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

Research Webinar

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Agenda

• Logistics and Introductions
• Research Findings
• Q&A
Speakers

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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

Figure 2: MI SERS - Since 2001, Contributions Average 91% of ADEC
MI SERS: UAL Up Significantly Since Closure

**Figure 1:** MI SERS - Unfunded Liability (in Millions)
MI SERS: Costs Up; Funding Ratio Down

Figure 4: MI SERS - Total Retirement Costs for DB & DC Plans

- Employer DB Contributions
- Employee DB Contributions
- Employer DC Contributions
- Employee DC Contributions
- DB Plan Funding Ratio
- National Avg Funding Ratio
MI SERS: Growing Negative Cash Flow

*Figure 5: MI SERS - Expenses Are Driving Higher Negative Cash Flow*
MI SERS: Active Members Are Declining

Figure 6: MI SERS - Membership By Participant Status

- Working
- Receiving Benefits
- Other Members
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

Figure 7: AK PERS - Contributions Average 102% of ADEC Since 2001, Including Large Contribution in 2015
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

Figure 13: Number Leaving Alaska Public Service During 2017-2021 & Reason

- TRS DB: Total Quits (Vested and Non-Vested)
- PERS DB: Total Retired, Died or Disabled
- TRS DC: Total Quits (Vested and Non-Vested)
- PERS DC: Total Retired, Died or Disabled

- Total Quits (Vested and Non-Vested): 1,497 (TRS DB) + 4,784 (PERS DB) + 15,524 (PERS DC)
- Total Retired, Died or Disabled: 637 (TRS DB) + 32 (TRS DC) + 178 (PERS DC)
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

Figure 16: AK PERS - Total Retirement Costs and Funding Ratio Since 2001

- Employer DB Contributions
- Employer DC Contributions
- Funding Ratio
- Employee DB Contributions
- Employee DC Contributions
- National Avg Funding Ratio
AK TRS: Massive One-Time Contribution Pulled Up Funding Ratio Significantly, but Costs Are Rising Again
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

Figure 21: KERS - Contributions Average 87% of ADEC Since 2001, With Recent Improvement
KERS: Funding Plummeted Over 20 Years

Figure 20: KERS - Employer Costs and Funding Ratio Since 2001

- Dollars in Thousands
- Funding Ratio

- Employer Contributions
- Funding Ratio
KERS: Cash Flow Improved with Funding

Figure 22: KERS - Rising Contributions Have Mitigated Growing Negative Cash Flow Since 2014
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

Figure 25: OK PERS - Employer Costs and Funding Ratio Since 2001

Dollars in Thousands

Funding Ratio

Employer Contributions

Funding Ratio
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

- Contributions as % of Assets
- Expenses as % of Assets
- Net Cash Flow
- Net Cash Flow - All State Plans
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

Figure 29: WV TRS - Employer Costs and Funding Ratio Since 2001
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

Figure 32: WV TRS - Membership By Type

![Bar Chart showing membership by type from 2001 to 2022]

- Working
- Receiving Benefits
- Other Members
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

**Figure 33:** MI DC Plan - Non-Retirement Distributions
Averaging 43% of Contributions (2012-2022)
OPERS: Cashouts Are High in OPERS DC Plan... And Few Dollars Are Rollovers
Questions