State Retirement Systems: Recent Trends

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Outline

1. Where Do State Retirement Systems Stand?
2. Why Focus on Pensions?
3. How Are States Bolstering their Pension Plans?
4. What are Some Key Recent Trends in Public Pension Plans?
March 2012 – Wilshire Consulting Report on State Retirement Systems:

- Ratio of pension assets-to-liabilities, or *funding ratio*, for 126 plans reviewed was 77 percent in 2011;
- Funding ratio in 2010 was 69 percent in 2010;
- Funding ratios declined between the years 2001 and 2005, falling from 100 percent to 86 percent and holding relatively constant until the 2009 fiscal year’s 6 percent decrease to 79 percent.
Where Do State Retirement Systems Stand?

• June 2012 – Pew Center on the States
  ✓ Gap between states’ assets and their obligations for public sector retirement benefits in fiscal year 2010 is $1.38 trillion:
    ▪ $757 billion for pension promises
    ▪ $627 billion for retiree healthcare
  ✓ Important to note that the improvements in the equity markets in fiscal year 2011 are not reflected in these fiscal year 2010 numbers;
<table>
<thead>
<tr>
<th>State</th>
<th>Funded Ratio</th>
<th>State</th>
<th>Funded Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>70 Percent</td>
<td>North Carolina</td>
<td>96 Percent</td>
</tr>
<tr>
<td>Arkansas</td>
<td>75 Percent</td>
<td>Oklahoma</td>
<td>56 Percent</td>
</tr>
<tr>
<td>Florida</td>
<td>82 Percent</td>
<td>South Carolina</td>
<td>66 Percent</td>
</tr>
<tr>
<td>Georgia</td>
<td>85 Percent</td>
<td>Tennessee</td>
<td>90 Percent</td>
</tr>
<tr>
<td>Kentucky</td>
<td>54 Percent</td>
<td>Texas</td>
<td>83 Percent</td>
</tr>
<tr>
<td>Louisiana</td>
<td>56 Percent</td>
<td>Virginia</td>
<td>72 Percent</td>
</tr>
<tr>
<td>Mississippi</td>
<td>64 Percent</td>
<td>West Virginia</td>
<td>58 Percent</td>
</tr>
<tr>
<td>Missouri</td>
<td>77 Percent</td>
<td></td>
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</tr>
</tbody>
</table>
Where Do State Retirement Systems Stand?

  - State and local government pensions are underfunded by approximately $1 trillion or 74.1 percent;
  - California – funded ratio of 77 percent;
  - Illinois – funded ratio of 51 percent;
  - New Jersey – funded ratio of 65 percent;
  - New York – funded ratio of 87 percent;
  - Texas – funded ratio of 78 percent;
  - Virginia – funded ratio of 70 percent
2. Why Focus on Pensions?

- Funding difficulties facing the Social Security and Medicare systems;
- Declining worker-to-beneficiary ratio;
- Rising funding gap at corporate pension plans and record deficits at the Pension Benefit Guaranty Corporation (or PBGC, the federal entity that insures the benefits of private pension plans);
- Low personal savings rate of many Americans alongside the minimal amounts set aside for retirement; and
- “Graying” of America with an increasing number of Americans now reaching retirement age and living longer.
States have to contend with surging expenditures in a number of major categories:

- Healthcare
- Education
- Emergency Management
- Corrections
- Unemployment Insurance
- Transportation
- Infrastructure
- AND
- Public Pensions
3. How Are States Bolstering Plans?

- Issuing pension obligation bonds;
- Increasing employee contributions;
- Revising automatic cost-of-living adjustment (COLA) increases;
- Increasing age and vesting levels;
- Lengthening the period that determines final average salary for pension benefits;
3. How Are States Bolstering Plans?

- Prohibiting any retirement benefit enhancements until the actuarial value of the system’s assets reach 100 percent of actuarial funding liability;
- Switching most active members to a hybrid plan with a lower defined benefit (DB) combined with a mandatory participation in a defined contribution (DC) plan;
- Establishing a DC plan as an option for new members; and
- Consolidating pension boards to effect greater oversight and economies of scale.
4. Some Recent Trends

Government-Run Retirement Plans for Private-Sector Employees

Proposal springs from two important trends related to private sector pensions:

1) the pension plans in an increasing number of private companies are in serious financial difficulty;
2) an increasing number of Americans have failed to save adequately for retirement

Trend emerged in Maryland five years ago and policymakers in over a dozen states discussed and proposed legislation

No public funds to be allocated to pay for private sector retirement plans.
4. Some Recent Trends

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Cash and Investment Holdings</th>
<th>Total Cash and Short-Term Investments</th>
<th>Govt. Securities</th>
<th>Non-Govt. Securities</th>
<th>Total Other Investments</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>100.00%</td>
<td>3.91%</td>
<td>8.67%</td>
<td>73.64%</td>
<td>13.78%</td>
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<tr>
<td>FY 2004</td>
<td>100.00%</td>
<td>3.40%</td>
<td>8.95%</td>
<td>79.75%</td>
<td>7.89%</td>
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<tr>
<td>FY 1999</td>
<td>100.00%</td>
<td>5.33%</td>
<td>14.33%</td>
<td>74.14%</td>
<td>6.19%</td>
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<td>FY 1993</td>
<td>100.00%</td>
<td>7.28%</td>
<td>22.36%</td>
<td>62.80%</td>
<td>7.56%</td>
</tr>
</tbody>
</table>
4. Some Recent Trends

- Cash Balance Plans, which contain features of both a traditional DB system and a 401(k)-style system
- These plans have surfaced in Nebraska, Louisiana, Kansas, Maryland, Montana and Pennsylvania
- Employees and state both contribute to individual accounts, which retiring employees have the option of accessing as an annuity, lump sum, rollover or combination of any of those options
- Advantages to both employees and state governments
- Some critics contend that there are disadvantages to employees, particularly the possibility of exhausting the funds in their accounts
4. Some Recent Trends

- Dozens of public pension fund assumptions have reduced their investment return assumptions in recent years;
- Among the 126 plans measured in the National Association of State Retirement Administrators (NASRA) Public Fund Survey, 45 have reduced their investment return assumption since fiscal year 2008;
- While 8 percent remains the predominant rate assumption, the weighted average (considering asset size) is 7.68 percent;
- State and local agencies throughout California are bracing for higher pension bills after the state’s public employees system reported a dismal 1 percent return on investments for fiscal 2012 — far below its goal of 7.5 percent.
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Thank You

For more information, please contact

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