Public Pensions: A National Overview

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Retirement Policies and Stakeholder Objectives

- **Employers** – need a tool to retain qualified workers to perform essential public services, limit turnover and training costs, and provide for orderly workforce attrition.
- **Taxpayers –** need a tool to facilitate delivery of public services at a cost that is reasonable, predictable, and stable; and reduce reliance on public assistance.
- **Public employees** – need a competitive total compensation package, including the provision of income security in retirement.

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Guiding Principles for Retirement Security and Plan Sustainability

NASRA supports core principles for retirement security and public plan sustainability:

- Mandatory participation
- Shared employee-employer financing
- Benefits adequacy
- Pooled assets invested by professionals
- A benefit that cannot be outlived

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Considering Plan Design Holistically, Balancing Stakeholder Objectives

- Mandatory participation
- Employee-employer cost sharing
- Assets that are pooled and professionally invested
- Lifetime benefit payments
- Benefit adequacy

Mandatory Participation

- Private sector
  - Just one-half of the workforce participates in an employer-sponsored retirement plan, a factor identified as a major cause of the nation's growing retirement insecurity.
- Public Sector
  - For nearly all employees of state and local government, retirement plan participation is mandatory.

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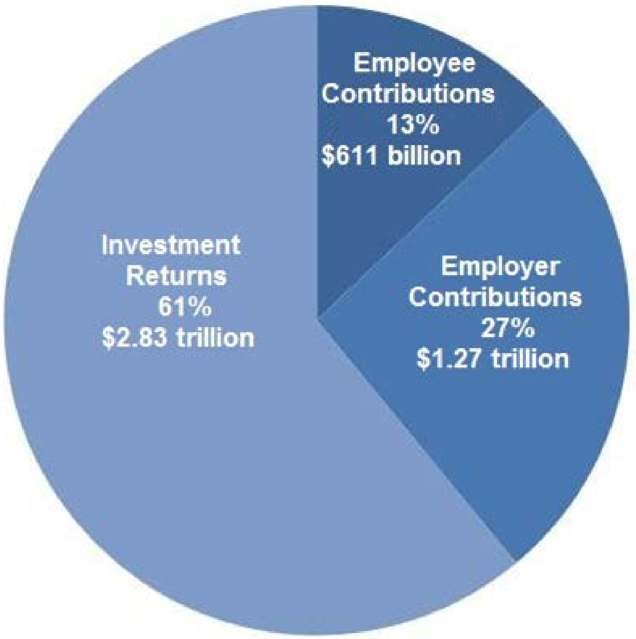
Cost-sharing Between Employers and Employees

- Public Sector:
  - Nearly all pensions in the public sector require employees to contribute toward the cost of their retirement benefit.
  - Trend has been for increasing cost sharing to the employee
- Private Sector:
  - DB plans have no employee contributions
  - Many DC plans include employer/employee match

Cost-sharing Between Employers and Employees

- Nearly all state and local governments require employees to contribute toward the cost of their pension
- Typically 4% - 8% of salary
- The majority of recent state pension modifications have included an increase in the employee contribution

Public Pension Revenue 1982-2010



Source: U.S. Census Bureau

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Pooled and Professionally Invested Assets

- Combined portfolios have a longer investment horizon, which allows them to be better diversified and to sustain market volatility.

- Professional asset management and lower administrative and investment costs in pooled arrangements result in higher investment returns.

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Lifetime Benefit Payments

- Most public sector plans require some or all of the pension benefit to be paid in installments over one's retired lifetime, rather than a lump sum.
  - Prevents leakage
  - Better ensures participants will not exhaust retirement assets
  - Reduces costs by distributing longevity risk across participants.

Benefit Adequacy

- Most public plans seek to replace a targeted percentage of income, accounting for the presence or absence of income from Social Security, with other considerations
- Survivor and disability benefits are integrated
  - cost-effective way to provide these benefits, particularly for many hazardous public positions, such as first responders and others

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Using the Core Elements to Determine Appropriate Plan Design

- **One-size-fits-all doesn't work**
- **Pension plan design should depend on human resource goals, jurisdiction, culture, cost and many other factors**
  - Nearly every state has made changes in recent years to public pension benefits.
  - DB plans remain the prevailing model, cash balance and DB+DC plans have been in place for many years in some states, and are new in others
  - Like defined benefit plans, cash balance and DB+DC plans in the public sector vary from one jurisdiction to the next

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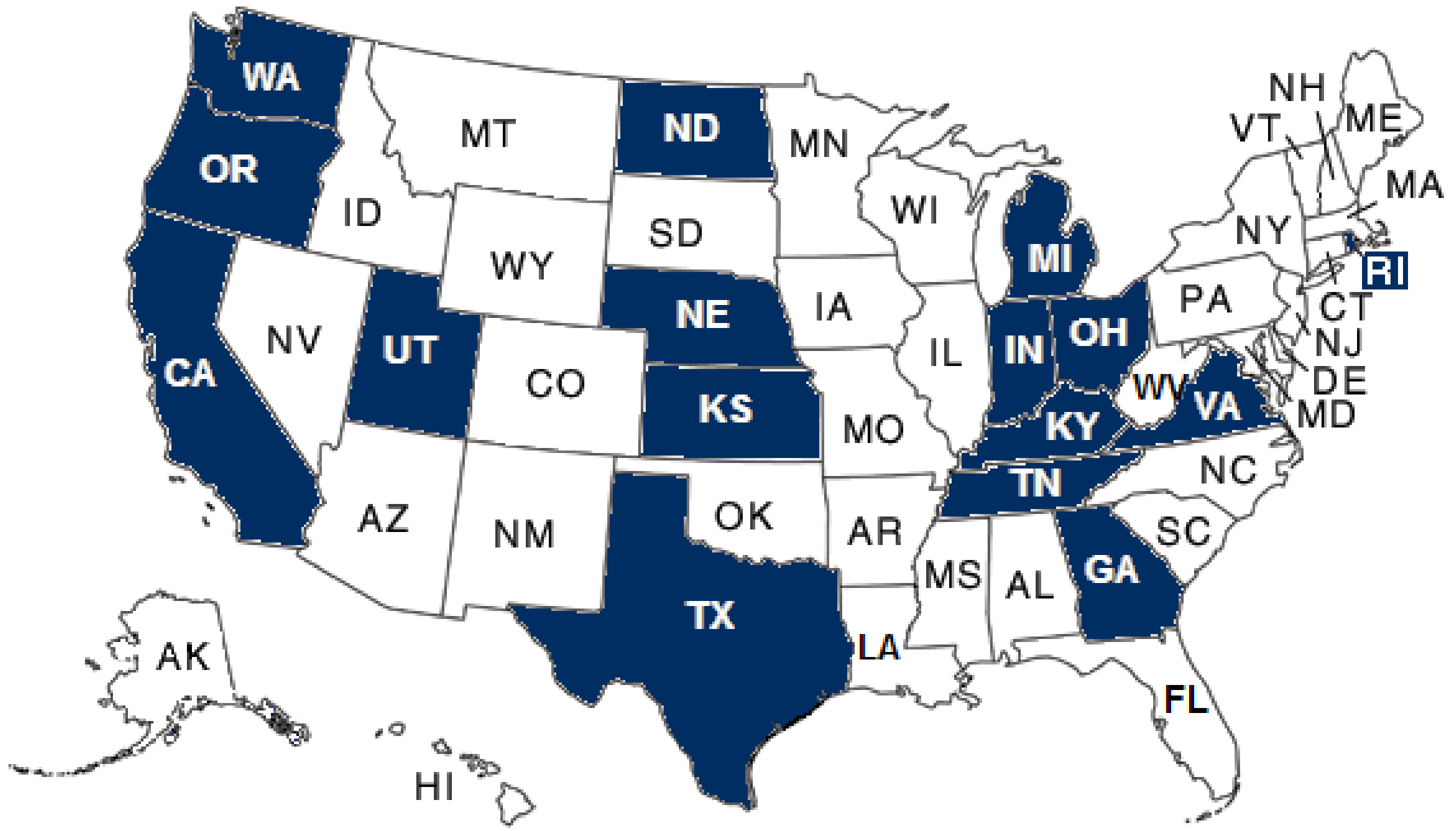
States that administer CB or DB+DC plans as a mandatory or optional primary retirement benefit for groups of general or K-12 educational employees.



NASRA Issue Brief: State Hybrid Retirement Plans, Sept. 2013

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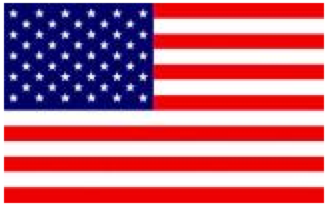
Public Pensions: The Big Picture

- $3.5 trillion in assets
- 15 million active (working) participants
  - 12+ percent of the nation's workforce
- 8+ million retirees and other beneficiaries
- $225 billion annually in distributed benefits
- Plan designs and funding levels vary widely



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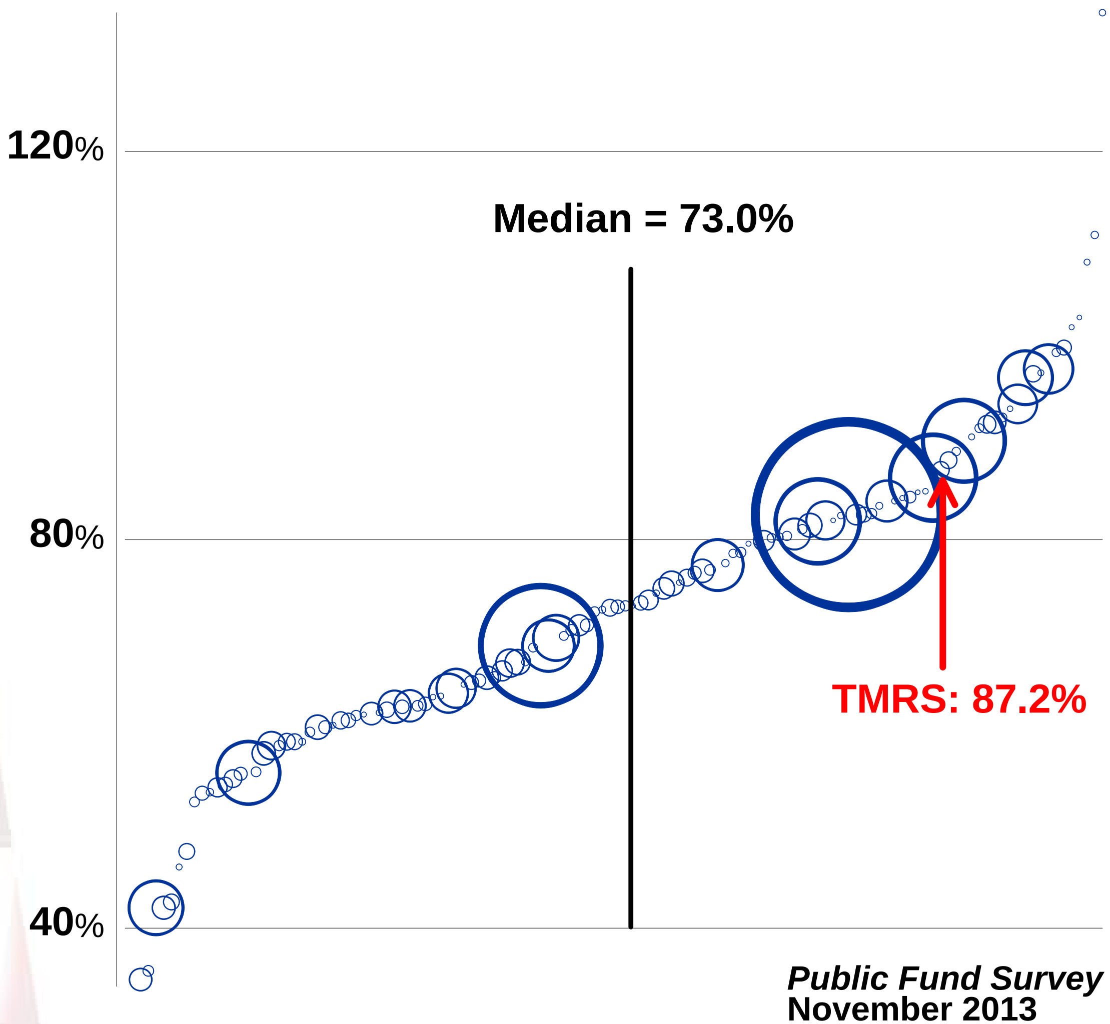
Public Pensions in Texas

- $200+ billion in assets
- 1.4 million active (working) participants
- 500k retirees and other beneficiaries
- $12 billion annually in distributed benefits
- Plan designs and funding levels vary
- TRS, ERS, TMRS and TCDRS account for 90+ percent of all the assets

Public Pension Funding Levels



Size of bubbles is roughly proportionate to plan liabilities

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Opportunities and Challenges

Challenges:

- Distinguishing assertions from facts
- Legislating by anecdote
- Short-sighted policies that encourage a "race to the bottom"

Opportunities:

- Recognition of core elements of public pension design and policies are the most cost-effective way to meet stakeholder objectives
- Better understanding of the long-term nature of state/local government pension financing
- Political will to establish better benefit and funding policies

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