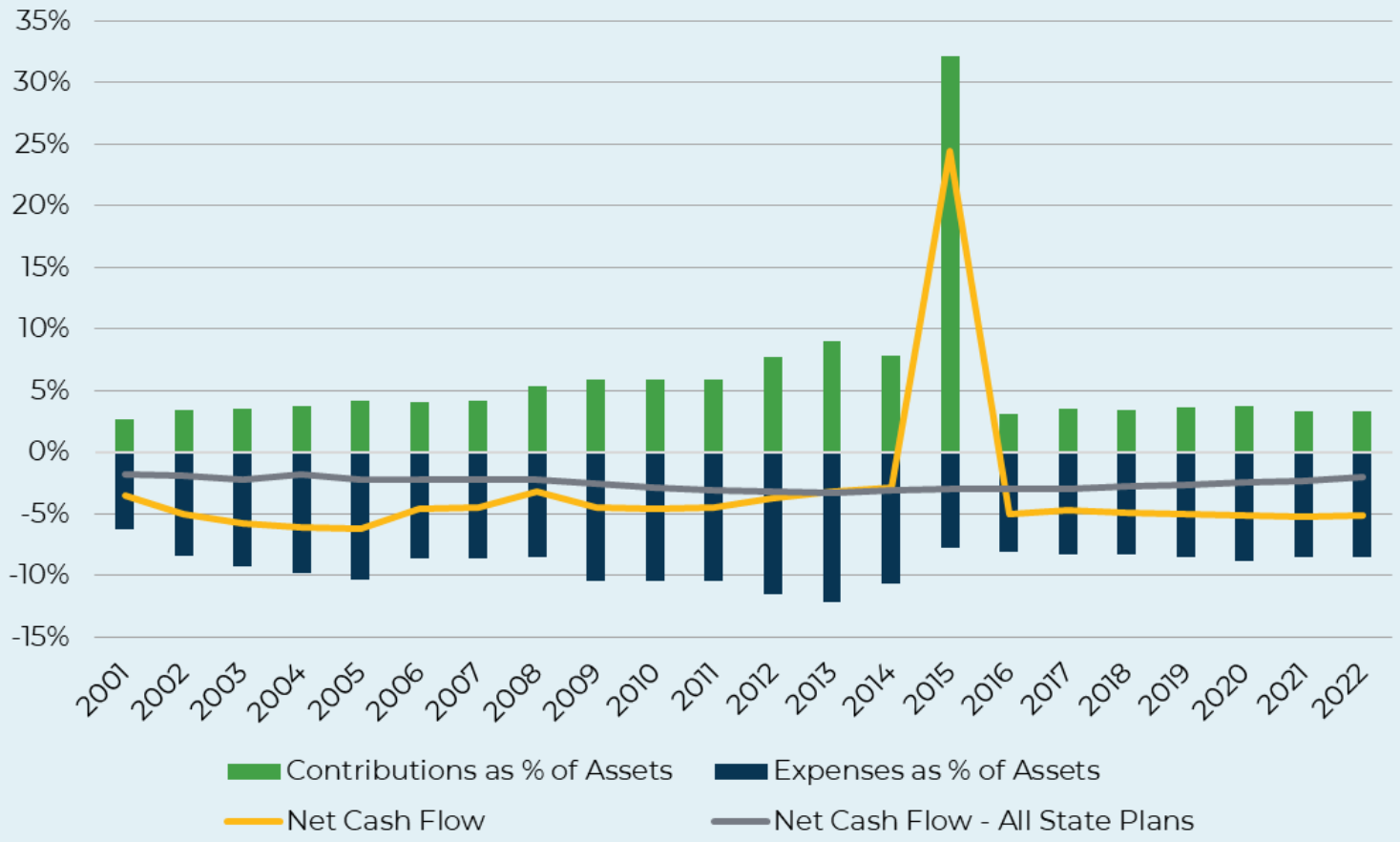
AK TRS: DC Plan Retention Challenges

Figure 11: Retention of Female Teachers (TRS): DB & DC Plans Based on Ultimate Termination Rates

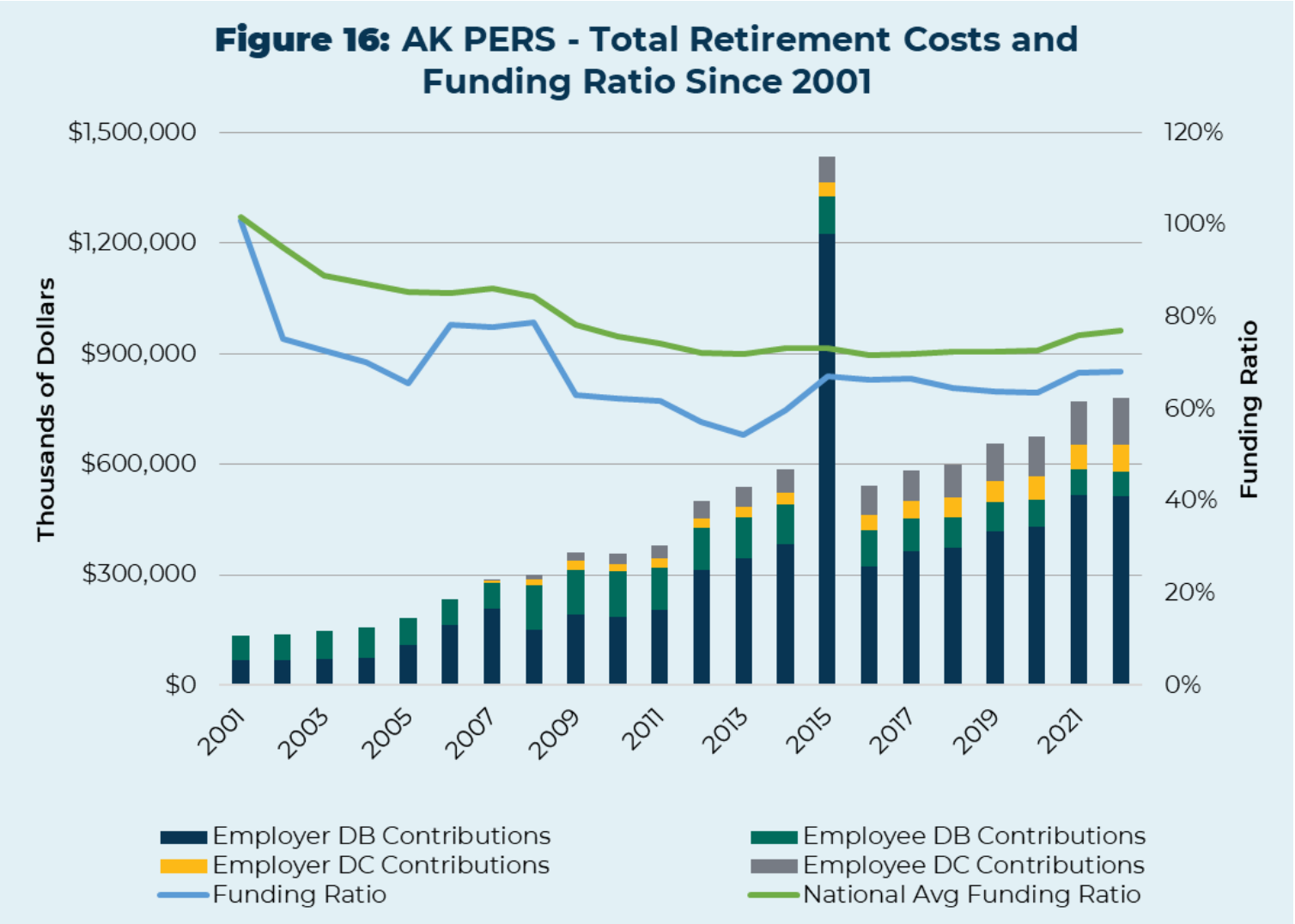


AK TRS: Cashflow Trends

Figure 15: AK TRS - Large 2015 Contribution Increased Assets Significantly, Which Reduced Negative Cash Flow

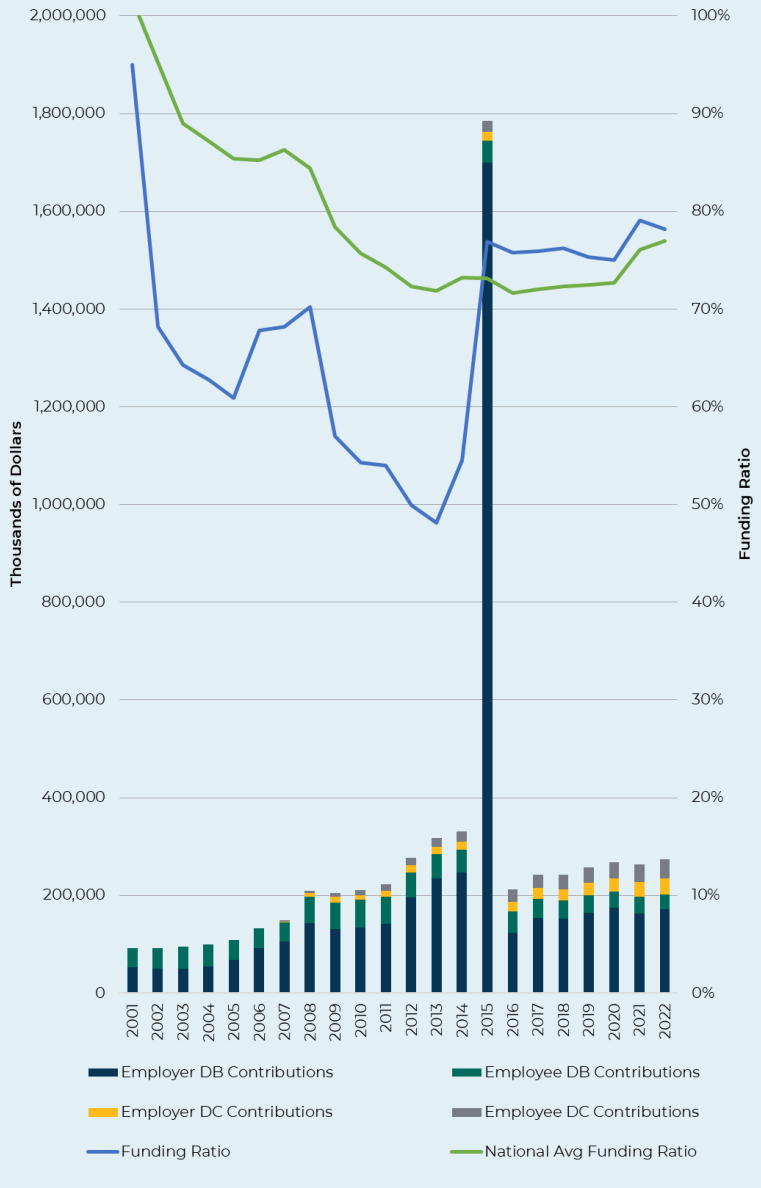


AK PERS: Costs Up; Funding Ratio Down



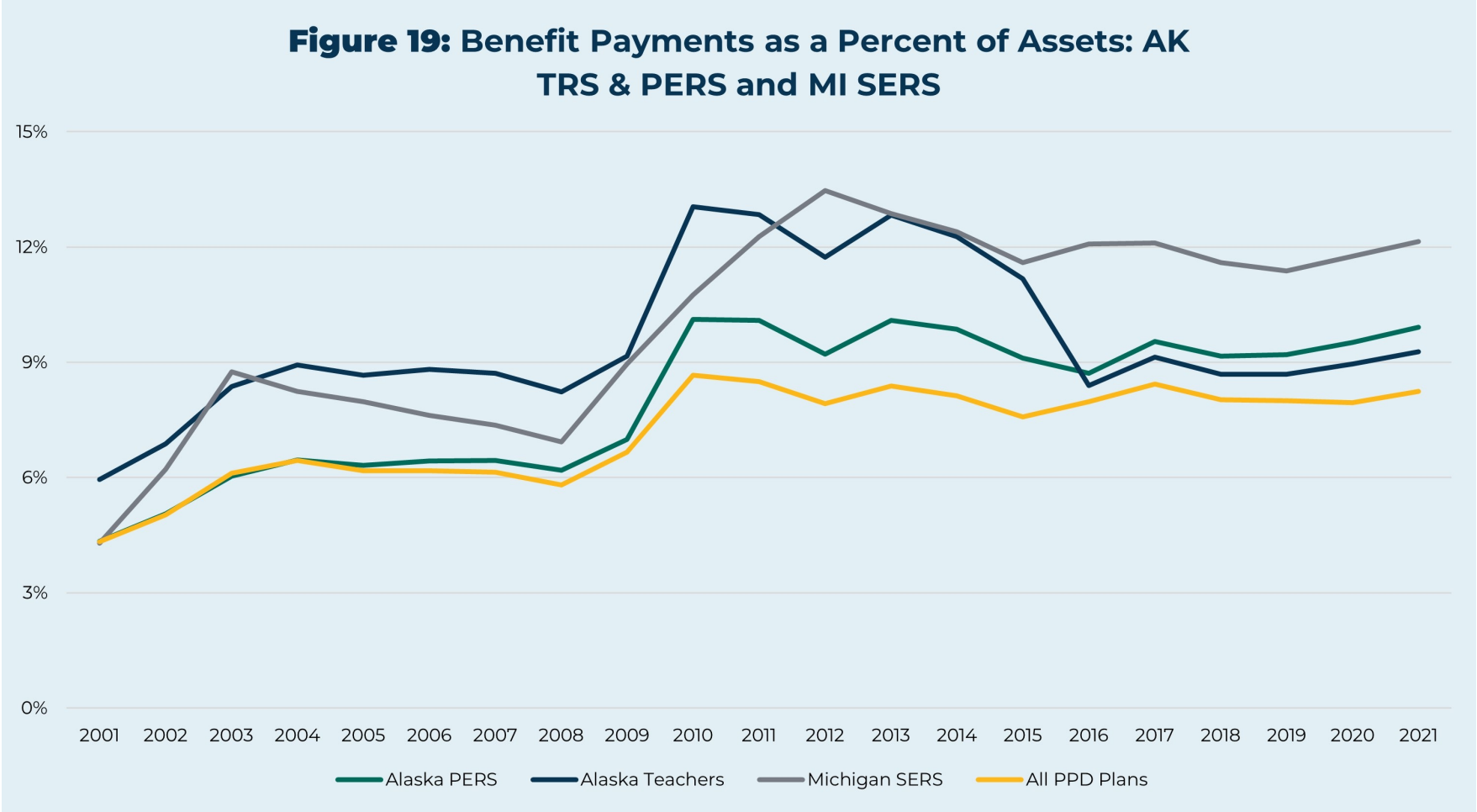
AK TRS: Massive One-Time Contribution Pulled Up Funding Ratio Significantly, but Costs Are Rising Again

Figure 17: AK TRS - Total Retirement Costs and Funding Ratio Since 2001



MI SERS Pays High Percent of Assets as Benefits; AK Plans Benefitted in 2015

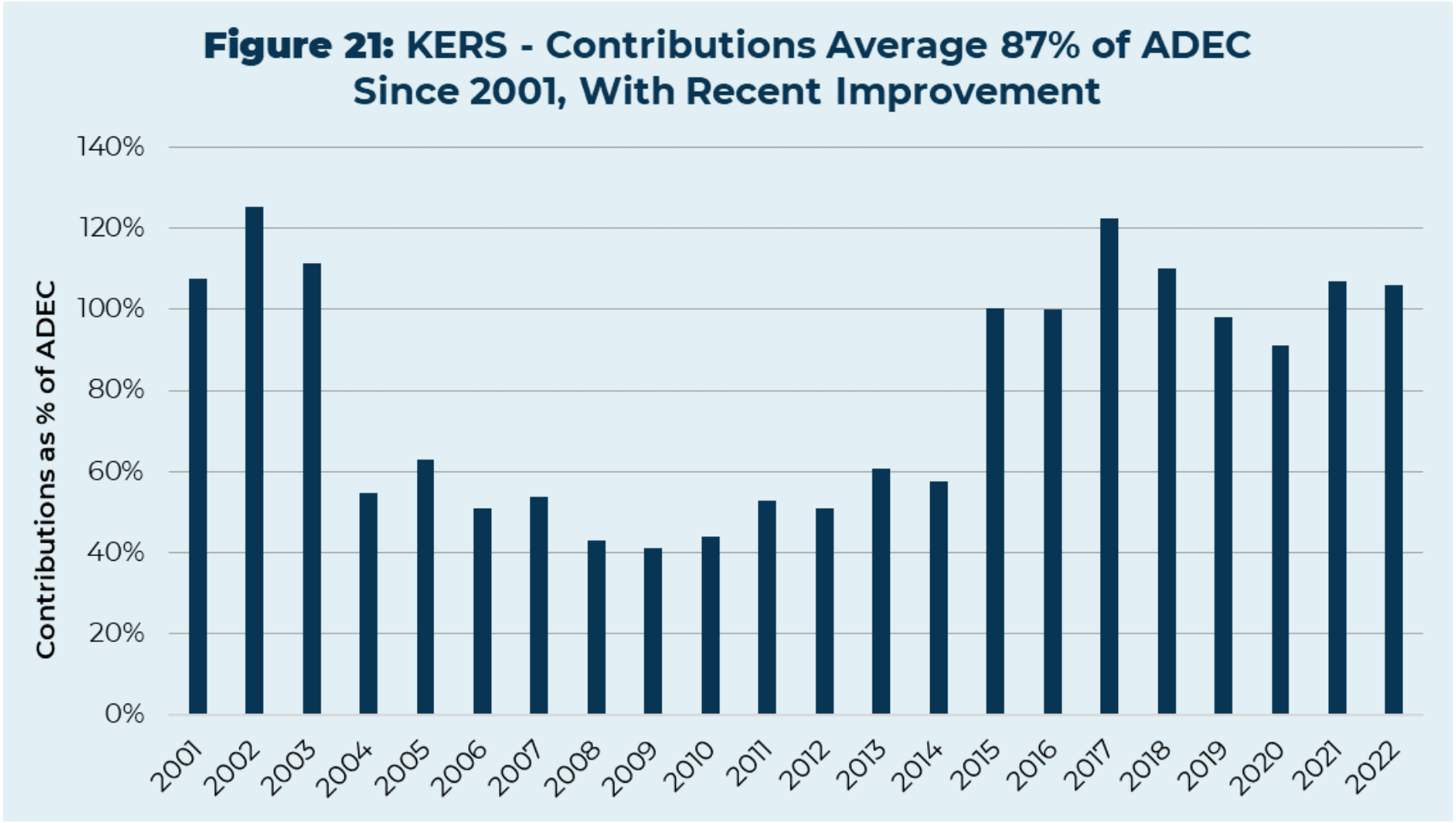
Figure 19: Benefit Payments as a Percent of Assets: AK TRS & PERS and MI SERS



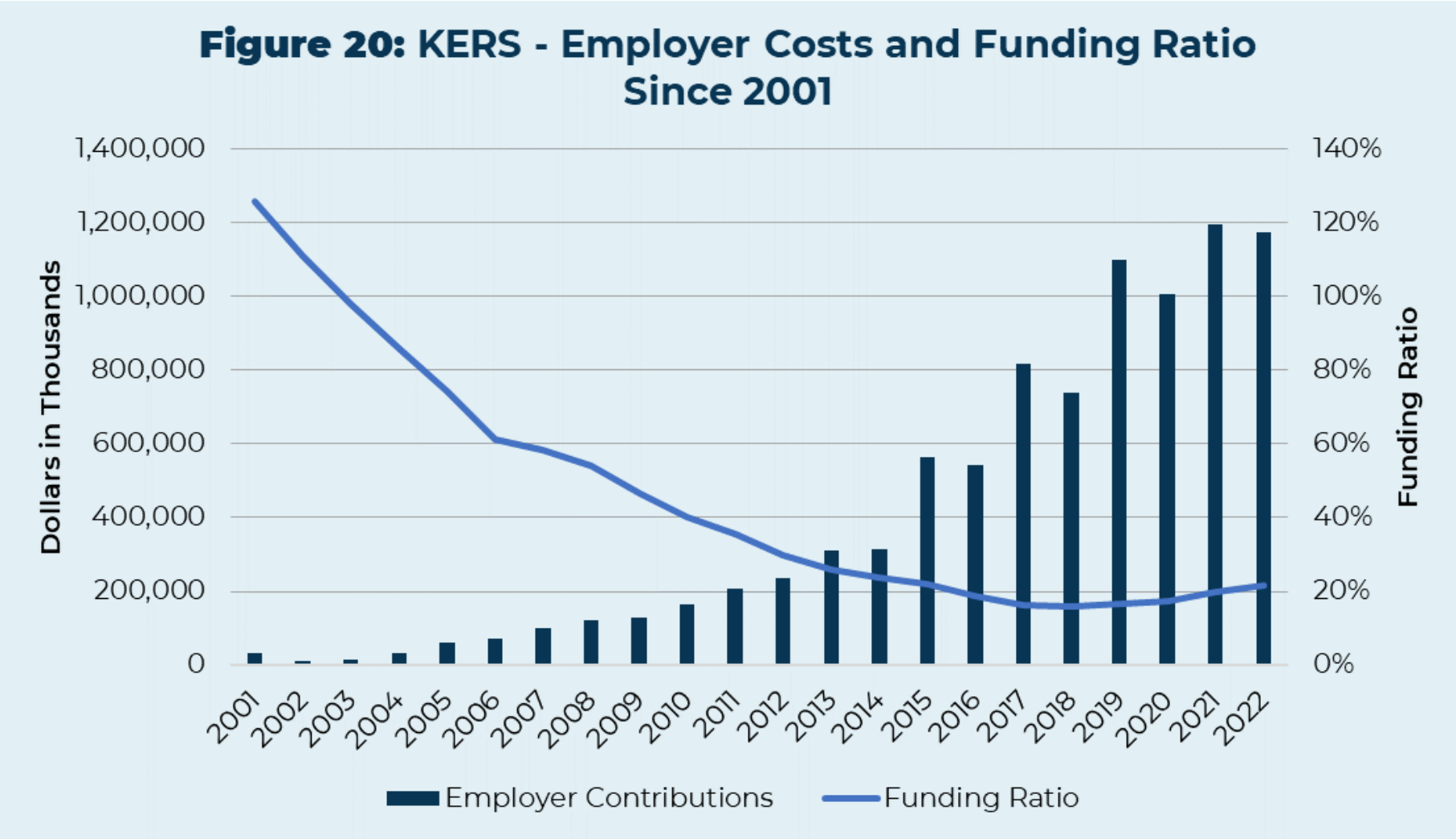
Kentucky Public Pensions Authority

- The five plans under KPPA were converted to cash balance plans in 2013.
- There was a long history of underfunding the plans in KY, but the state has committed to full funding in recent years.
- The state has made other changes, such as dramatically lowering the discount rates used to fund the plans.

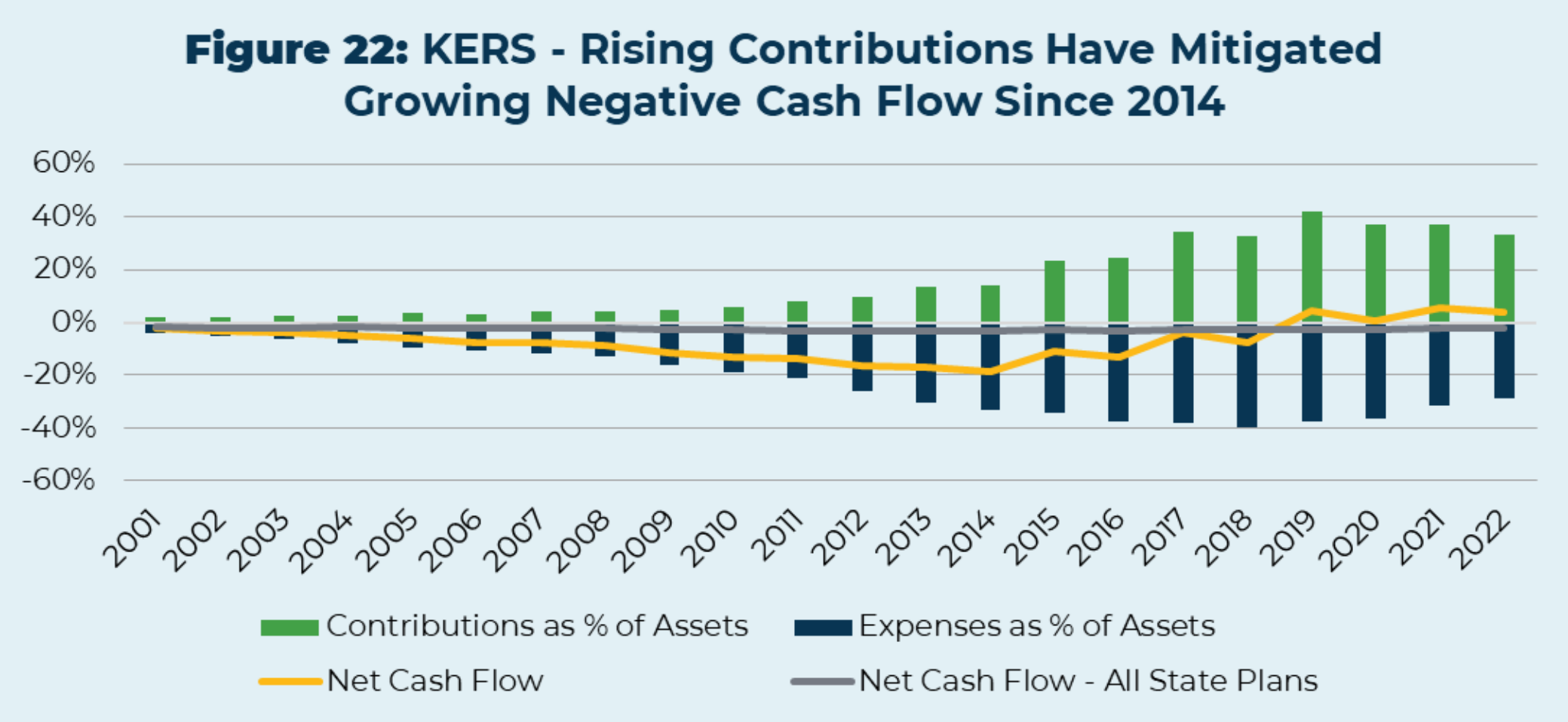
KERS: Contribution Discipline Improves



KERS: Funding Plummeted Over 20 Years

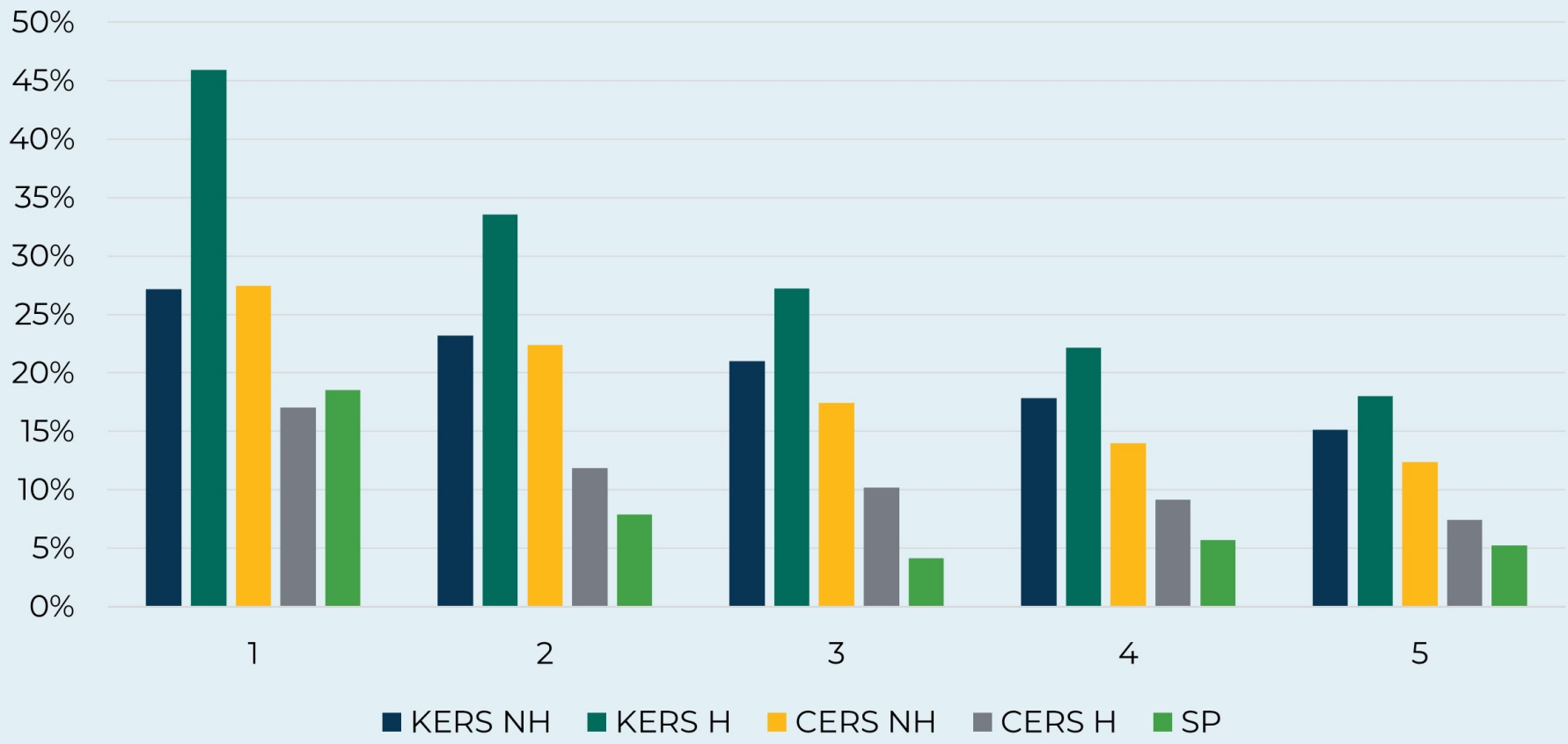


KERS: Cash Flow Improved with Funding



KERS: Very High Initial Termination Rates

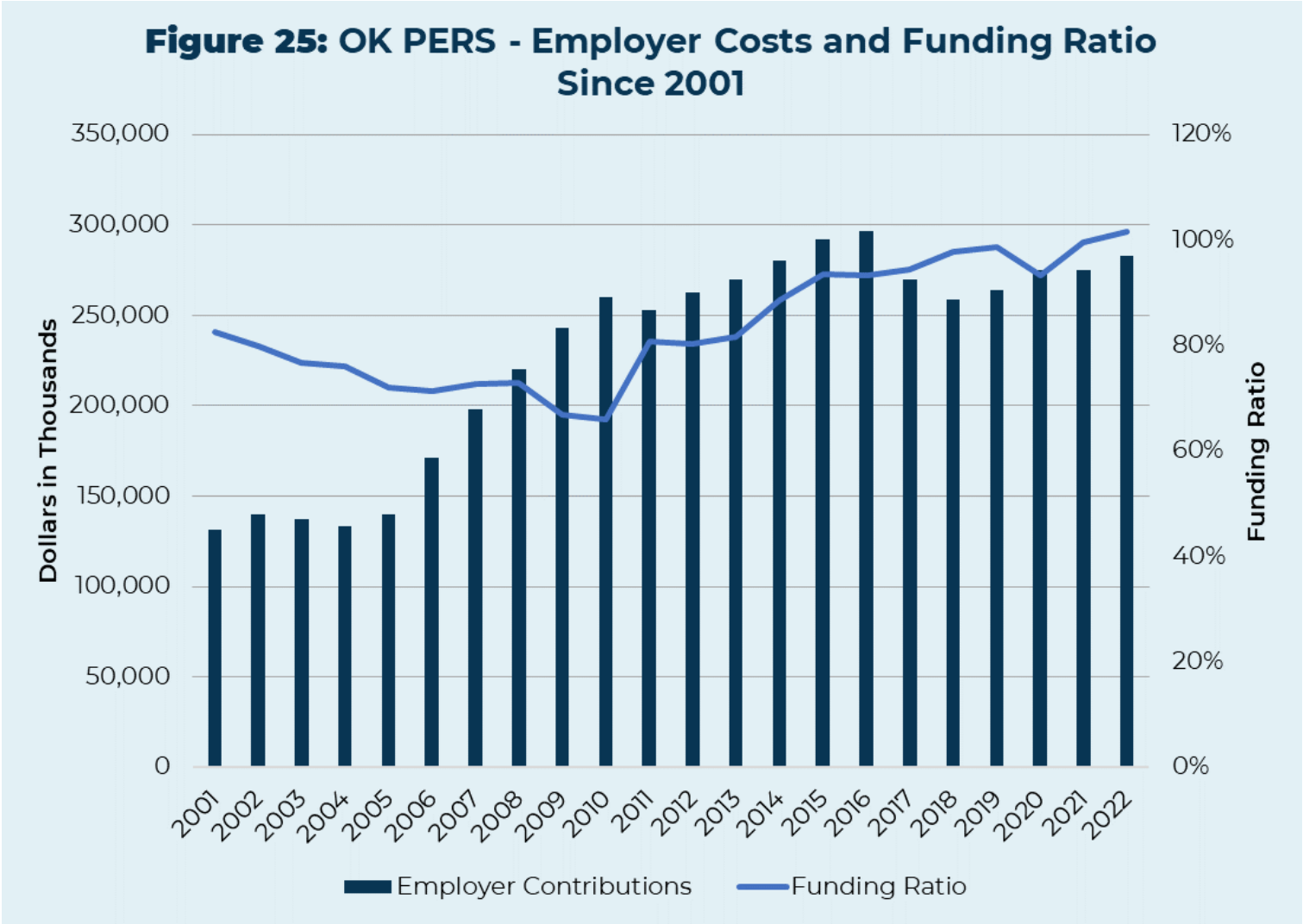
Figure 24: KPPA - Actual Termination Rates Through 1st Five Years



Oklahoma PERS

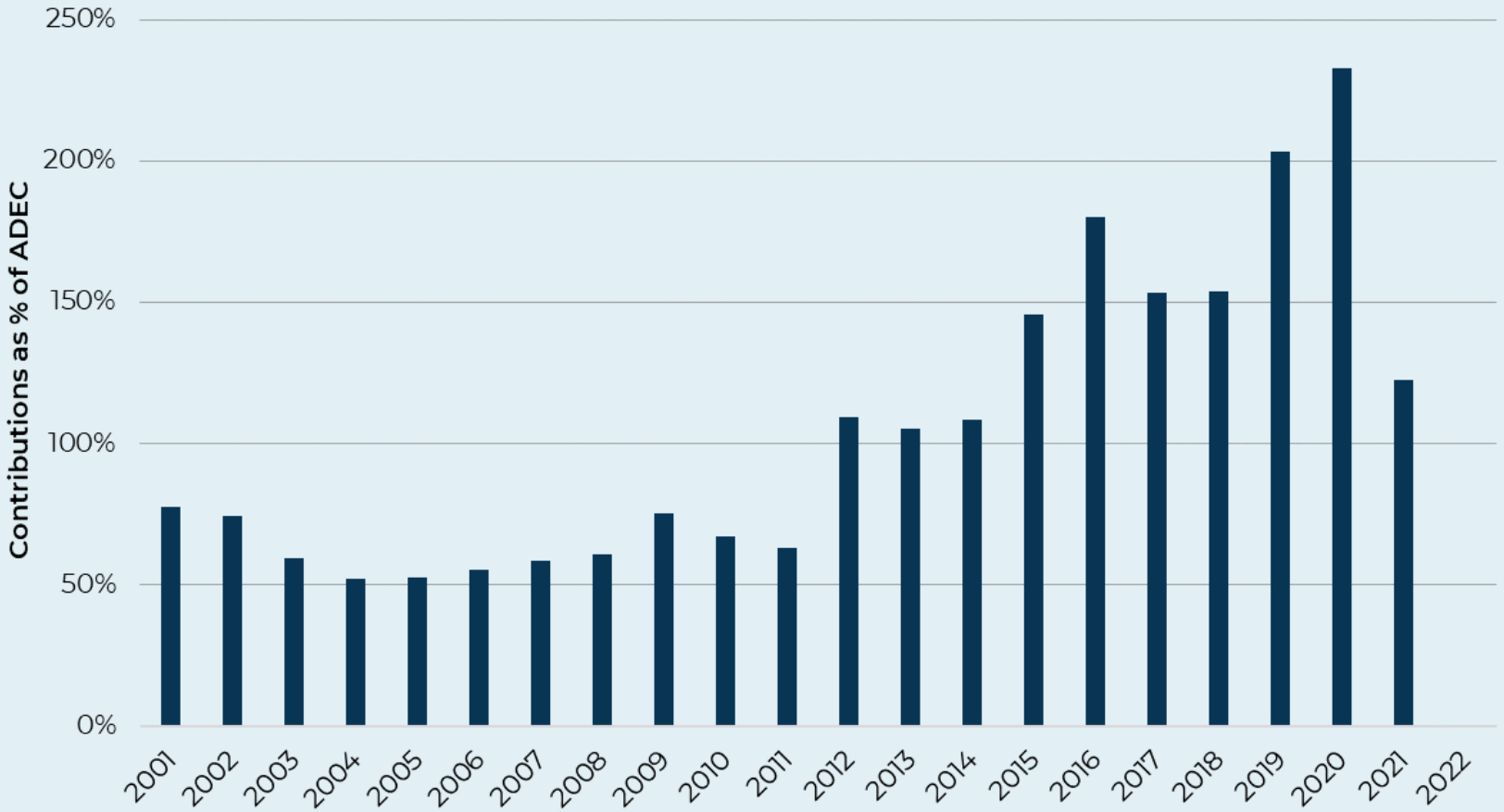
- OPERS was partially closed to new hires on November 1, 2015.
- New hires in certain employee classifications are still able to join the DB plan.
- All other new hires join a DC plan called Pathfinder.
- OPERS faces many of the same challenges as MI SERS and AK PERS and TRS, despite still being partially open.

OPERS: Funding Higher as Contributions Rise



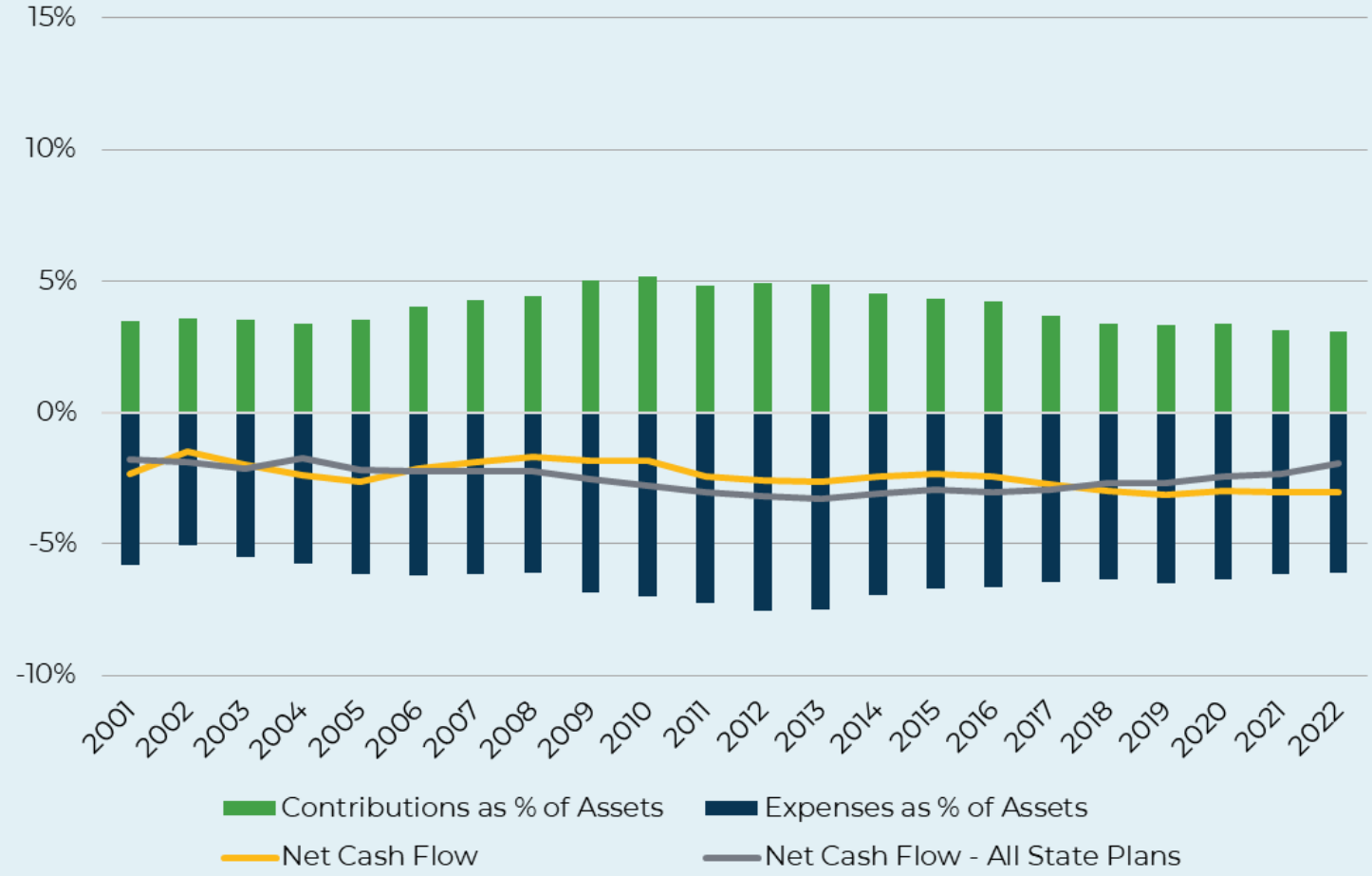
OPERS: Higher Contributions After Closure

Figure 26: OK PERS - Contributions Average 102% of ADEC Since 2001, With Improved Contribution Discipline Since Plan Closing



OPERS: Cash Flow Starting to Trend Down

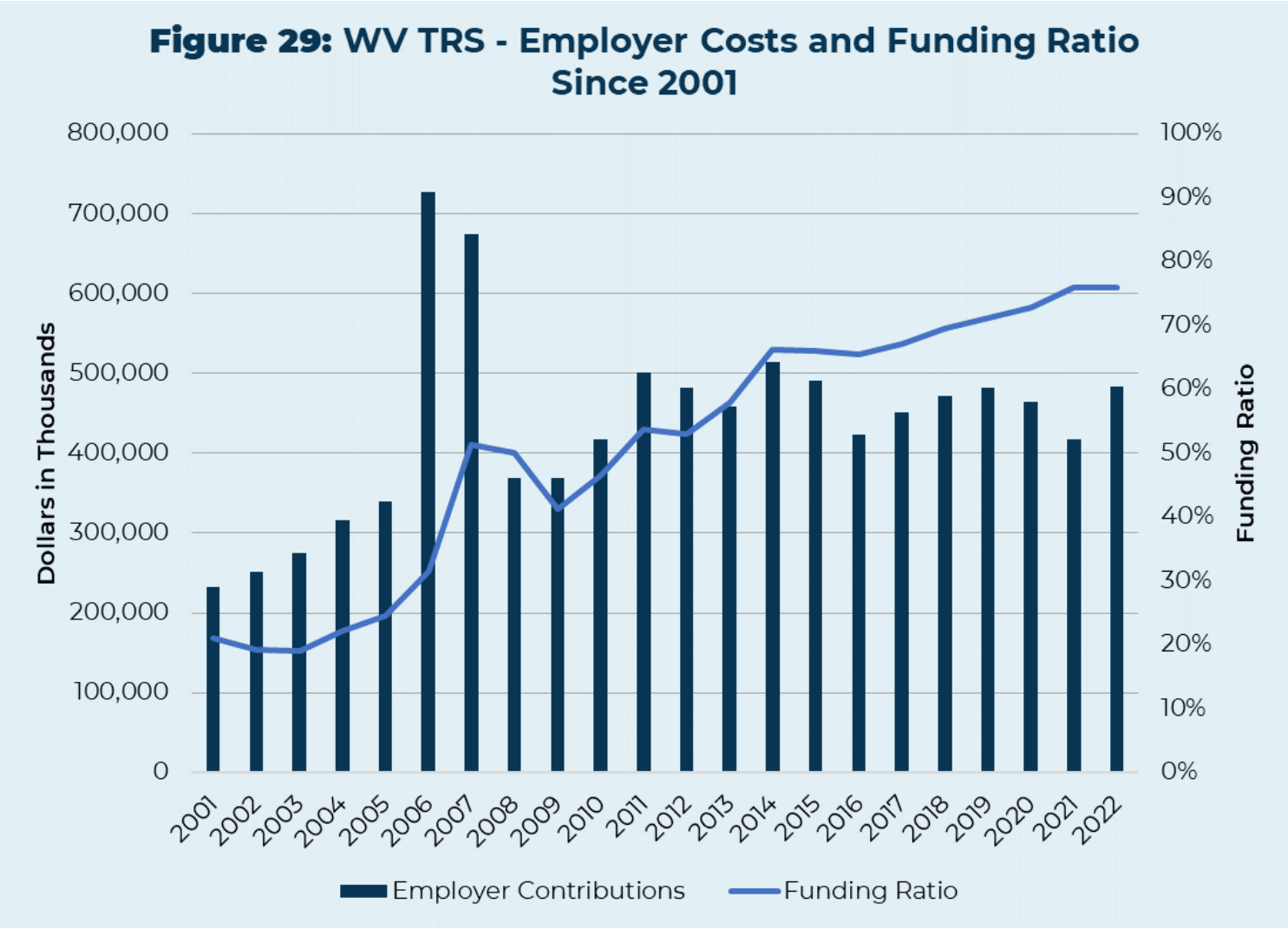
Figure 27: OK PERS - Cash Flow Beginning to Trend More Negative Despite Higher Contributions



West Virginia TRS

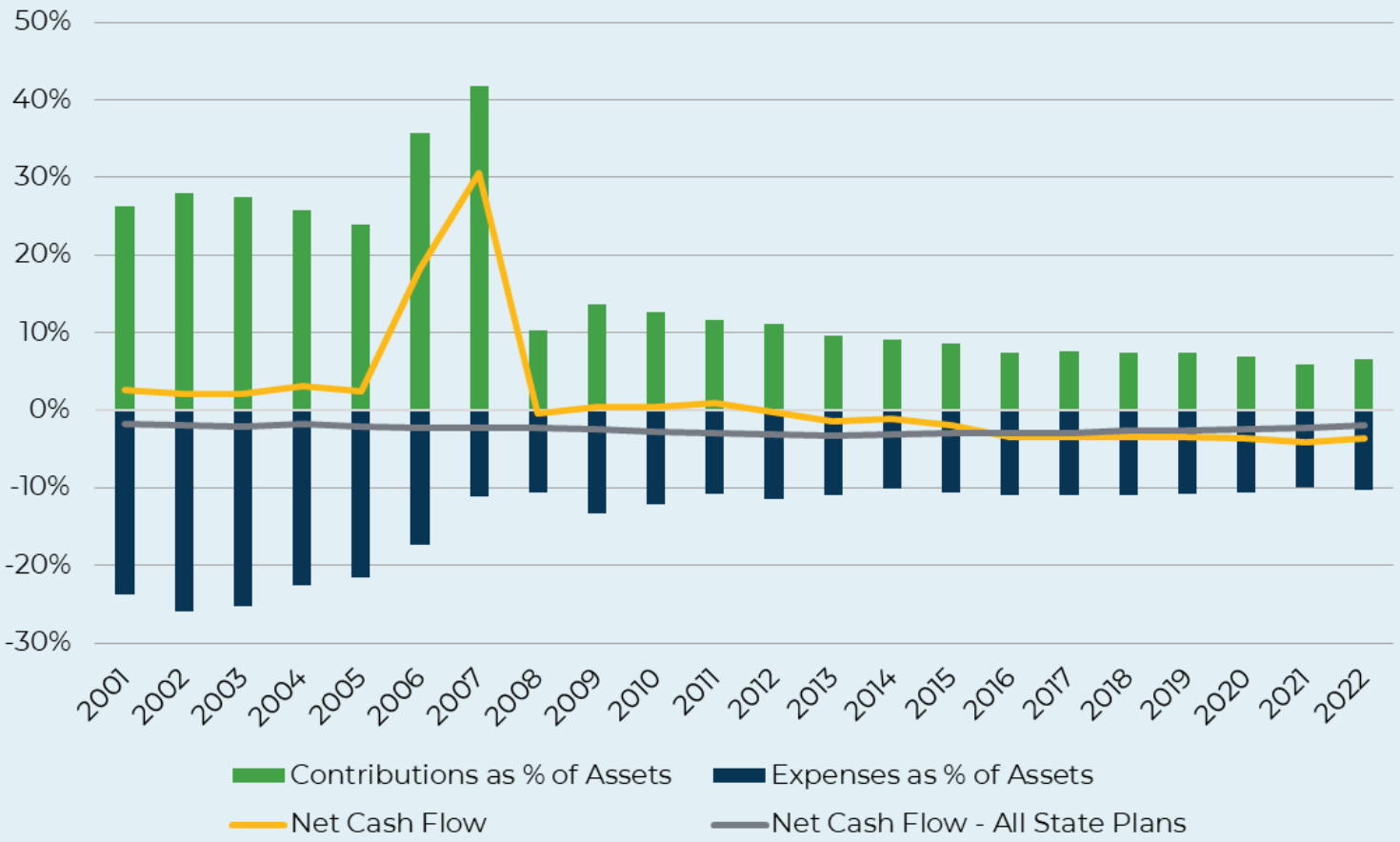
- WV TRS was closed to new hires in 1991, but reopened to new hires in 2005 following study by the state.
- Teachers in the DC plan were given the option to switch to DB plan in 2008; more than 78% did.
- WV securitized money from the tobacco settlement to boost funding following reopening of the plan.

WV TRS: Funding Improves After Reopening

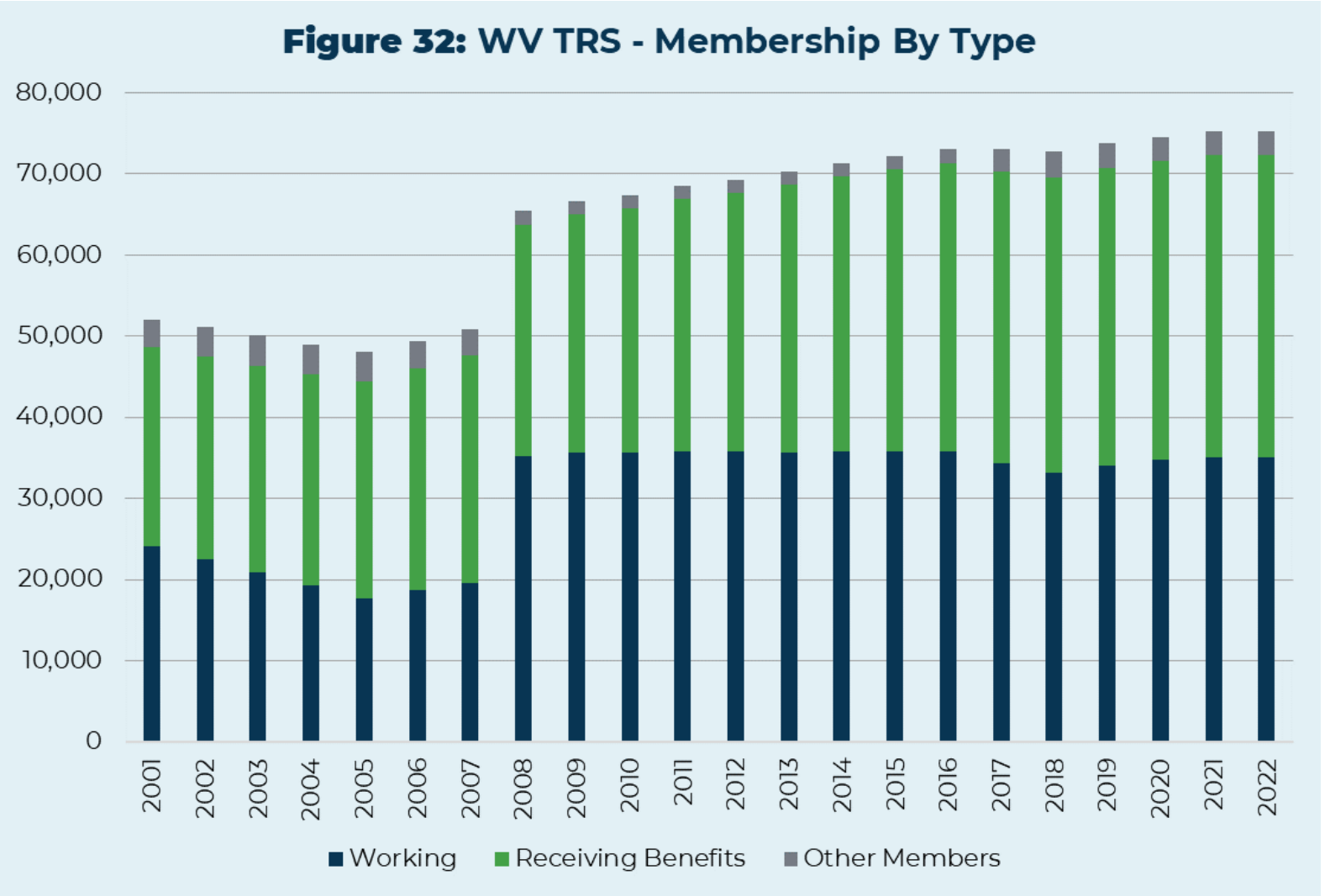


WV TRS: Reopening Has Grown Asset Base

Figure 30: WV TRS - Funding Recovery & Growing Asset Base Has Reduced Benefits and Contributions as a Share of Assets



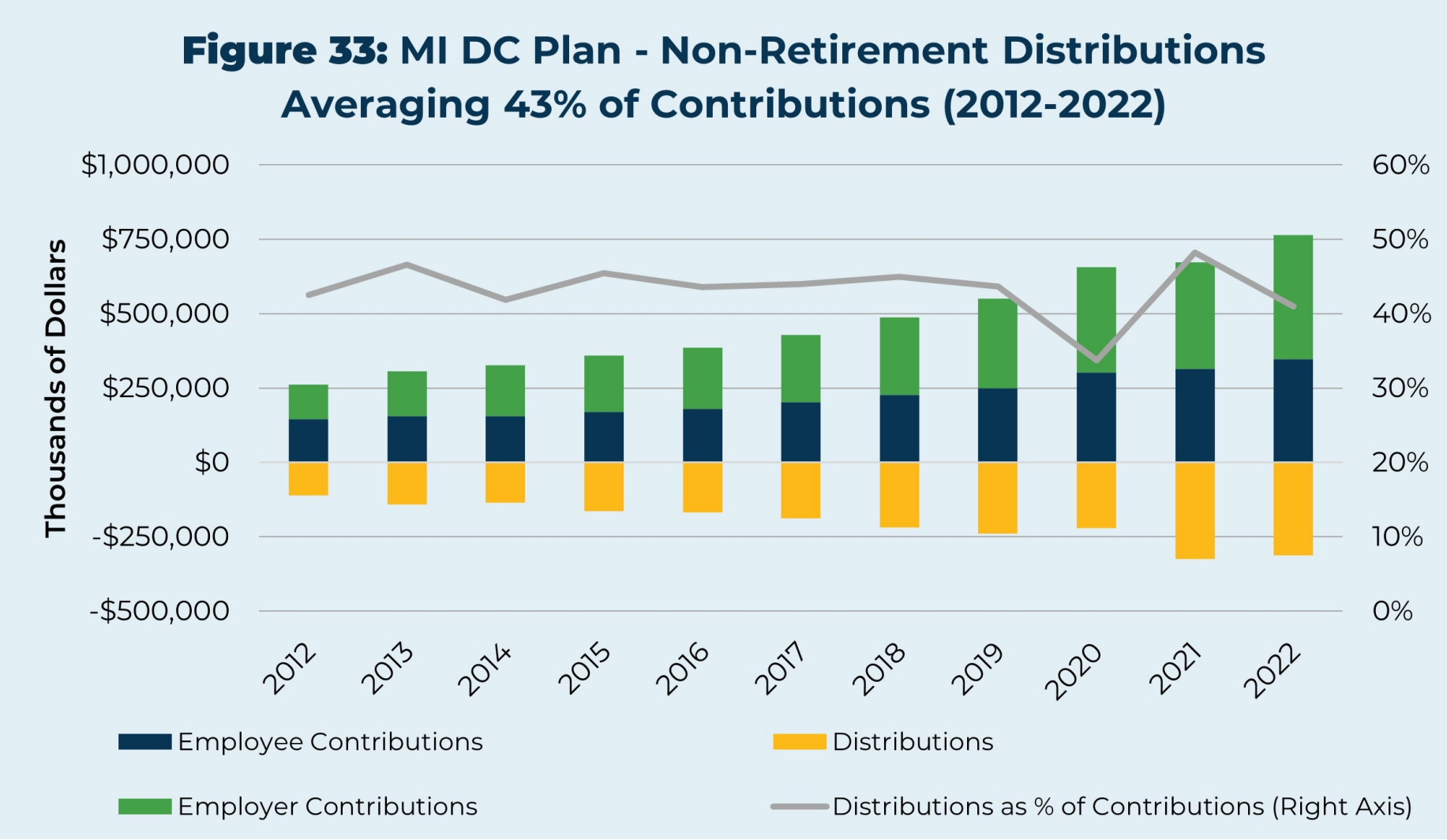
WV TRS: Active Membership Has Increased



DC Cashouts: What We Know

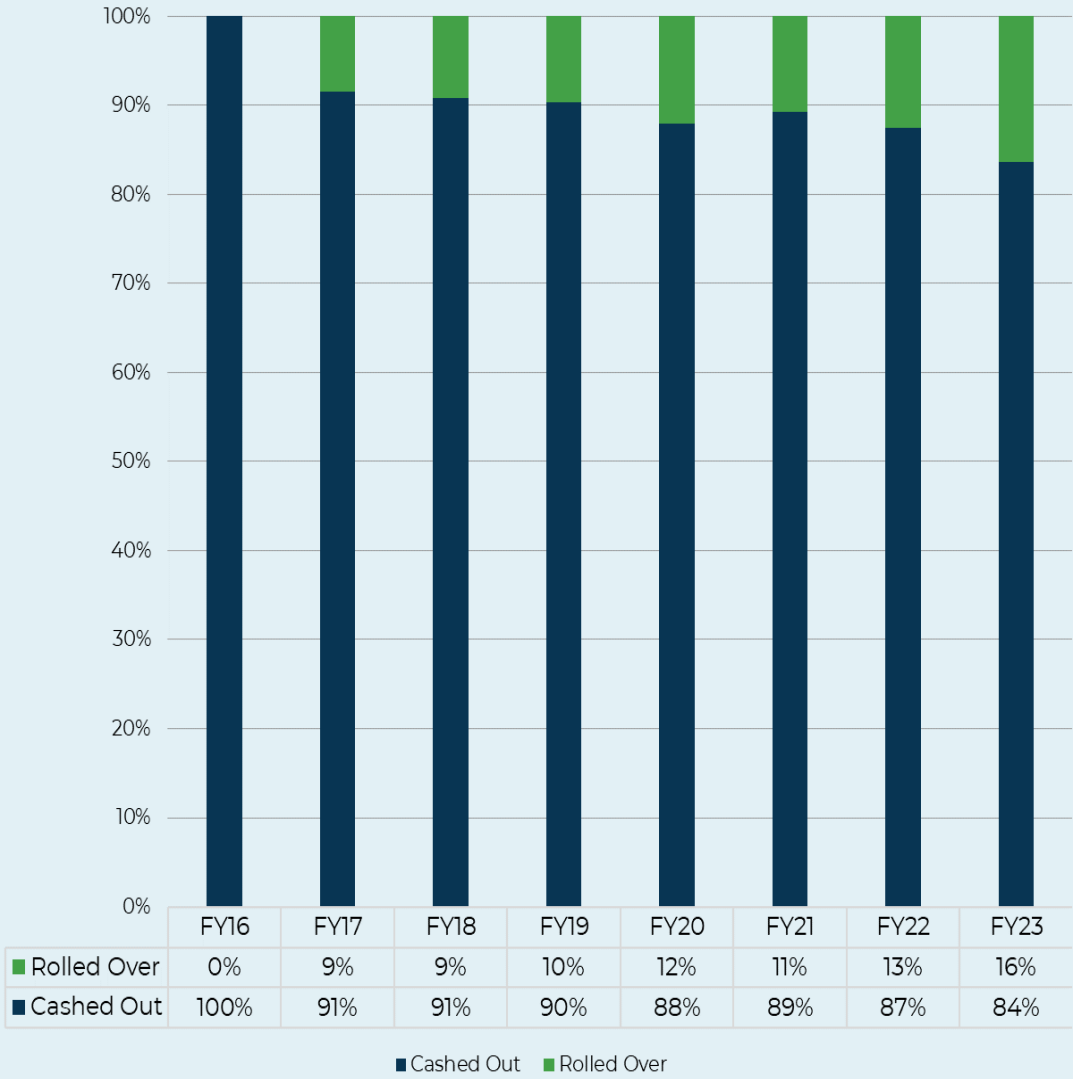
- DC plan cashouts are significant relative to contributions into the plans.
  - In DB plans, cashouts are far lower.
- In Oklahoma, the dollars rolled into IRA's a fraction of the dollars cashed out.

Distributions Above 40% in MI SERS DC Plan



OPERS: Cashouts Are High in OPERS DC Plan… And Few Dollars Are Rollovers

Figure 34: OK PERS - DC Plan Cashouts and Rollovers



	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Rolled Over	0%	9%	9%	10%	12%	11%	13%	16%
Cashed Out	100%	91%	91%	90%	88%	89%	87%	84%

Questions