Public Pensions: A National Overview

Keith Brainard
Research Director
National Association of State Retirement Administrators

November 19, 2013
Austin, TX
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.
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
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.
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.

Source: U.S. Census Bureau

Public Pension Revenue 1982-2010
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.
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
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
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.
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
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

Median = 73.0%

Size of bubbles is roughly proportionate to plan liabilities

TMRS: 87.2%

Public Fund Survey
November 2013
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