



Public Pensions: National News and Trends

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Employer Event
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Presentation Overview

- Retirement benefits in the US and Utah
- Public pension funding conditions and issues
- Trends and changes in public pension plan design



Comparison of Retirement Benefits in the U.S.

Private Sector

- 60% of full-time private sector workers participate in an employer-sponsored retirement plan; 21% of part-time workers participate
- In total, 49% of all private sector workers participate in an employer-sponsored retirement plan
- Fewer than one in five have a traditional pension (DB) plan
- Social Security coverage is universal

Public Sector

- Nearly all full-time workers have access to an employer-sponsored retirement benefit; most have access to a traditional pension (DB plan)
- 87% of full-time employees participate in a pension plan
- 80% of all employees, including part-time workers, are in a DB plan
- Virtually all others are in a DC plan
- Three-fourths participate in Social Security



Public pensions in the U.S.

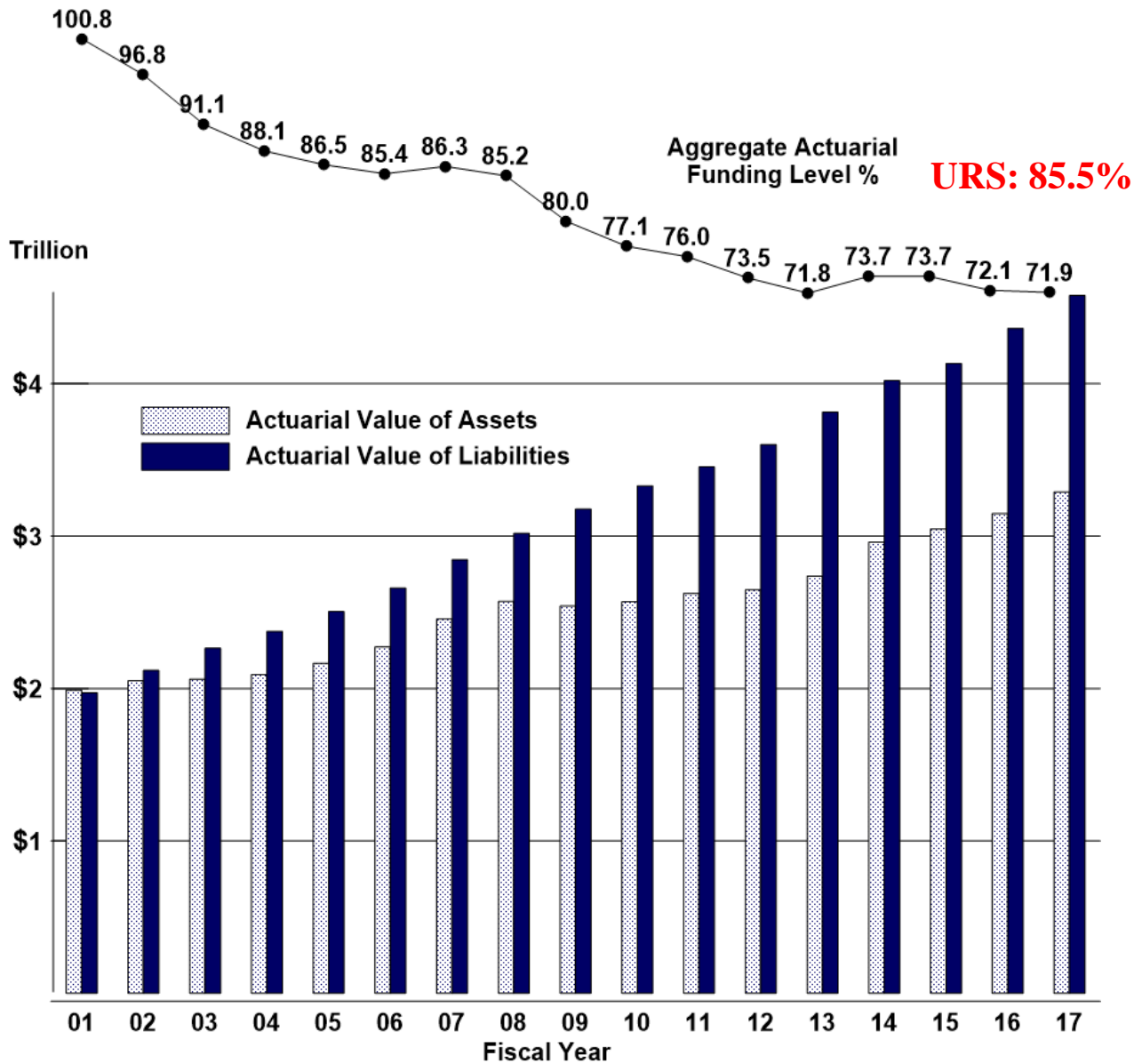
- ~\$4 trillion in assets
- 14.5 million active (working) participants—employees of states and local government
 - ▲ Nearly 10 percent of the nation's workforce
- 10.7 million public pension retirees and their survivors receive ~\$300 billion annually in benefits
- Annual contributions = \$200 billion
 - ▲ \$145 billion from employers; \$55 billion from employees
 - ▲ Approximately 5.0 percent of all state and local government spending goes to public pensions
- Of 5,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members



Public pensions in Utah

- ~\$32 billion in assets
- ~100,000 active (working) participants—employees of states and local government
- ~65,000 public pension retirees and their survivors receive ~\$1.6 billion annually in benefits
- Annual contributions = \$1.2 billion
 - ▲ Nearly all contributions are made by employers: Utah is unusual in relying predominantly on employer contributions
 - ▲ Approximately 4.6 percent of all Utah state and local government spending goes to public pensions (FY 15)
- Approximately 95 percent of Utah state and local government employees participate in Social Security





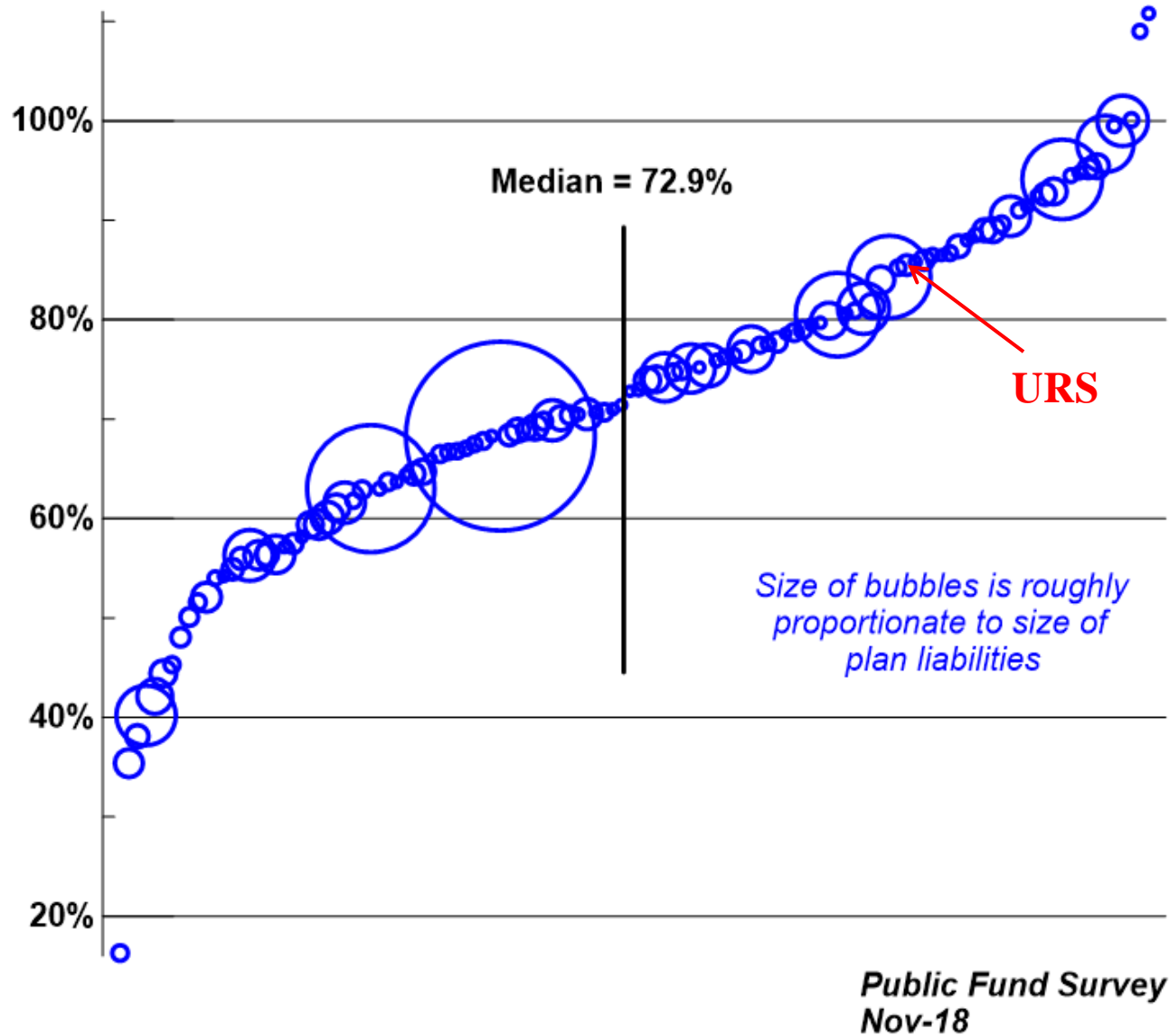
**Change in
Aggregate
Public
Pension
Funding
Level, FY 01
to FY 17**

Public Fund Survey
Nov-18

Public Plans Data



Distribution of Public Pension Funding Levels, FY 17

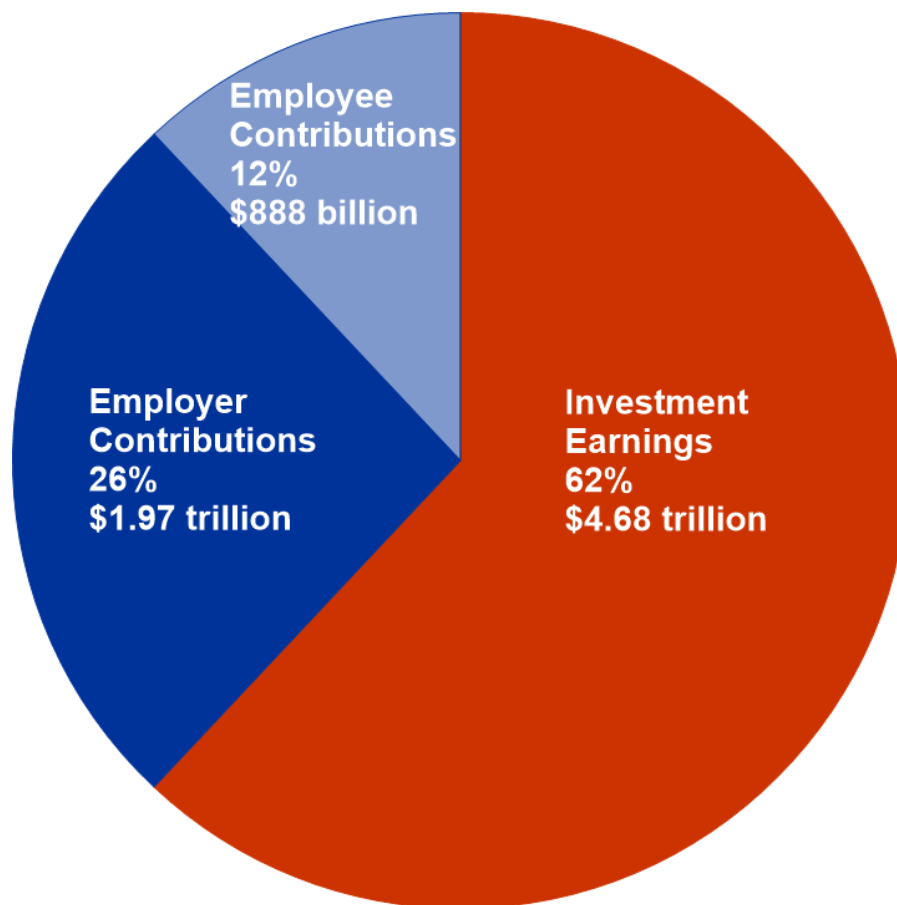


Contributions Are Vital

- Public pension plans that are severely underfunded share a common experience: chronic failure by employers to pay required contributions
- Utah statute requires public employers to pay the required contribution, which public employers in Utah have done consistently for many years
- Utah has a commendable record of paying required contributions



Public Pension Fund Sources of Revenue, 1988 to 2017

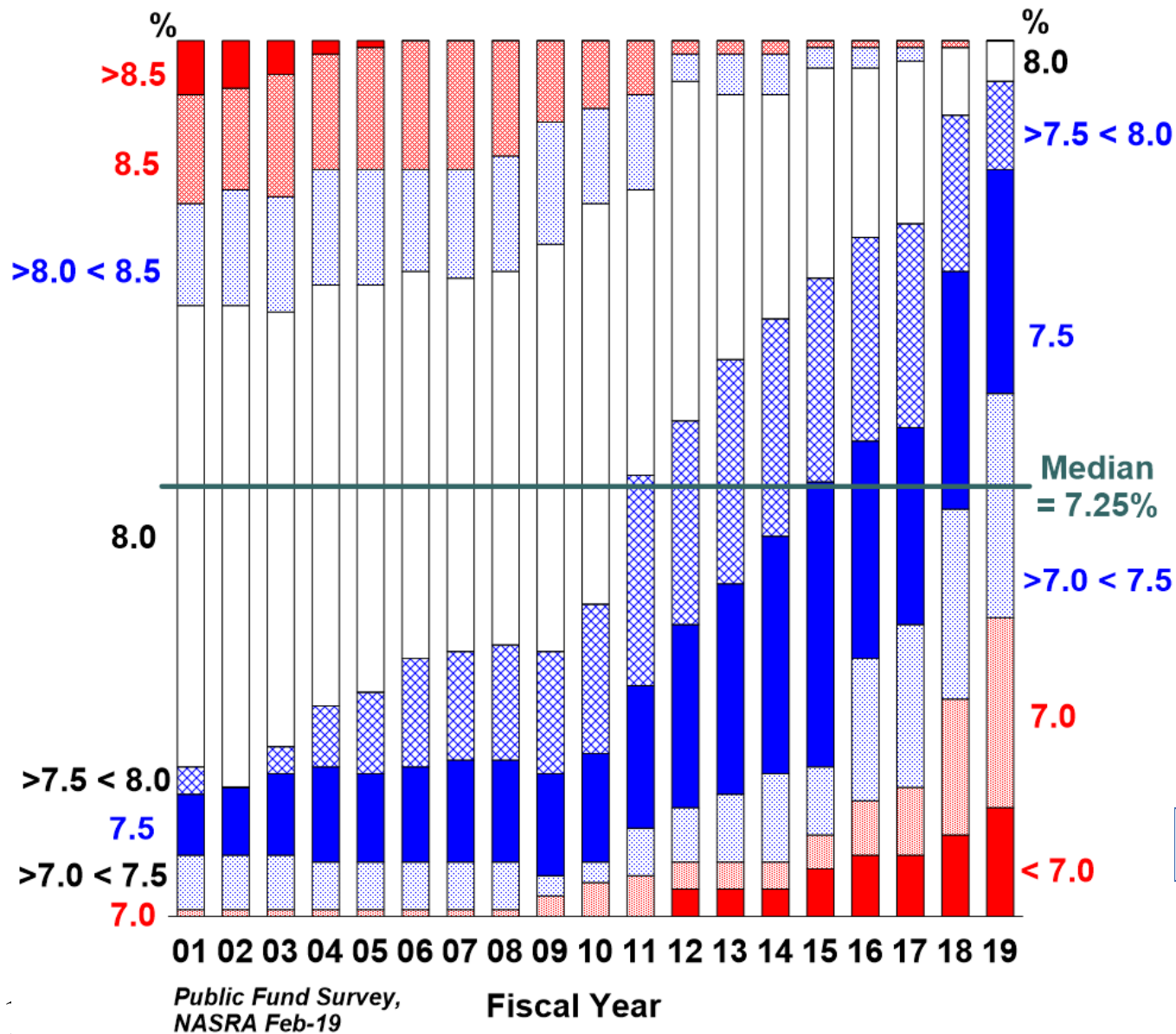


US Census Bureau

*The typical public pension funding model is
highly reliant on investment earnings.*



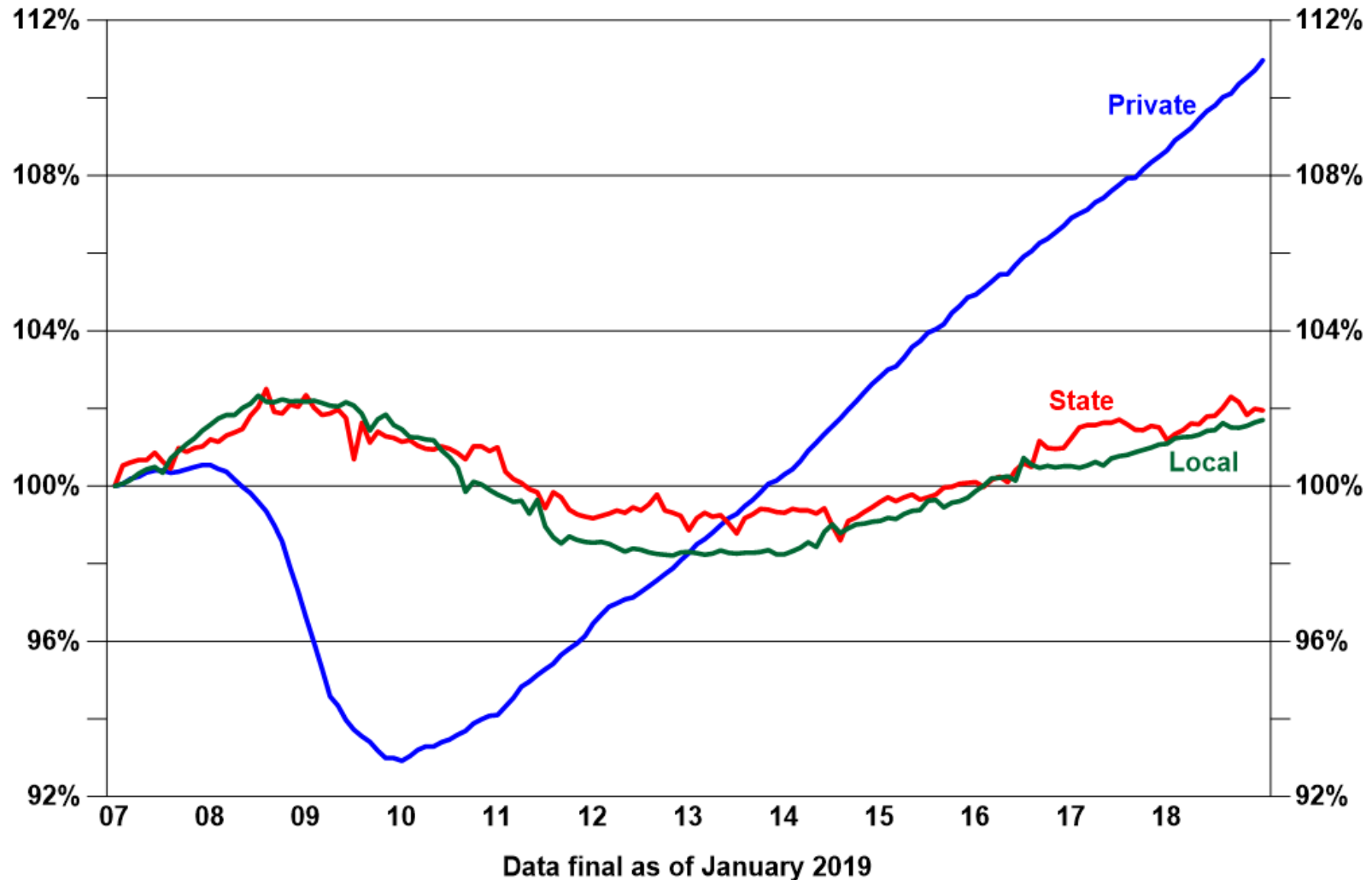
Investment Return Assumptions, FY 01 to latest

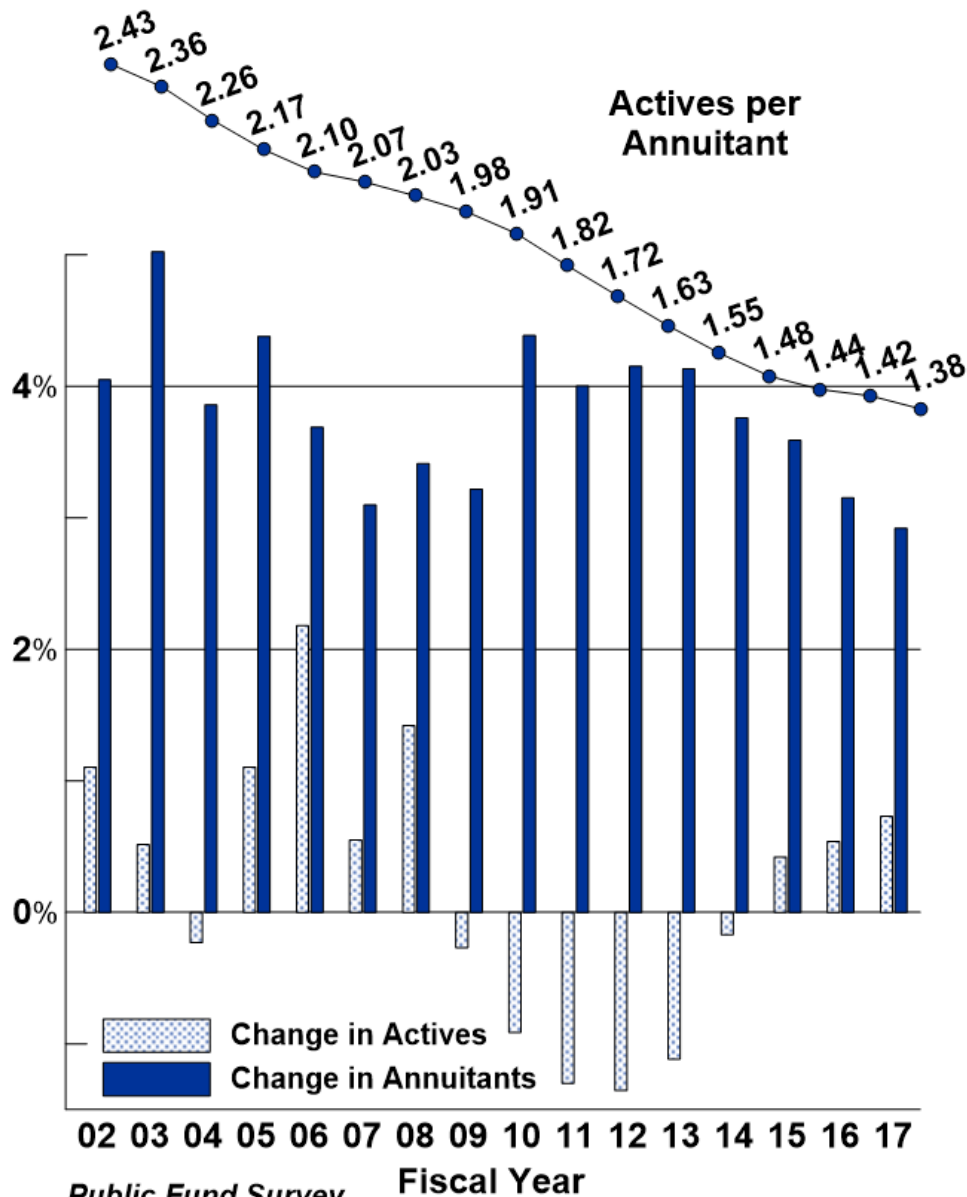


URS: 6.95%



Relative Change in Employment in Private and Public Sectors, 2007 to present





URS: 1.49

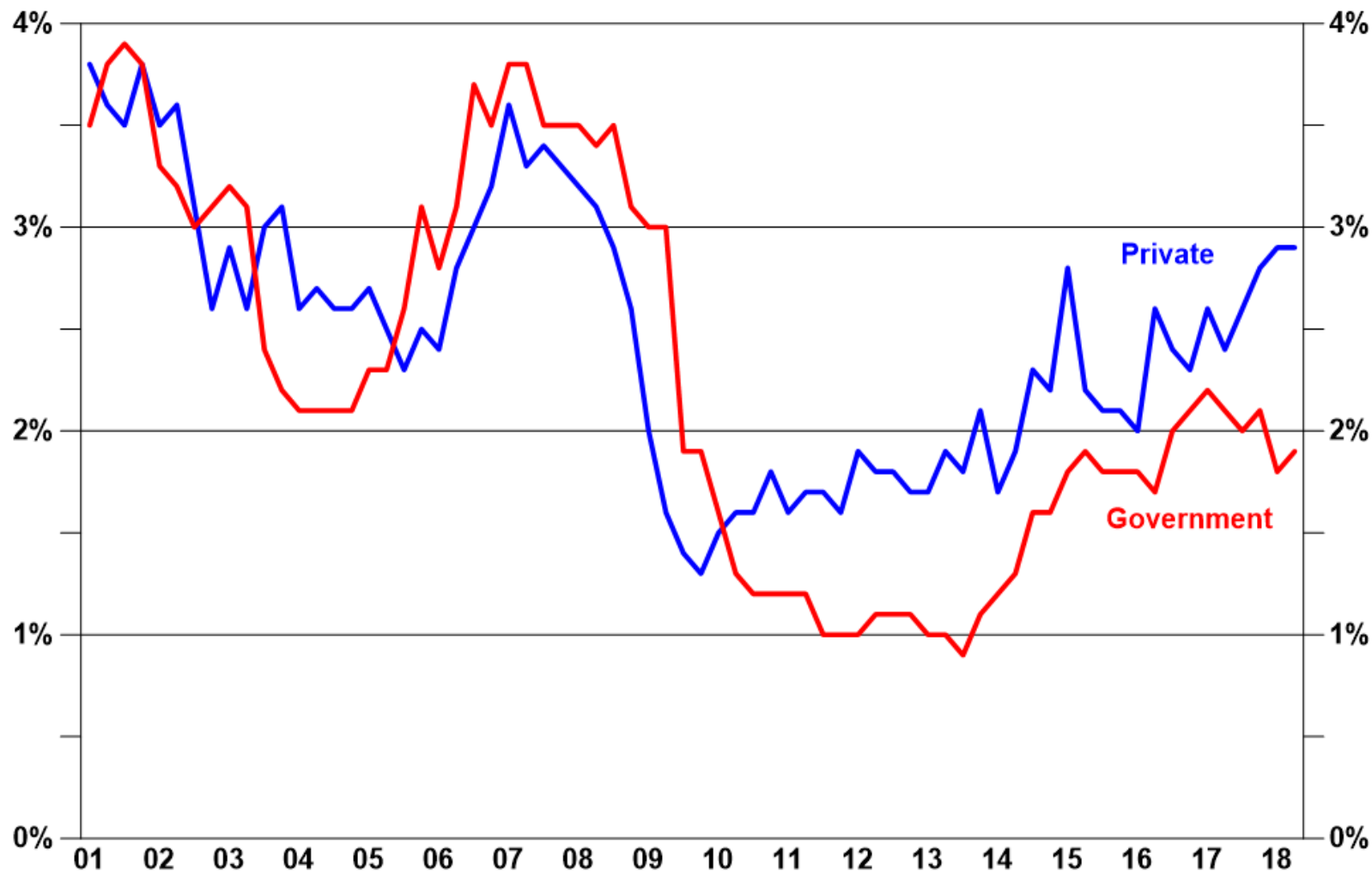
Change in Actives and Annuitants FY 01 to FY 17

Public Fund Survey
Nov-2018

Fiscal Year



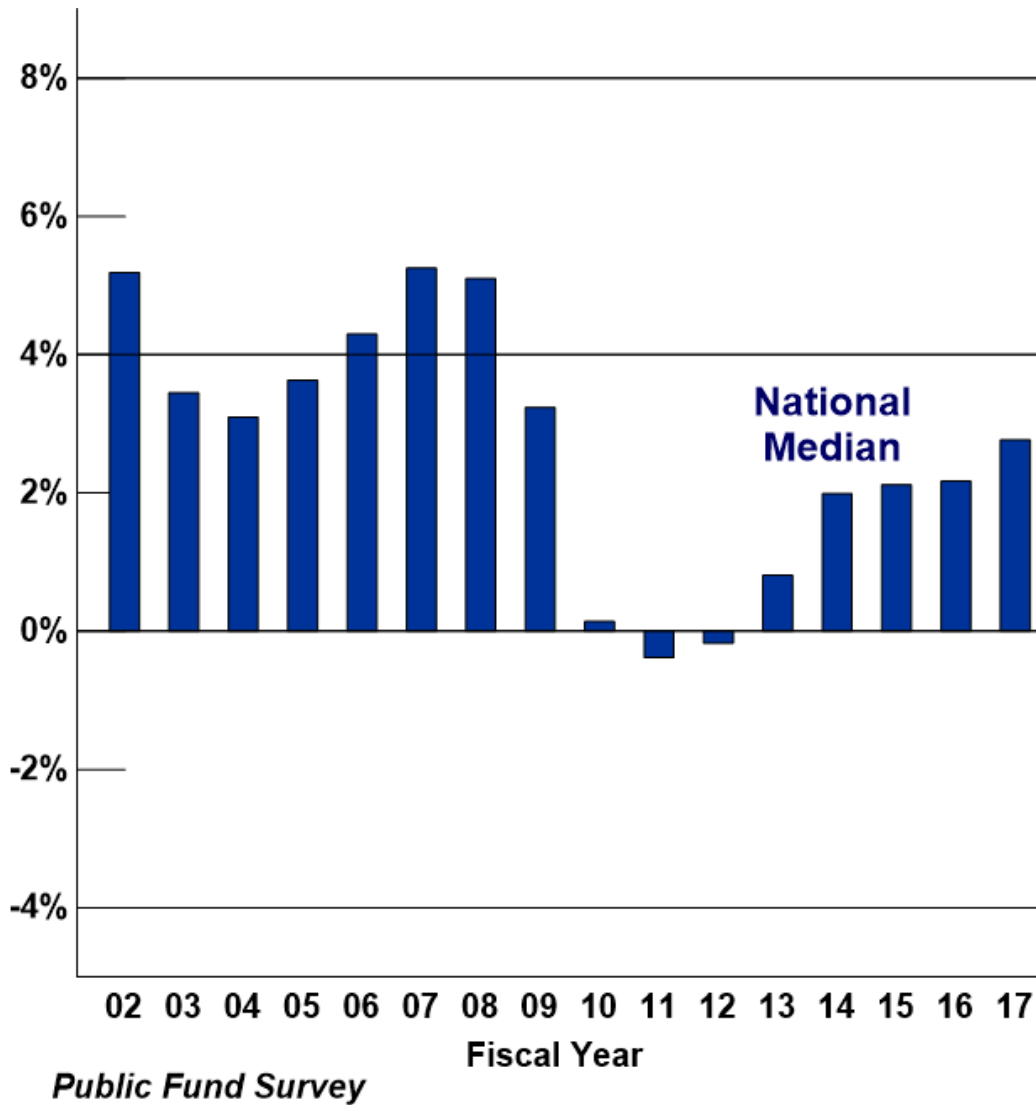
Annualized Quarterly Change in Wage and Salary Costs for Private and State & Local Government Employees, 01-18



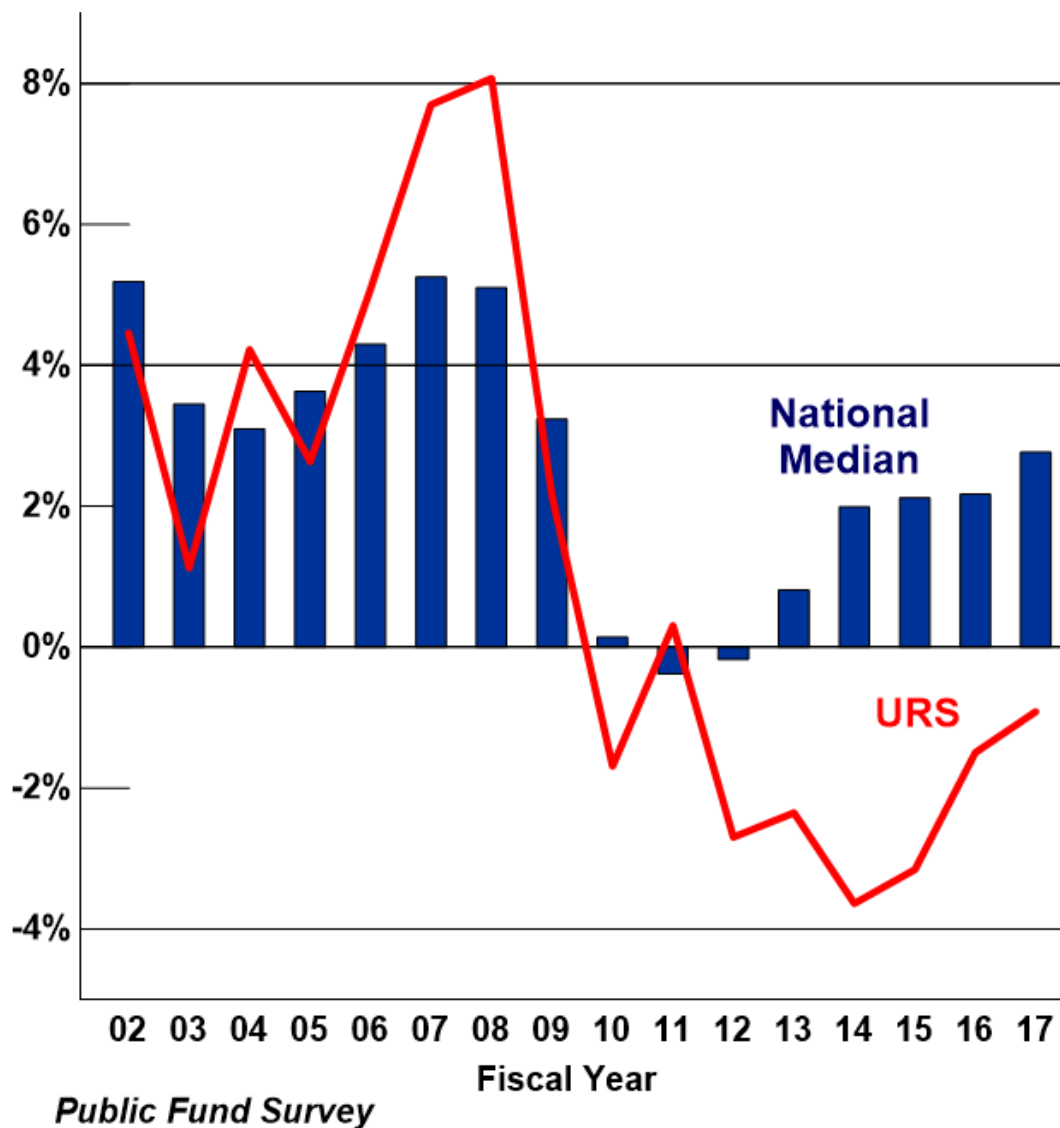
Data final as of Q2 2018



Median Annual Change in Public Pension Payrolls, FY 02 to FY 17



Median Annual Change in Public Pension Payrolls and URS Payroll, FY 02 to FY 17



Trends in Plan Design

- Reforms to pension plans since the 2008-09 market decline and the Great Recession are unprecedented in scope and magnitude
- Nearly every state has made changes to pension benefit levels, financing arrangements, or both
- Many states have enacted changes more than once
- Nearly all states have retained access to a traditional pension plan as employees' primary retirement benefit

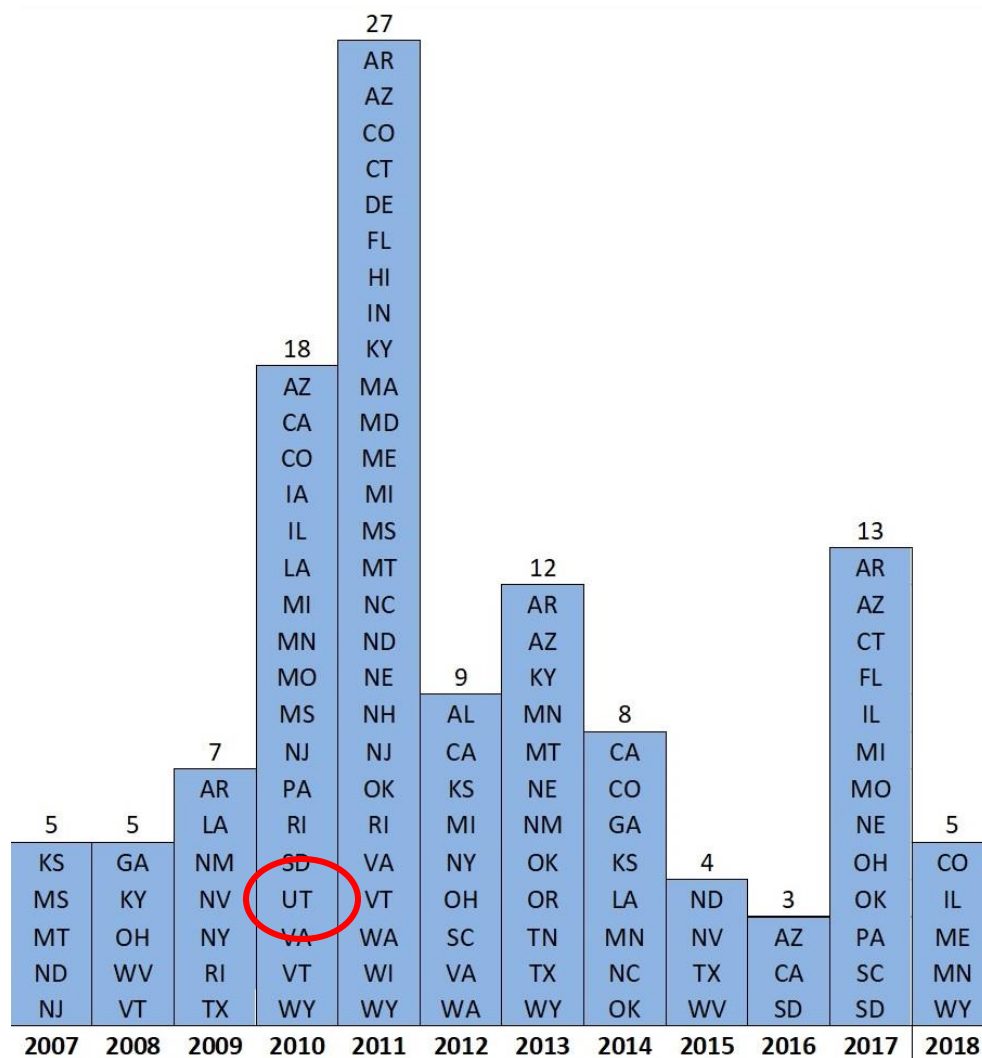


Trends in Plan Design

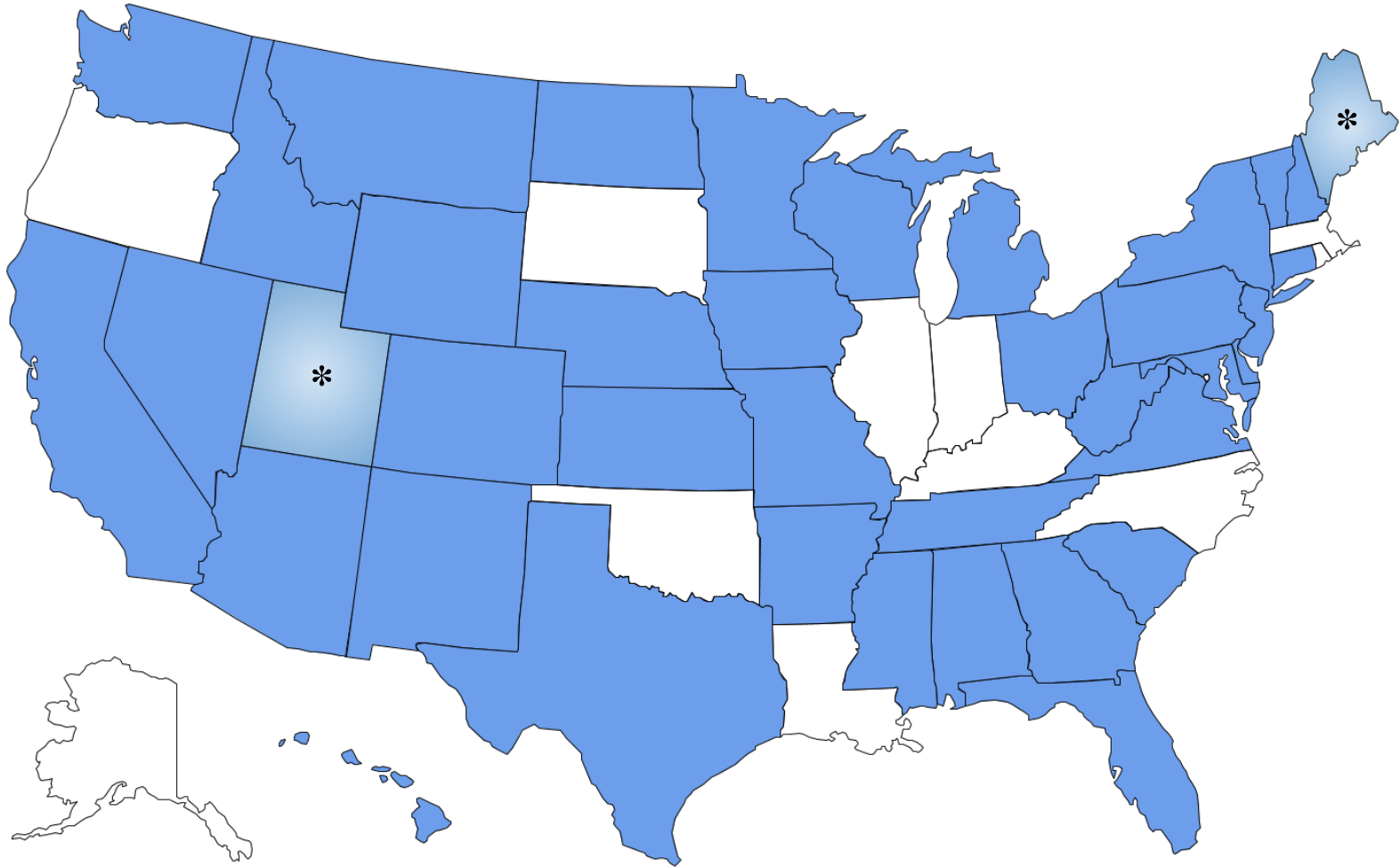
- Reforms may affect new hires only, current active members, those already retired, or all three
- Changes that affect new hires only tend to have limited initial effects on costs and liabilities
- Changes that affect those already retired can have a significant effect on plan costs and liabilities
- Public pension legal protections are a primary factor when considering changes to a pension plan
- Legal protections run a wide range and are not always clearly known



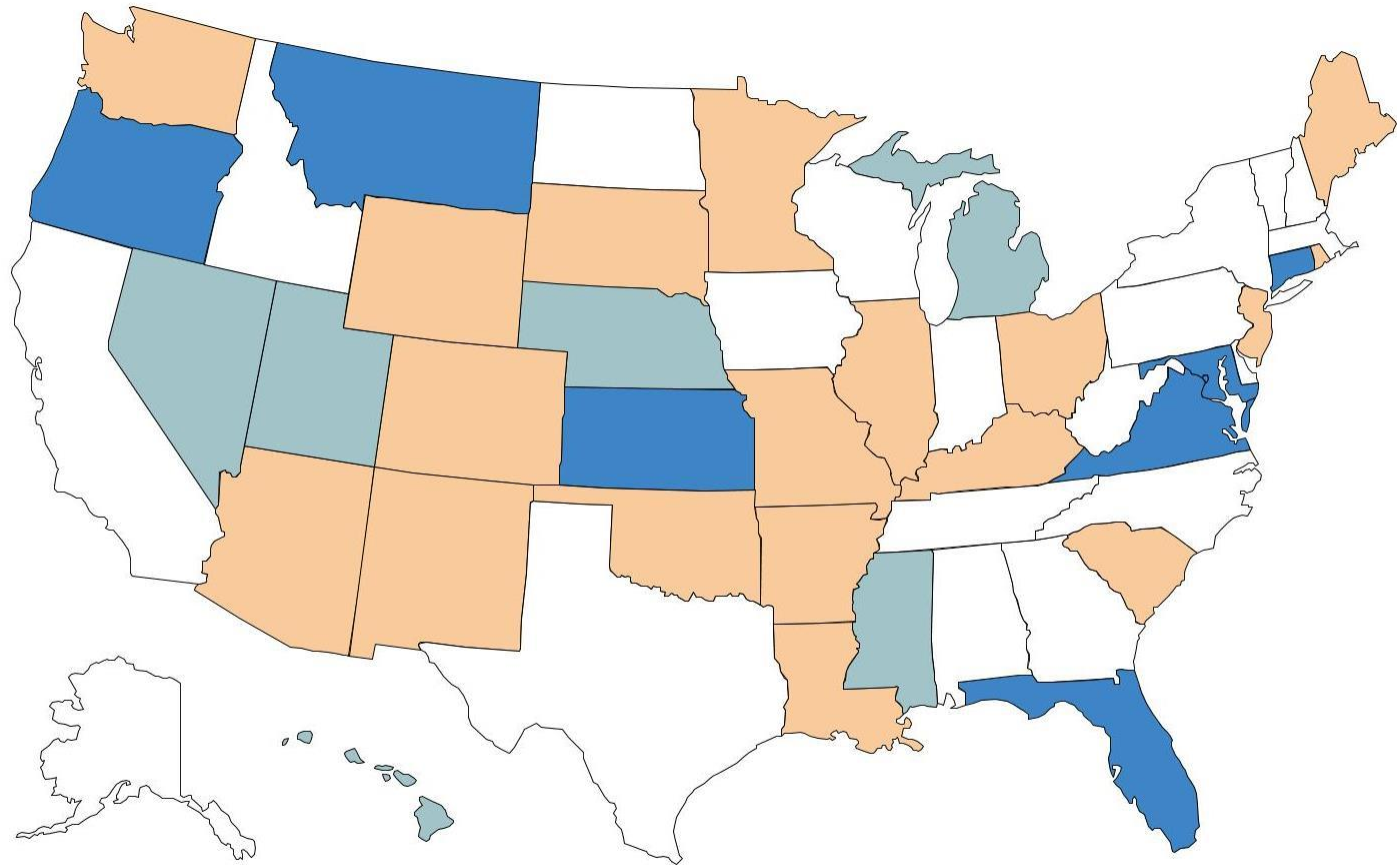
States Enacting Pension Reforms 2007 to 2018



States That Have Increased Employee Contribution Rates



States That Have Made Changes to Cost-of-Living Adjustment Provisions 2009-2018



Legend: ■ Affecting New Hires Only ■ Affecting Current Employees & New Hires ■ Affecting Retirees

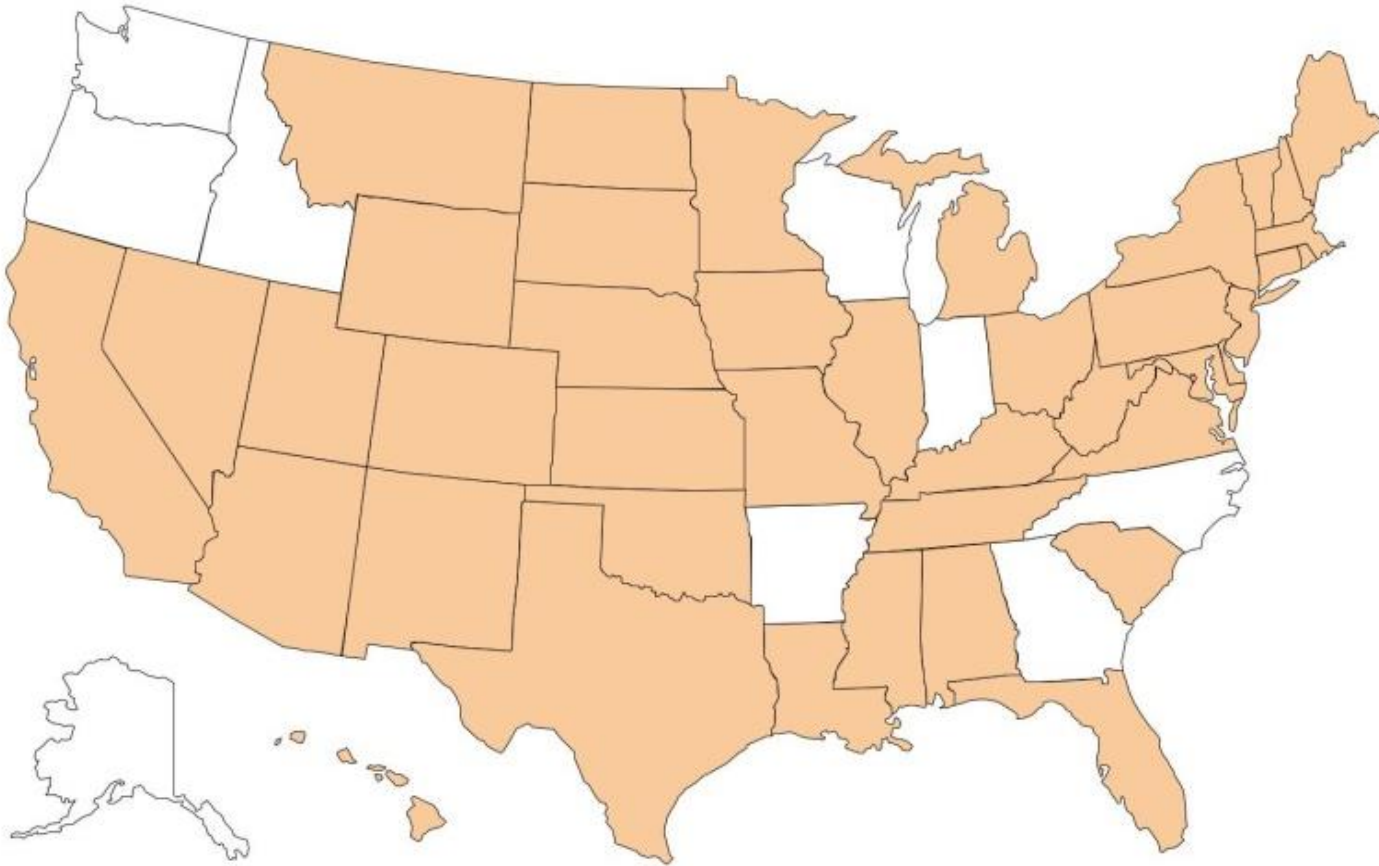


Ways Pension Benefit Levels Have Been Reduced

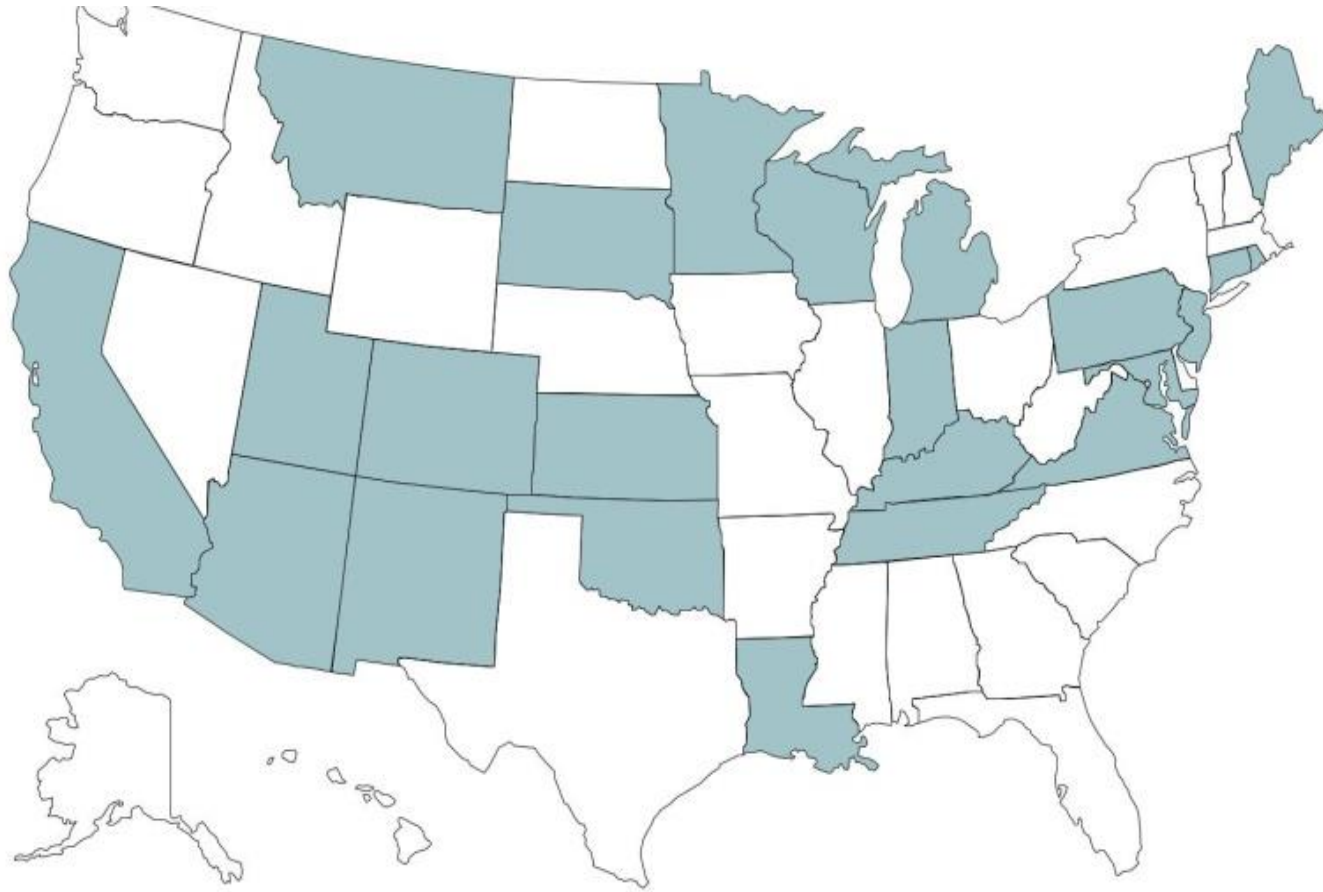
- Lower retirement multiplier
- Longer period for calculating pensionable salary
- Higher required age to qualify for a full retirement benefit
- More required years of service to qualify for a full retirement benefit
- Lower rate of interest accrual on contribution account balances



States That Reduced Pension Benefits, 2009-2018



States That Implemented Automatic Risk-Sharing Features 2009-2018

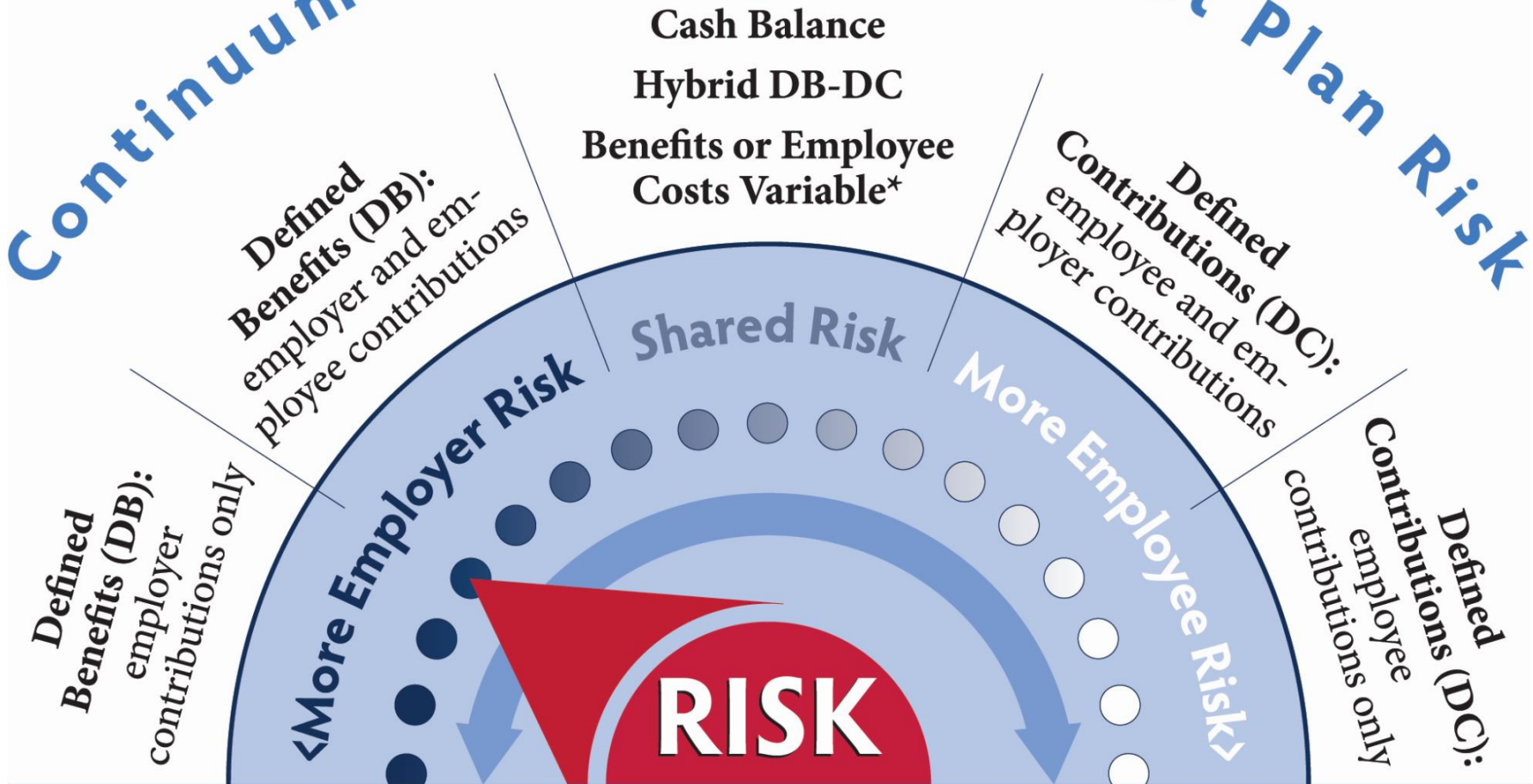


Examples of Risk-Sharing Plans

- **Hybrid plans**
 - ▲ DB-DC: a traditional pension plan combined with a defined contribution plan
 - ▲ Cash balance: a retirement benefit like a pension plan except the benefit is affected by investment experience and the employee's retirement age
- **Variable employee contribution rates**, which can change based on the plan's actuarial condition
- **Contingent benefits**, in which the size of the basic retirement benefit may be affected by the plan's actuarial condition
- **Contingent COLAs**, the post-retirement benefit adjustment depends on some external factor, such as investment return or the plan's funding level



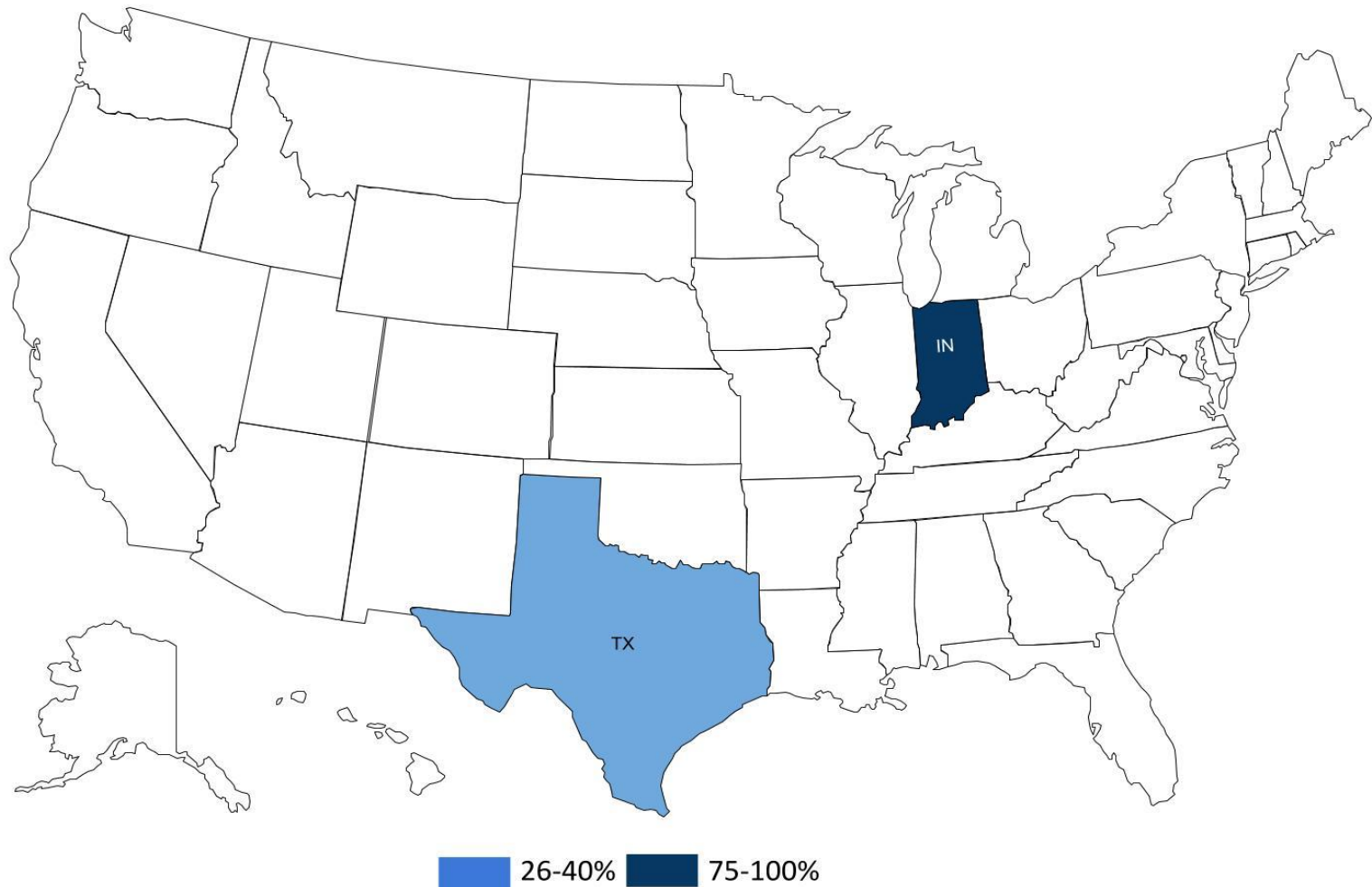
Continuum of Public Retirement Plan Risk



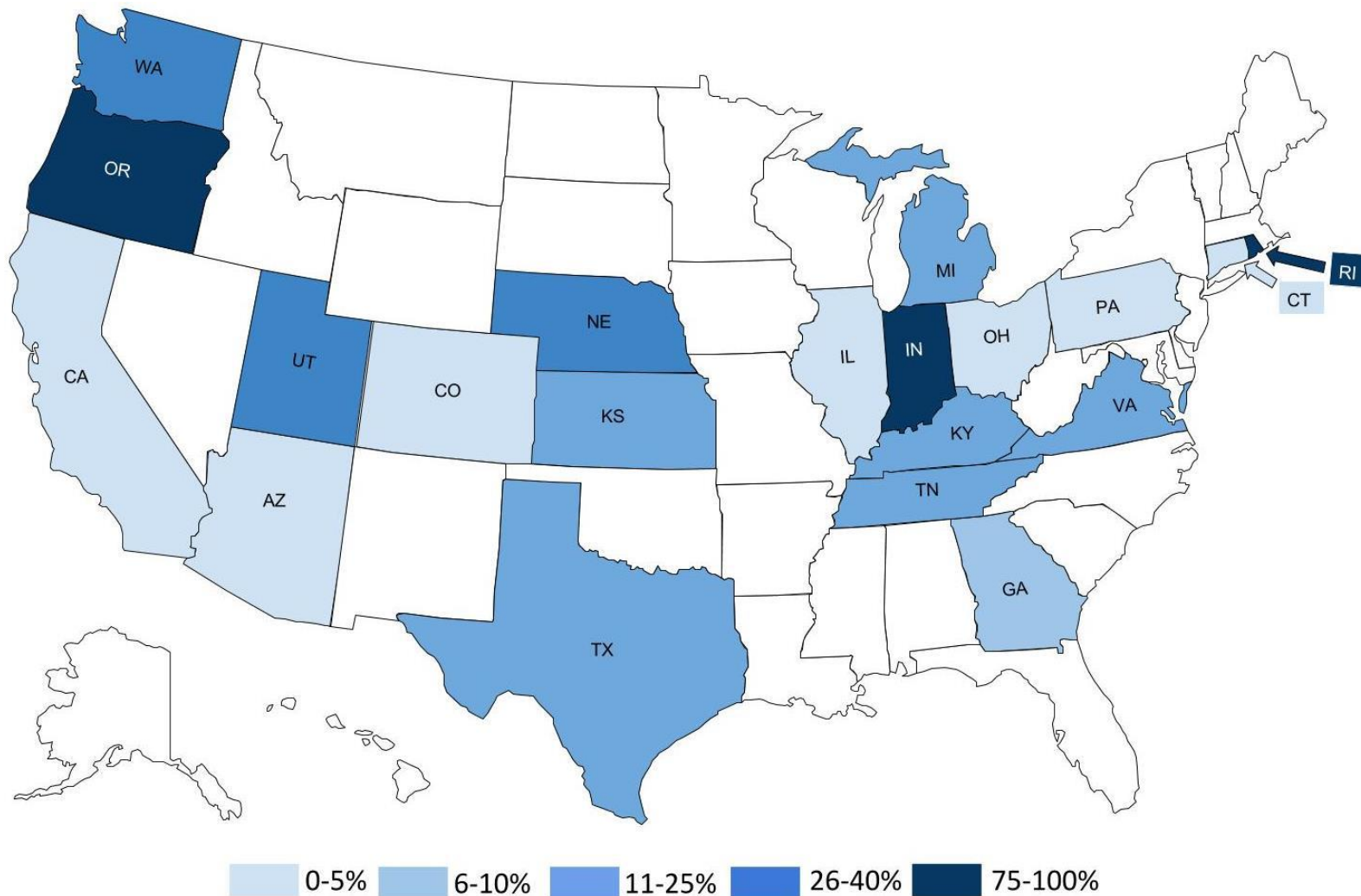
**Benefits or costs vary based on investment performance and financial or actuarial condition of the plan*



Statewide Hybrid Plans, 1995



Statewide Hybrid Plans and Relative Participation Rates, 2019



The Unique URS Retirement Plan Design

- The pension reform enacted by the Utah Legislature in 2010 applies to all new hires effective July 1, 2011
- Known as Tier 2, this plan is unique in the United States
- Tier 2 retains a traditional pension benefit while capping employer contributions at 10 percent of pay (12 percent for public safety)
- Employers must also contribute to eliminate the Tier 1 unfunded pension liability
- Employees are responsible for required plan costs above the employer cap, if necessary
- Employer contributions below the cap are directed to an individual employee retirement account
- Employees may elect to participate only in a defined contribution plan



Final Thoughts

- Public pension funding conditions in the U.S. range from strong and healthy to distressed
- Utah's retirement plans are in solid condition
- Changes made to public pension plans in the last decade are unprecedented in scope and magnitude
- Most states, including Utah, have retained core features of sound retirement plan design while shifting some risk to employees



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