



NPEA – Recent Plan Design Trends

Addressing Member's Concerns and
a Case Study of One System's
Dramatic Change

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GRS

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Current Issues

- ◆ Revenue issues generating budget cuts from every aspect
- ◆ Unemployment and cost reduction in the private sector attracting attention to public sector benefits
- ◆ Legislatures/Governing Bodies under pressure to “do something” in the wake of the economic downturn and increased scrutiny in the media



The Past is Gone

Schwarzenegger said to seek \$2 billion from CalPERS

In 1999 lawmakers and then-Gov. Gray Davis approved benefit increases that Mr. Schwarzenegger says the state can't afford and he wants them rolled back for new hires

He has supported proposals to require public employees to work longer to qualify for pensions and to pay more toward benefits

» Pensions & Investments Aug. 20, 2010



The Past is Gone

- ◆ Final salary pension membership in the private sector has already fallen 40% since 2000... now they are more likely to be in riskier “defined contribution” arrangements.
- ◆ The public sector, however, stands out like a sore thumb. Most public employees still retire at 60 on generous final salary pensions.
- ◆ The scale of the divide between government employees and the rest is now “staggering”.



A Fix?

- ◆ Desire to “do something now” can lead to over-kill – like hunting sparrows with a bazooka
- ◆ New Mexico Legislature –
 - ▶ Made changes even before the downturn showed up in the actuarial valuation
 - ▶ Ignored 30 years of history and changed benefits without studying adequacy as a “first step”



Member Communication

- ◆ If benefit adequacy is not studied, changes can be very difficult to explain to members
- ◆ Members generally believe that they have an employment agreement with employer that includes the current benefits



Member Communication

- ◆ In many states, the law prohibits changing benefits for current members
 - ▶ Accrued benefit
 - ▶ Current and future benefit conditions
- ◆ Changes for new hires may lead to the need to justify similarly situated employees receiving different benefits, working side by side



What States are Doing¹

- ◆ 19 States passed major pension legislation in 2010
- ◆ Two major structural changes
 - ▶ Increasing member contributions
 - ▶ Reducing benefits



What States are Doing¹

- ◆ 9 States increased age and service requirements for normal retirement
- ◆ 4 States increased vesting requirements
- ◆ 7 States increased the final averaging period
- ◆ 10 States increased employee contributions (6 for plans that been non-contributory)
- ◆ 8 States reduced post-retirement increases (3 for members already retired)



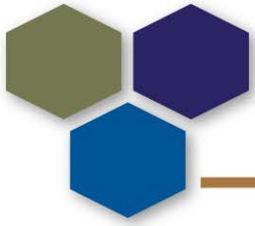
What States are Doing¹

- ◆ 9 States increased restrictions on back to work provisions
- ◆ 9 States reduced benefits for early retirement
- ◆ 2 States had major structural changes (moving from a defined benefit plan to a hybrid or defined contribution plan)



2010 Utah Legislative Changes

- ◆ SB-43: Post-Retirement Employment
- ◆ SB-63: New Public Employees' Tier II Contributory
- ◆ HB-233: Retirement Office Amendments



Post-Retirement Employment

SENATE BILL 43



Rehired prior to July 1, 2010 Different Agency

- ◆ Rehired any time after retirement date
- ◆ Continued monthly retirement check
- ◆ No additional service accrual
- ◆ Employer contributions to 401(k) are :
 - ▶ Required until July 1, 2010 (full contribution rate)
 - ▶ Optional after July 1, 2010 (capped at normal rate)



Rehired After July 1, 2010

Any URS employer - Within 12 Months

◆ Retirement check canceled

▶ Regardless of position:

- Part time
- Seasonal/temporary
- Full time
- Contract employee

◆ Continue to earn service credit

- If meets eligibility requirements
- Two year vesting on new service

◆ Employer pays full contribution rate to pension



Rehired After July 1, 2010

Any URS Employer - After 12 Months

Employee chooses to:

1. Continue receiving retirement check

- ▶ No additional service credit
- ▶ Employer pays amortized rate to pension
- ▶ Employer contributions to DC plan not allowed

or

2. Cancel retirement check

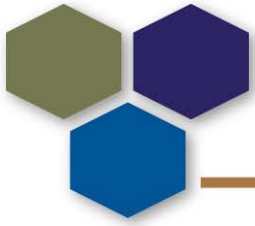
- ▶ Earn additional service credit
- ▶ Two year vesting on new service
- ▶ Employer pays full contribution rate to pension



Removes the Cap on the Maximum Retirement Benefit

- ◆ Prior to July 1, 2010:
 - ▶ Capped at 30 years = 70%

- ◆ No Cap After July 1, 2010:
 - ▶ Public Safety
 - ▶ Firefighters
 - ▶ Judges



**New Public Employees' Tier II
Contributory Retirement Act
SENATE BILL 63**



Pension Changes

Tier I

- ▶ 30 year retirement Public
- ▶ 20 year Public Safety/Fire
- ▶ 2% multiplier
- ▶ 2.5% Public Safety/Fire
- ▶ 3 year final average salary
- ▶ 4% cost of living increase limit

Tier II

- ◆ Hybrid option
 - ▶ 35 year retirement Public
 - ▶ 25 year Public Safety/Fire
 - ▶ 1.5% multiplier
 - ▶ 5 year final average salary
 - ▶ 2.5% cost of living increase limit
- ◆ Defined Contribution Option
 - ▶ 10% Public system
 - ▶ 12% Public Safety/Fire



Tier II - Public System

◆ 10% Retirement Package

▶ Hybrid Option

- Contribution rate to pension
- Difference between contribution rate and 10% to 401(k)
- If contribution rate exceeds 10%, employee pays difference

or

▶ Defined Contribution Option

- 10% 401(k) contribution
- 4 year vesting



Tier II - Public Safety/Fire Systems

◆ 12% Retirement Package

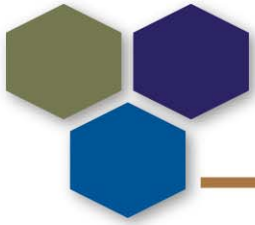
▶ Hybrid Option

- Contribution rate to pension
- Difference between contribution rate and 12% to 401(k)
- If contribution rate exceeds 12%, employee pays difference

Or

▶ Defined Contribution Option

- 12% 401(k) contribution
- 4 year vesting



Benefit Calculation Example

Tier I

Years of Service

X

2%

X

Average of 3 Highest
Years Salary

=

Basic Benefit

Tier II

Years of Service

X

1.5%

X

Average of 5 Highest
Years Salary

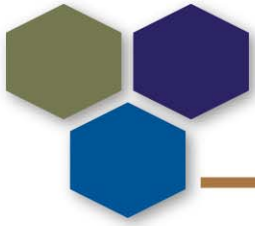
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Basic Benefit



Benefit Calculation Example

<u>Example:</u> Years of Service	<u>Tier I</u> 30 years	<u>Tier II</u> 35 years
x	=	=
2/1.5%	60%	52.5%
x	x	x
Average of 3/5 Highest Years Salary	\$40,000	\$39,000
=	=	=
Basic Benefit	\$24,000	\$20,475



Retirement Office Amendments
HOUSE BILL 233



Purchasing Service

◆ Beginning January 1, 2011:

- ▶ Purchase cost will increase
- ▶ Applies to all service purchases
- ▶ “Purchasing Future Service Credit” brochure invalid after Dec. 30, 2010
- ▶ Does not apply to reinstatements





What Can Systems Do?

- ◆ React to legislation once it is passed and explain it to members (be a casual observer of your own destiny)
- ◆ Respond to request for information from legislation, if asked (be a passive participant in your own destiny)
- ◆ Take pro-active steps to provide stakeholders information on which to base sound decisions on (be an active participant in your own destiny)



Board Proactive Solutions

◆ Funding Policy

- ▶ Establishing funding goals
- ▶ Recommending action regarding funding deficiencies

◆ Proposal Response Policy

- ▶ When to endorse, oppose, be neutral
- ▶ How to analyze
- ▶ Defining elements of reasonable proposals



Board Proactive Solutions

◆ Benefit Adequacy Study

- ▶ Comparing to peer plan structures
- ▶ Education on various plan designs
- ▶ Establishing Board goals and objectives
- ▶ Consider other stakeholders' goals and objectives (members, employer, taxpayers)
- ▶ Measuring replacement ratios
- ▶ Measuring different plan design accrual rates and long-term costs



Benefit Adequacy Case Study

- ◆ Statewide plan covering state and local uniformed and civilian members (no teachers)
- ◆ Educational information on plan designs in the public sector
- ◆ Identified 20 peer plans based on
 - ▶ Membership type and size
 - ▶ Asset size
 - ▶ Benefit complexity
 - ▶ Similar Social Security participation
 - ▶ Geographical location



Benefit Adequacy Case Study

System	Membership Size		Assets (\$Bill.)	Membership Coverage Description	Social Security
	Active	Retired			
Plan 1	228,000	93,000	\$ 24.0	State Employees, Teachers, Political Sub	yes
Plan 2	190,000	79,000	\$ 39.0	State Ees, Troopers, Teachers, Municipal Ees and Judges	no
Plan 3	75,293	35,579	\$ 13.0	State Employees (including Public Safety)	yes
Plan 4	67,000	36,000	\$ 11.0	State, Teachers, Political Sub, P&F, Judges, Legislative	G=yes/PF=no
Plan 5	67,000	31,000	\$ 10.0	State, Teachers, Political sub, P&F	yes
Plan 6	220,000	60,000	\$ 12.0	State and Political Sub Ees (except Pol. Sub. P&F)	yes
Plan 7	176,000	87,000	\$ 21.0	State, Pol. Sub Ees and Public Safety (Some Pol. Sub P&F Excluded)	yes
Plan 8	62,000	38,000	\$ 9.0	State Ees, State Police, Corrections, Legislators, Judges	no
Plan 9	167,000	76,000	\$ 20.0	State Ees, State Patrol, Pol. Sub Ees, Teachers and Legislators (4 separate plans)	yes
Plan 10	28,000	17,000	\$ 4.7	State and Local General employees	yes
Plan 11	10,000	400	\$ 0.6	State, County General Employees, State Patrol and Judges	yes
Plan 12	118,000	42,000	\$ 26.0	General and Teachers in one plan P&F in another	no
Plan 13	51,000	23,000	\$ 5.0	State and Local Ees, Teachers, P&F	g=yes/pf=no
Plan 14	19,000	7,000	\$ 1.6	State and Local Ees, P&F	yes
Plan 15	350,000	169,000	\$ 70.0	State and Local Ees, Local Public Safety	no
Plan 16	35,000	22,000	\$ 6.0	State Ees, Teachers; Local Ees and Local P&F	yes
Plan 17	213,000	98,000	\$ 31.0	State Ees, Teachers, Political Subdivisions	yes
Plan 18	106,000	43,000	\$ 16.0	State and Local Ees; Public Safety; Fire; Judges; Legislative	yes
Plan 19	15,000	6,000	\$ 1.6	State Ees, Judges, State Law Enforcement	yes
Plan 20	40,000	20,000	\$ 5.0	State and Local Eesl, Police and Fire and Teachers	yes

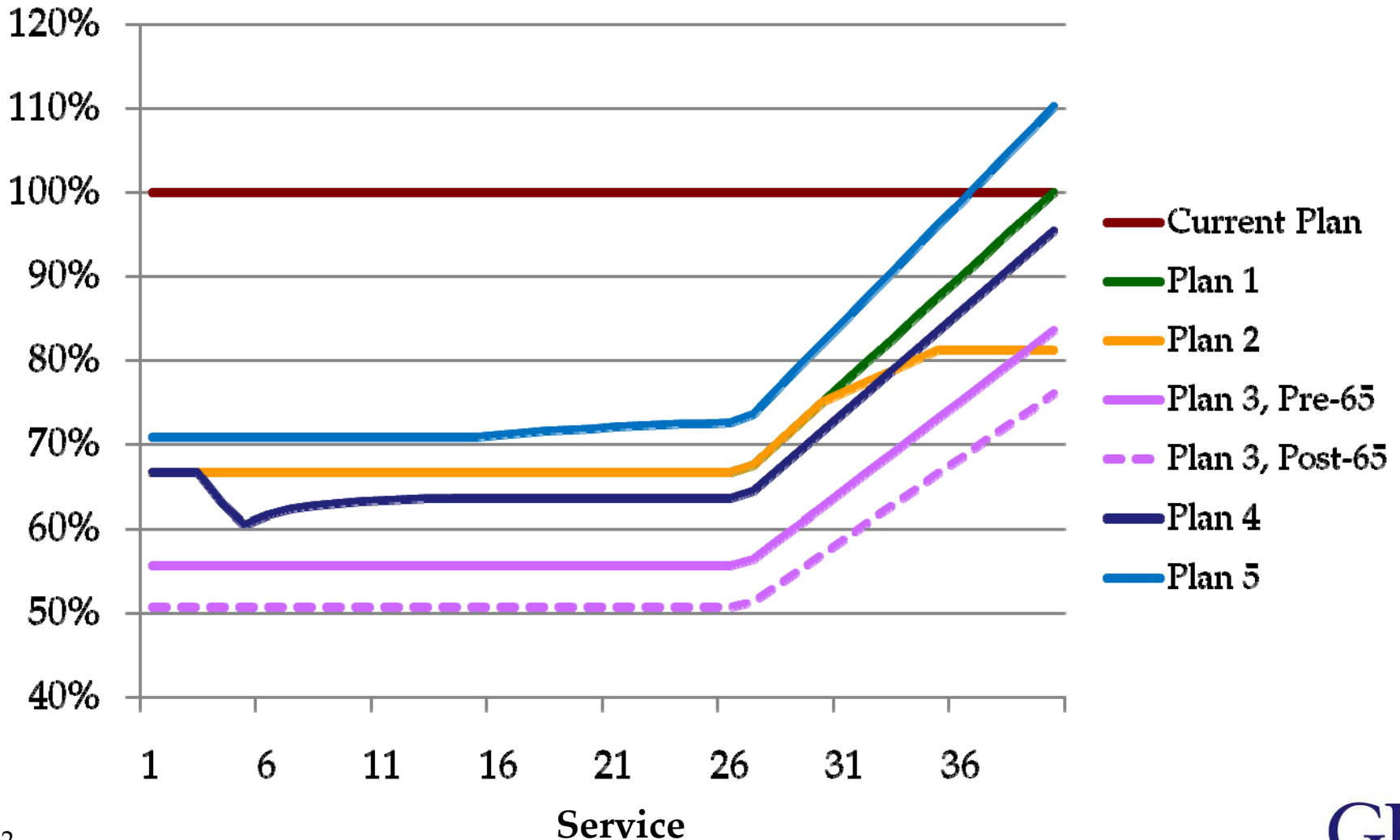


Benefit Adequacy Case Study

- ◆ Based on simple survey, Board selected 5 peer plans of the 20 to further study, Comparing:
 - ▶ Major plan provisions
 - ▶ Rates of benefit accrual
 - ▶ Long-term costs (based on client's valuation assumptions and member data)
 - ▶ Replacement Ratios for sample members

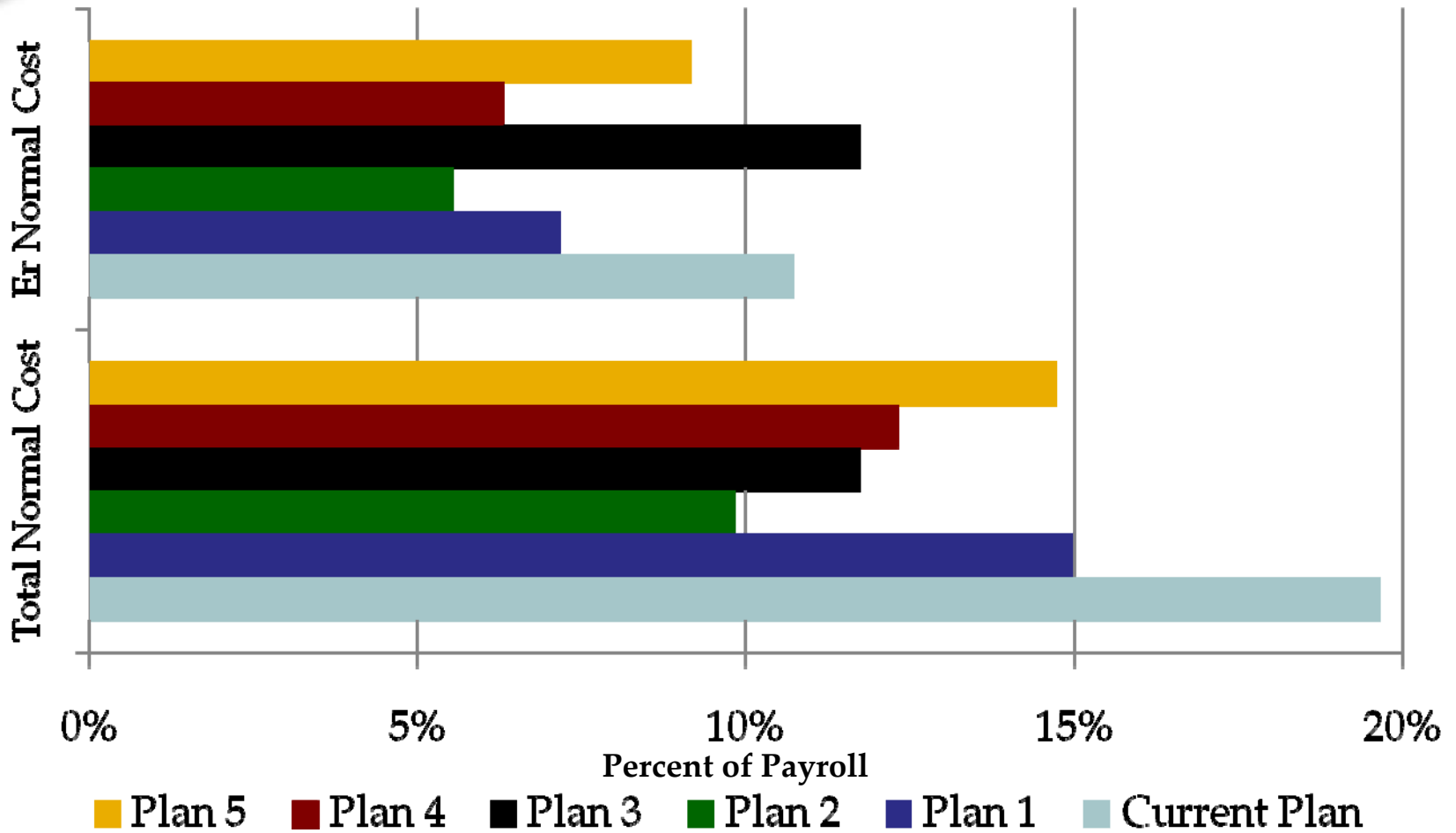
Benefit Adequacy Case Study

Benefit Accrual Comparison



Benefit Adequacy Case Study

Cost Comparison*



* Based on Client member data and assumptions



Benefit Adequacy Case Study

- ◆ Worked with Board to establish goals and objectives
- ◆ The importance of this step cannot be over-emphasized
- ◆ From the goals and objectives an “Ideal Plan” design was formed (taking into account Constitutional and Statutory requirements)



Benefit Adequacy Case Study

- ◆ Different sets of goals and objects could yield different “Ideal Plan” designs



Examples of Goals and Objectives

- ◆ Targeting a specific career length (such as 25 or 30 years of service)
- ◆ Establishing a minimum retirement age
- ◆ Desired additional plan features (Hybrid, Early Retirement, Casualty Benefits, COLAs, Etc.)
- ◆ Targeting a specific Replacement Ratio for a career member (with or without Soc. Sec.)
- ◆ Targeting a specific long-term cost
- ◆ Establishing cost sharing ratios



Additional Advantages

- ◆ Study can be used to justify a specific level of benefits
- ◆ Future proposed plan changes can be tested against the goals and objectives
- ◆ Can be used to identify provisions that may be excessive while defending provisions that are appropriate
- ◆ Can be provided to Legislature/governing body as an educational tool



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Questions?

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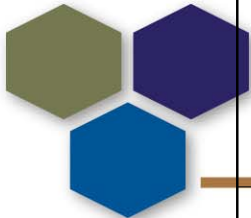
Acknowledgements and Footnotes

- ◆ ¹From NCLS annual report on state pensions and retirement legislation
<http://www.ncsl.org?tabid=20836>
- ◆ I would like to acknowledge Paul Zorn and Judy Kermans for the assistance in reviewing and peer reviewing this presentation

ISSUES ADDRESSED IN 2010 STATE PENSIONS LEGISLATION
NATIONAL CONFERENCE OF STATE LEGISLATURES, JULY, 2010

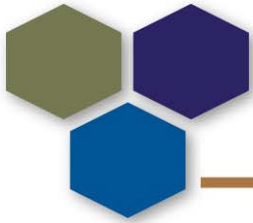
KEY TO CHART: Provisions noted apply to members of at least one statewide public employees' or teachers' retirement plan.
 vv indicates that provisions apply to at least some active members as well as those to be hired after the enactment of the legislation.
 v* indicates provisions of the defined benefit portion of hybrid plans adopted in Michigan and Utah affecting future employees.

State	Higher Vesting or Membership Requirement	Increased Age/Service Requirement for Normal Retirement	Lower Multiplier	Longer Period to Calculate Final Average Compensation	More Stringent Anti-Spiking Provision	Greater Restrictions on Return to Covered Service	Reduced Benefit for Early Retirement	Higher Employee Contribution Requirement	Reduction in Post-Retirement Increase
Arizona		v		v			v		
Colorado		v			v	vv	vv	vv	vv
Georgia						vv			
Hawaii						vv			
Illinois		v		v		v	v		v
Iowa	v			v			v	vv	
Louisiana				v				v	
Michigan		v*		v*		vv			v*
Minnesota	v						v	vv	vv



State/System	Higher Vesting or Membership Requirement	Increased Age/Service Requirement for Normal Retirement	Lower Multiplier	Longer Period to Calculate Final Average Compensation	More Stringent Anti-Spiking Provision	Greater Restrictions on Return to Covered Service	Reduced Benefit for Early Retirement	Higher Employee Contribution Requirement	Reduction in Post-Retirement Increase
Mississippi		v				vv		vv	
Missouri	v	v					v	v	
New Jersey	v		v	v					
New Mexico						vv			
Rhode Island									vv
South Dakota						vv			vv
Utah		v*	v*			vv	v*		v
Vermont		vv			vv		vv	vv	
Virginia		v		v			v	v	v
Wyoming								vv	

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