

**Hybrid Retirement Plan Design
and Recent Retirement Plan Design
Changes in Other States**

**Minnesota Legislative Commission on
Pensions and Retirement**

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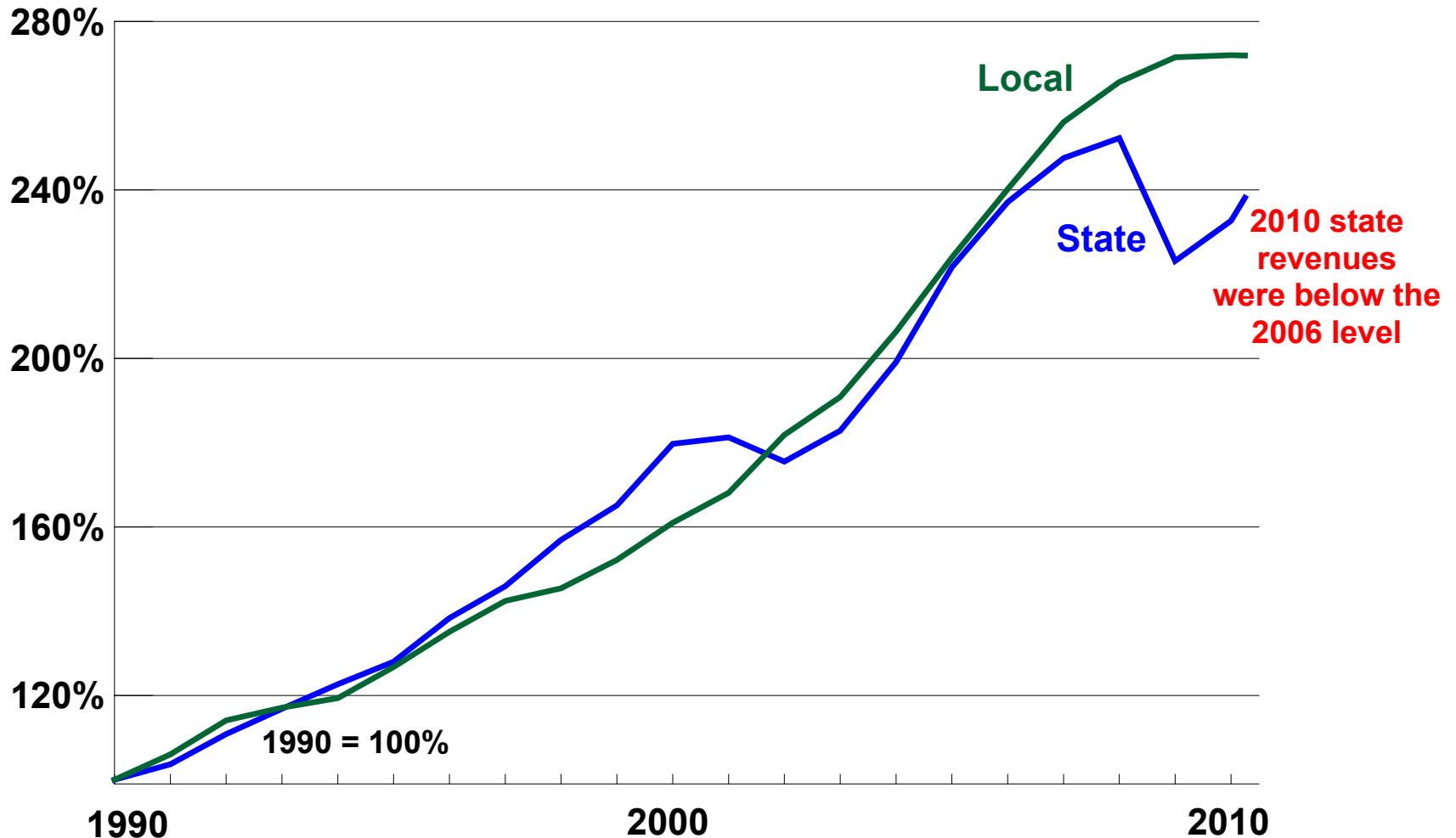
Public Pensions: Key National Statistics

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

- \$3.0 trillion in assets
- ~15 million active (working) participants
 - 12 percent of the nation's workforce
- 8.0 million retirees and their survivors
- 85%+ of state and local government workers participate in an employer-sponsored pension plan
- Of 2,500+ public retirement systems, the largest 75 account for 80 percent of assets and members
- Aggregate funding level = ~77%

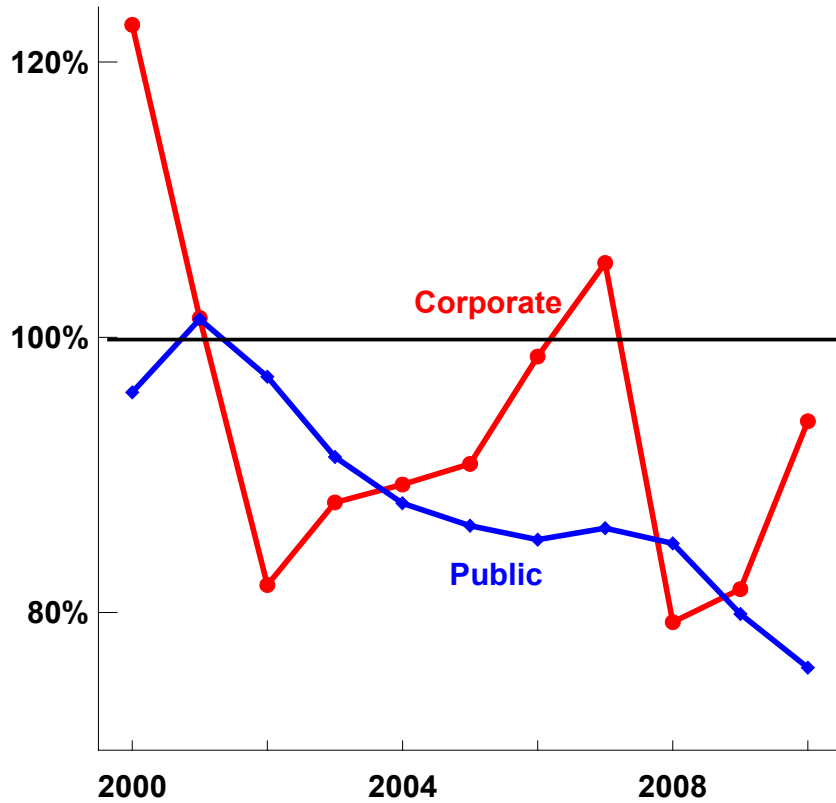
*US Census Bureau,
Public Fund Survey*

Cumulative quarterly change in state and local tax revenues, 1990 – 1Q 2011



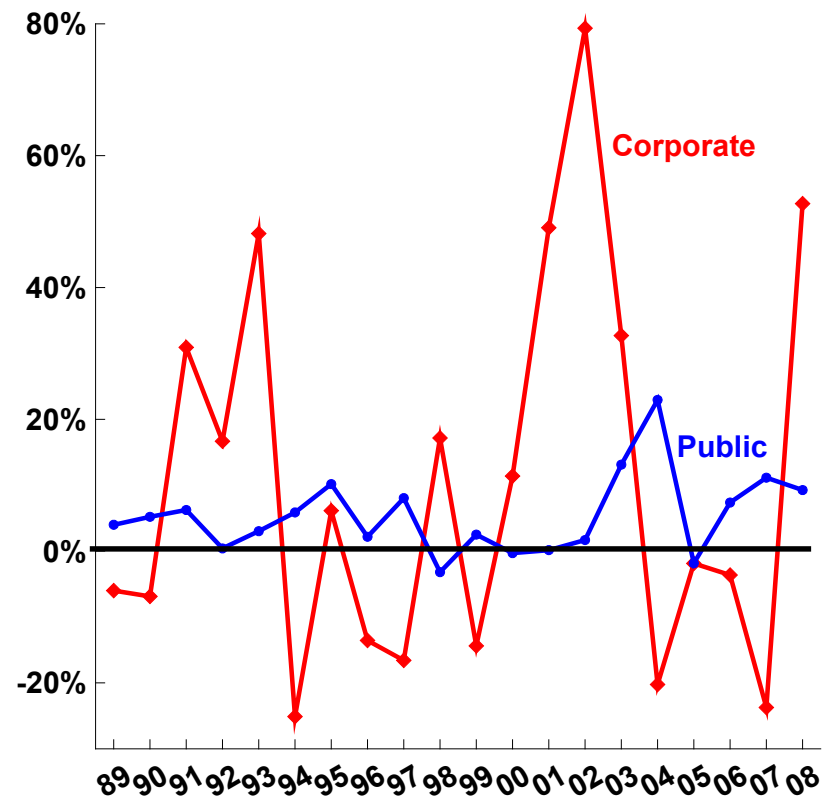
Corporate vs. public pension funding levels and costs

Corporate and public pension
funding levels, 2000 to 2010



Milliman and Public Fund Survey

Change from prior year in corporate
and public pension contributions, 1989
to 2008



US Dept of Labor,
US Census Bureau,
Milliman

Key Minnesota Statistics

Defined benefit plans for employees of state and local government in Minnesota:

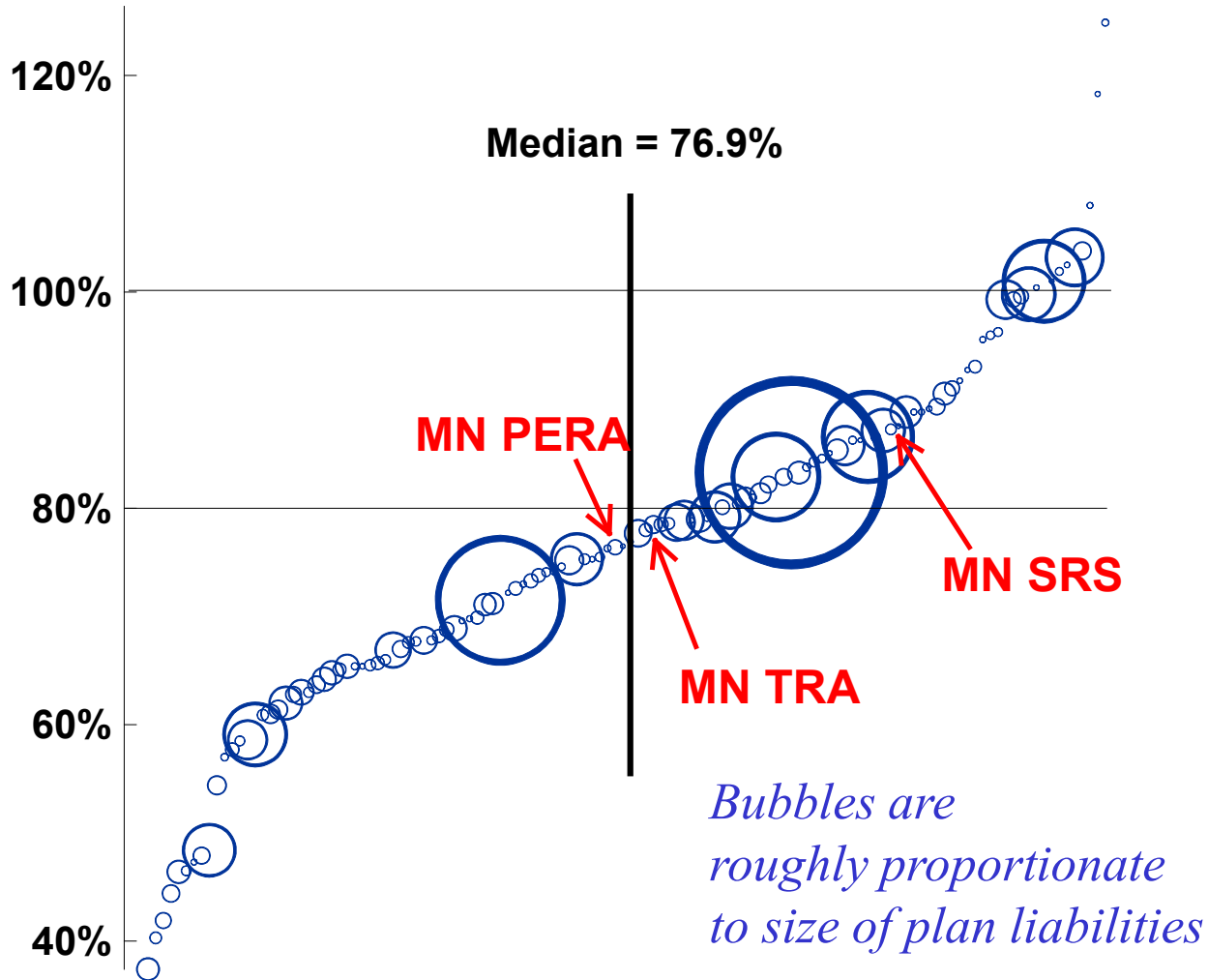
- ~\$50+ billion in assets as of FY 10
- ~290,000 active (working) participants
- ~160,000 retirees and their survivors
- Distribute \$3.5+ billion in benefits annually
- Aggregate actuarial funding level: 79.3%
 - (Three major statewide plans plus St. Paul and Duluth TRFA)

Key Minnesota Statistics

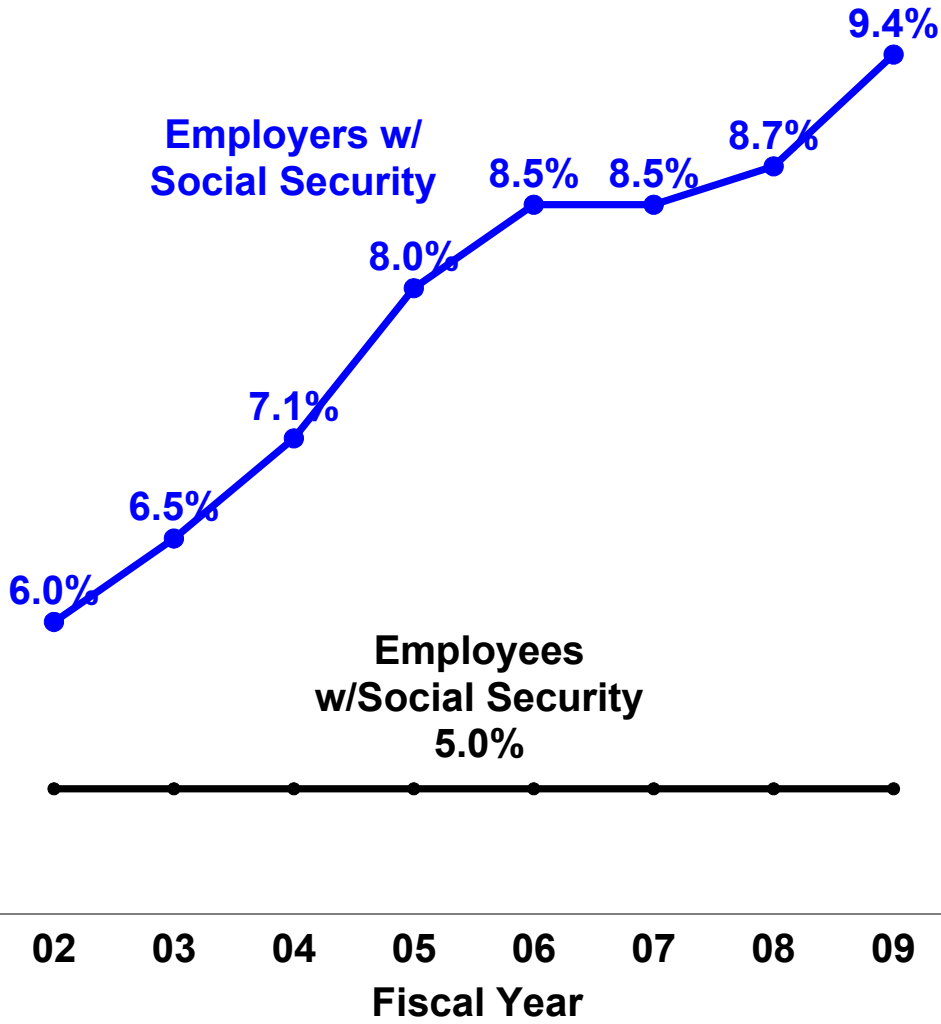
- Prevailing normal retirement age of 66 is the highest in the nation
 - Except new hires in Illinois and Missouri, at age 67
- Rate of retirement benefit accrual—1.7% to 1.9%—is below the national average for Social Security-eligible plans
- In 2009, the latest year for which data is available, of all spending by the state and its political subdivisions, 1.6% was spent on pension contributions
- Nationally, this figure was 2.9 percent
- Minnesota was lower than all but eight states
- For the last few fiscal years, the statutory rate has been less than the Annual Required Contribution, but 2010 reforms are closing the gap

*US Census Bureau, Public Fund Survey,
MN state retirement system CAFRs*

Distribution of public pension actuarial funding levels and relative size

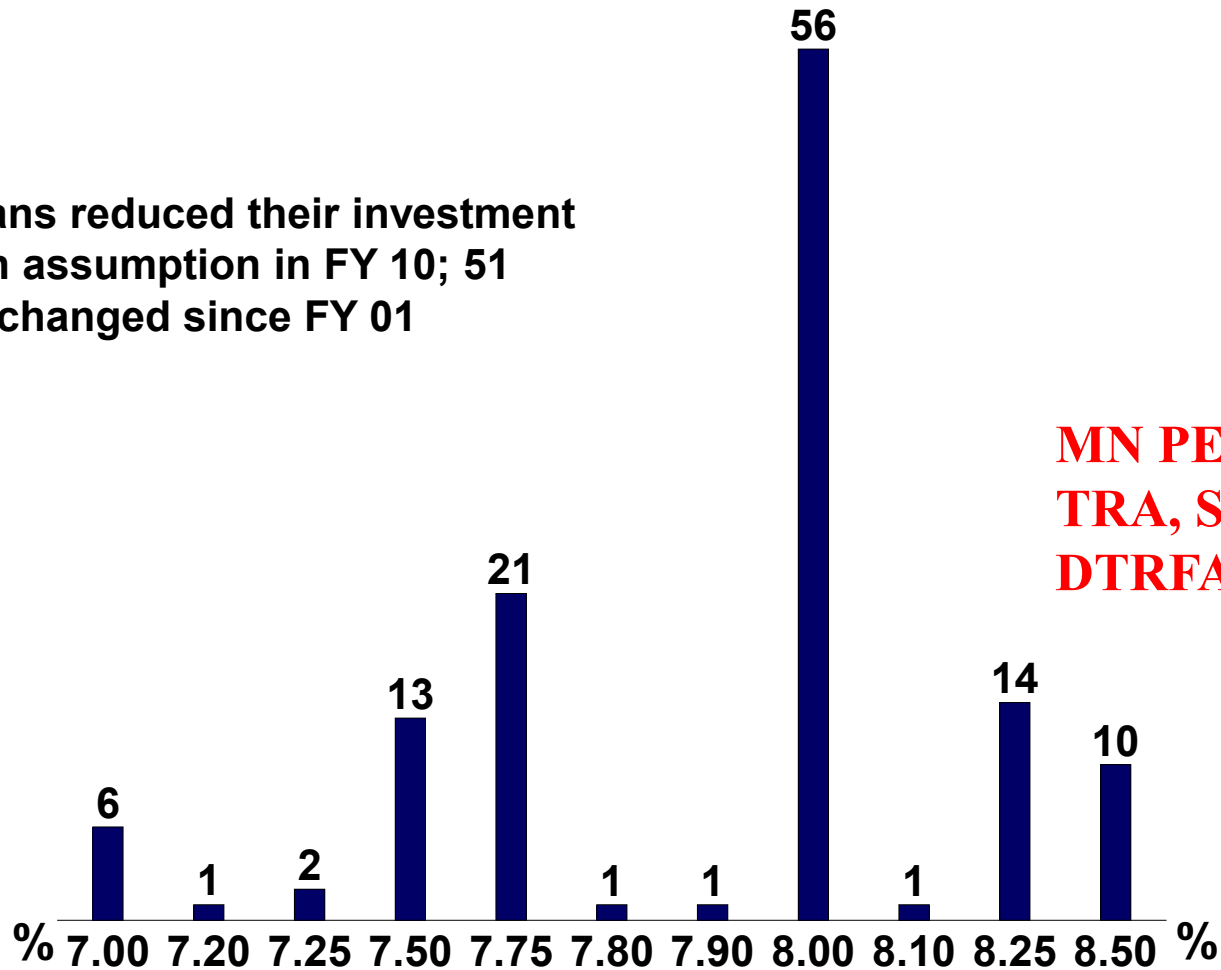


Median contribution rates FY 01 to FY 09 (For general employees and public school teachers)



Distribution of investment return assumptions, FY 10*

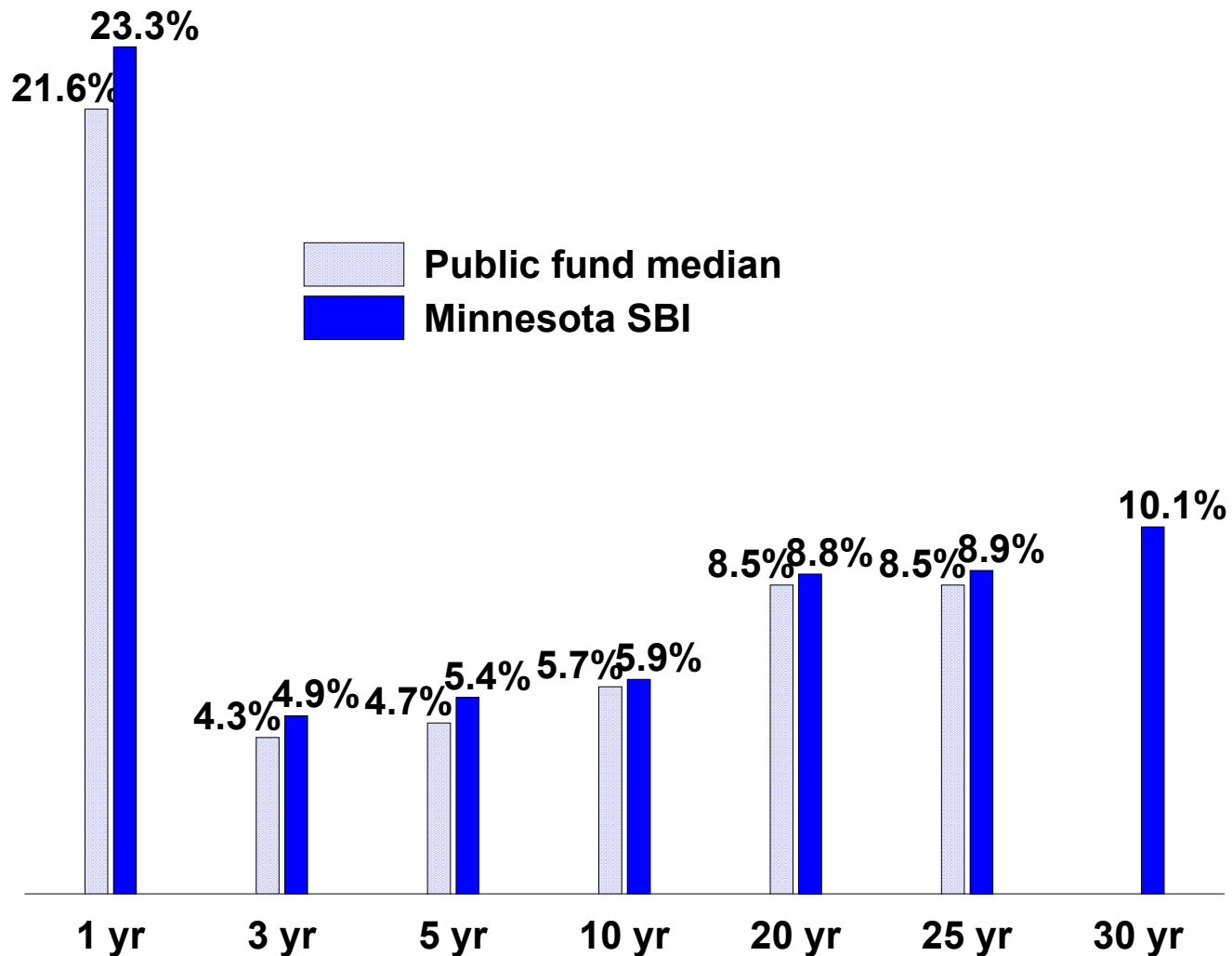
12 plans reduced their investment return assumption in FY 10; 51 have changed since FY 01



MN PERA, SRS, TRA, SPTRFA, & DTRFA = 8.5%

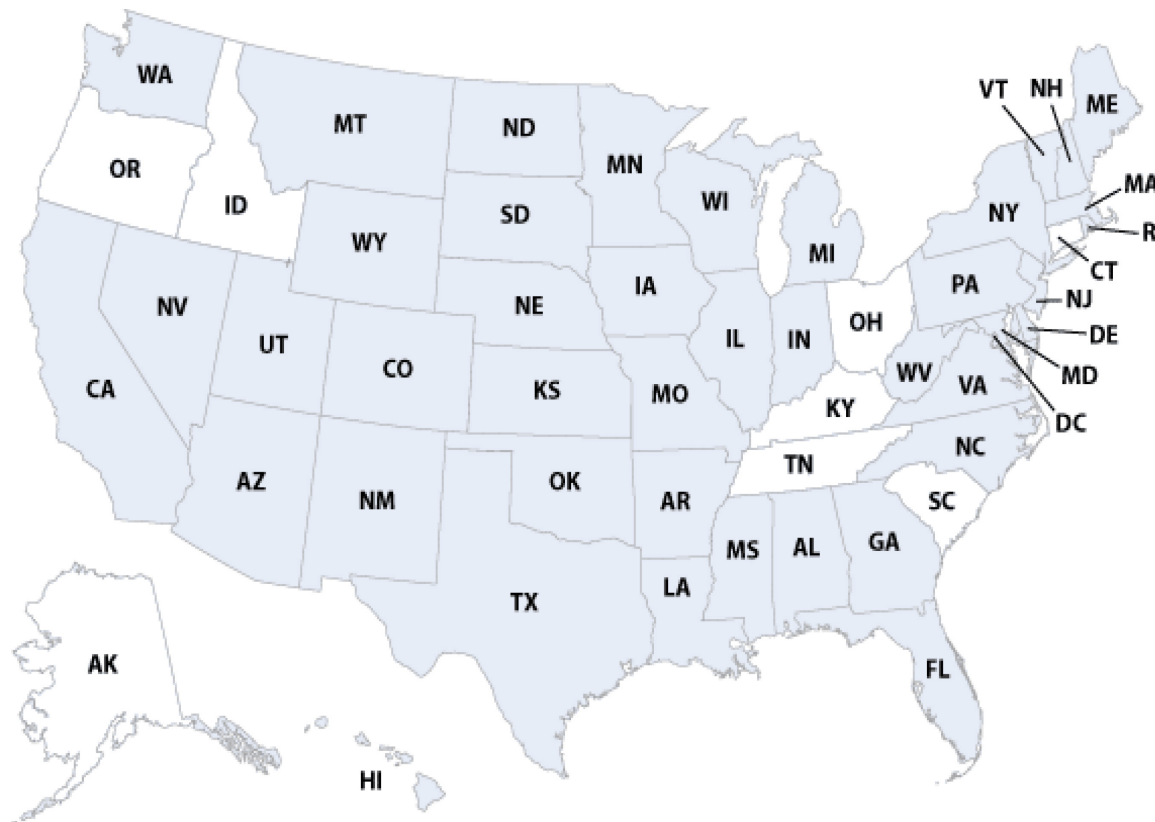
9 * Includes two plans with changes effective FY 11

Median public pension fund and Minnesota SBI investment returns for periods ended 6/30/11



How are states responding to higher pension costs?

- Since 2009, 42 states have made changes to their pension benefits, required employee contributions, or both



Recent Reforms

- According to the National Conference of State Legislatures, in 2010, an “unprecedented” number of states made changes to their pension plans
- More states have made changes in 2011
- Reforms vary by groups affected:
 - New hires only
 - Current active members
 - Current retired members
- Most common changes: higher retirement age; more required years of service; longer vesting periods; higher employee contributions
- Notable changes: increased retirement eligibility criteria for current actives; reduced, postponed, or eliminated COLA for current retirees

Notable and widespread changes continue to be made at state retirement systems

- In 2010, three states—CO, MN, SD—modified COLA provisions for current retired members
- Nine more states reduced COLA provisions this year
 - Three—ME, NJ, OK—affected existing retired members
- At least 15 states raised employee contribution rates, some affecting existing participants
- Other changes:
 - Longer final average salary periods, more restrictive return-to-work policies, anti-spiking provisions

What has been the experience of mandatory DC plans as the primary retirement benefit in the public sector?

- Nebraska found that its defined contribution plan for state and county workers was resulting in workers reaching retirement financially unprepared
 - Switched to a cash balance plan in 2003
- West Virginia switched its teachers to a DC plan in 1993, then back to the pension plan in 2005
 - Experience with a DC plan went badly
- Michigan state workers hired since 1997 have only a DC plan
 - DB plan cost has risen to ~17 percent of pay to amortize the UAL
 - The state is saving because of low participation in the new DC plan
- Alaska closed its pensions to all new hires in 2006
 - DB plan cost has risen sharply since

Many states have established hybrid plans in recent years

- Nebraska provides a cash balance to its state and county workers, as do the Texas municipal and county & district plans
 - benefits are flexible
 - plans are in solid funding condition
- Combination DB/DC plans, featuring a reduced DB component combined with a DC plan
 - Georgia, Indiana, Michigan, Ohio, Oregon, Utah, Washington

States with mandatory hybrid plans

Georgia ERS*

Indiana PERF
& TRF

Michigan PSRS

Oregon PERS

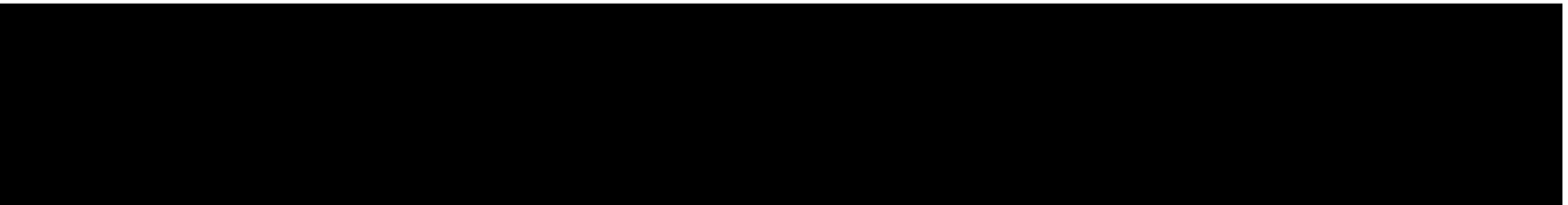
DB Plan Multiplier	1.00%	1.10%	1.50%	1.5%; 1.8% for public safety
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ER and EE Contribution to DC	EE funds 1% minimum; 100% ER match on first 1% and 50% match on next 4% of salary	EE cont 3%, ER may elect to make the EE contribution – the State makes the EE contribution for employees	EE cont 2% (auto-enrollment) ER 50% match up to 2% of salary	EE cont 6% ER may elect to make EE contribution
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States with optional hybrid plans

Washington DRS

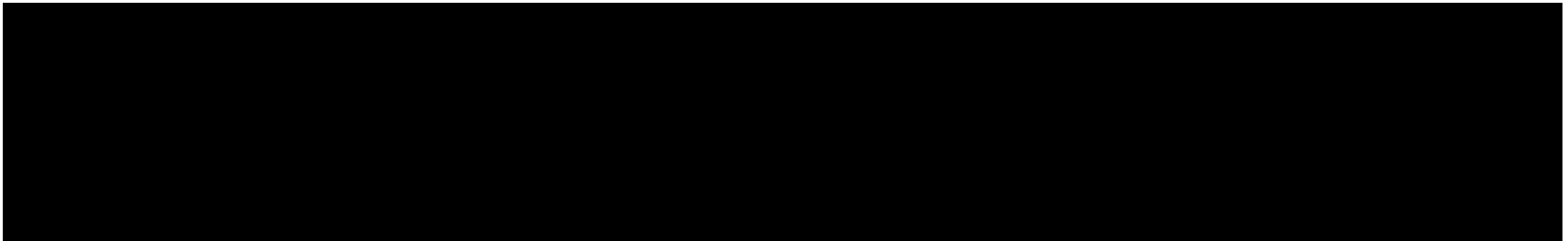
Utah RS



DB Plan Multiplier

1.00%

1.5%; 2.0% for public safety



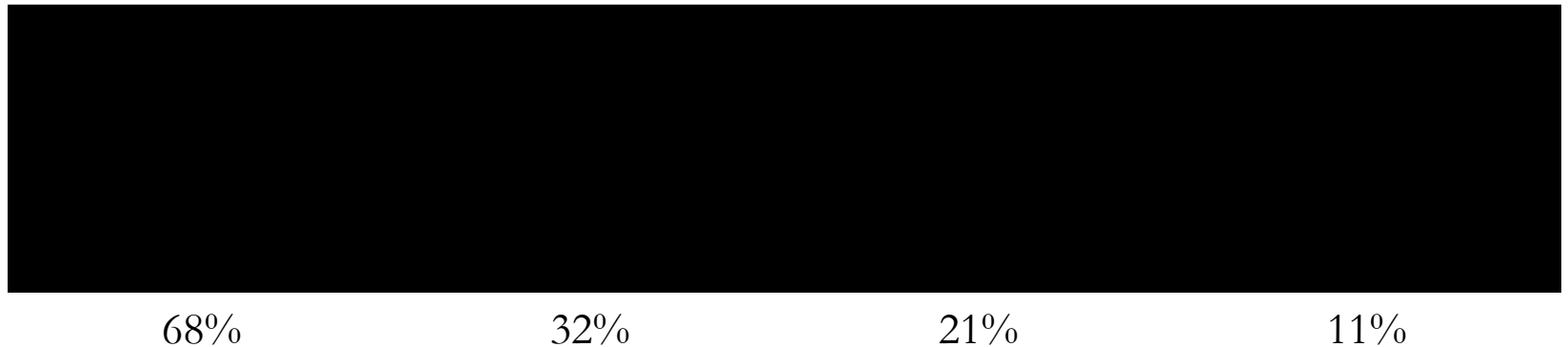
ER and EE Contribution to DC

EE funds 5% to 15% depending on EE

EE non-contributory, ER funded up to 10% (12% for public safety), less the amount contributed to the DB plan, plus 5% to amortize the DB plan unfunded liability

Experience with choice: Washington PERS

Cumulative Washington PERS New Hire Elections,
March 2002- June 2011



Experience with choice of retirement plan

New Hire Elections in Most Recent Complete Year *

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Florida Retirement System	75%	25%	Not offered
North Dakota ERS**	98%	2%	Not offered
Ohio STRS	89%	9%	2%

*Data for CO, ND & OH PERS are for 1/2010-12/2010. Data for FL, MT, OH STRS, and SC are for 7/2010-6/2011.

**One new employee of 63 eligible joined the ND DC plan in 2010.

National Institute on Retirement Security