Public Pension Trends and Observations

Keith Brainard
Research Director
National Association of State Retirement Administrators

Oklahoma Public Fund
Trustee Education Conference
September 29, 2016

Public pensions in the U.S.

- ~$3.55 trillion in assets
- ~14 million active (working) participants
  - 13 percent of the nation's workforce
- 9+ million retirees and their survivors receive ~$250 billion annually in benefits
- Annual contributions = $166 billion
  - $121 billion from employers; $45 billion from employees
  - Approximately 5.0 percent of all state and local government spending goes to public pensions
- Of 6,000+ public retirement systems, the largest 75 account for 80+ percent of assets and members
- Aggregate funding level = ~74%

US Census Bureau, Public Fund Survey

NASRA

Public pensions in Oklahoma

- ~$31 billion in assets
- ~160k active (working) participants
- ~112k retirees and their survivors receive $2.2 billion annually in benefits
- Annual contributions = $1.8 billion
  - $1.3 billion from employers; $500 million from employees

US Census Bureau

National trends

- States are taking a pause from an unprecedented period of public pension reform, from 2009 to 2014
- Pension funding levels and costs have stabilized
- A heightened sensitivity to making required contributions has developed in recent years
- New accounting standards are producing new ways of looking at pension obligations
- Many plans are reducing their projected rate of return on investments
- Looming federal interest in increasing public pension oversight and regulation

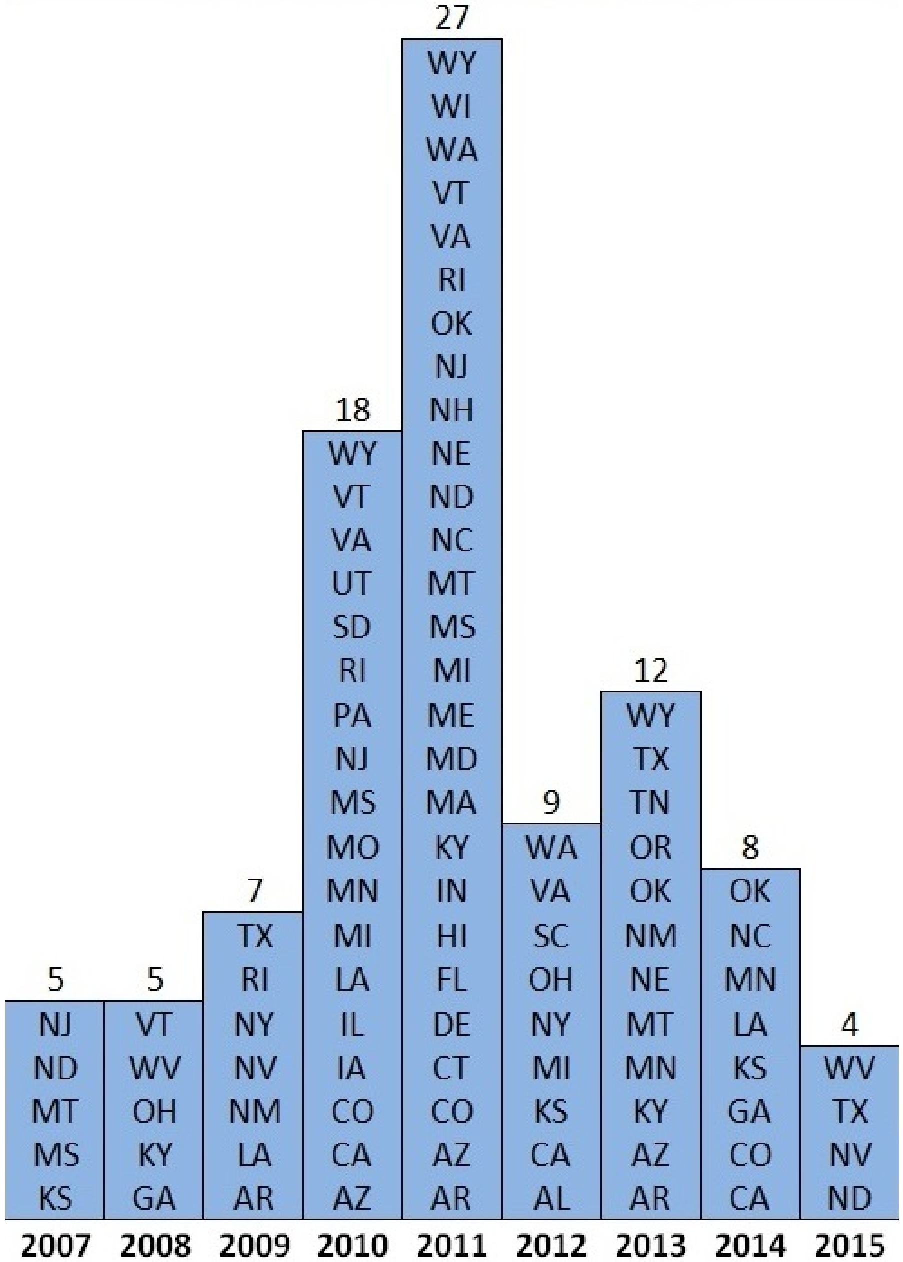
NASRA

Pension reforms in recent years

- Nearly every state modified public pension benefits, raised employee contributions, or both, since 2009
- Lower benefits:
  - higher retirement age
  - more required years of service
  - lower multiplier
  - longer vesting period
  - reduced, suspended or eliminated COLAs
- Increased use of hybrid retirement plans
- Newly-hired state employees in Oklahoma as of 11/1/15 have only a defined contribution plan

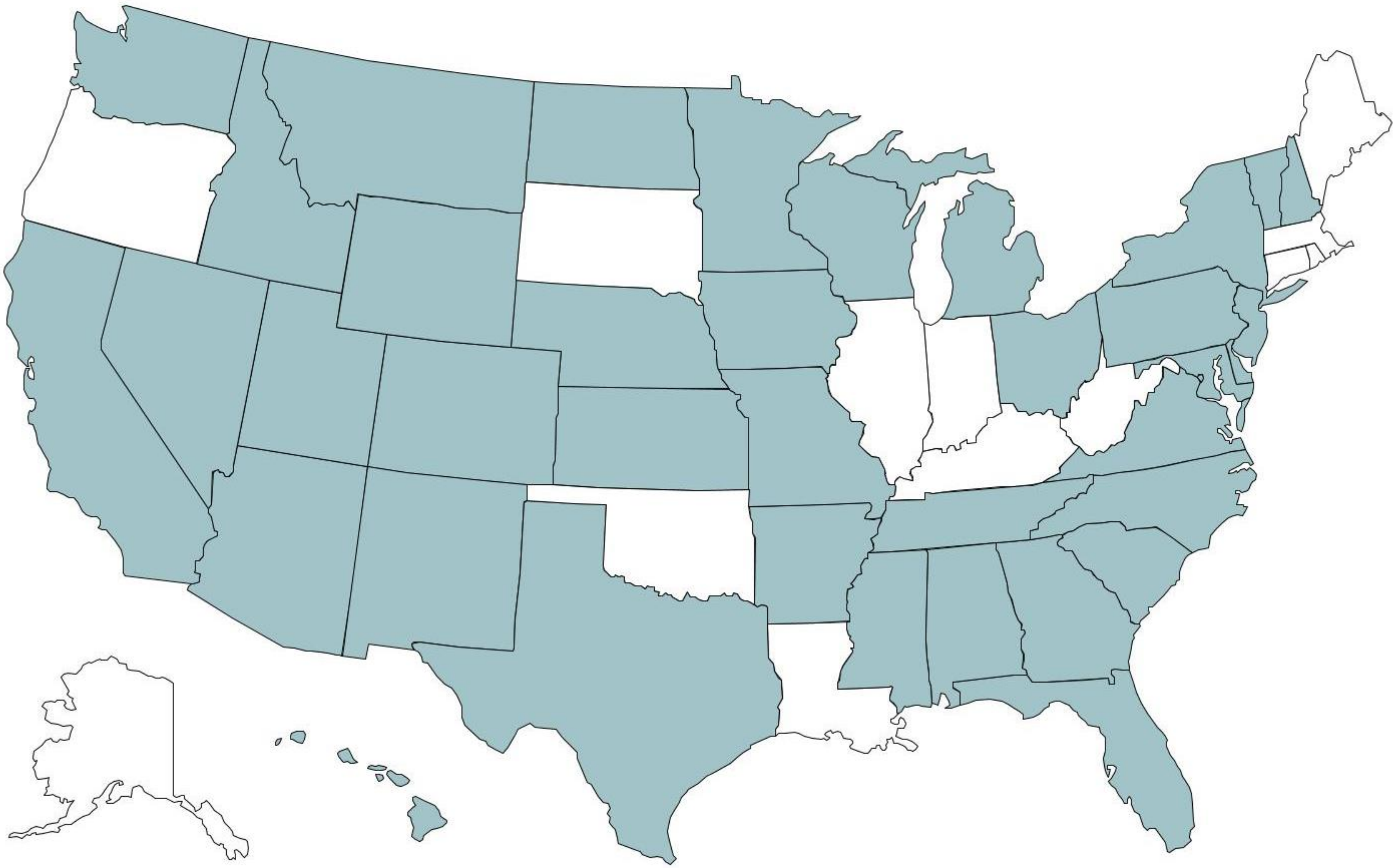
NASRA

States that reformed pension plans, by year, 2007-2015



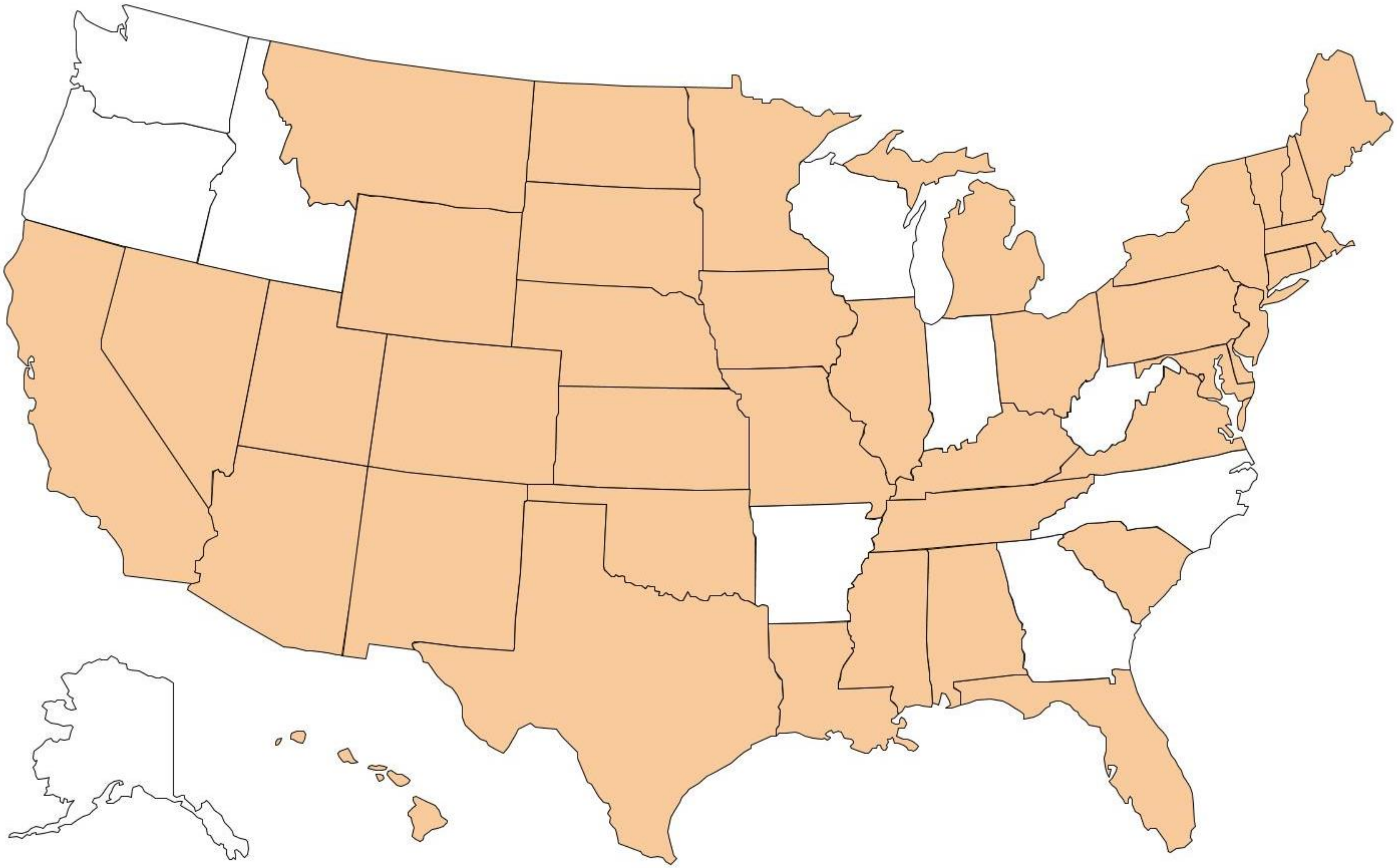
"Significant Reforms to State Retirement Systems," NASRA 2016

States that increased employee contributions



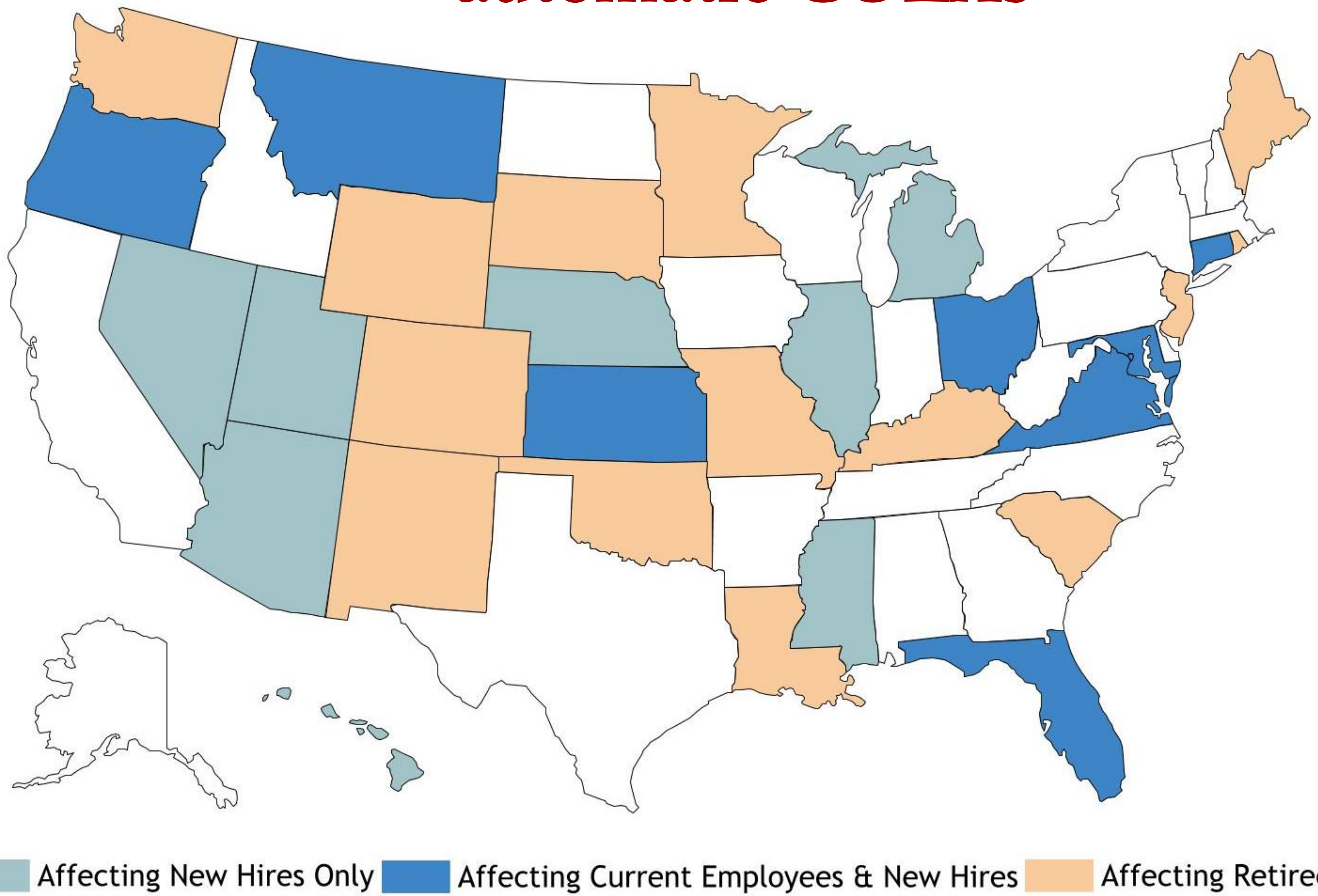
"Significant Reforms to State Retirement Systems," NASRA 2016

States that reduced pension benefits



"Significant Reforms to State Retirement Systems," NASRA 2016

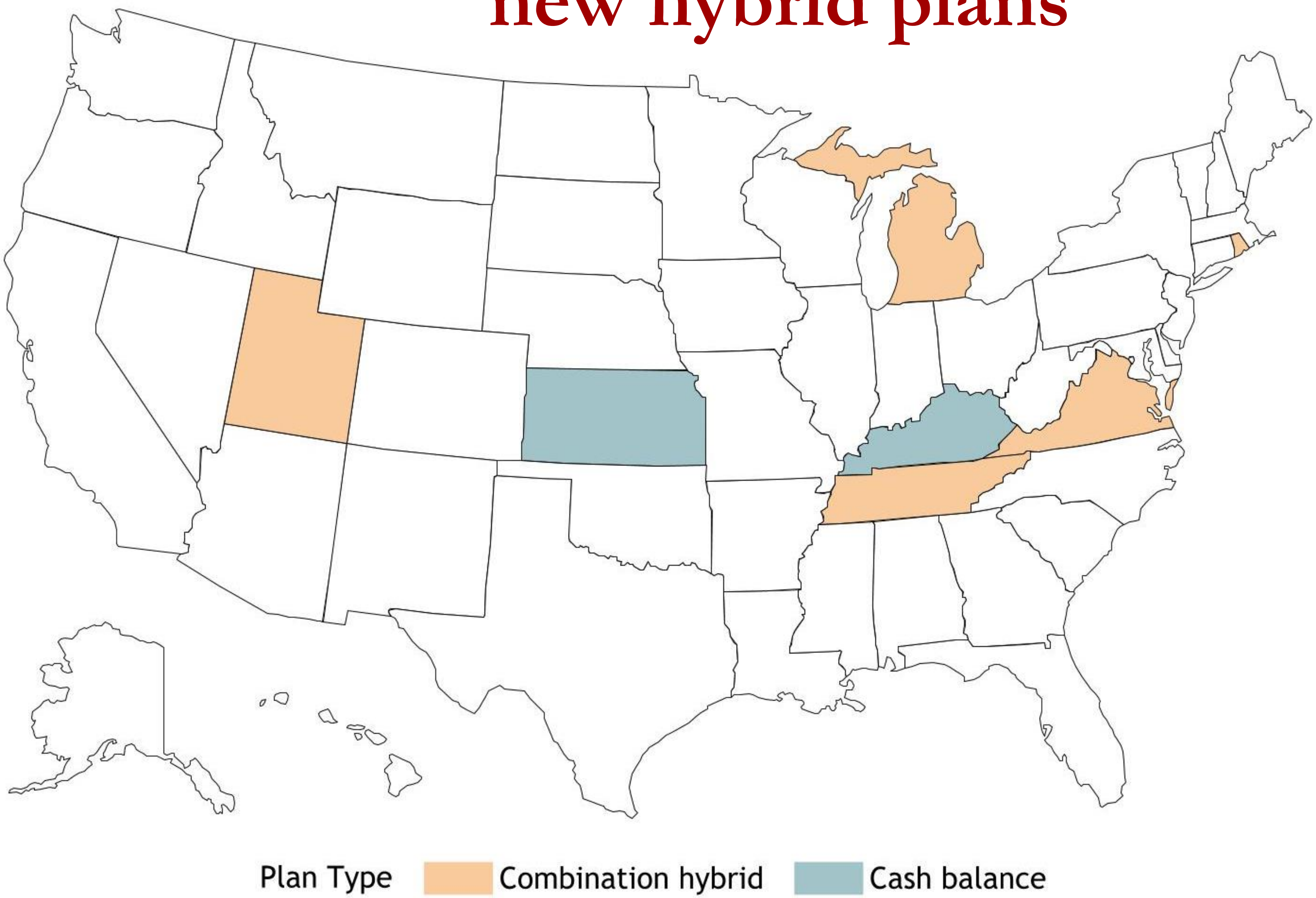
States that reduced automatic COLAs



NASRA

"Significant Reforms to State Retirement Systems," NASRA 2016

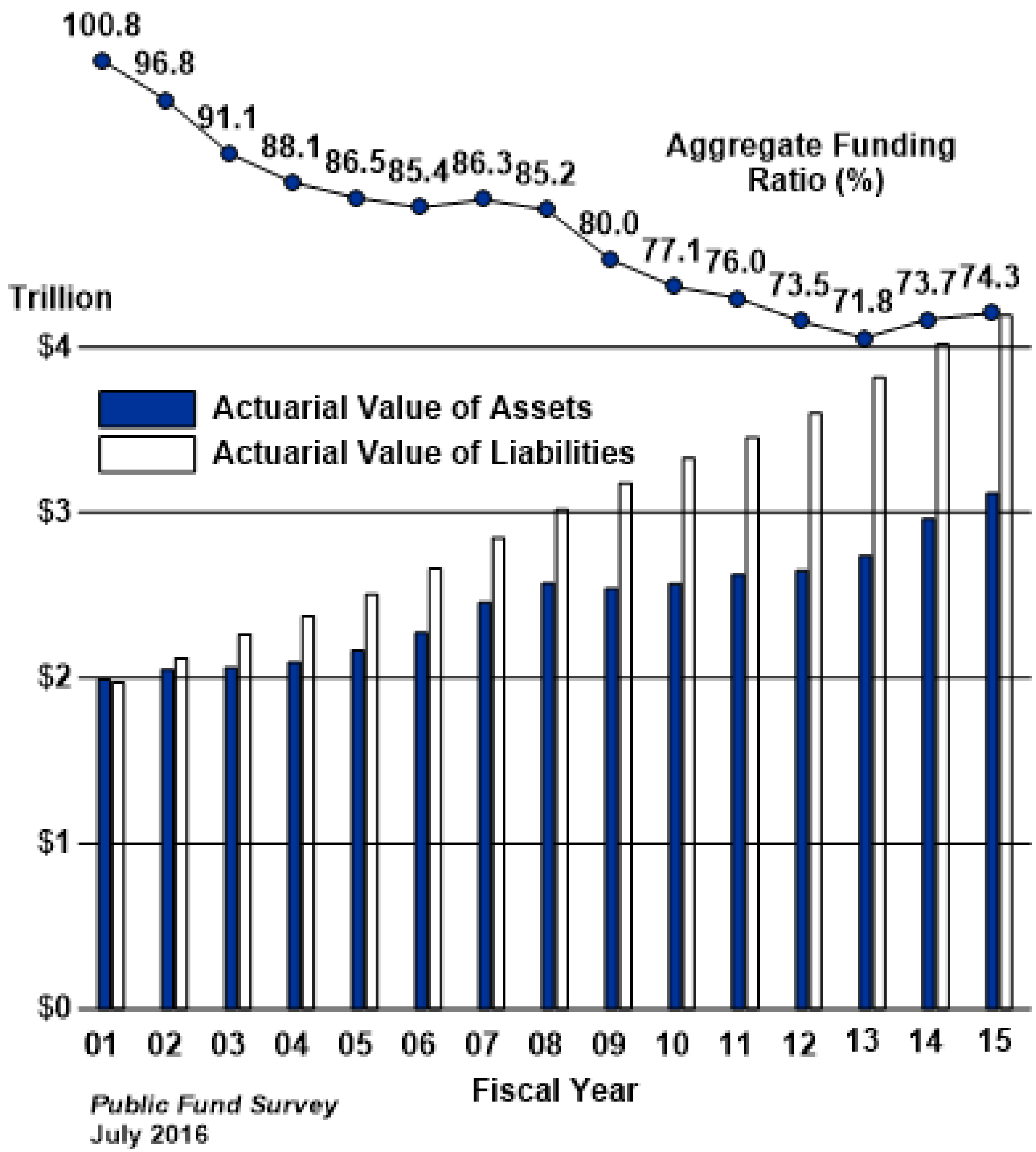
States that established new hybrid plans



NASRA

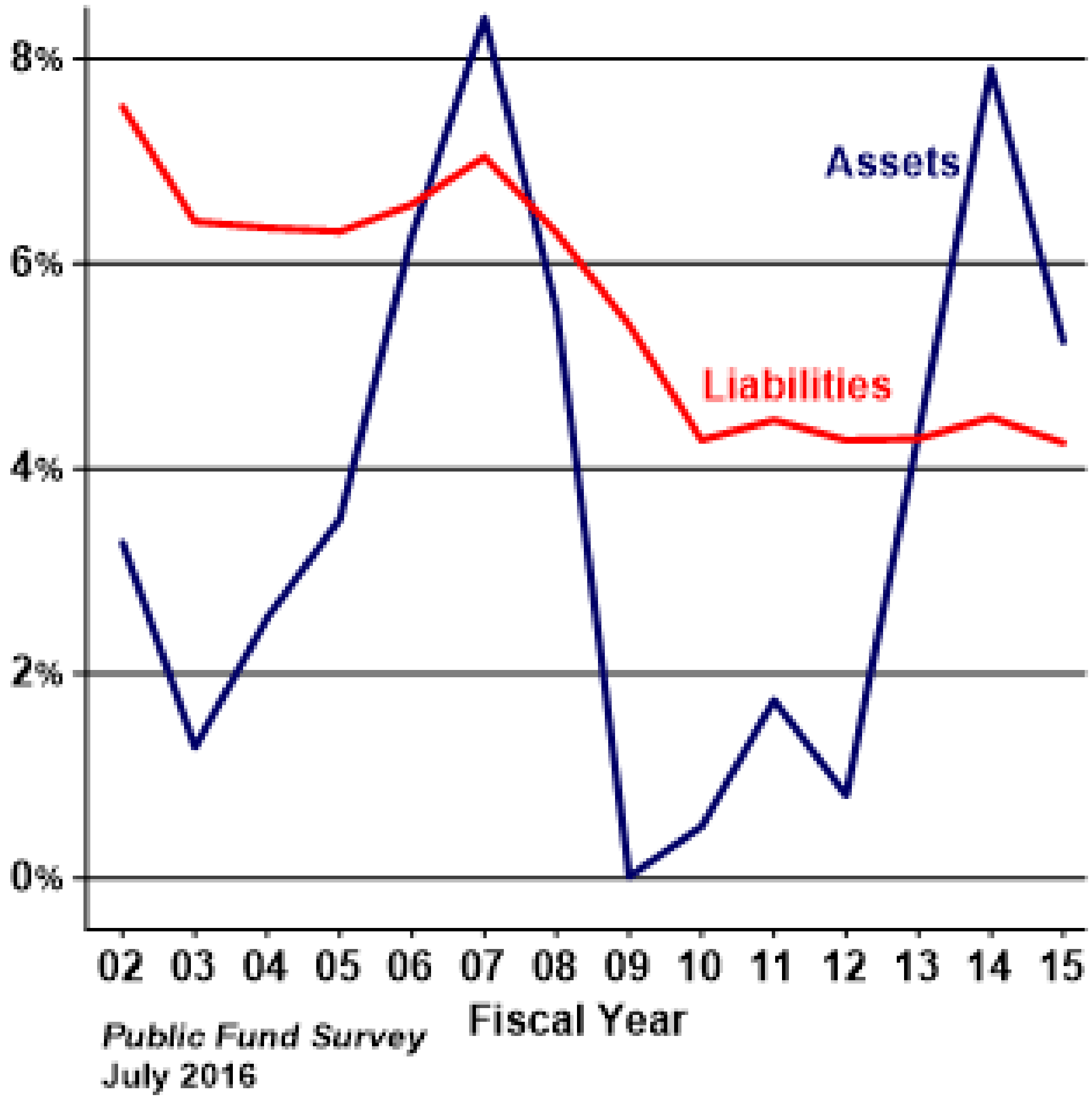
"Significant Reforms to State Retirement Systems," NASRA 2016

Aggregate Public Pension Funding Level, FY 01 to FY 15



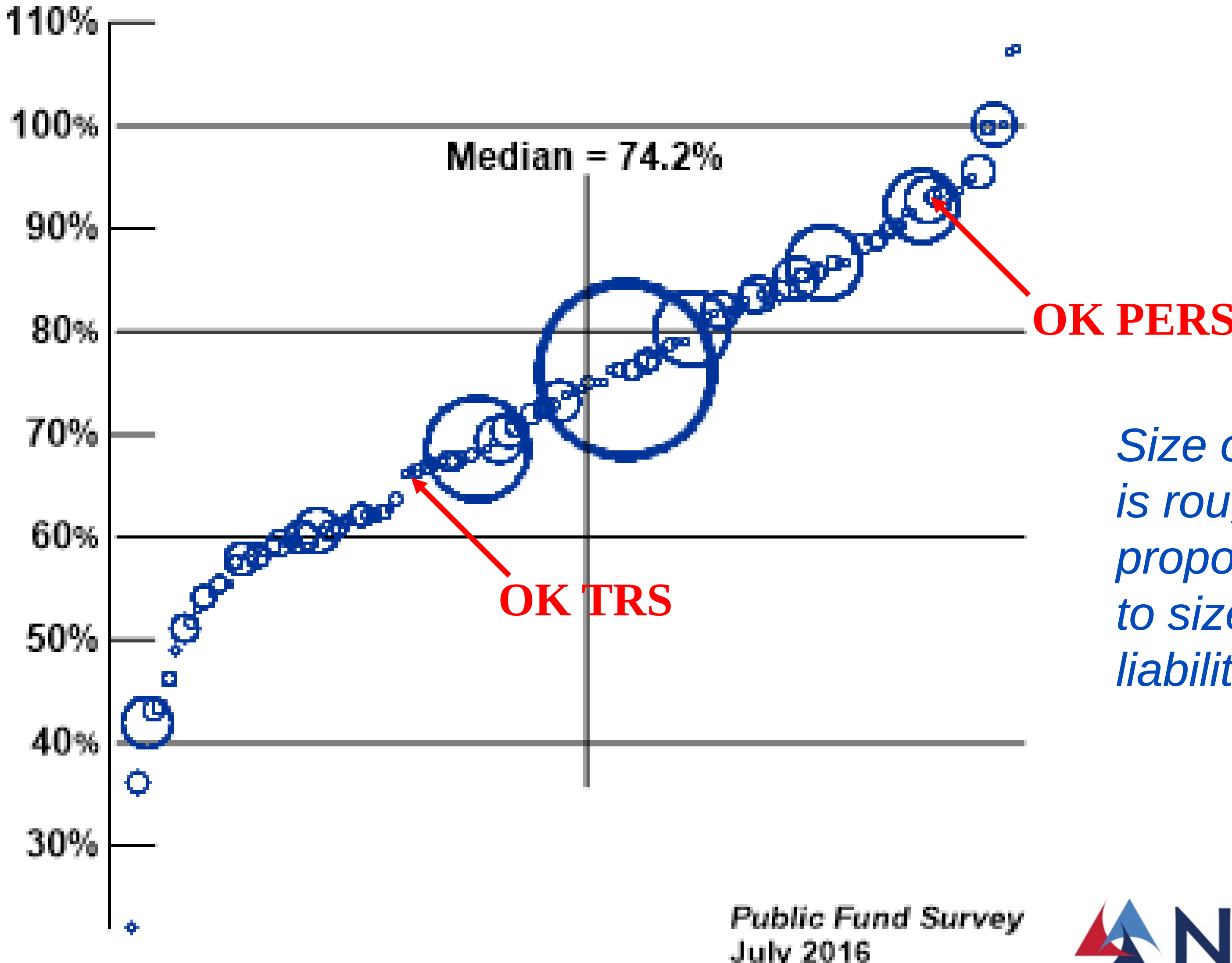
NASRA

Median Change in Actuarial Value of Assets and Liabilities, FY 02 to FY 15



NASRA

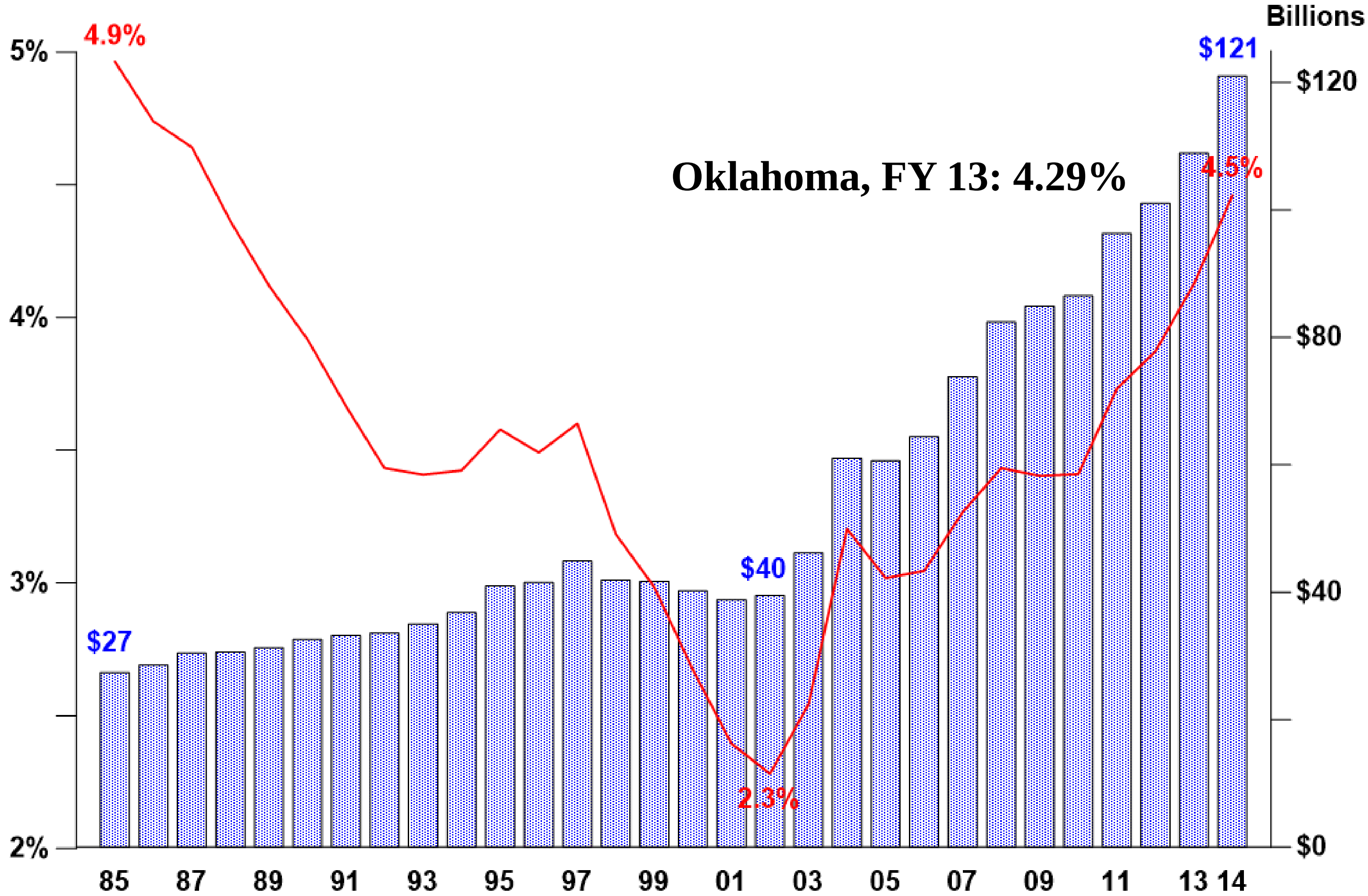
Latest Public Pension Funding Levels



Size of bubbles is roughly proportionate to size of plan liabilities

NASRA

Employer (taxpayer) spending on public pensions, 1985 to 2014

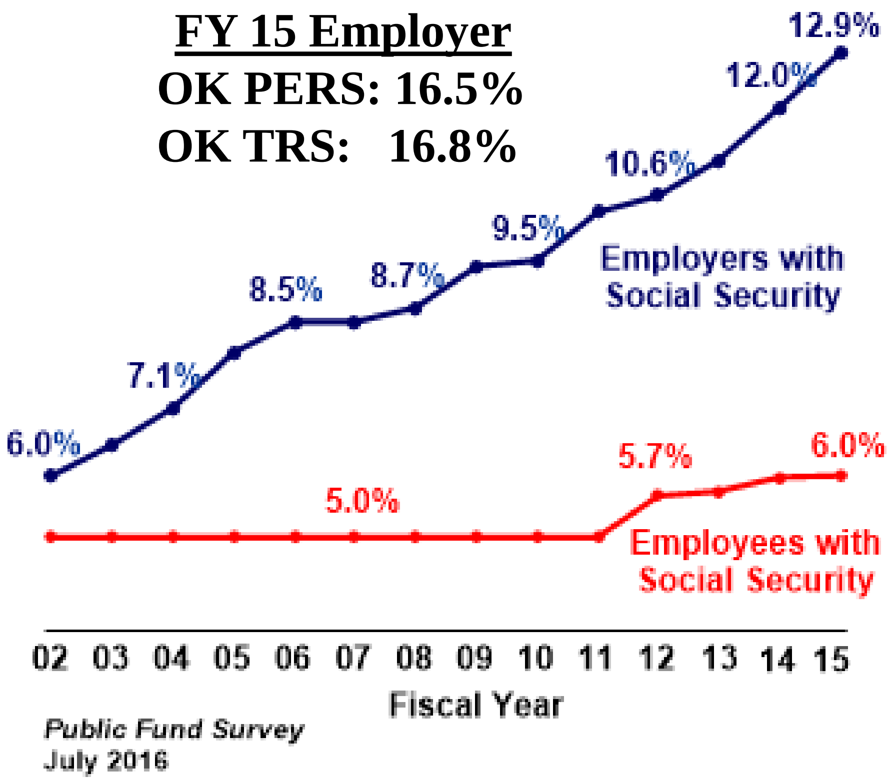


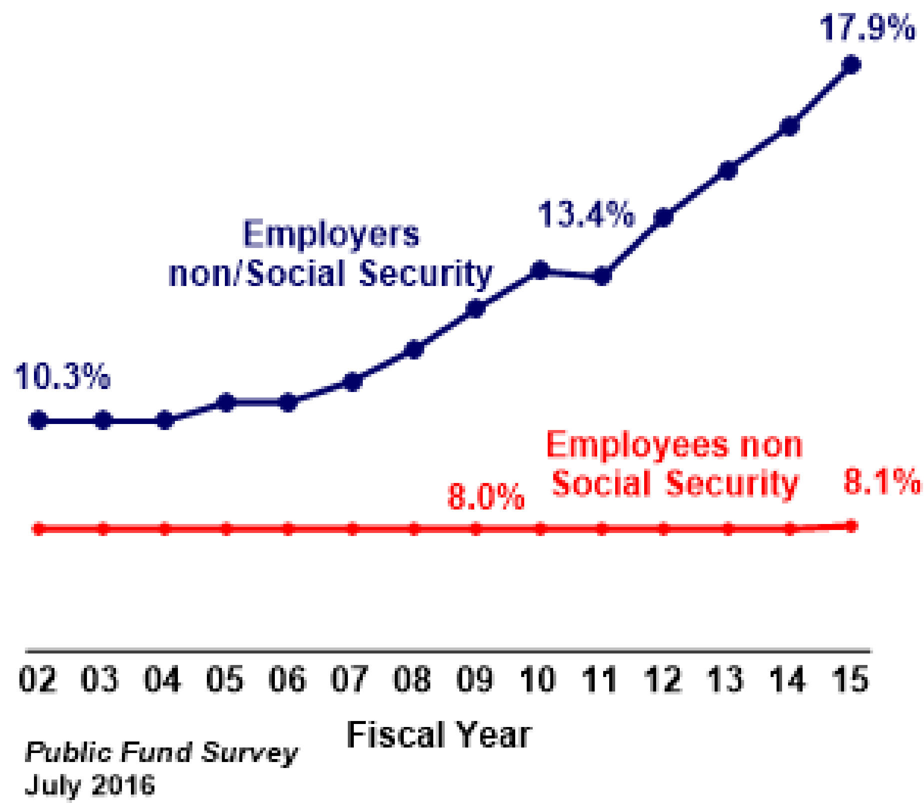
"State and Local Government Spending on Public Employee Retirement Systems," NASRA 2016

NASRA

Median employer pension contribution rates, pension and LTD, Social Security–eligible and –ineligible, FY 02 to FY 15*

FY 15 Employer
OK PERS: 16.5%
OK TRS: 16.8%



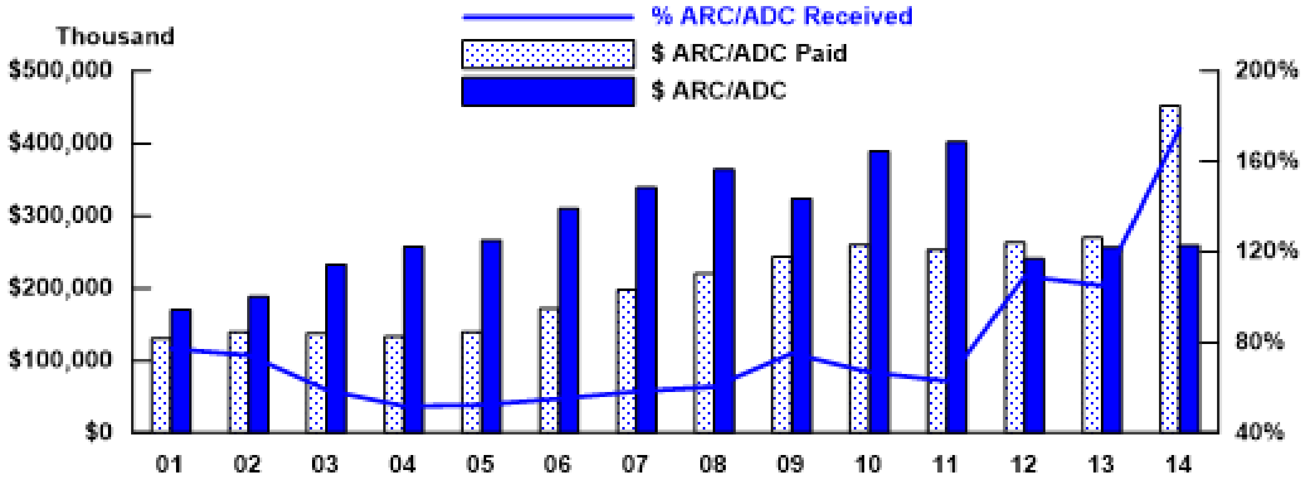


*General employees and teachers only

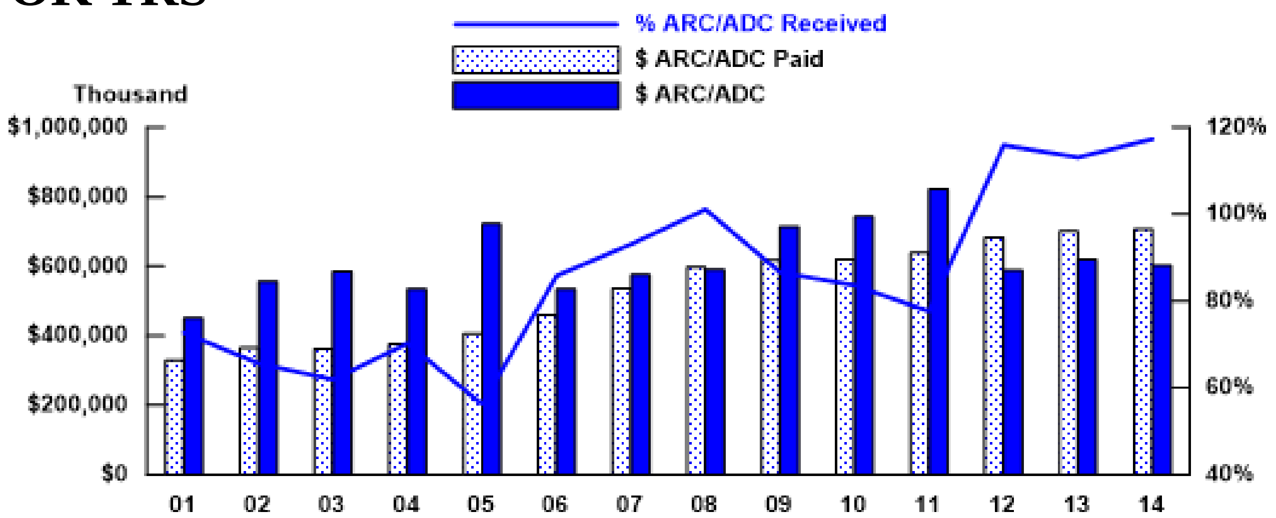
NASRA

ARC/ADC Experience of OK PERS and TRS

OK PERS



OK TRS



NASRA, "The Annual Required Contribution Experience of Statewide Retirement Plans, FY 01-13" updated 2016

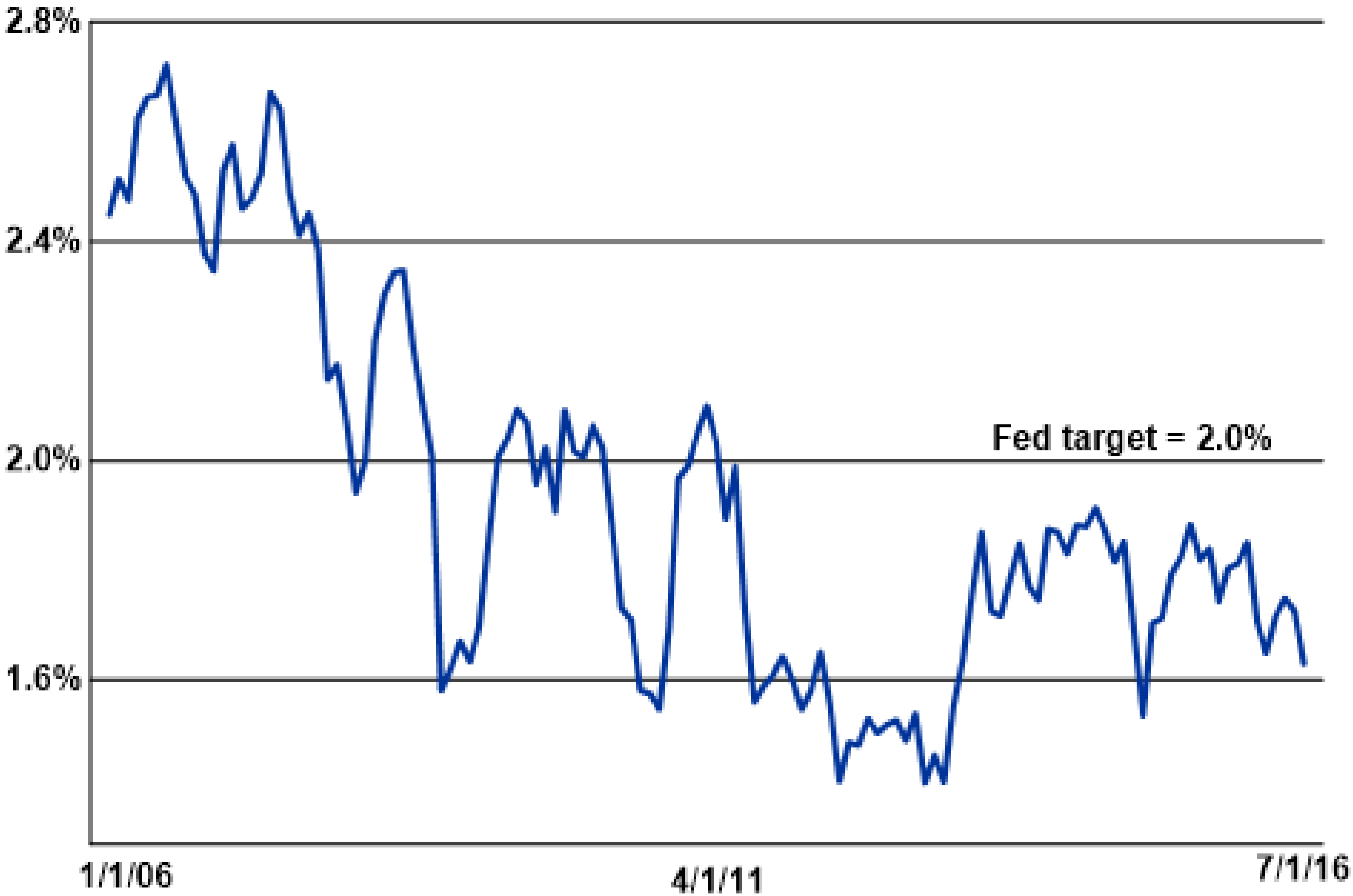
NASRA

The role of inflation in public pension funding

- The inflation assumption typically serves as the basis of actuarial assumptions for payroll growth and investment return
- Payroll growth is a major driver of liability growth
- The investment return assumption has a major effect on a pension plan's cost and funding level

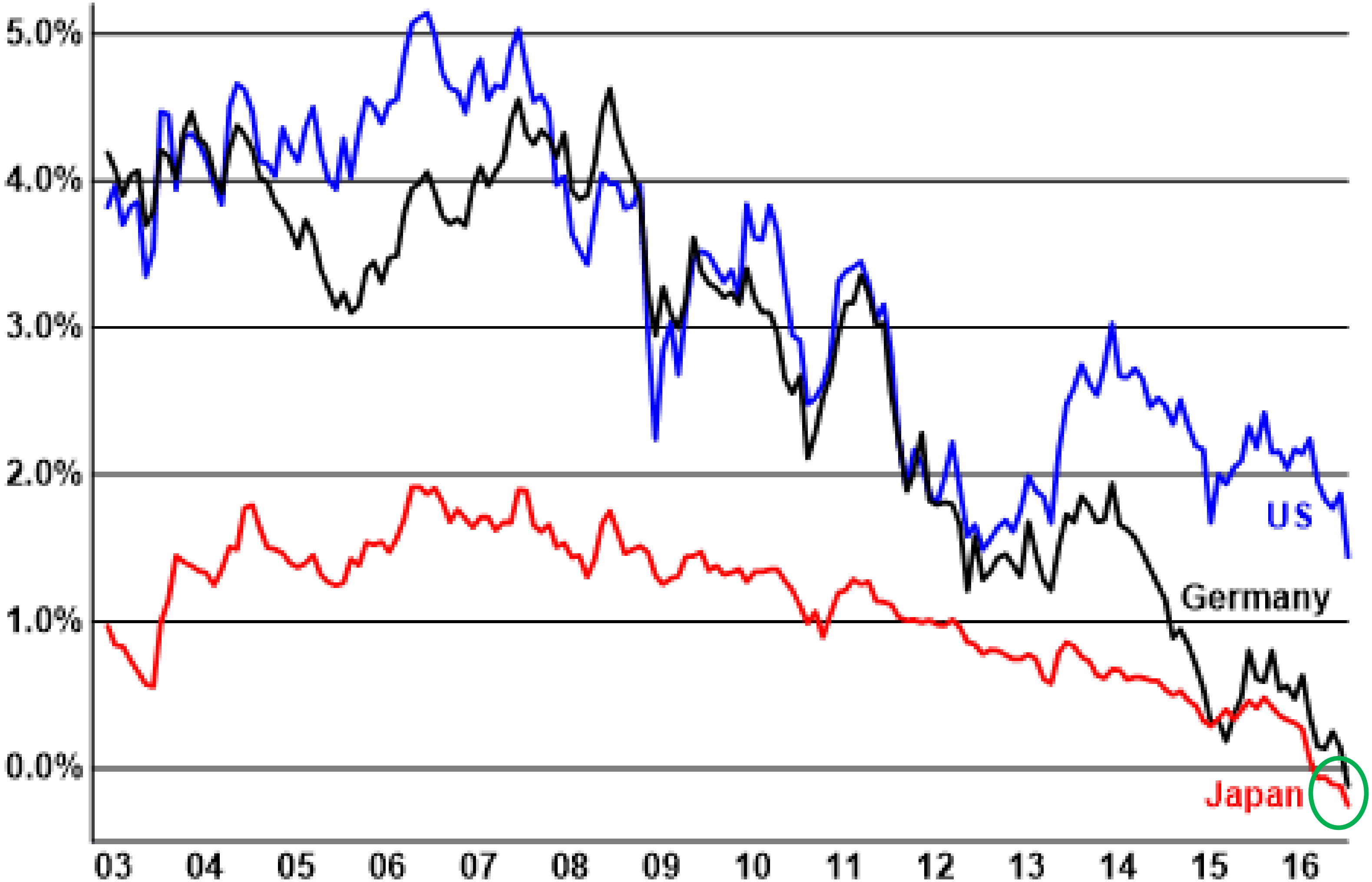
NASRA

Expectations for inflation over the next 10 years



Cleveland Fed

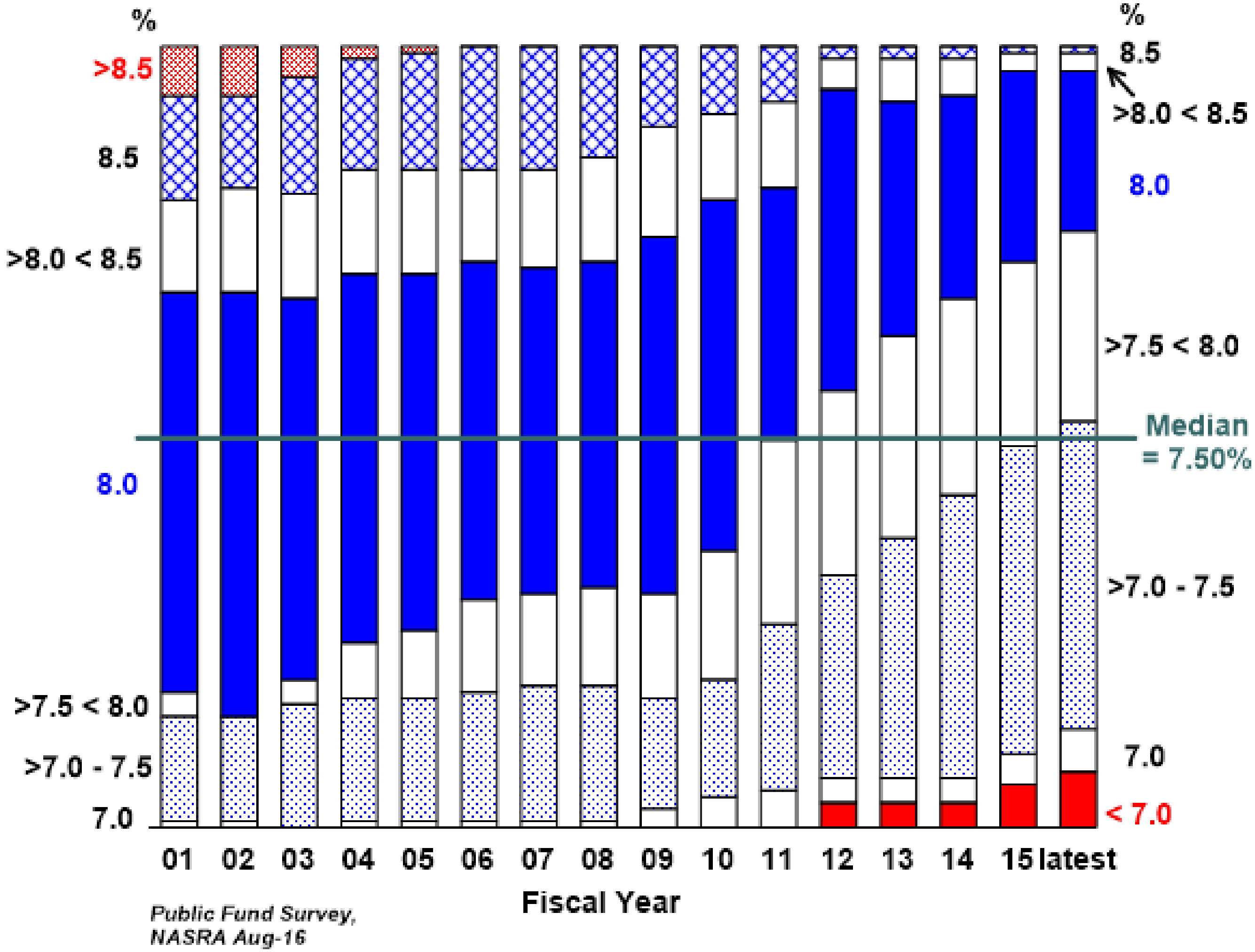
Yields on 10-year notes: US, Germany and Japan, Jan-03 to Jul-16

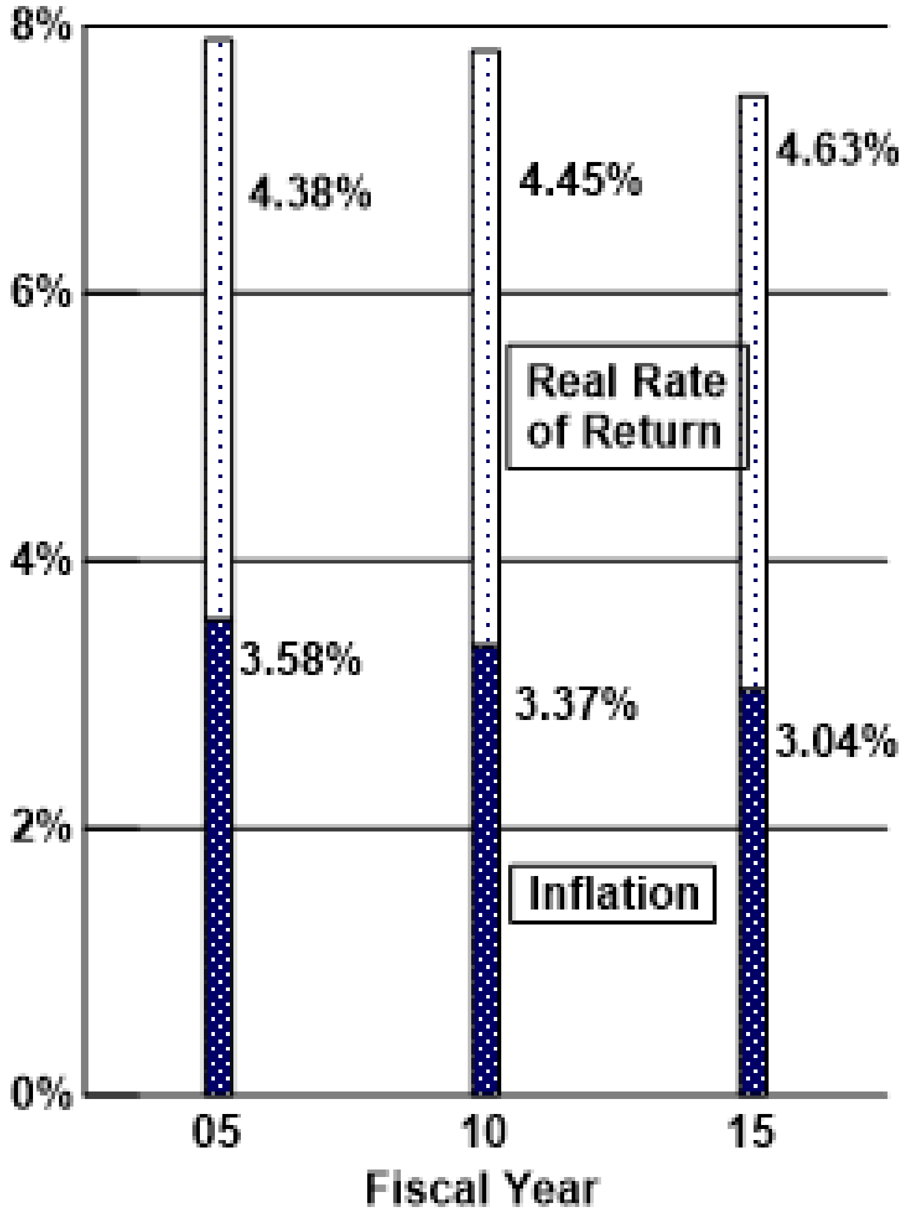


Wall Street Journal

NASRA

Distribution of investment return assumptions, FY 01 to current





Change in average assumption for inflation and real rate of return, FY 05 to FY 15

Public Fund Survey

NASRA

Legal Rulings

- Many state pension reforms that affected current plan participants provoked lawsuits
- An unprecedented number of legal rulings on public pension issues have been issued since 2010
- Rulings have run the gamut, from affirming to rejecting states’ authority to reduce benefits and increase contributions
- Rulings in some states have contradicted rulings in other states on the same basic issues
- Some states have clear and strong constitutional protections against reducing pension benefits
- Federal bankruptcy rulings in 2014 in Detroit and Stockton, CA permitted reductions in pension benefits despite strong pension legal protections in those states

NASRA

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
- Providing a retirement benefit that aligns with key stakeholder objectives:
  - For employers, to attract and retain qualified workers
  - For taxpayers, to ensure delivery of public services in an affordable and cost-effective manner
  - For public employees, a competitive compensation package
- Threat of actuarial calculations
  - Professional actuarial organizations are discussing a requirement that actuaries calculate a solvency or termination number for public pension plans

NASRA

Pension challenges facing state and local governments

- Understanding and responding appropriately to multiple pension measures (books, budgets, and bonds):
  - Books: GASB statements provide standardized financial reporting
  - Budgets: Actuarial funding calculations identify the amount needed to fund the benefit
  - Bonds: Bond rating agencies assess the degree to which pension obligations affect a government's ability to repay bonded debt
- Possibility of federal oversight
  - PEPTA: Public Employee Pension Transparency Act
  - Would require state and local government sponsoring pensions to submit to the US Department of the Treasury calculations based on the use of a risk-free interest rate
  - Creates a burdensome reporting requirement under the threat of losing access to municipal bond markets

NASRA

- keith@nasra.org
- 202-624-8464

NATIONAL ASSOCIATION OF STATE RETIREMENT ADMINISTRATORS (NASRA)

Keith Brainard
Research Director

As research director for the National Association of State Retirement Administrators since 2002, Keith Brainard collects, prepares and distributes to NASRA members news, studies and reports pertinent to public retirement system administration and policy. NASRA members are the directors of more than 90 statewide public retirement systems in the United States. Combined, these systems hold assets of more than $2.5 trillion to fund pension and other benefits for most of the nation's 23 million working and retired employees of state and local government.

Mr. Brainard is co-author of The Governmental Plans Answer Book, Third Edition, and he created and maintains the Public Fund Survey, an online compendium of public pension data. Keith has discussed public pension issues before Congress, state legislative committees, public pension boards of trustees, and on broadcast television and radio.

He is an appointed member of the Texas Pension Review Board and an elected member of the Georgetown, Texas city council. Keith previously served as manager of budget and planning for the Arizona State Retirement System and as a fiscal analyst for the Texas and Arizona legislatures. He holds a BA and an MPA from the University of Texas at Austin.