# An Overview of Public Pensions in the U.S.


## The Wisconsin Department of Employee Trust Funds Board

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# Comparison of Retirement Benefits in the U.S.

## Private Sector

- Between employers that do not sponsor a retirement benefit and employees that elect to not participate when one is sponsored, 65% of full-time private sector workers participate in an employer-sponsored retirement plan
- 50% when part-time workers are counted
- 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
- 85%+ participate in a traditional pension (DB plan)
- Three-fourths participate in Social Security

# Distinguishing elements of public pension plans

- Mandatory participation
- Employee-employer cost sharing
- Benefit adequacy
- Assets that are pooled and professionally invested
- A benefit that cannot be outlived, i.e., mandatory annuitization

# Public pensions in the U.S.

## Defined benefit plans for employees of state and local government in the U.S.:

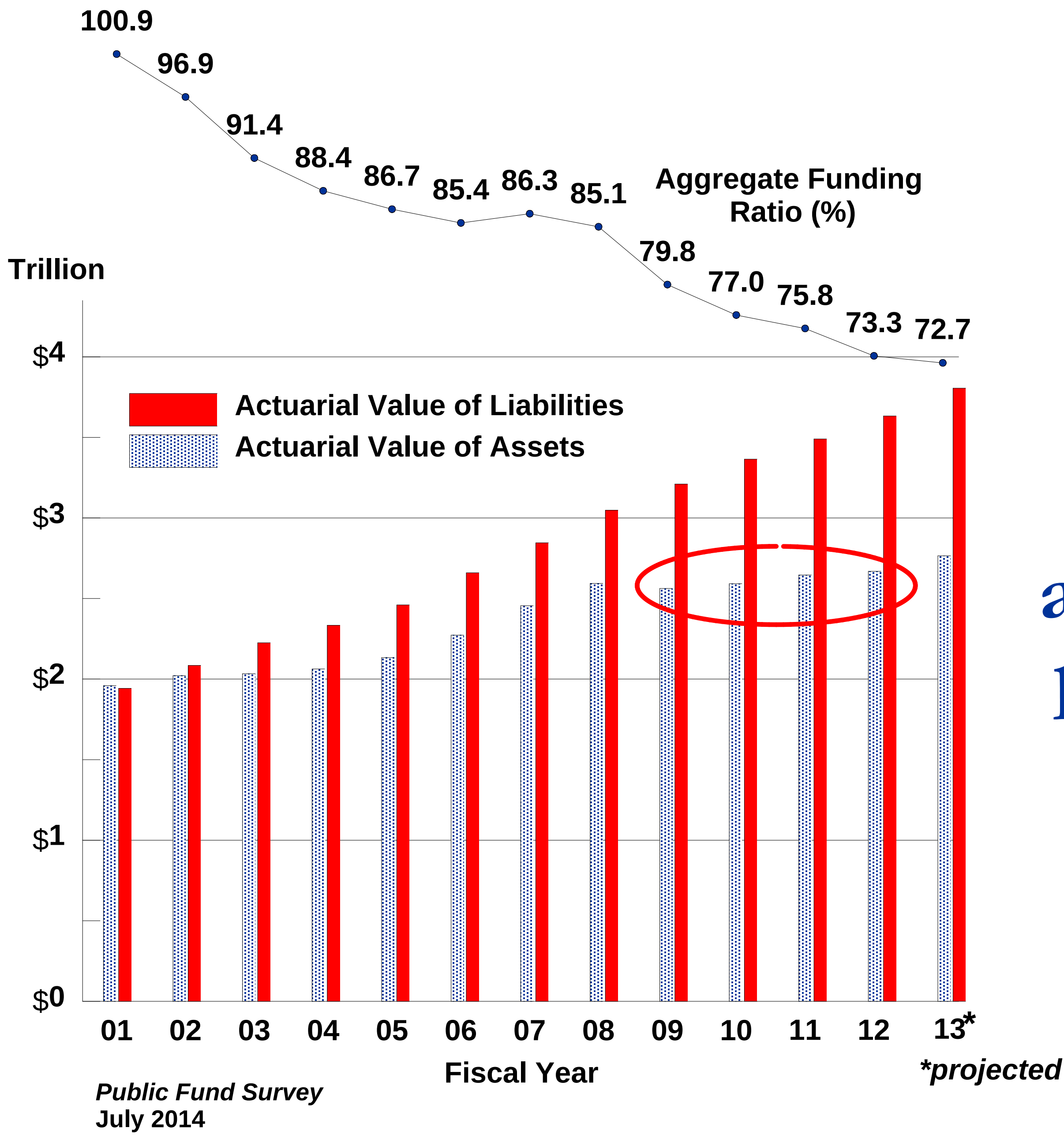
- ~$3.7 trillion in assets
- ~15 million active (working) participants
  - 12+ percent of the nation's workforce
- 8.0+ million retirees and their survivors receive ~$225 billion annually in benefits
- Of 3,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members
- Aggregate funding level = ~73%

*US Census Bureau, Public Fund Survey*

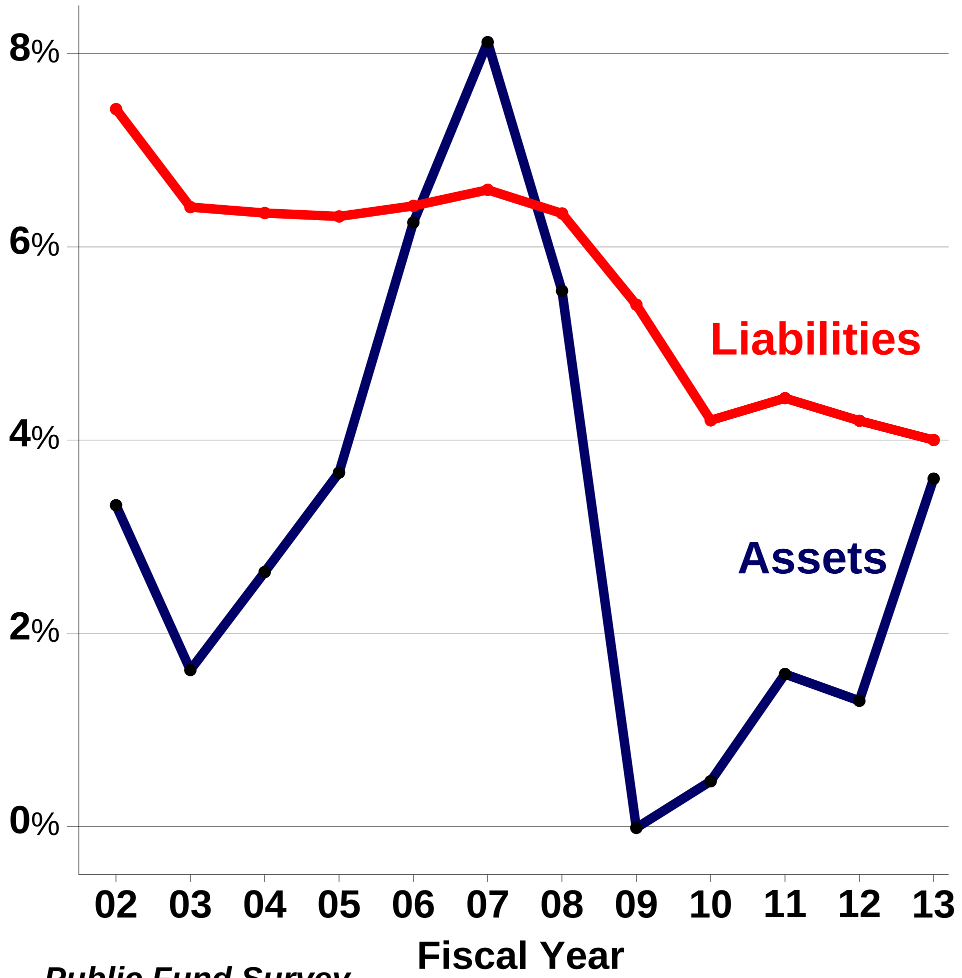
# Overarching Public Pension Issues

- Since 2009, we have witnessed an unprecedented:
  - number of reductions in public pension benefit levels
  - number of legal challenges in response to pension changes
  - reduction in state and local government employment
- New pension accounting standards are changing the way pensions are calculated
- Bond rating agencies are calculating their own pension numbers
- Investment return assumptions are under scrutiny and challenge, and are being reduced

# Actuarial value of assets and liabilities, and funding level, FY 01 to FY 13

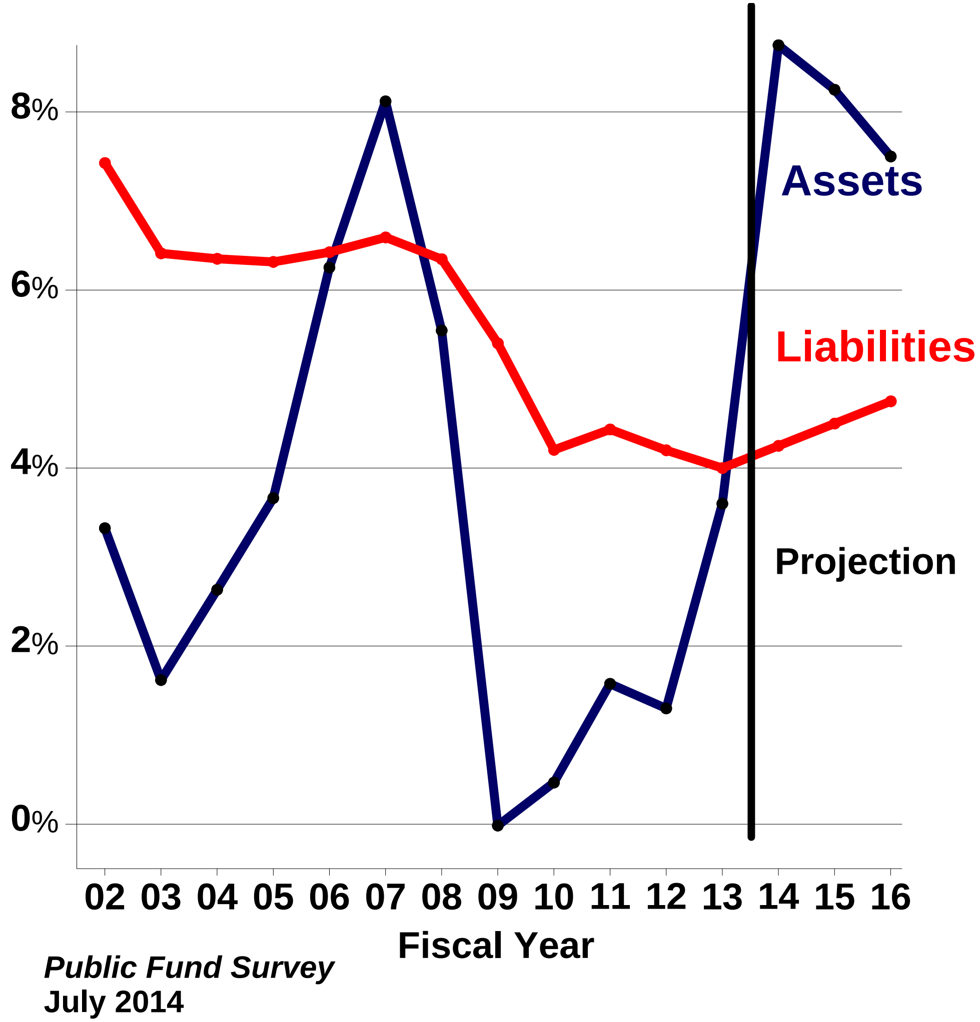


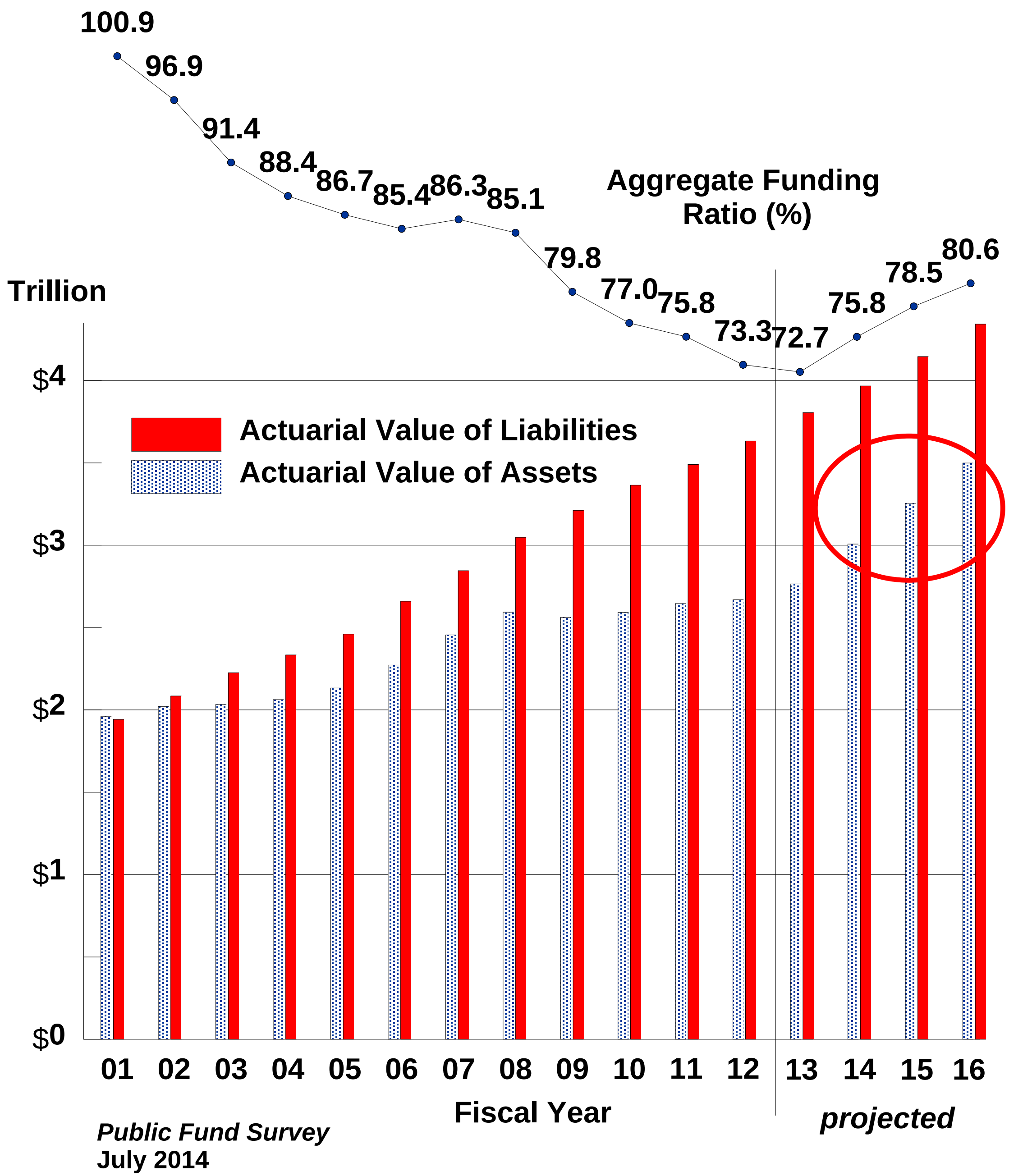
# Median change in actuarial value of assets and liabilities, FY 02 to FY 13




***Public Fund Survey***
**July 2014**

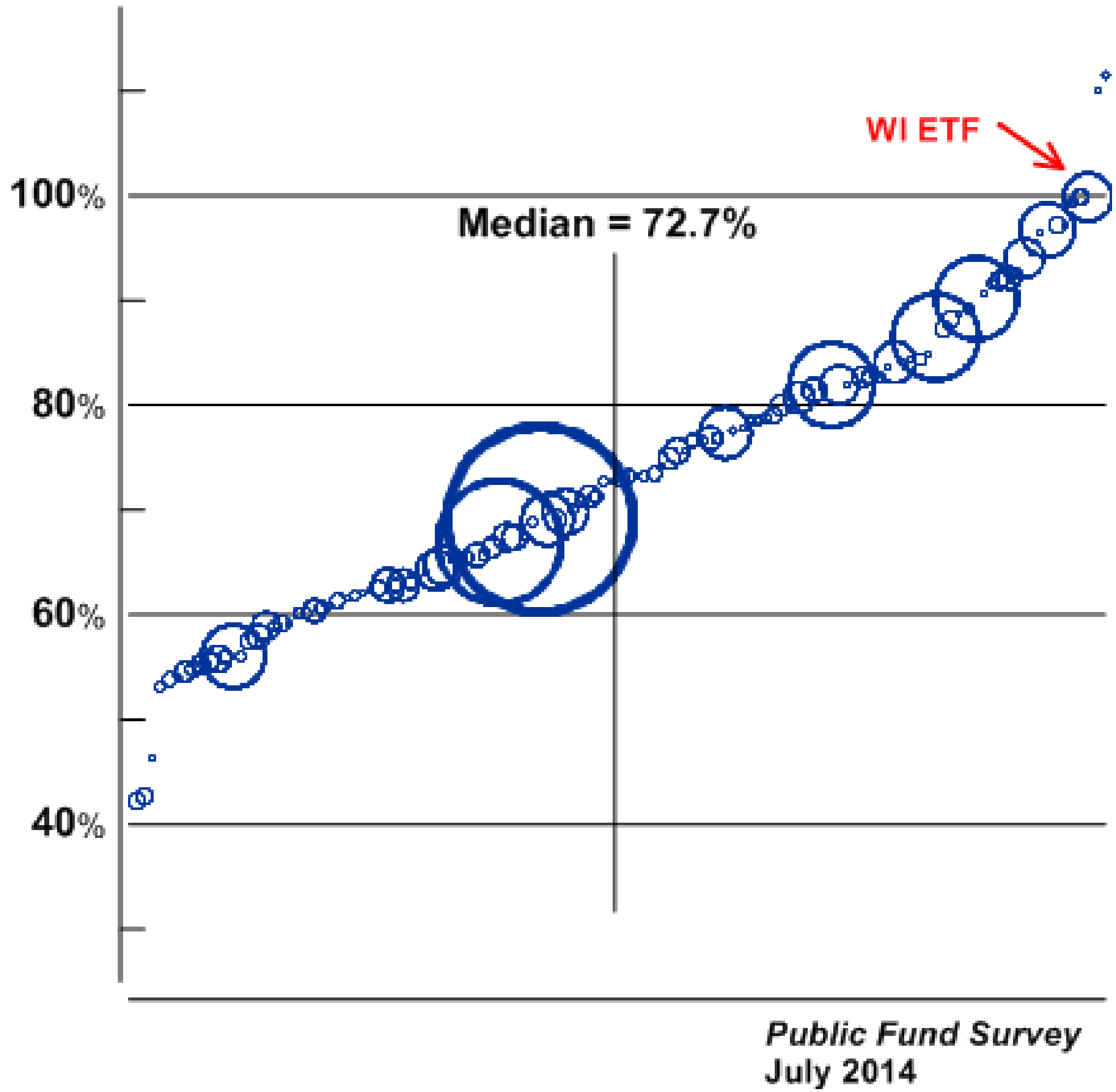
# Median change in actuarial value of assets and liabilities, with projection






# Actuarial value of assets and liabilities, and funding levels, FY 01 to FY 16

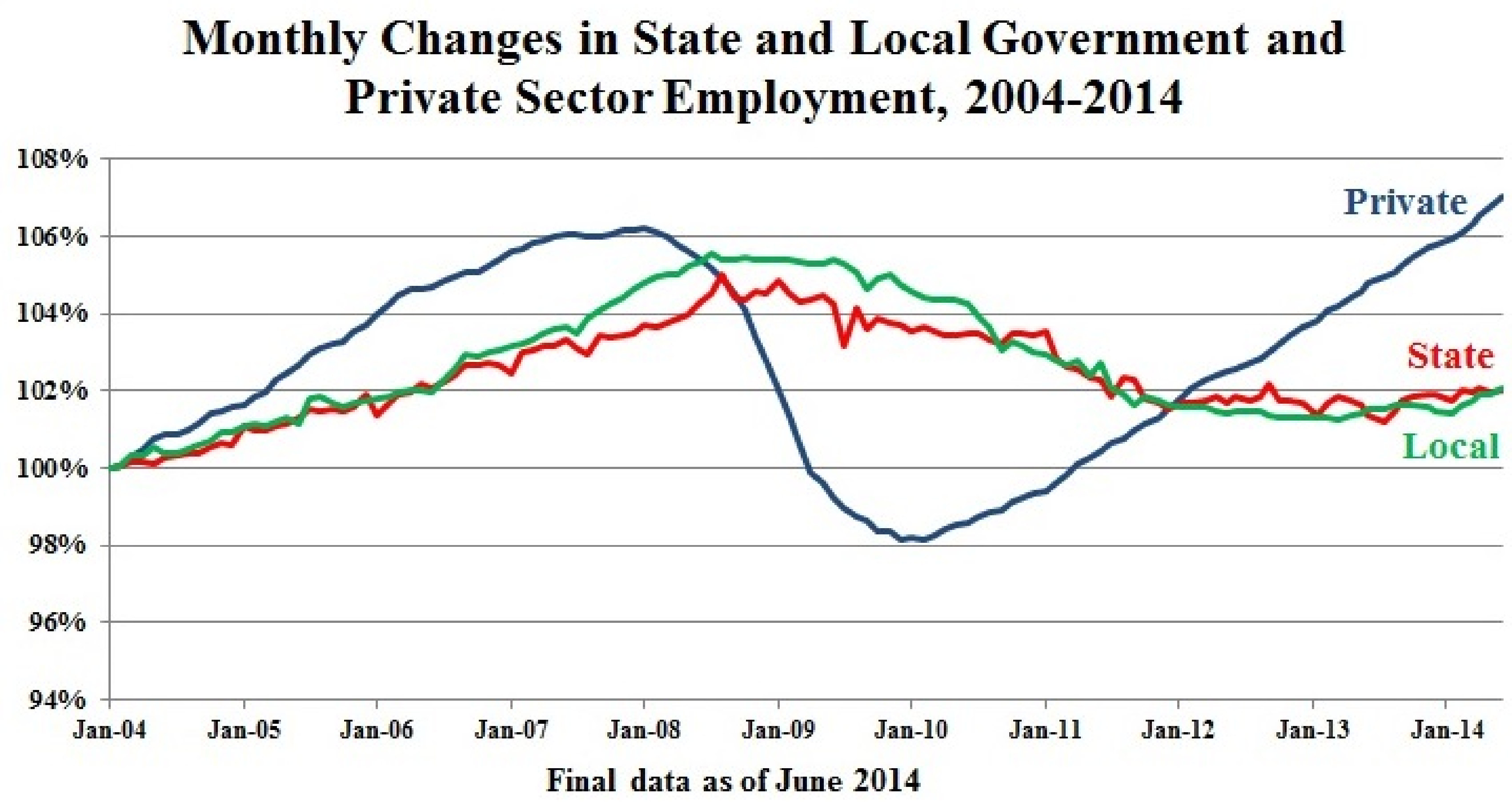
# Distribution of public pension actuarial funding levels and relative size



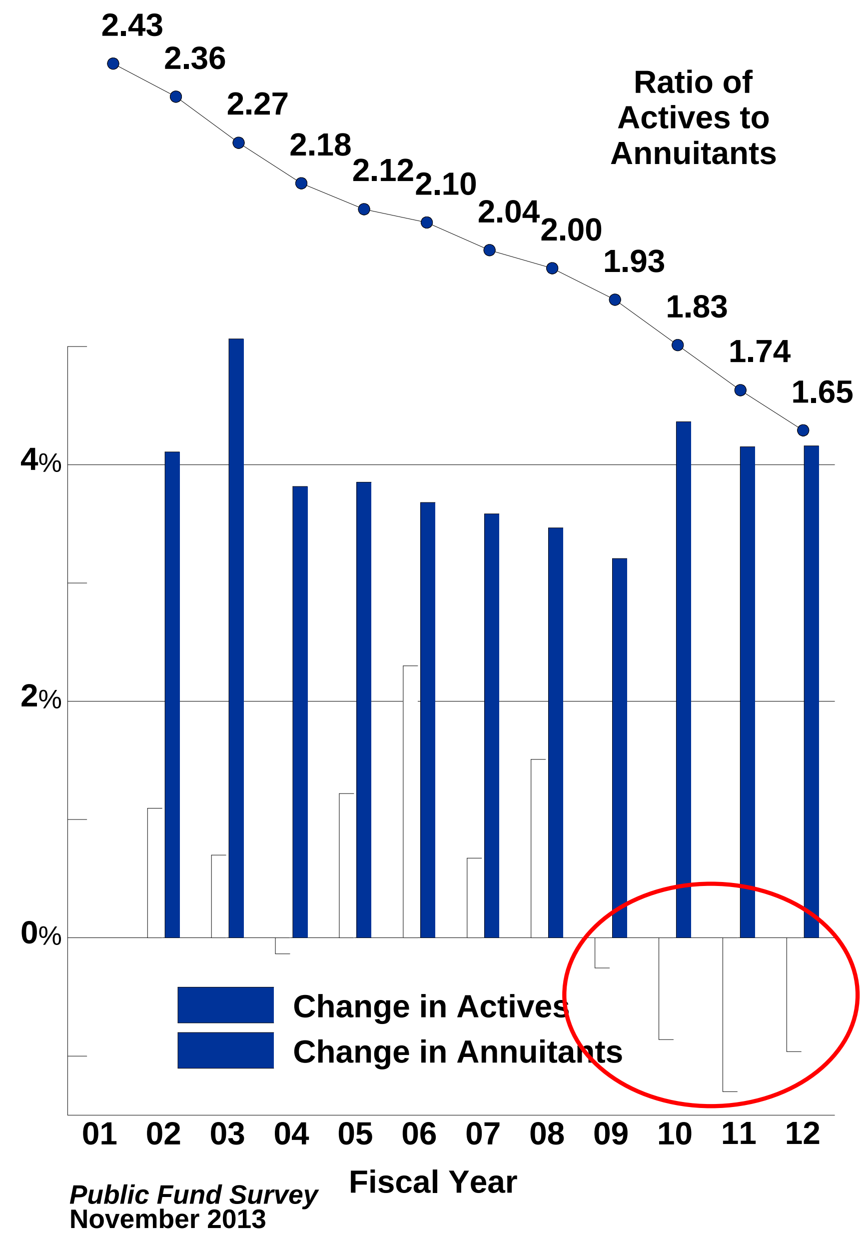

*Bubbles are roughly proportionate to size of plan liabilities*

PUBLIC FUND SURVEY

# Monthly relative change in employment 2003 to present




**US Census Bureau, compiled by NASRA**

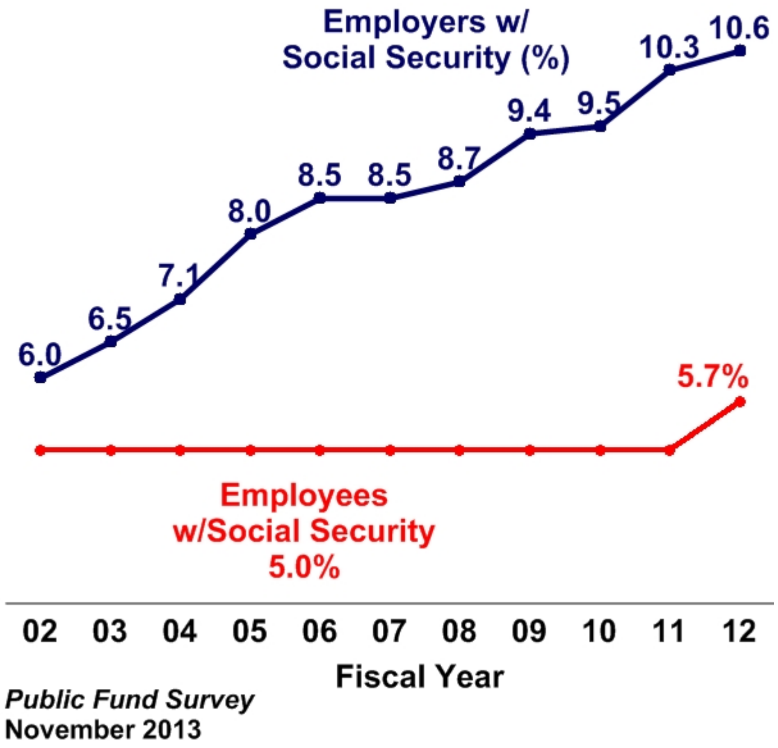


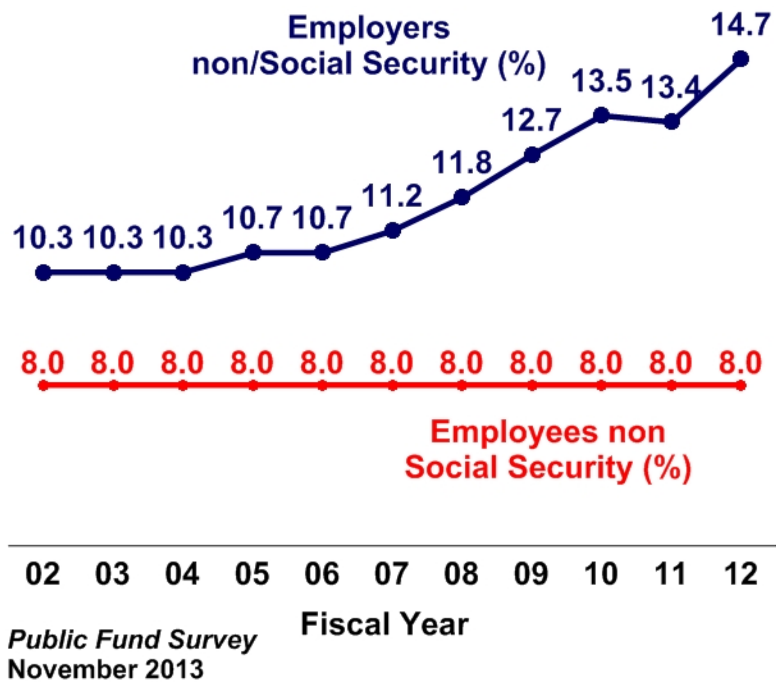

# Changes in Actives and Annuitants, and Active/Annuitant Ratio FY 01 – FY 12

# Annualized Change in Wages and Salaries

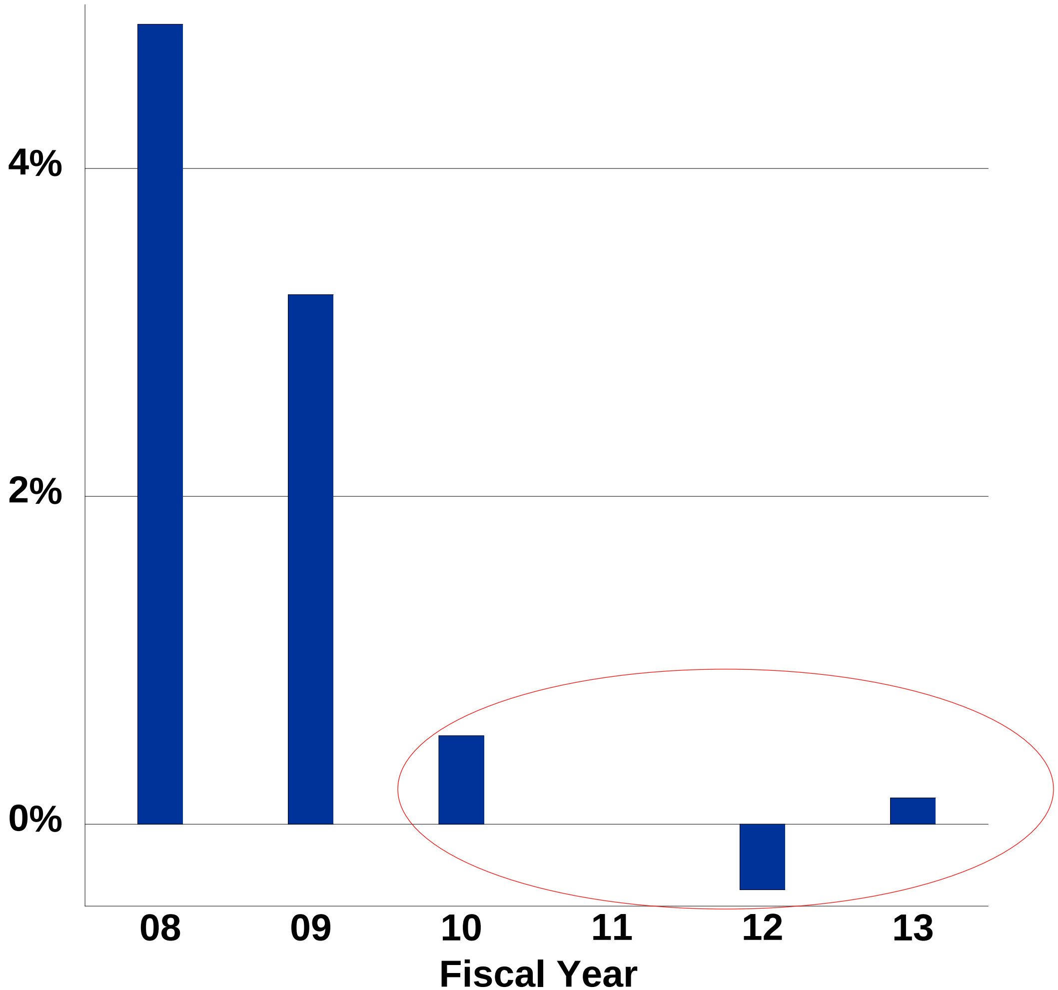

US Census Bureau, compiled by NASRA

# Median contribution rates, FY 02 to FY 12



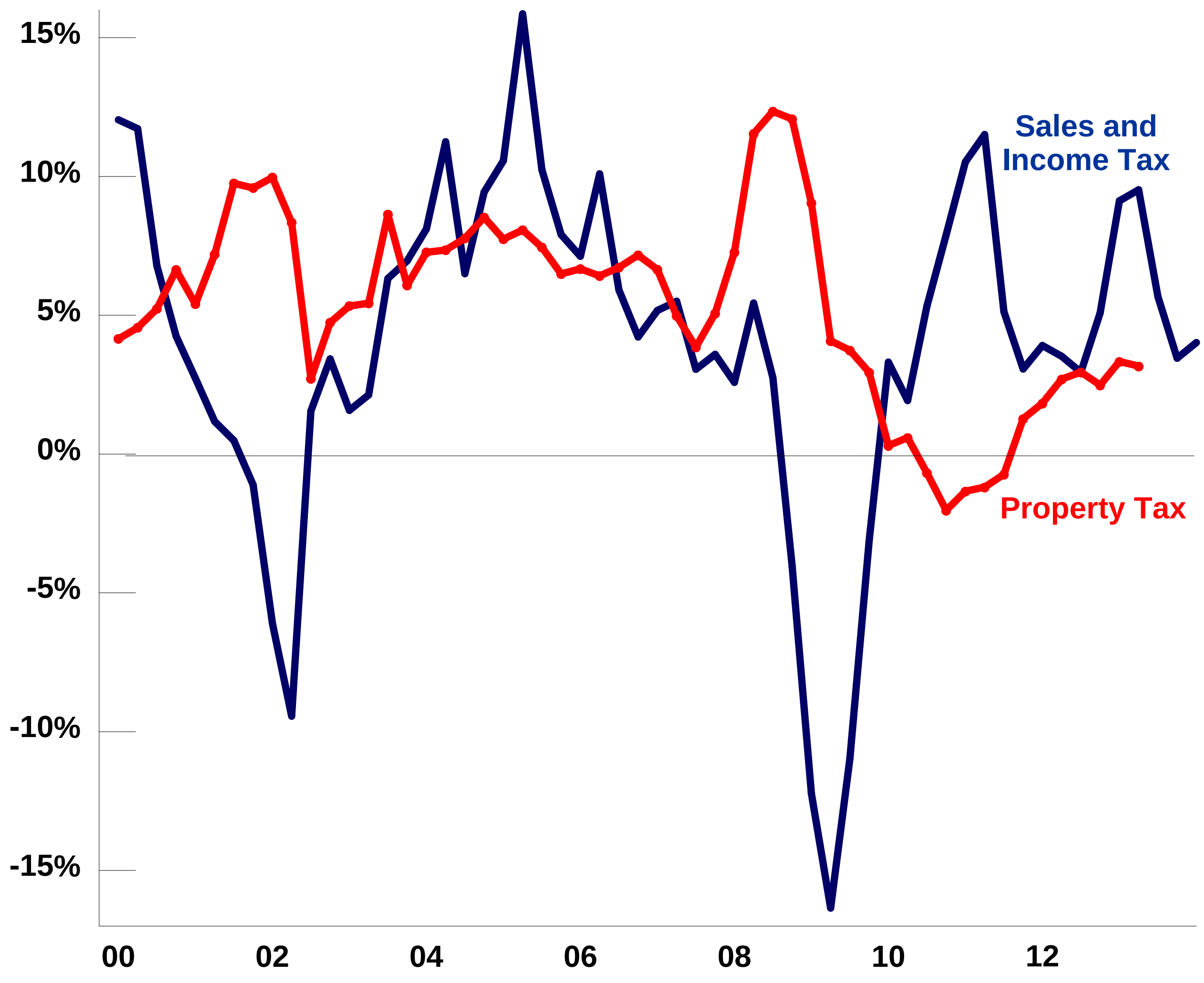



# Median annual change in covered payroll, FY 08 to FY 13



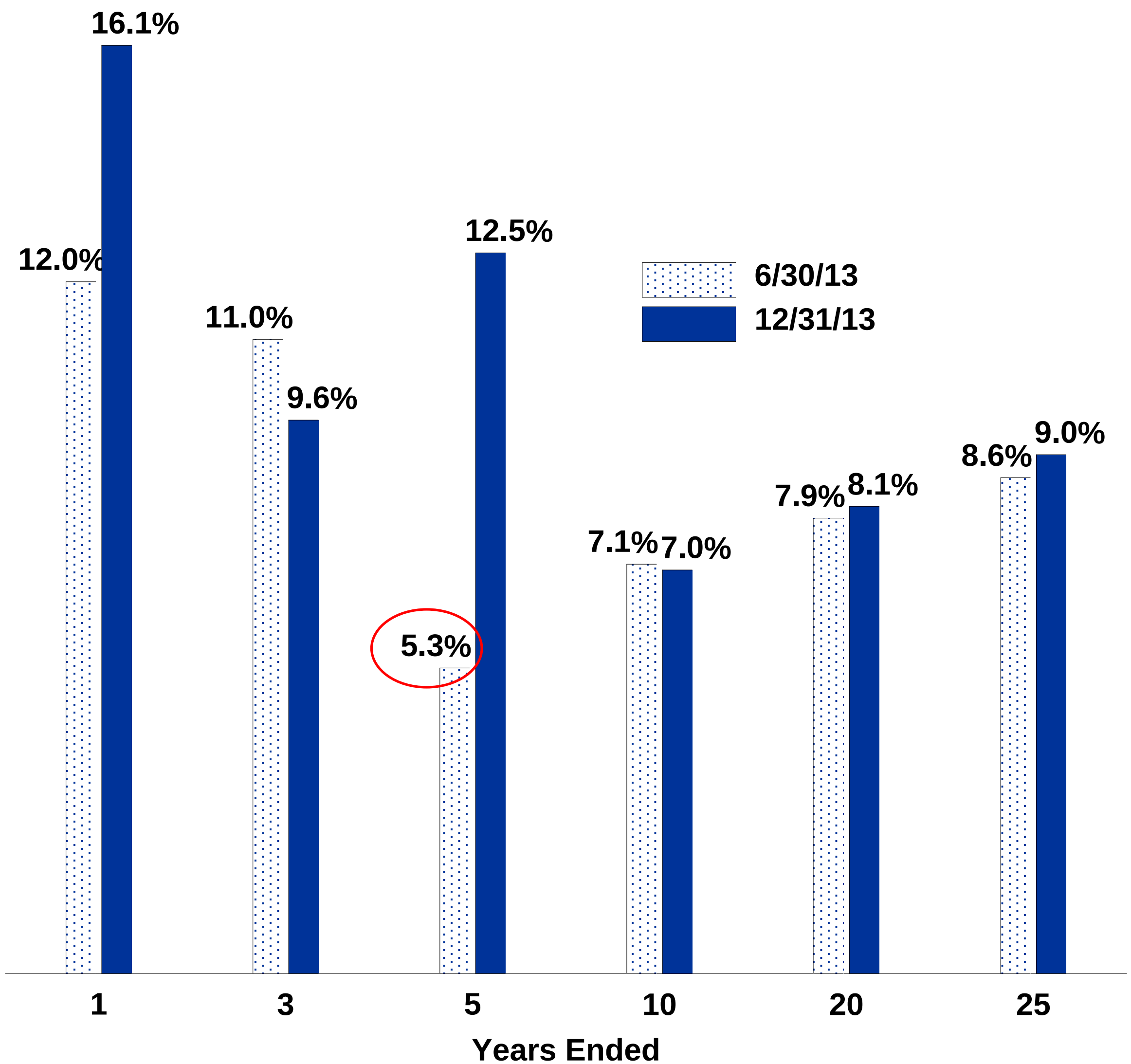

Public Fund Survey

# Annualized quarterly change in major state and local revenue sources



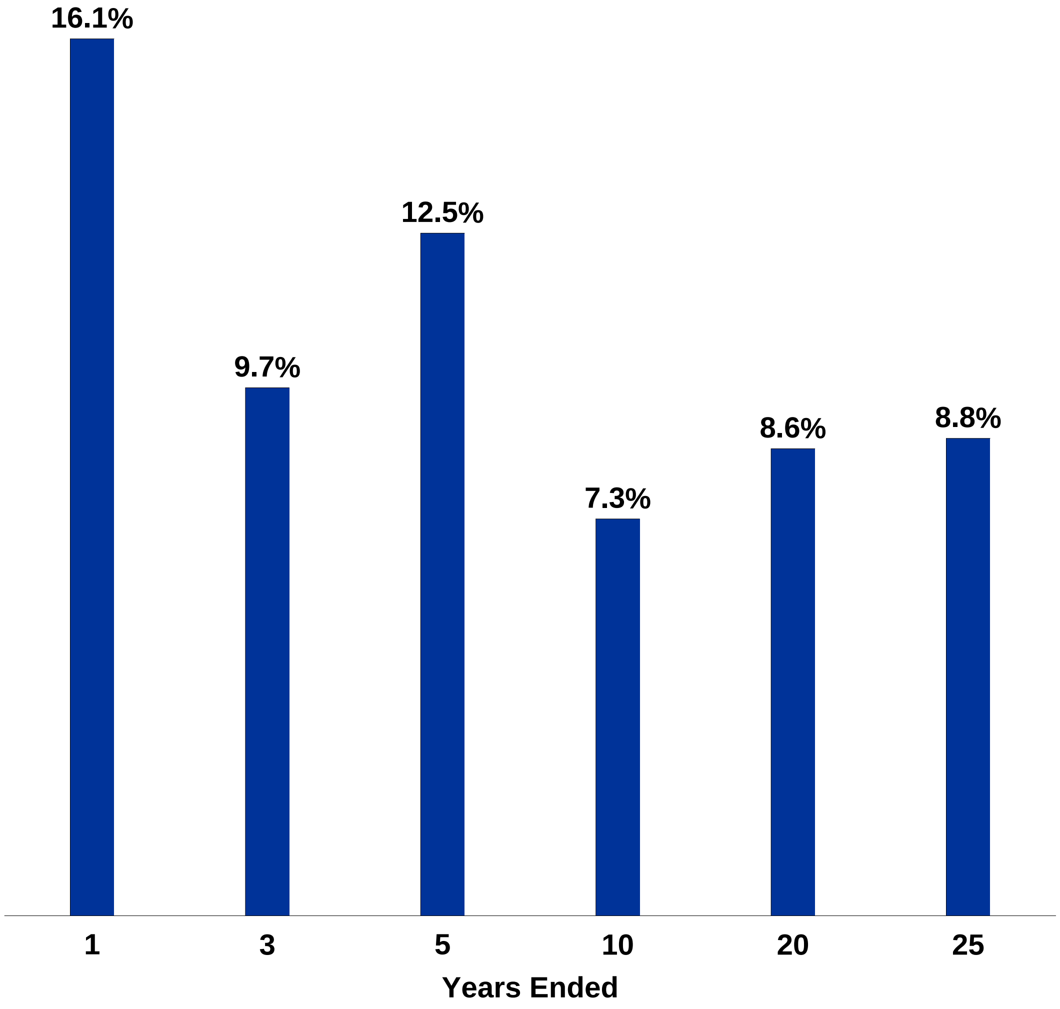

US Census Bureau

# FY 13 median investment returns



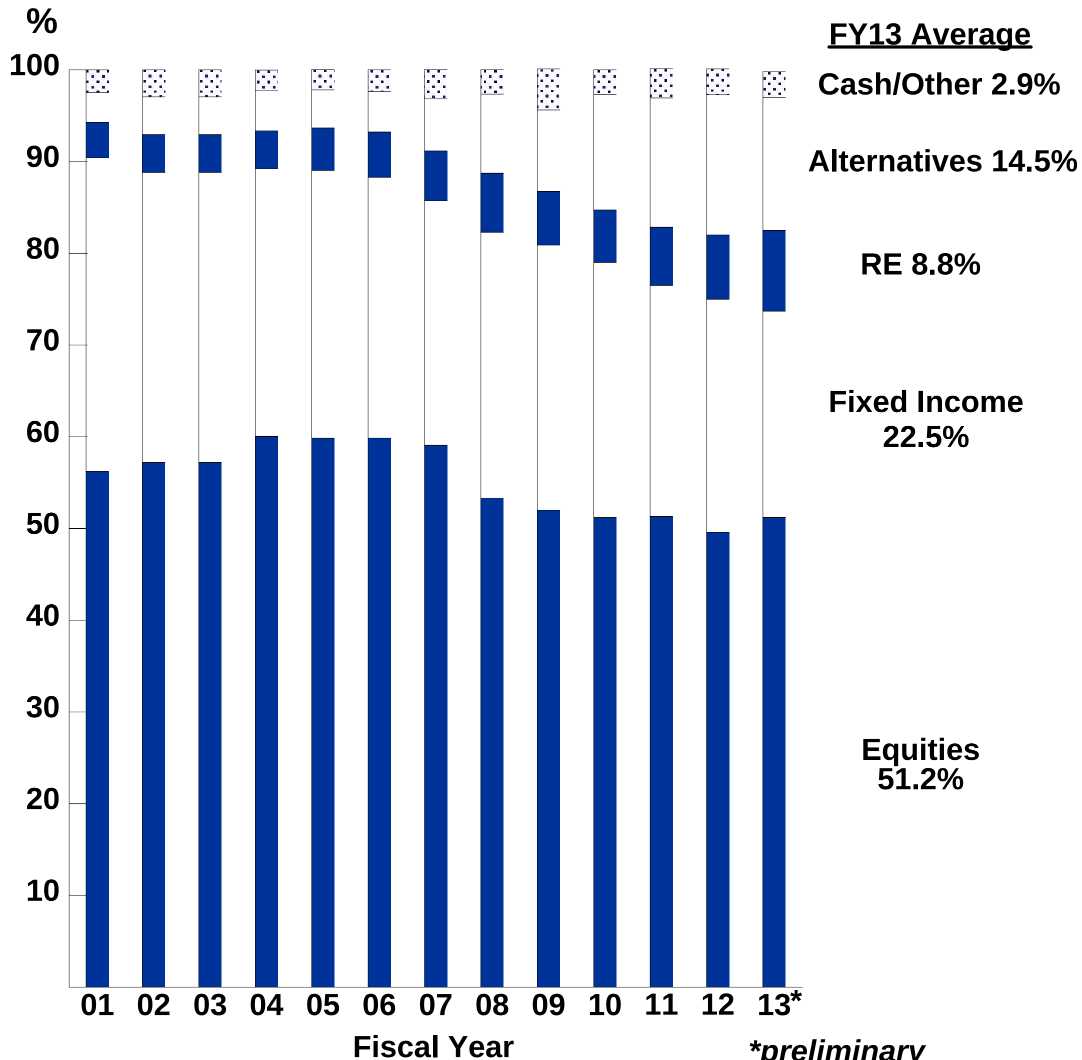

Callan Associates

# Median investment returns for periods ended 6/30/14




**Callan Associates**

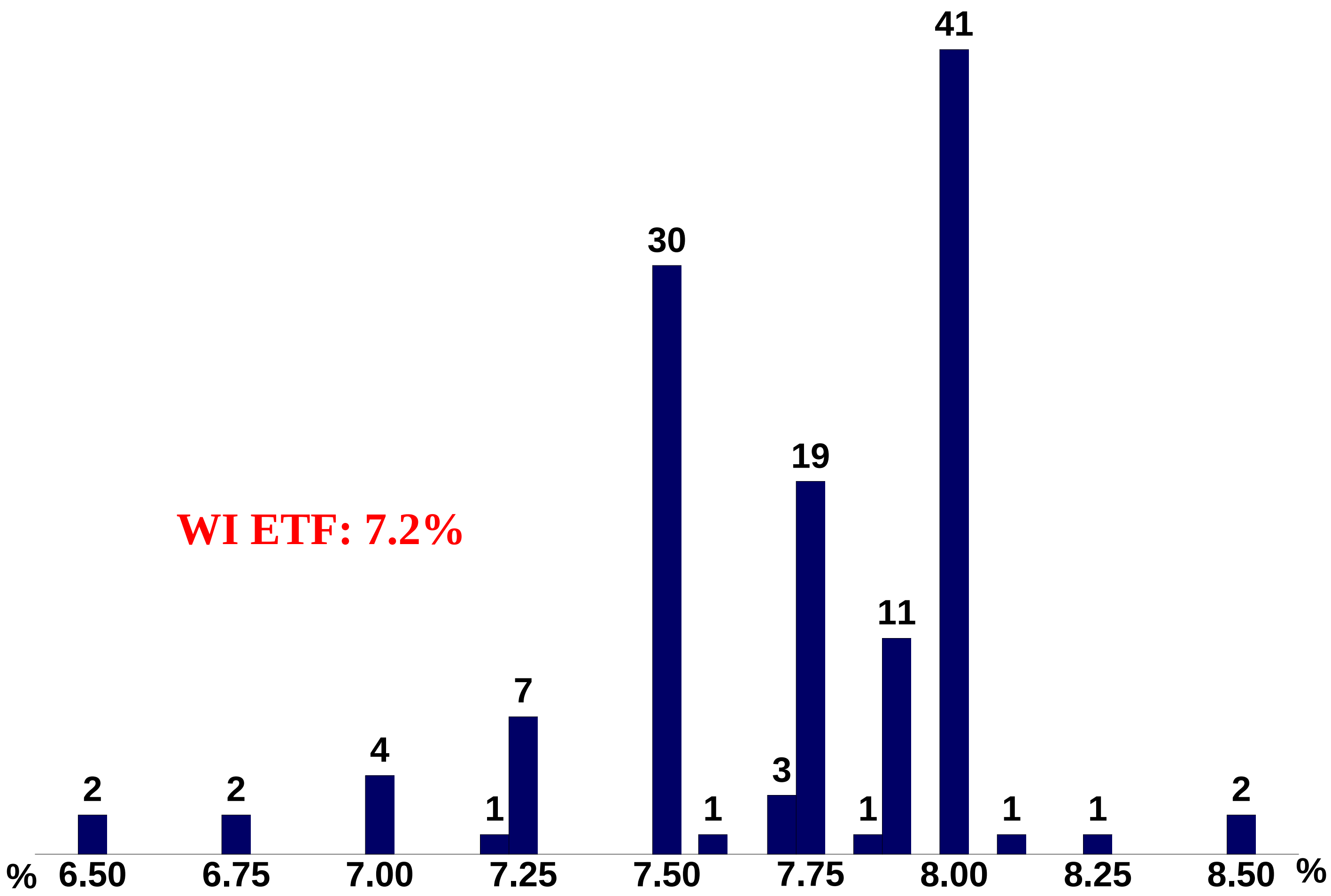
# Average asset allocation, FY 01 to FY 13




*preliminary

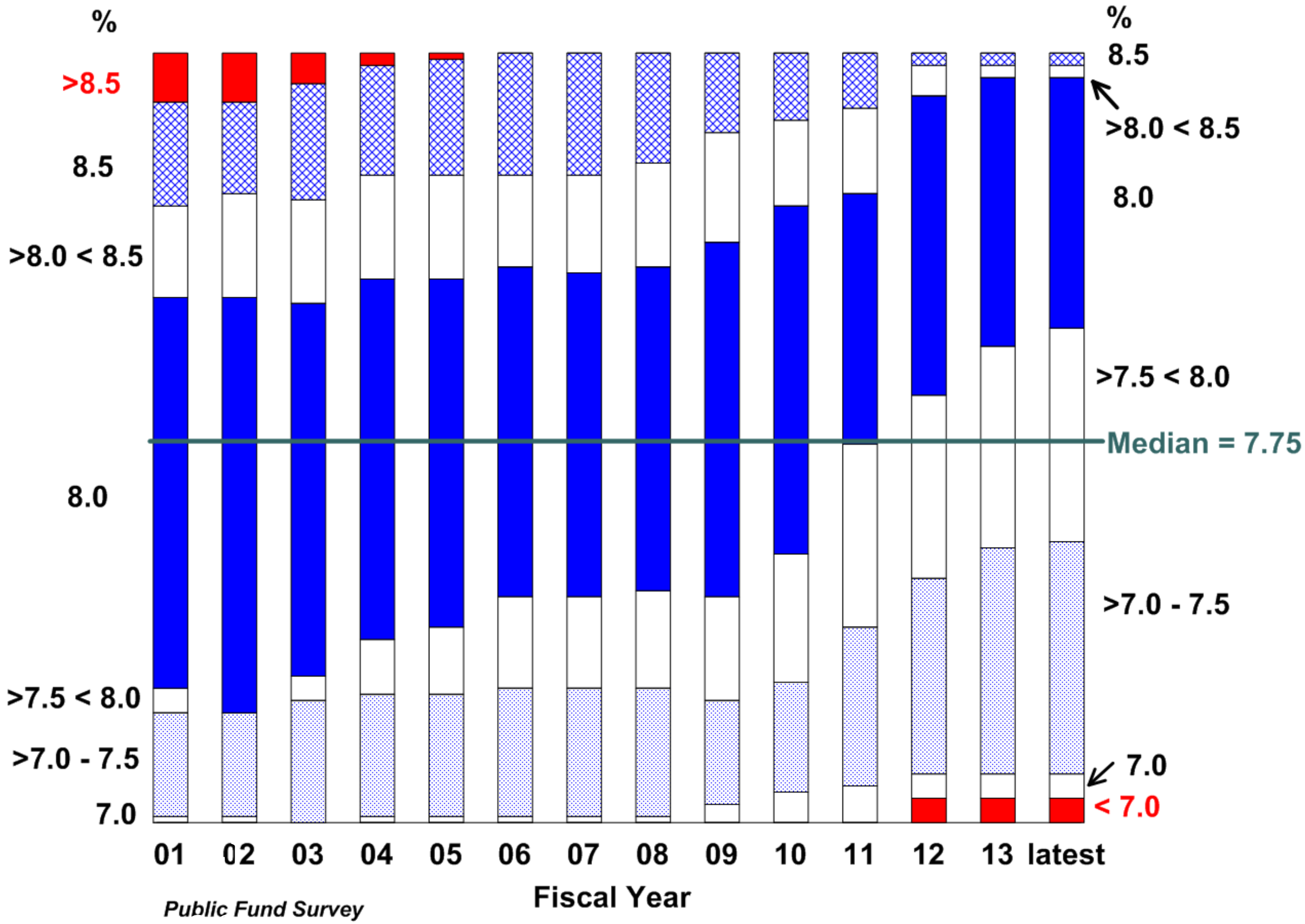
*Public Fund Survey*
July 2014

# Distribution of latest investment return assumptions




*Public Fund Survey*

# Distribution of investment return assumptions, FY 01 to present




*July 2014*

# Legislative pension enactments in recent years

- Nearly every state has modified public pension benefits, raised employee contributions, or both, since 2009
- Lower benefits:
  - higher retirement age
  - more required years of service
  - longer vesting period
  - reduced or eliminated COLAs
- Increased use of hybrid retirement plans

*No shift to defined contribution plans as the primary retirement benefit for broad employee groups on a statewide basis*

# Growing use of statewide hybrid plans

- Two main types of hybrid plans: "Combination" DB-DC, and cash balance
- Combo DB-DC plans feature a traditional, more modest pension,  combined with a defined contribution plan
  - Mandatory: GA, IN, MI, OR, RI
  - VA as of 1/1/14
  - TN as of 7/1/14
- Optional in OH, WA

# Statewide cash balance plans

- Cash balance plans feature pooled assets with notional accounts that pay a guaranteed minimum interest rate, with possibility of sharing "excess" investment earnings
  - Texas, for county and many municipal employees
  - Nebraska, for state and county workers
  - California, for community college employees and as a supplement for K-12 teachers
  - Colorado, for most local public safety officers
  - Kentucky, for state and local workers (not teachers) effective 1/1/14
  - Kansas for all new hires effective 1/1/15

# Pension reform in Rhode Island

- Effective 7/1/12, all plan participants were moved from the traditional pension plan to a new DB-DC hybrid
- Reduced future rate of pension accrual
- Higher normal retirement age
- A portion of employee contribution is diverted to the DC plan
- COLA is suspended until funding level = 80%
- Changes were challenged in federal court and are now in arbitration

# Pension reform in Utah

- New hires since 7/1/11 may choose from a defined benefit or defined contribution plan
- Employer contributes 10 percent of pay
- For the DB plan, retirement multiplier = 1.5 percent
- Total cost of the plan = 7.59 percent (10.45 percent for public safety)
- Remaining 2.41 percent (1.55 percent for public safety) is deposited into employees' defined contribution account
- Employees pay any cost of the DB plan above 10 percent (12 percent for public safety)
- Employers also contribute 5 percent to amortize UAL
- "A defined benefit plan with a defined contribution"

# Three Notable Legislative Outcomes in 2014

- For the second consecutive year, the Florida Legislature rejected an effort, led by the House Speaker, to close the pension plan in lieu of a defined contribution plan
- The California Legislature approved and the governor signed a bill establishing a path to full funding for CalSTRS, the second largest public pension plan in the nation
- The Oklahoma Legislature closed the DB plan for state employees; new hires will have only a defined contribution plan

# Hybrid plans taking effect in 2014

- **Kentucky** cash balance for newly-hired state and local employees as of January 1; not teachers
- **Tennessee** DB-DC plan, effective July 1 for newly-hired state employees, teachers, and employees of local government that elect to participate
- **Virginia** DB-DC plan, effective January 1 for most newly-hired employees in the state, excluding public safety personnel

# Other Trends and Final Thoughts

- The pace of pension reforms has slowed sharply
- Reform battles remain in some states (e.g. PA)
- Some legal challenges remain outstanding (e.g. CO, IL, OR)
- Pension costs are stabilizing for many plans
- Costs will need to rise for some plans, especially those that have not received their ARC
- Improving longevity may increase costs
- Investment return assumptions will remain under scrutiny and pressure
- New GASB measures will reveal new ways of looking at pension conditions