A National Perspective of State and Local Pensions

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Public Pensions in the U.S.

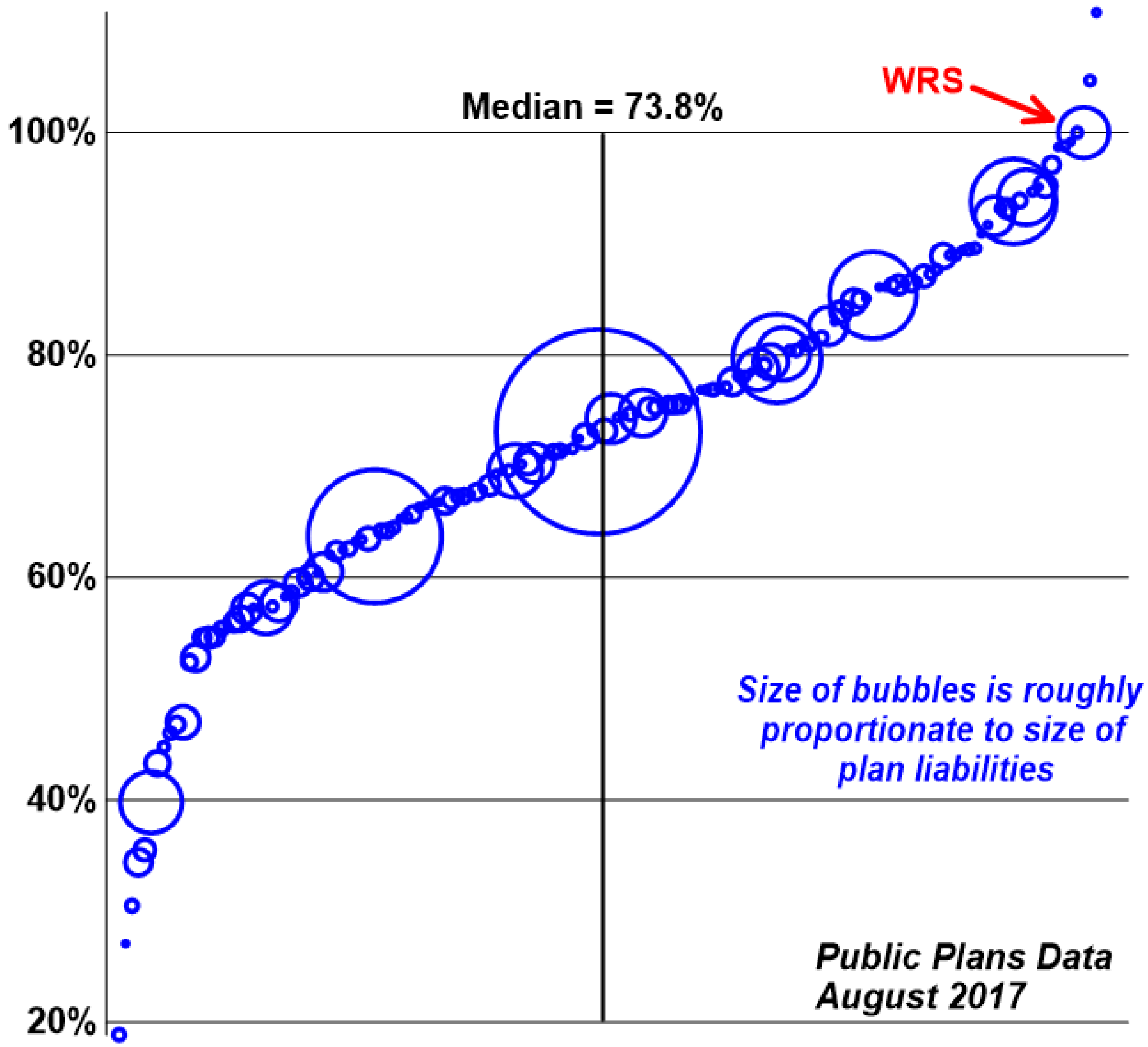
- ~$3.96 trillion in assets
- ~14.5 million active (working) participants
  - 13 percent of the nation’s workforce
- 10 million retirees and their survivors receive $280+ billion annually in benefits
- Annual contributions = $190 billion
  - $140 billion from employers
  - $50 billion from employees
  - Approximately 5.0 percent of all state and local government spending goes to pensions
- Of 6,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members
- Aggregate funding level = ~74%

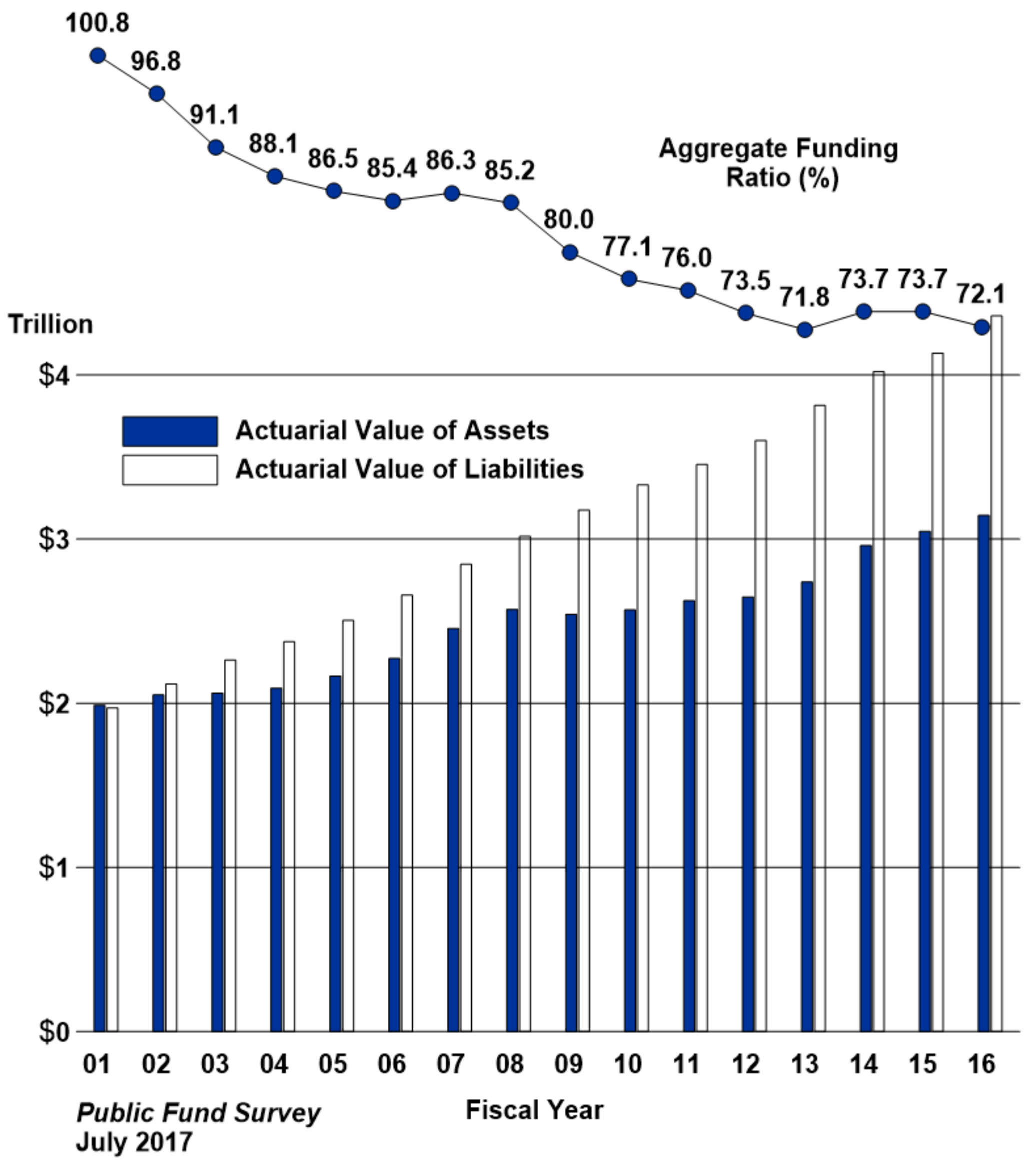
U.S. Census Bureau, Public Fund Survey

Notable public pension trends

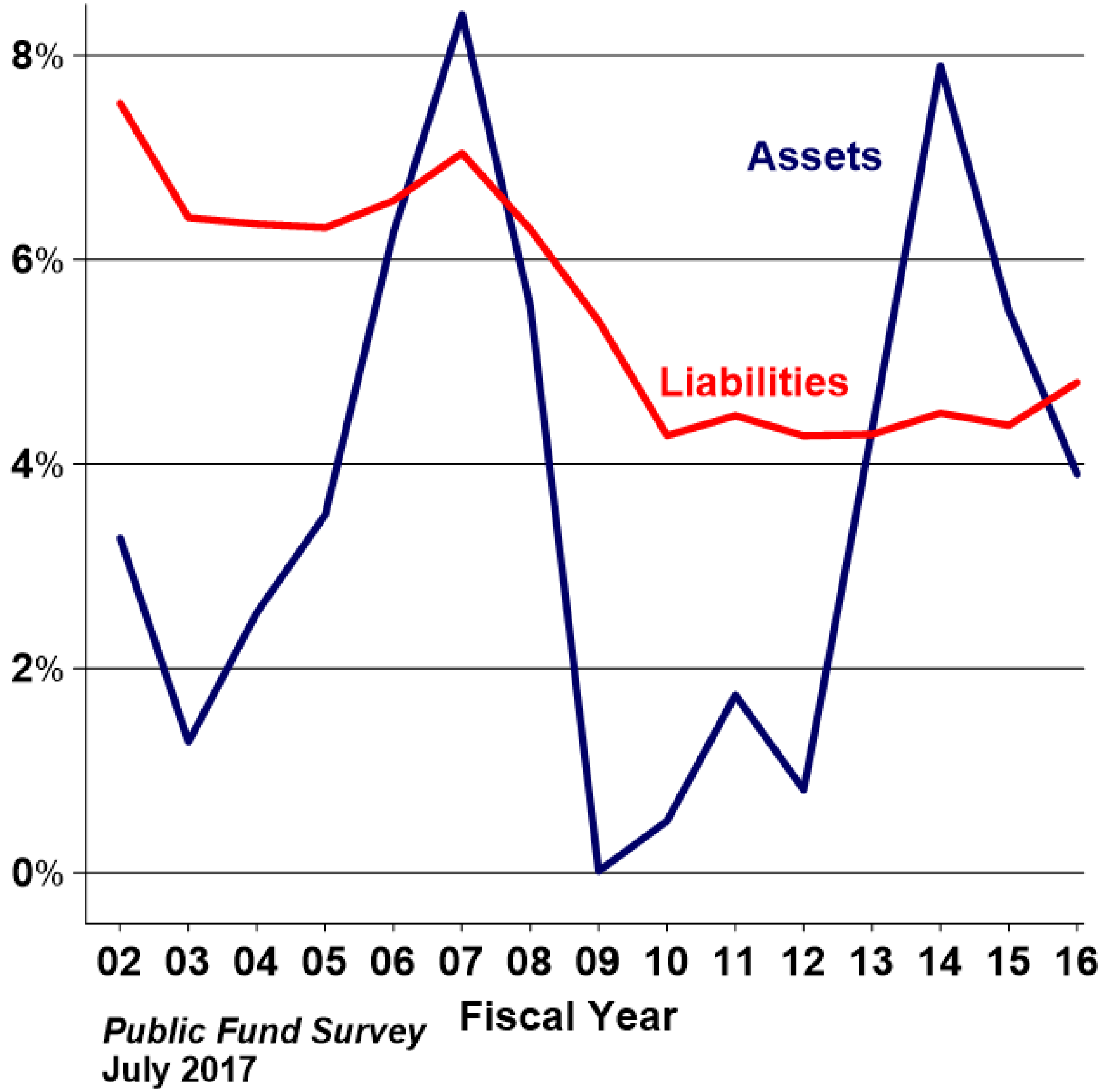
- Wide disparity in funding levels and costs
- Decline in aggregate funding levels due to tepid market performance, reduction of assumed rates of return and mortality improvements
- Improvement in employers’ effort to fund their pension plans
- Employees bear more risk for funding and managing their retirement income as a result of a number of pension reforms from 2009-2014
- Investment return assumptions are under increasing scrutiny and challenge, and are being reduced

Distribution of Public Pension Funding Levels, FY 16





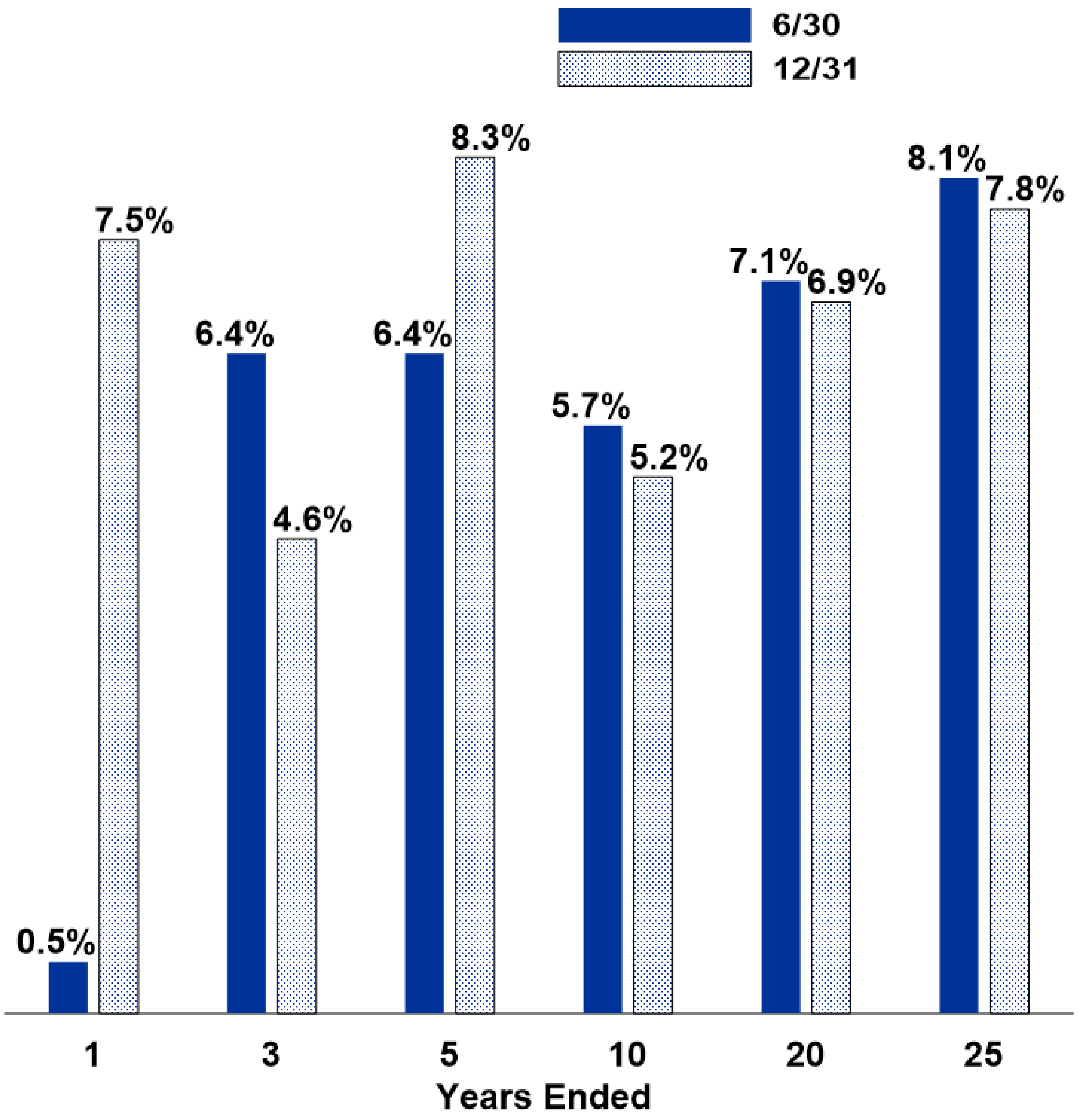
Change in Aggregate Actuarial Funding Level and Actuarial Values of Assets and Liabilities FY01-FY16



Median Change in Actuarial Value of Assets and Liabilities, FY 02 to FY 16

The meaning and implications of an actuarial funding ratio

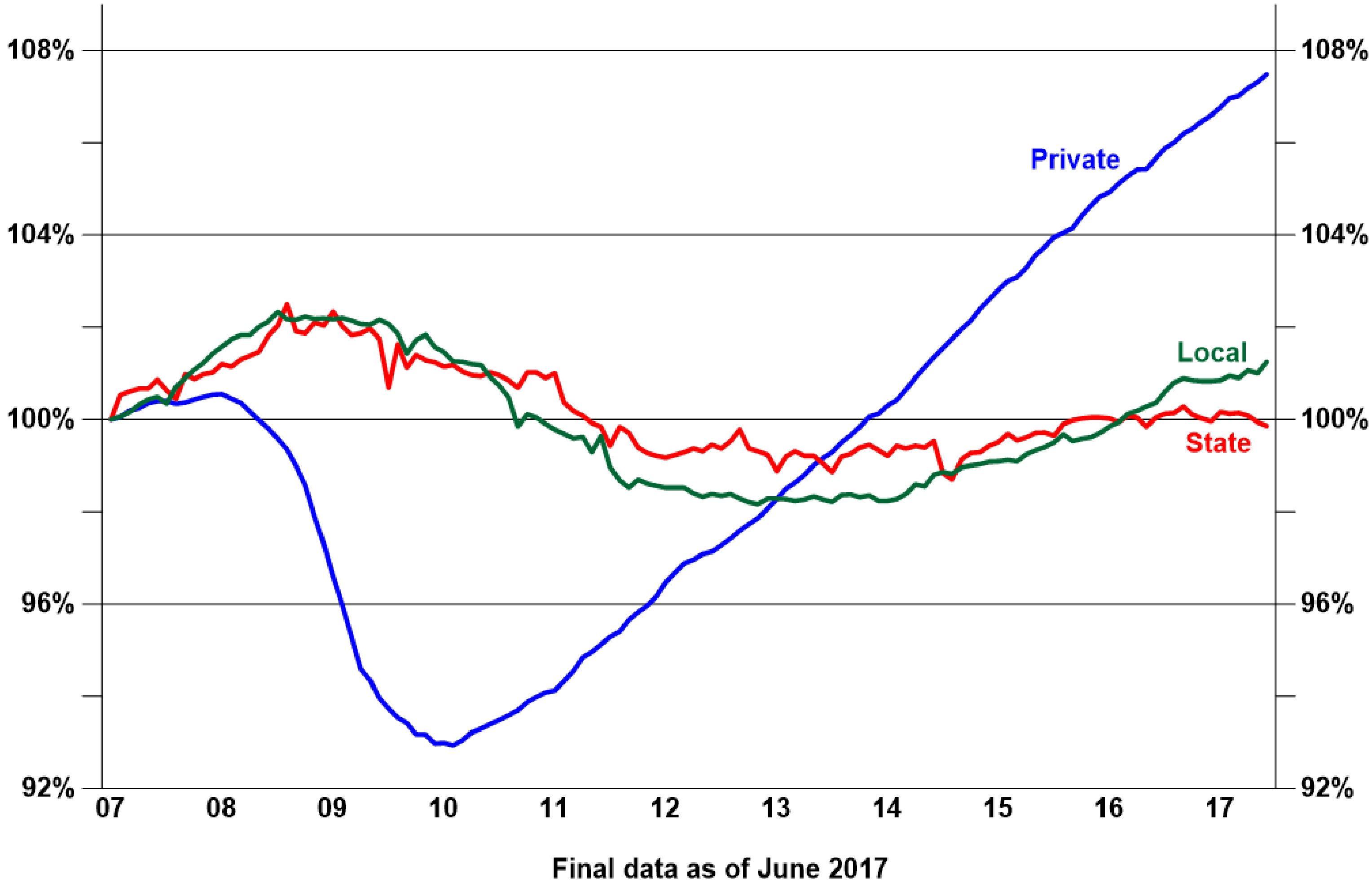
- An actuarial funding ratio is the most popular and recognized metric of a pension plan's condition
- By itself, this ratio is not a reliable indicator of the condition of a pension plan
- Other key considerations in evaluation a pension plan's condition:
  - The fiscal condition of the pension plan's sponsoring government
  - The commitment of the sponsoring government to pay required plan costs
  - The current and required cost of the plan
  - The reasonableness of the plan's actuarial assumptions and methods
  - The trend, or direction of the plan's funding condition
  - The plan's demographics



Median annualized public pension fund returns for periods ended 6/30/16 and 12/31/16

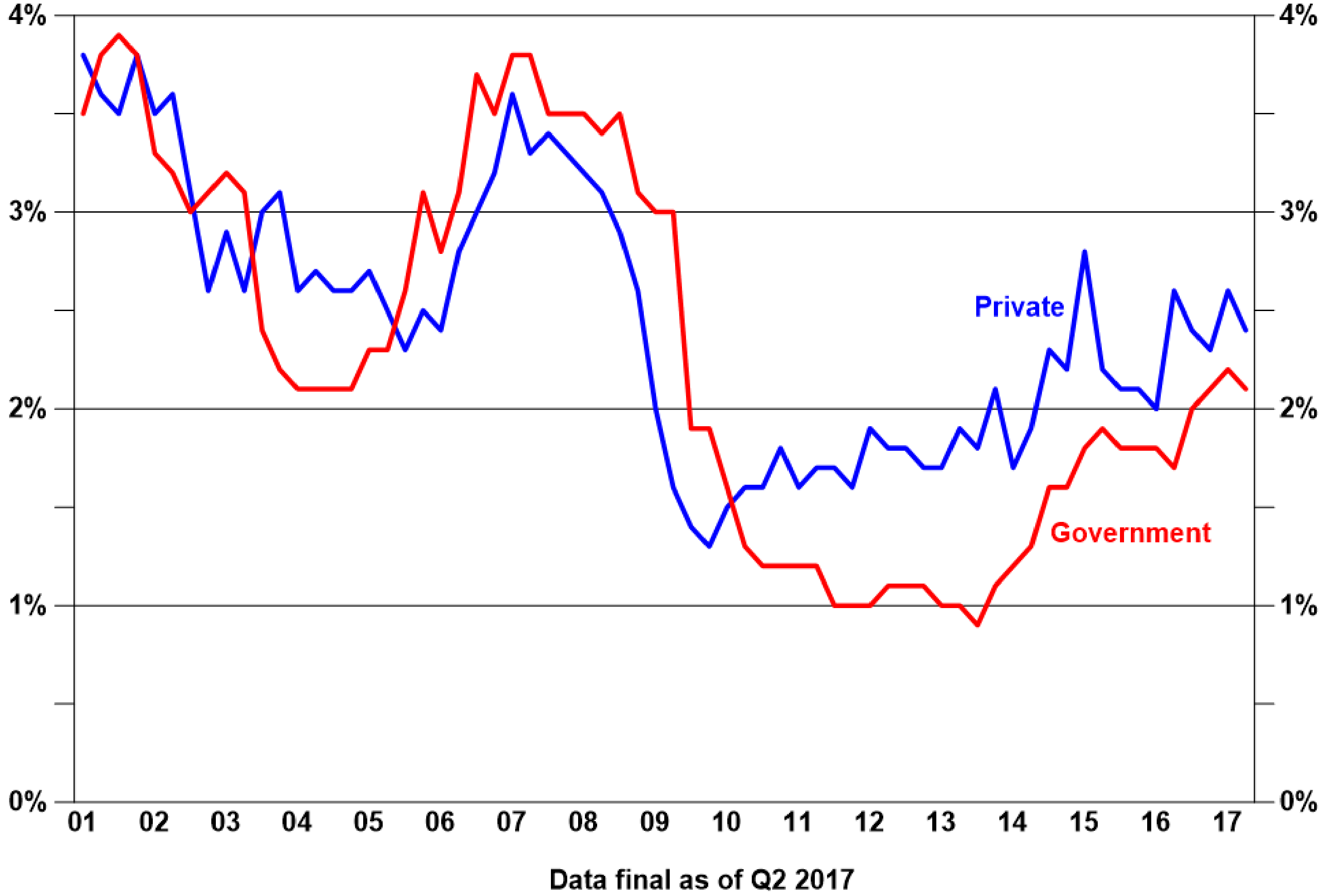
Callan Associates

Relative change in employment, private sector and state and local government, 2007-2017



US Bureau of Labor Statistics

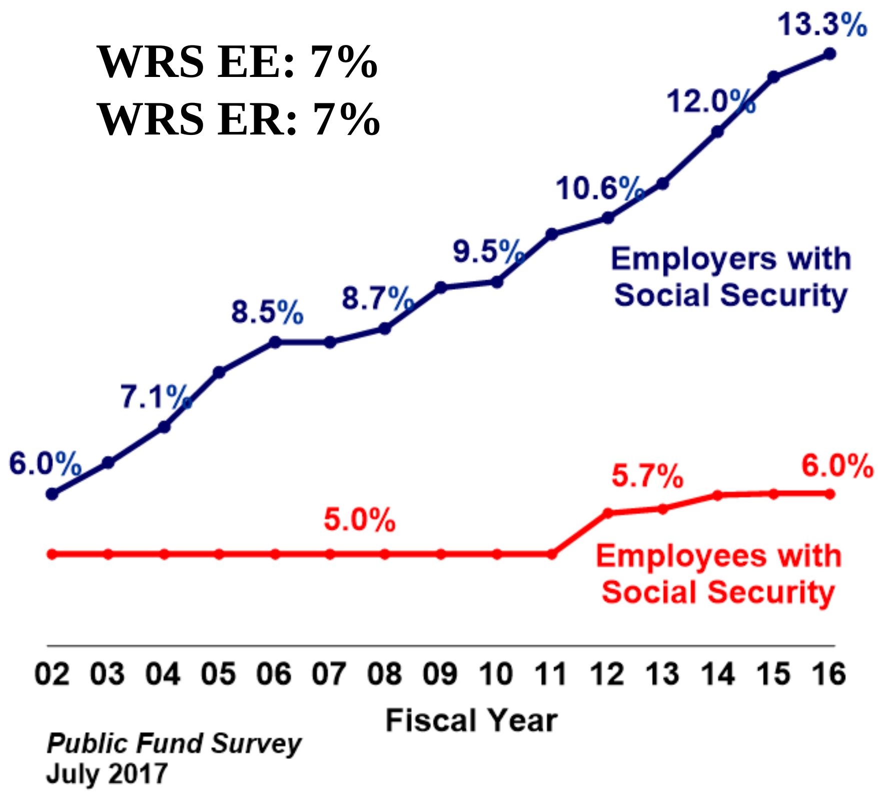
Annualized change in wages and salaries, private sector and state and local government, 2006-2017

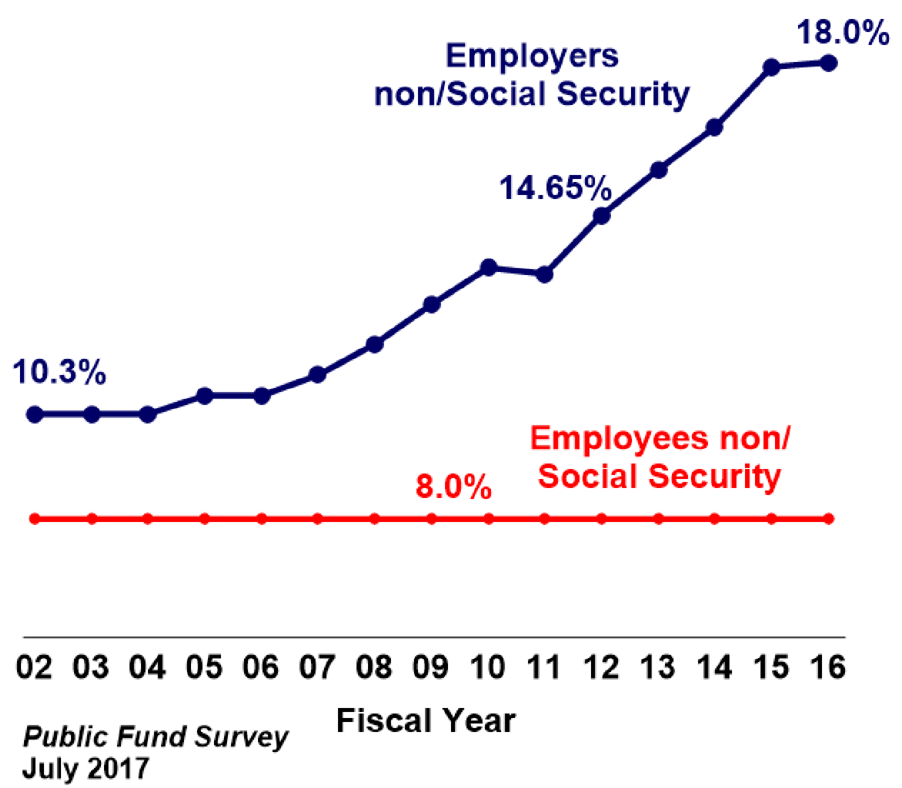


US Bureau of Labor Statistics

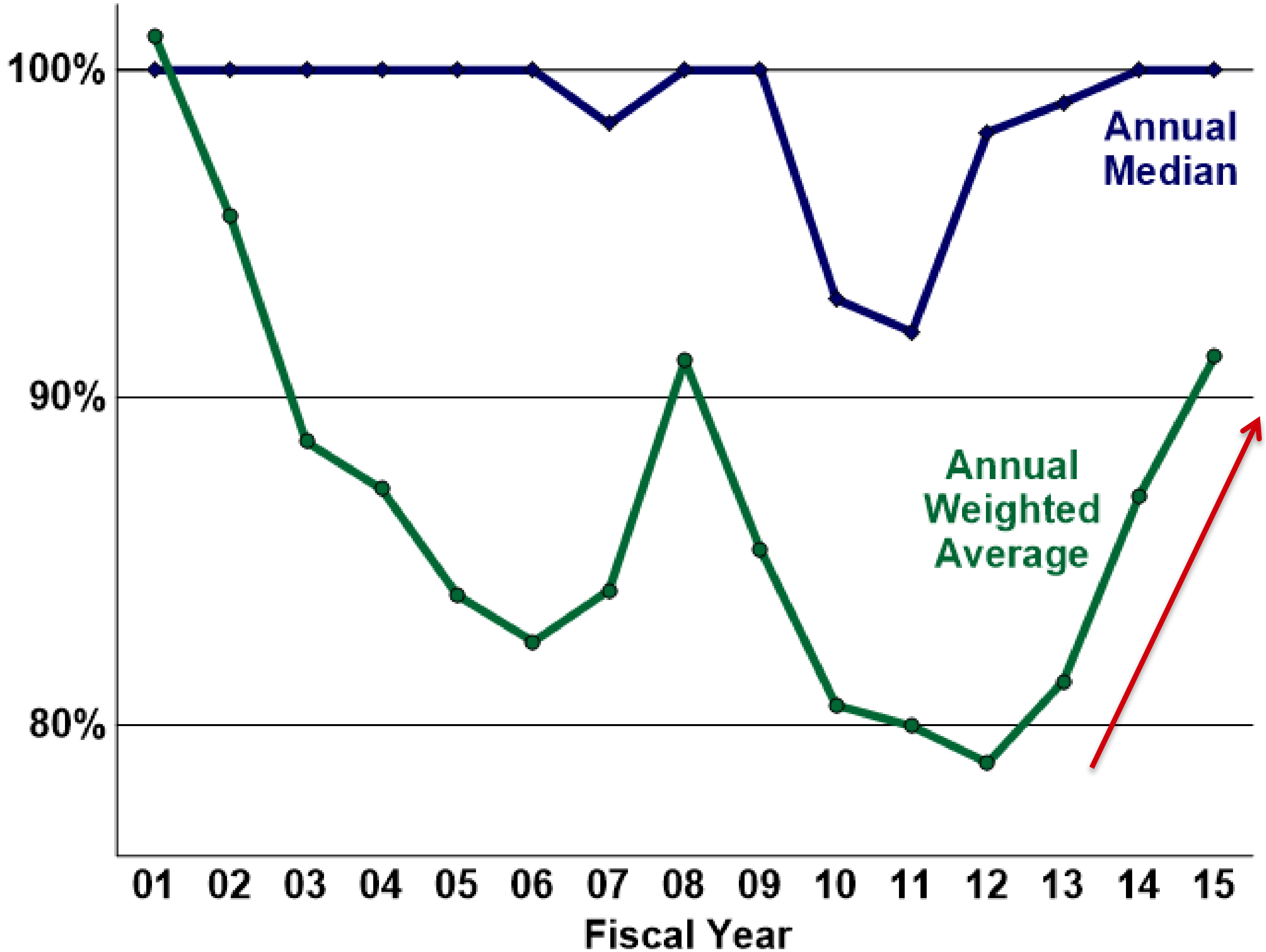
Median contribution rates, Social Security eligible and ineligible

WRS EE: 7%
WRS ER: 7%



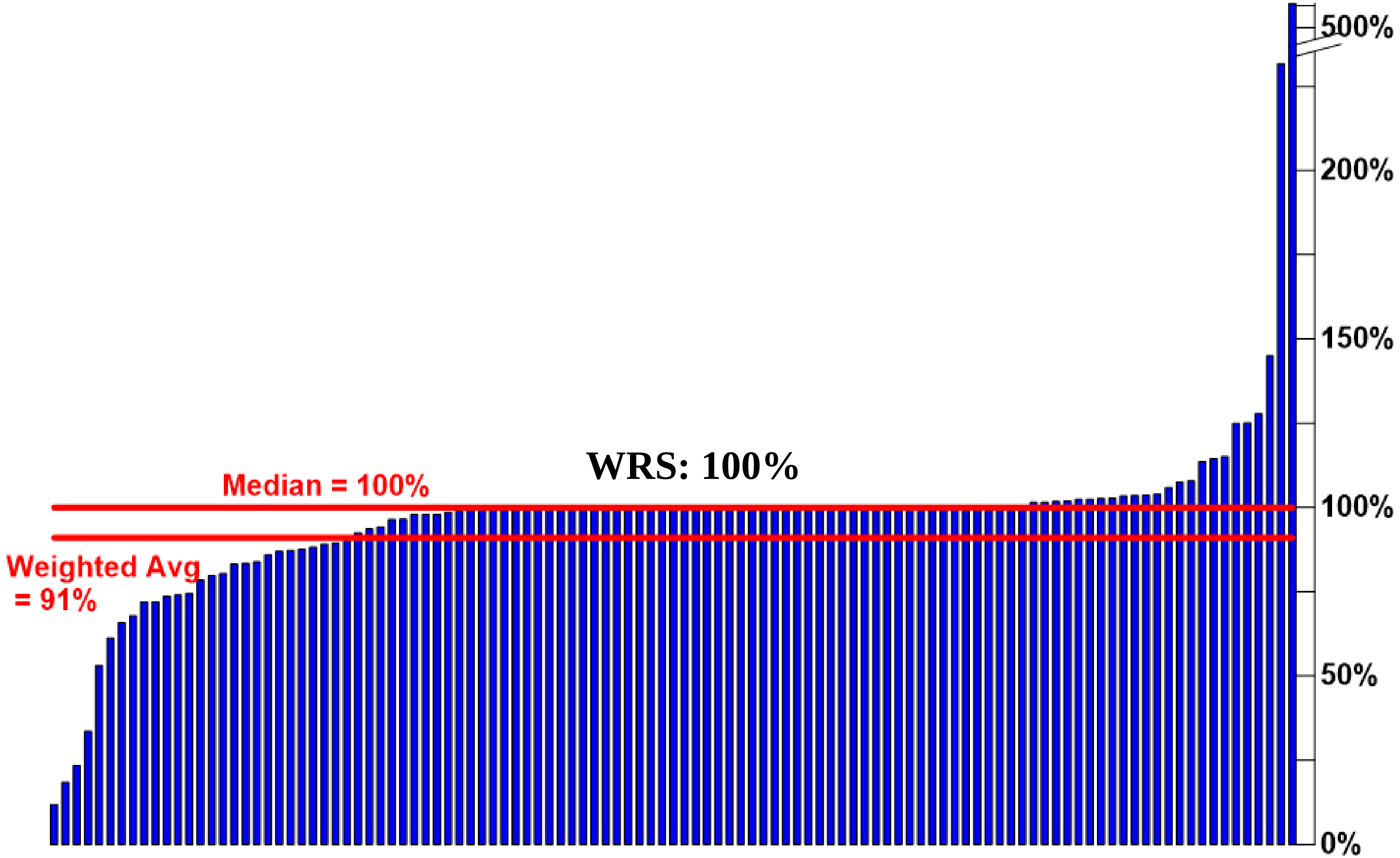


ARC/ADC Experience, FY 01 to FY 15



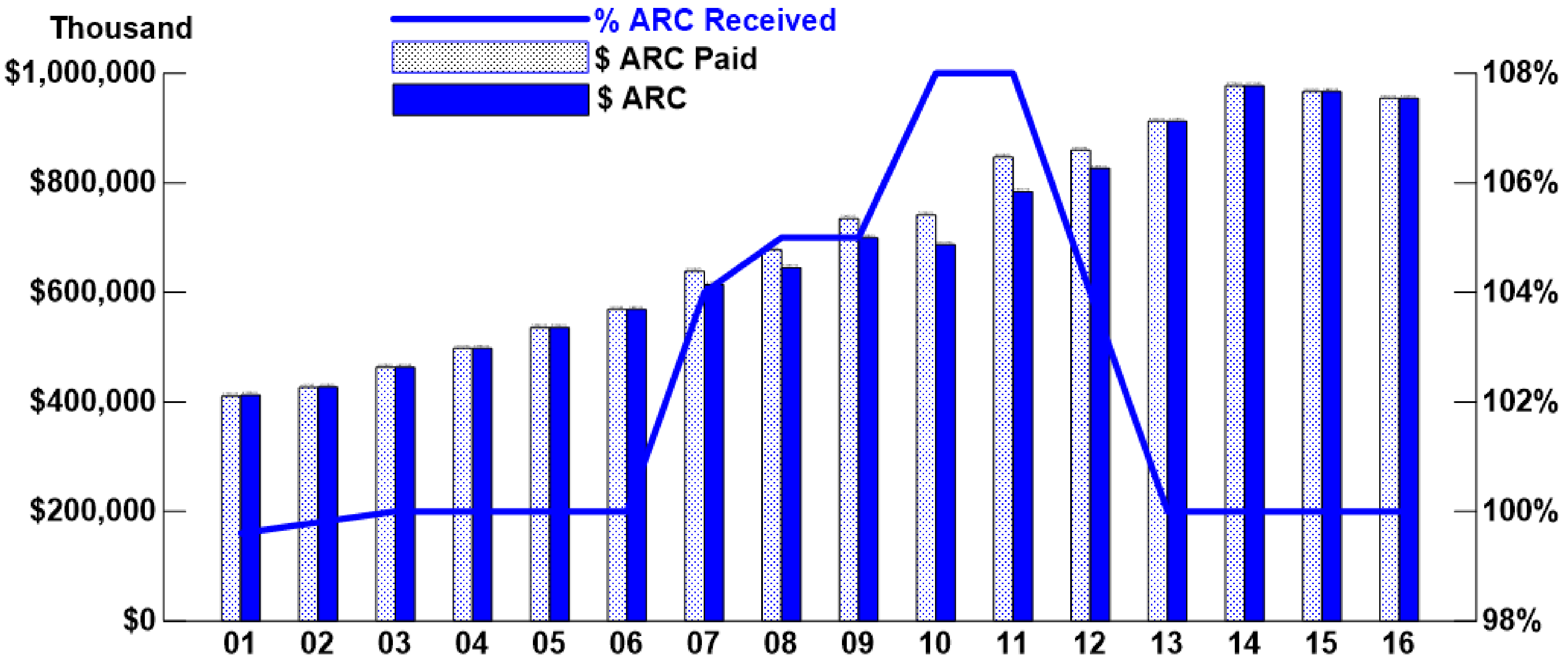
NASRA Issue Brief: State and Local Government Contributions to Statewide Pension Plans: FY 15

ADC Experience, FY 15



NASRA Issue Brief: State and Local Government Contributions to Statewide Pension Plans: FY 15

WRS ARC/ADC Experience, FY 01 to FY 16

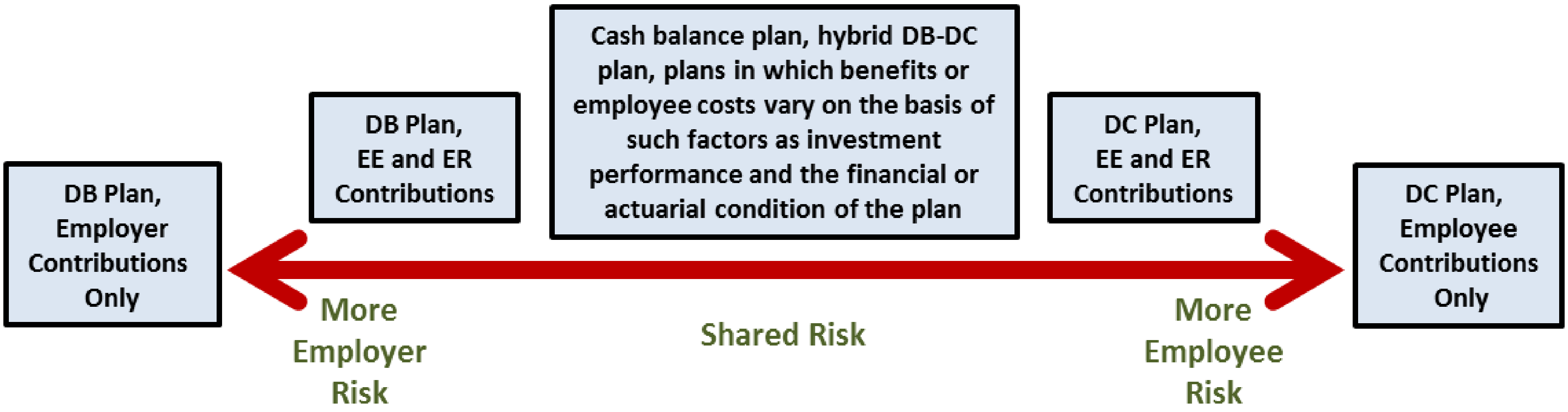


"The Annual Required Contribution Experience of State Retirement Plans, FY 01 to FY 13," updated through FY 16, NASRA

Methods states are using to amortize unfunded pension liabilities

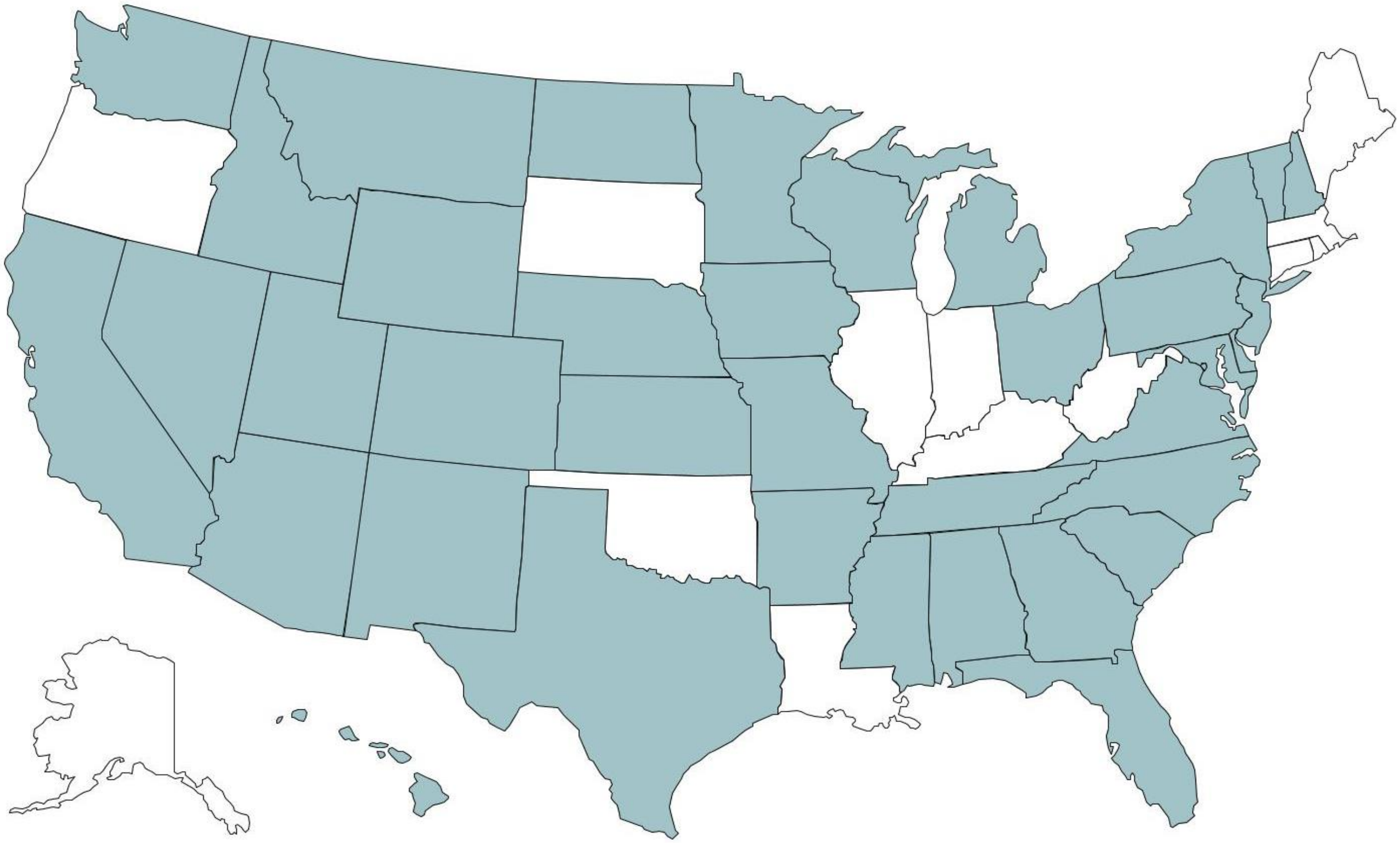
- Pay the actuarially determined contribution
- Commit a portion of the budget surplus to the unfunded liability, either ad hoc or in statute (AK, HI, RI)
- Issue pension obligation bonds
- Establish a dedicated funding stream, such as revenue from tobacco, liquor, gambling, or severance taxes (KS, MT, OK)
- Transfer ownership of the state lottery to the pension fund (NJ)
- Close and/or reduce the funding amortization period

Shared Risk Continuum



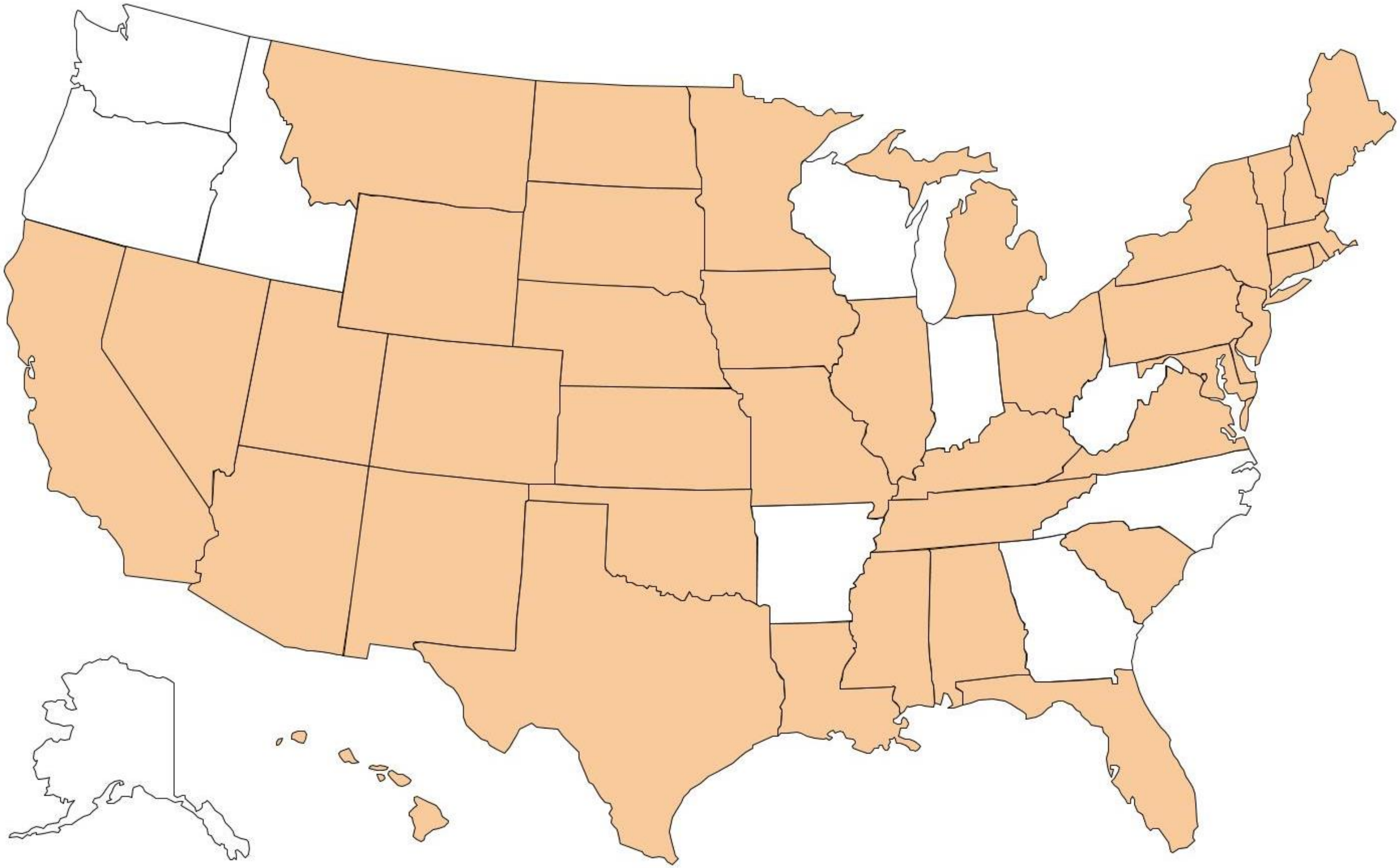
NASRA Issue Brief: Shared Risk in Public Retirement Plans, 2014

States that increased employee contributions



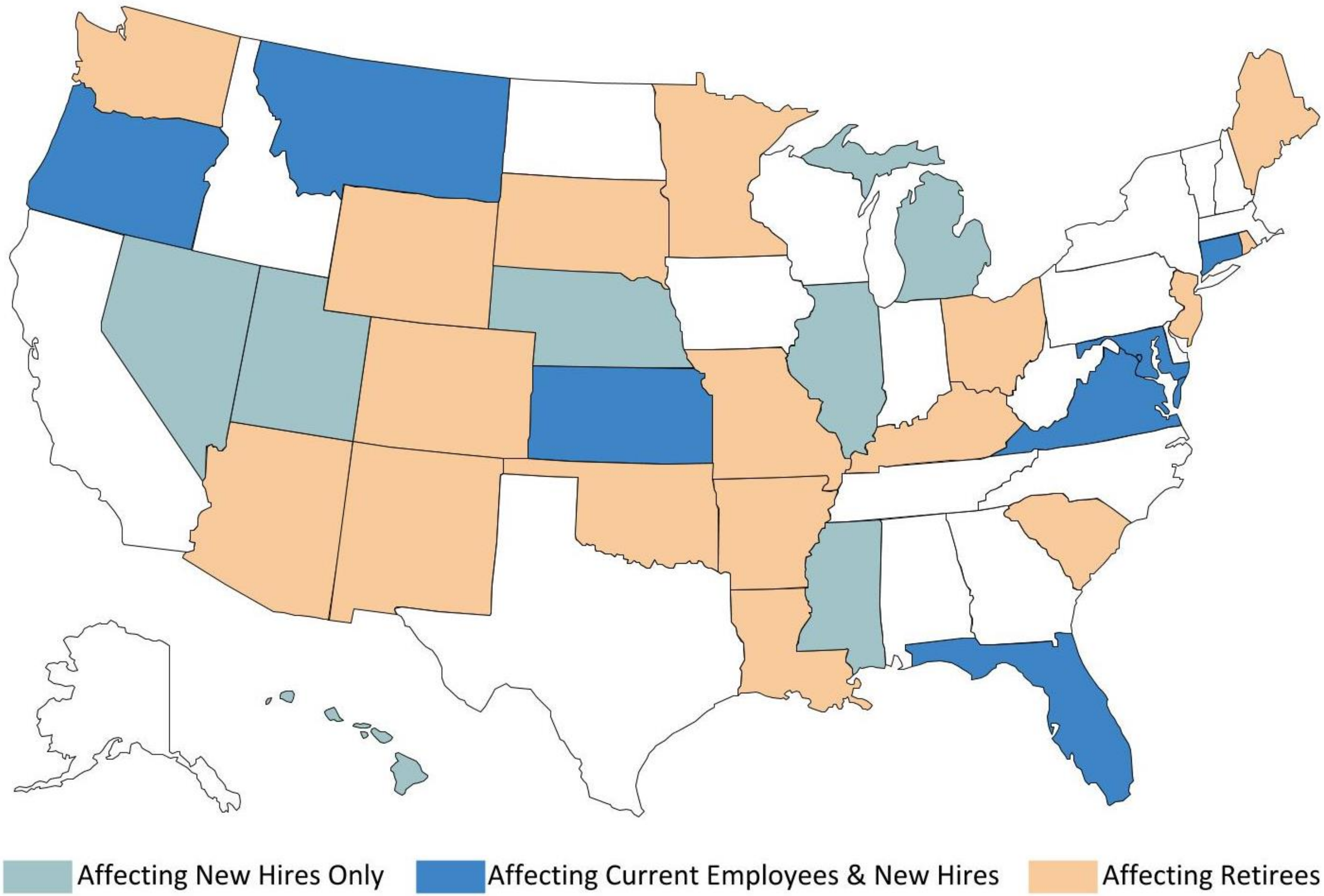
"Significant Reforms to State Retirement Systems," NASRA 2016

States that reduced pension benefits



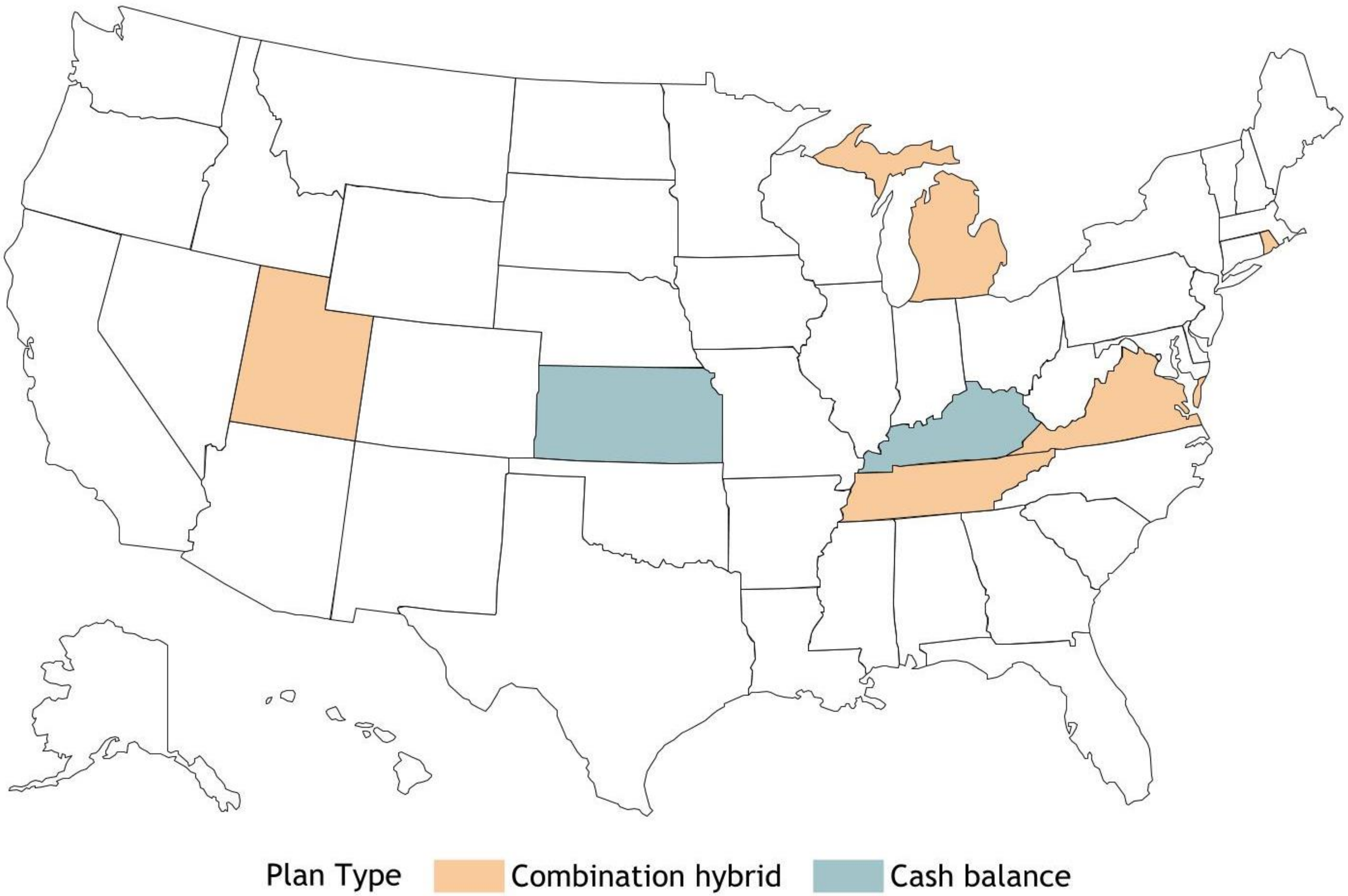
"Significant Reforms to State Retirement Systems," NASRA 2016

States that reduced automatic COLAs



"Significant Reforms to State Retirement Systems," NASRA 2016

States that established new hybrid plans

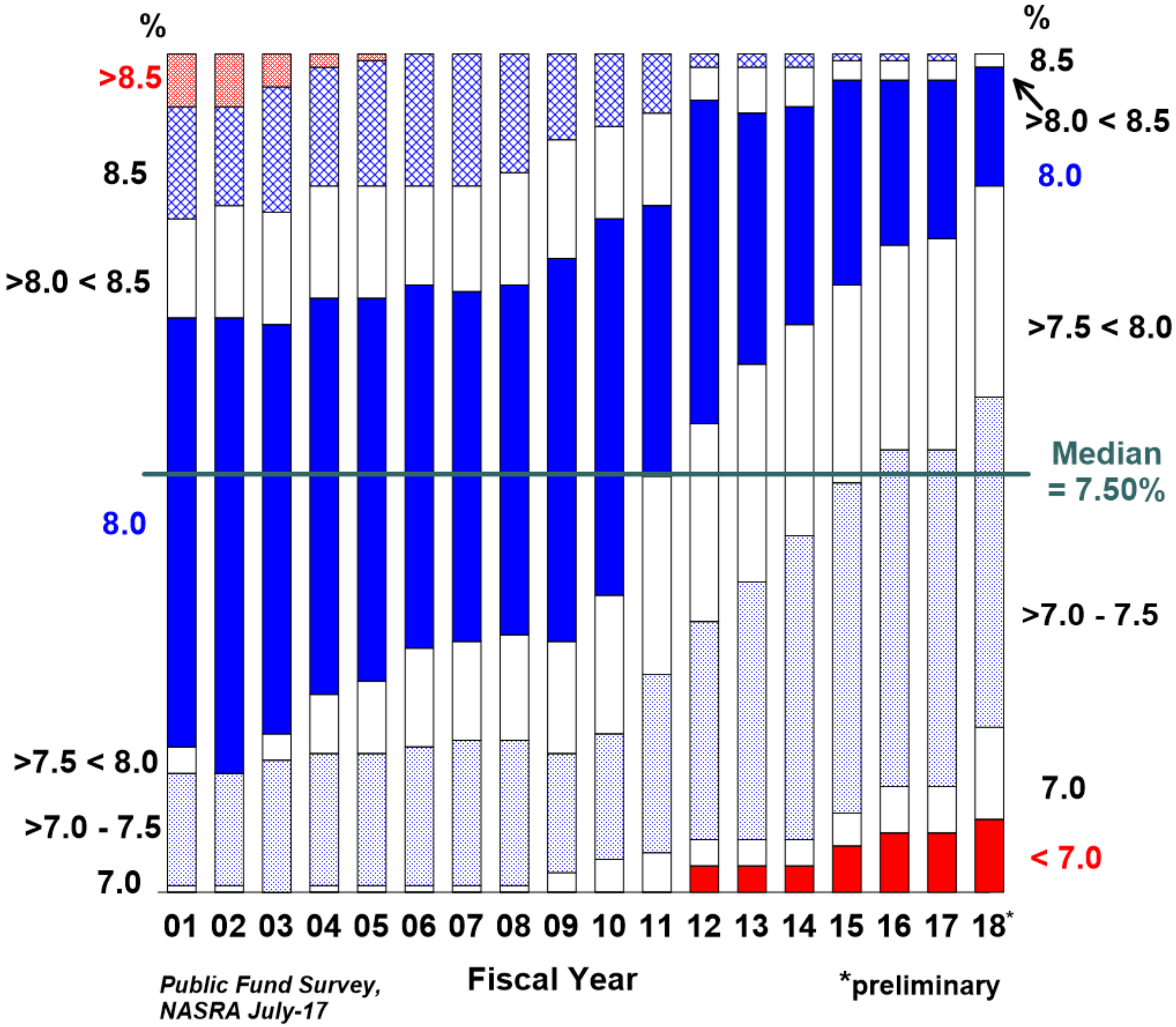


"Significant Reforms to State Retirement Systems," NASRA 2016

Shared Risk in Wisconsin

- Retired members of WRS receive a benefit that is subject to annual adjustment depending on the performance of plan investments
- WRS does not provide an annual COLA to retirees; benefits may be adjusted if the fund experiences investment gains, and increases provided in prior years may be adjusted downward or eliminated entirely in years in which investments perform poorly
- Reductions may never cause the benefit to fall below the base benefit

Distribution of Public Pension Investment Return Assumptions, FY 01 to FY 18



WI: 7.2%

Pension challenges facing state and local government

- For some states and cities, adequately funding their pension will be a challenge, especially for those with large unfunded liabilities and/or high employer costs
- Funding challenges are exacerbated by
  - Low interest rates
  - Declining projected returns, and
  - Improving mortality
- Providing a retirement benefit that aligns with key stakeholder objectives

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