

Public Pensions: A National Perspective



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Overview

- **How public sector retirement benefits compare**
- **Distinguishing elements of traditional pensions**
- **Public pension SWOT**
- **Prognosis and outlook**

Size and scope of the state and local government pension community

- **~15 million actives**
 - 12 percent of the nation's workforce
- **7 million annuitants**
- **\$2.3 trillion in assets**
- **\$165 billion in annual benefit payments**
- **\$70+ billion in employer (taxpayer) contributions**
- **\$30+ billion in employee contributions**

Retirement Benefits Comparison

Private Sector

- Two of five have no access to an employer-sponsored retirement benefit
- One-third of those eligible do not participate
- Fewer than one in five have a traditional pension (DB) benefit
- Some employers have suspended or eliminated their 401k plan match
- Universal Social Security

Public Sector

- Nearly all have access to an employer-sponsored retirement benefit
- Ninety percent have access to a traditional pension (DB plan)
- Three-fourths participate in Social Security

Why have pension benefits diminished in the private sector?

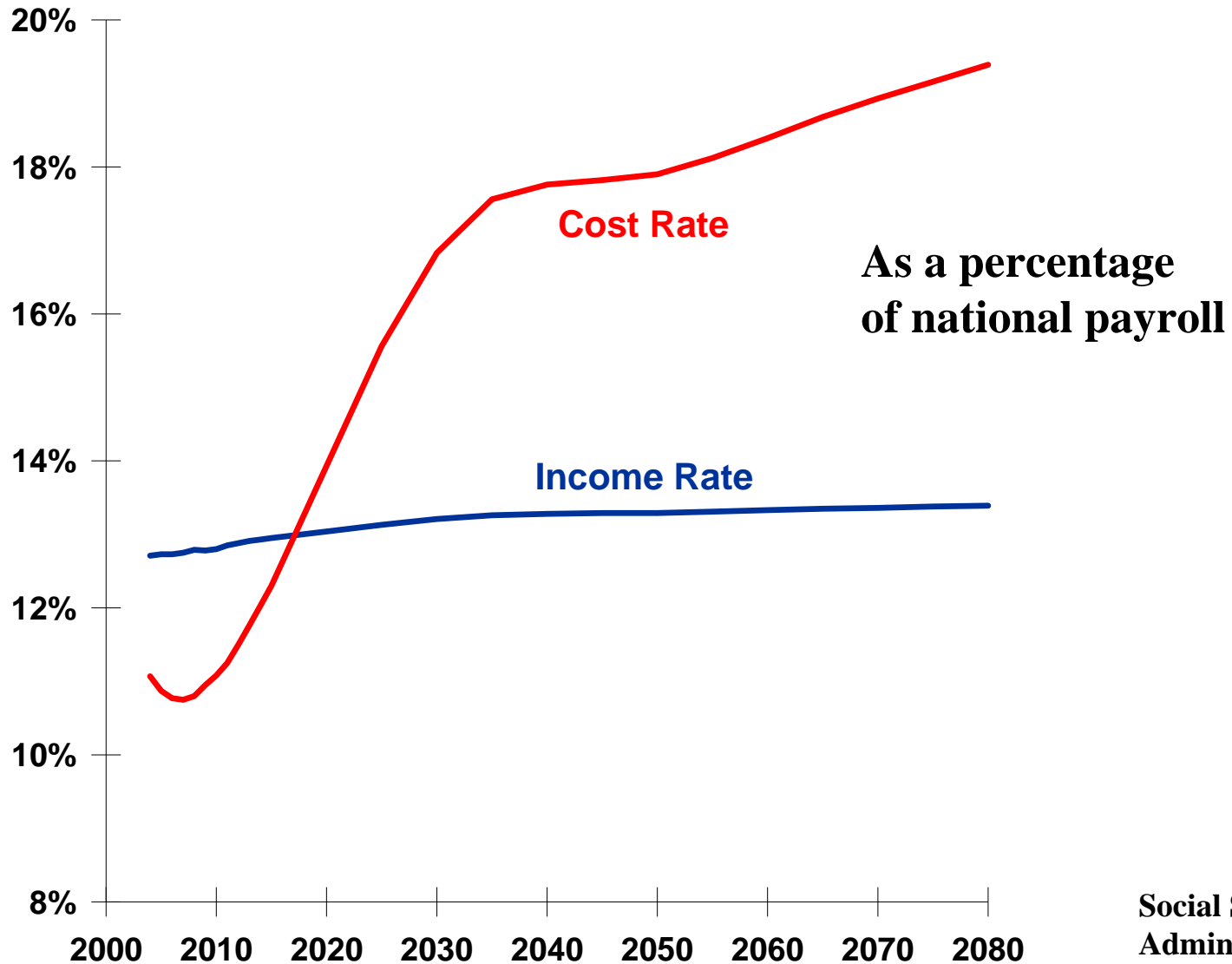
- Increased international economic competition
- A more mobile workforce
- Federal regulations
- *State and local government employers are largely immune from these factors*

Reliance on Social Security

- More than half (56 percent) of those on Social Security rely on it for more than half of their income.
- For 30 percent of Social Security recipients, Social Security accounts for 90 percent of retirement income.
- For almost one of every five Social Security recipients, (19 percent) Social Security is the sole source of income.

Source: Social Security Administration

Social Security Cost and Income



Distinguishing elements of a defined benefit plan

- A benefit that cannot be outlived
- A benefit that reflects the worker's salary and length of service
- Assets that are pooled and professionally invested
- *TMRS is a hybrid plan, but meets DB plan criteria*

Who bears the risk?

- **The critical, overarching difference between a traditional pension and a defined contribution plan is who bears the risk of**
 - **Investment performance**
 - **Longevity**
- **For most private sector workers, this risk has been shifted to employees.**

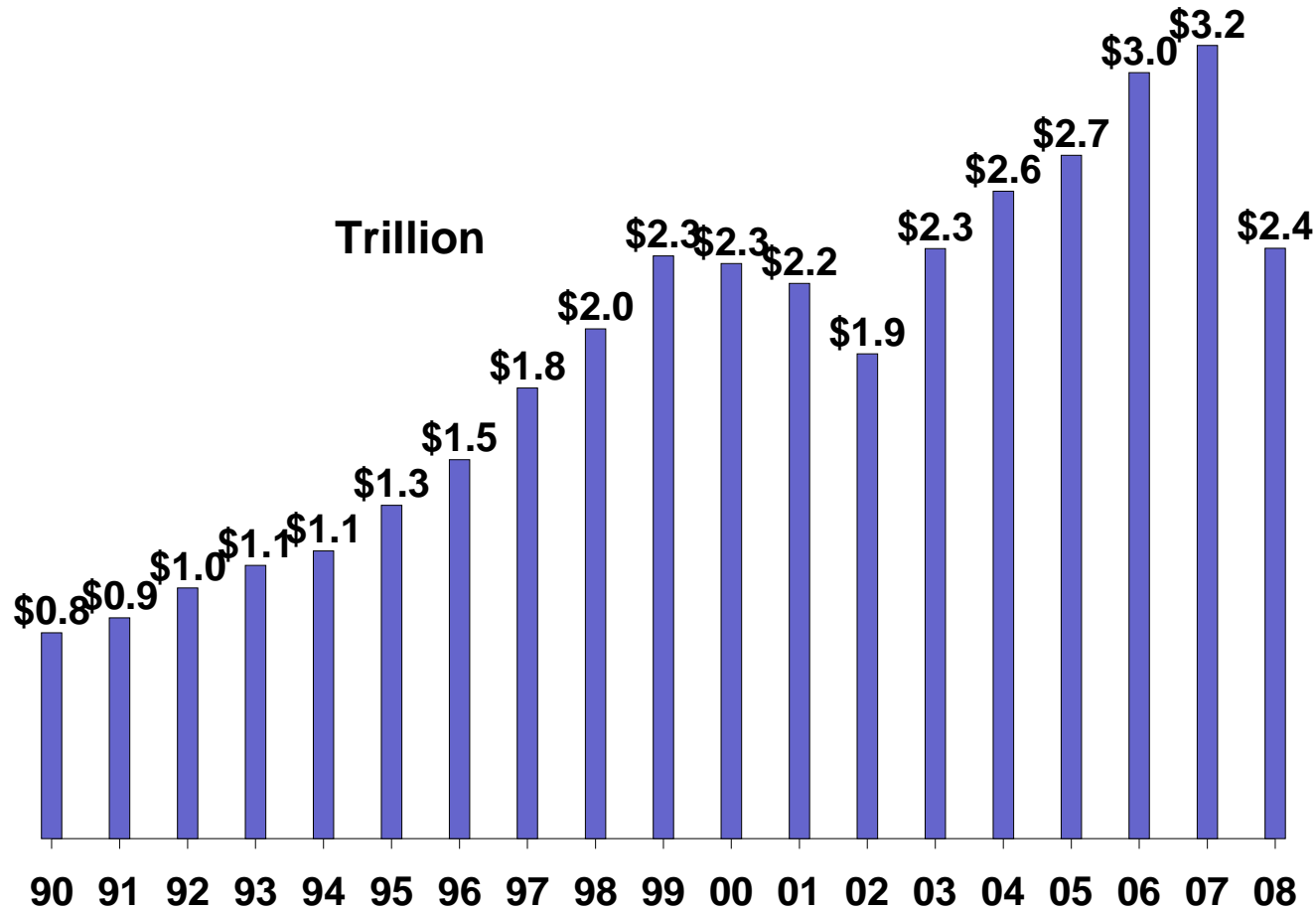
A public pension SWOT analysis

- **Strengths**
- **Weaknesses**
- **Opportunities**
- **Threats**

Strengths

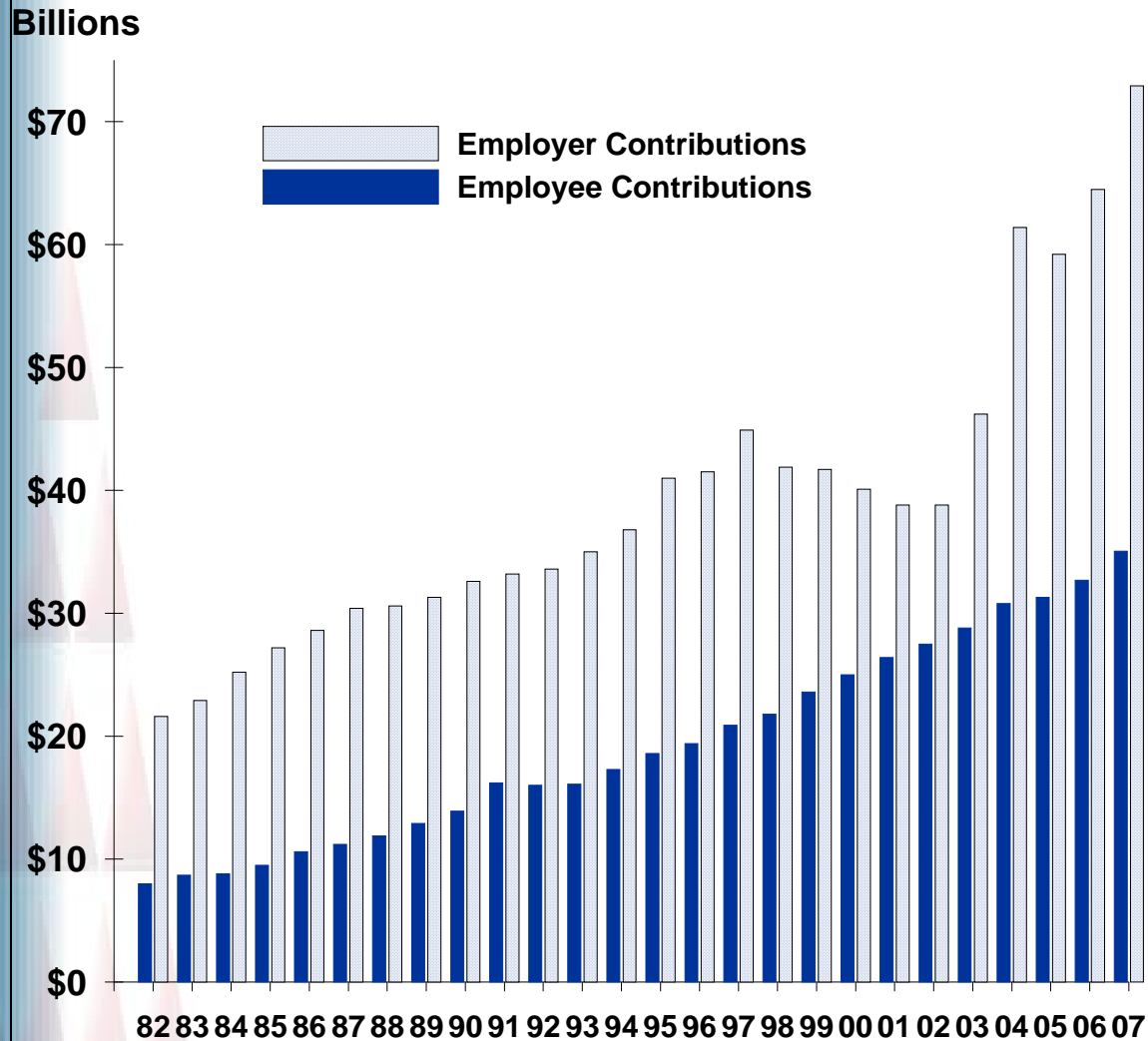
- **Public pensions have the ball**
- **DB plans can be designed to work for all stakeholders**
- **A large asset base invested in diversified portfolios**
- **Existing streams of revenue from contributions are in place**

Aggregate market value of state and local government pension funds, 90 - 08



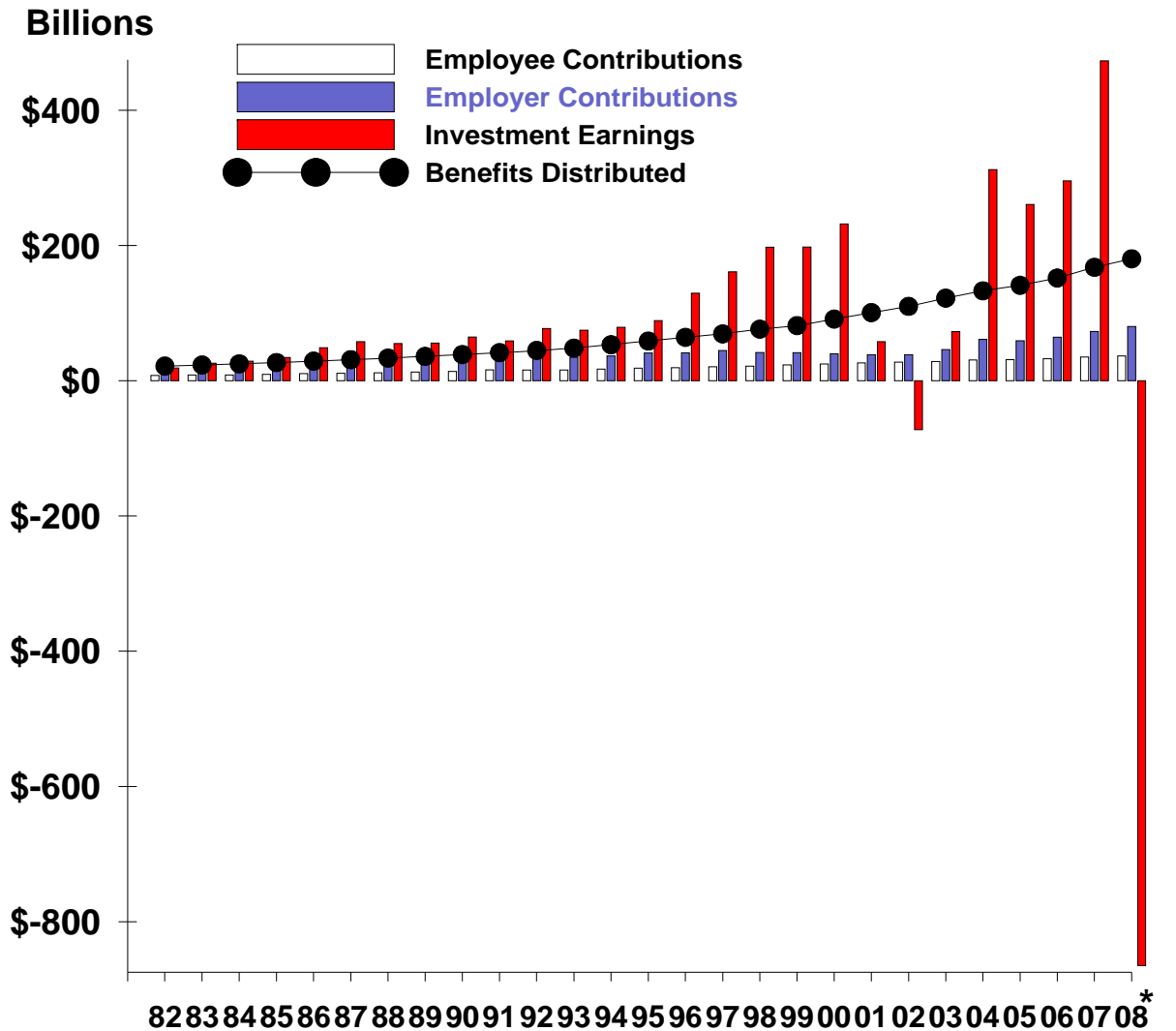
U.S. Federal Reserve
Flow of Funds

State and local government employee and employer pension contributions, 82-07



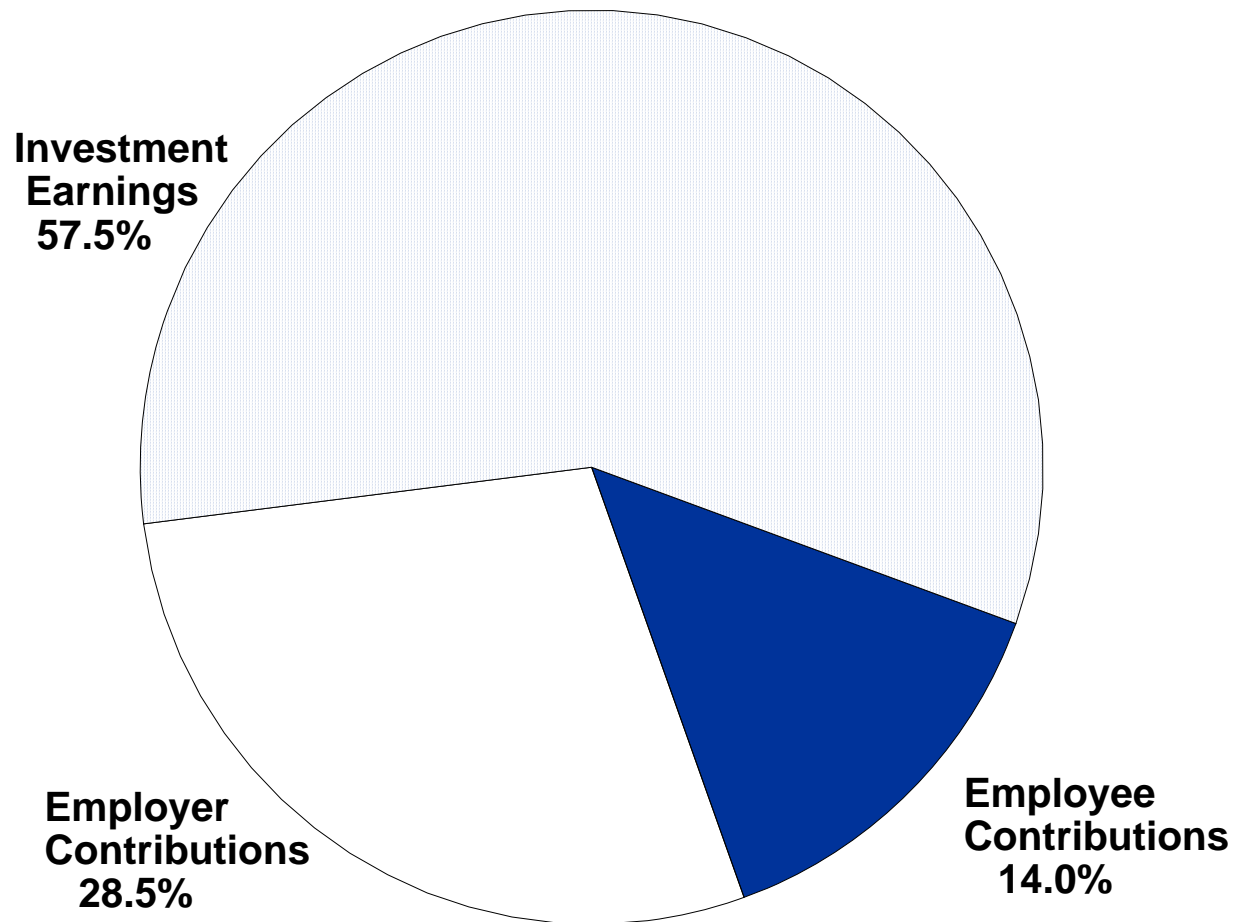
US Census Bureau

All state and local government pension revenues and benefits paid, 82-08



* Estimate

Public pension fund sources of revenue, 82 - 08



US Census Bureau

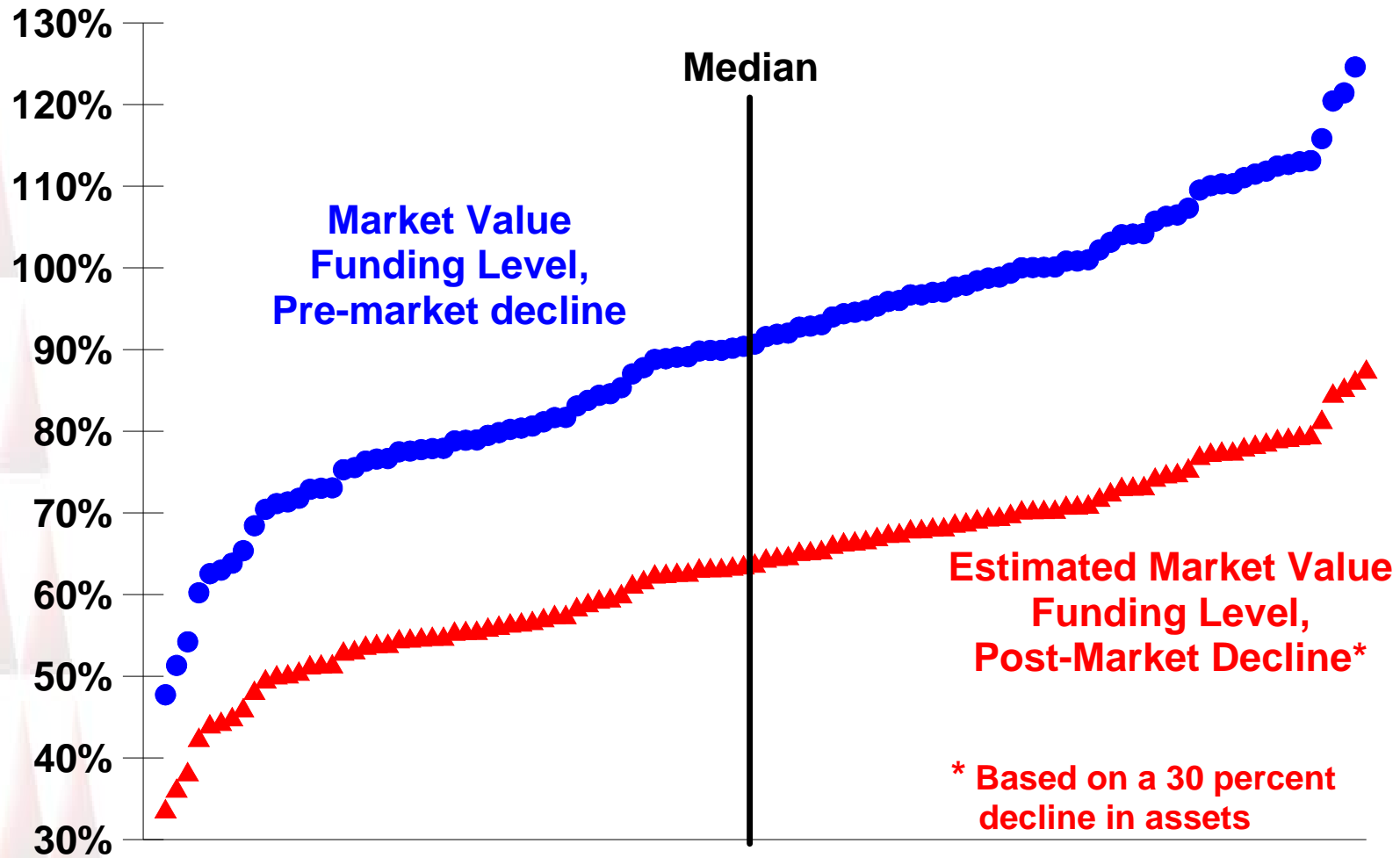
Strengths

- Supportive plan participants
- Supportive employers
- Growing public awareness of the importance of reliable retirement income
- Public pension expertise
- Cost-effectiveness
- Recent scrutiny = favorable results and publicity

Weaknesses

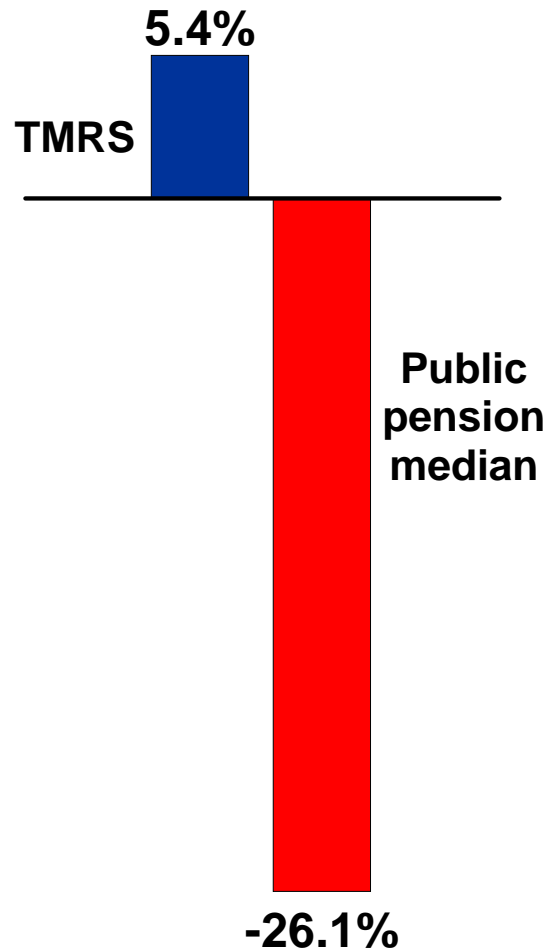
- **The cost of underfunded plans**
- **Instances of poor governance structures**
- **Complexity of funding methods and plan designs**
- **Pension envy**
- **A large asset base**

Projected Effect of Market Decline on Public Pension Funding Levels



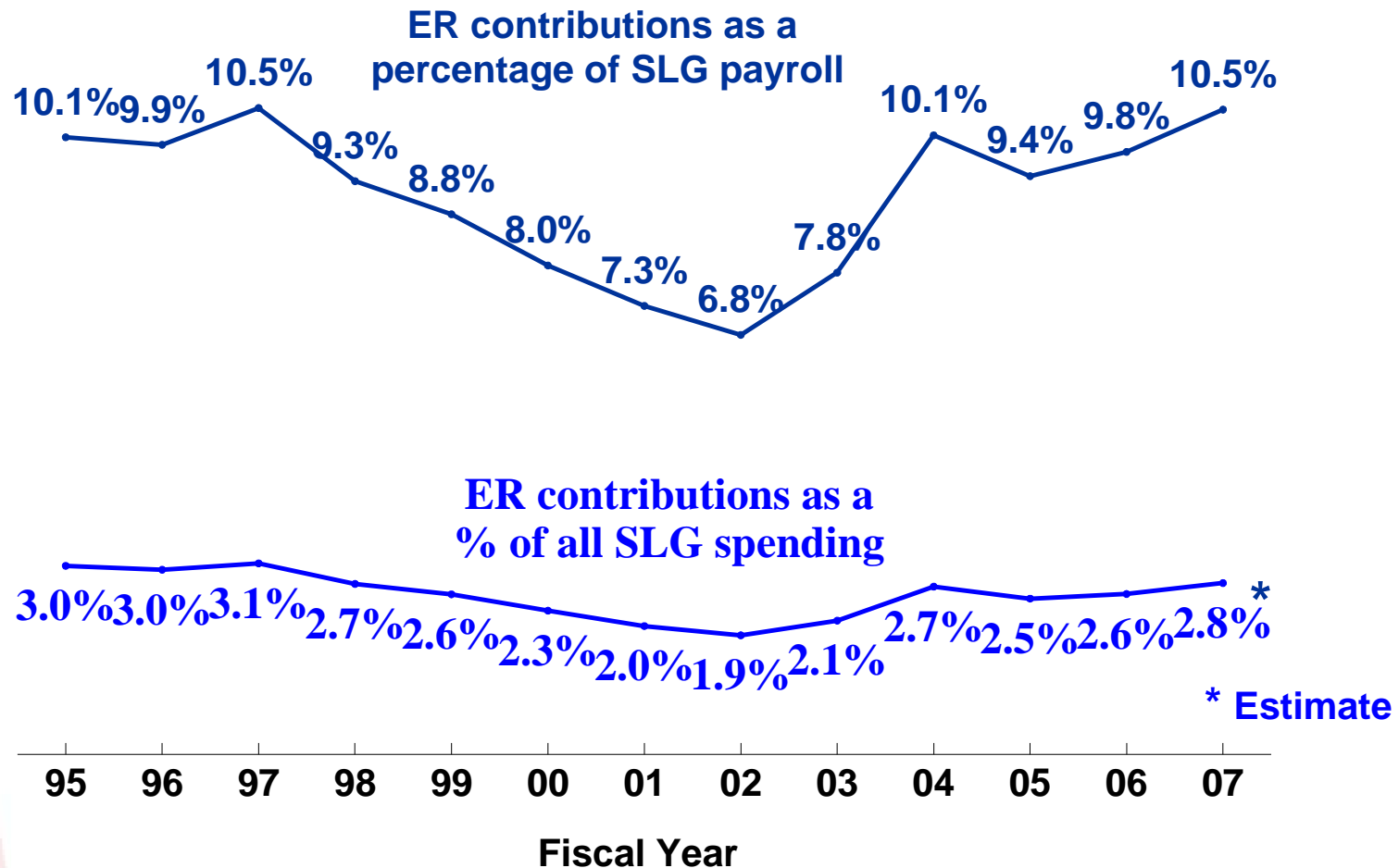
Investment Return, 2008

TMRS vs. Public Pension Median



TMRS, Wilshire TUCS

Employer pension contributions



Source: U.S. Census Bureau

Weaknesses

- **Investment market uncertainty**
- **Pension abuses**
- **Media relations**
- **Conflicting time horizons**
- **Availability bias (a few bad apples)**

Threats

- **Unsustainable plan designs**
- **Taxpayer rights groups**
- **Employer failure to pay required contributions**
- **Pension abuse**
- **Contribution rate volatility and uncertainty**
- **Plan sponsor fiscal distress**

Threats

- **Improving life expectancy**
- **Confusion between pensions and retiree health care benefits**
- **Policymaker term limits**
- **Federal regulation**
- **Market value of liabilities**

Opportunities

- **Be part of the retirement benefits solution**
- **Be part of the capital markets solution**
- **Economic benefits**
- **Employer cost flexibility**

Prognosis and Outlook

- **Higher costs**
- **Few benefits enhancements**
- **Renewed focus on liability management**
- **New tiers for new hires**
- **Increased use of hybrid plans and emphasis on DC supplements**
- **Efforts to use public retirement systems as vehicles to provide retirement benefits for non-public employees**

Prognosis and Outlook

- **Despite investment losses, the system of retirement benefits for employees of state and local government is in better shape and has more to commend it, than all leading alternatives:**
 - Social Security
 - Federal retirement plans
 - Individual accounts
 - Corporate pensions



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QUESTIONS?

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