

# Negotiate or Fight?

## Responding to Pension Attacks in the Great Recession

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Public Employee Retirement Systems



# Setting the Stage

Public pension plans are under attack because of:

- Economy and Budget Shortfalls
- Ideologues
- Conservative political environment



# Setting the Stage

- Public pensions are attacked by:
  - Media
  - Elected officials
  - Ideologues
- Public pension supporters are:
  - Public employees and dependents
  - Elected officials
  - Unions



# Presentation Overview

- Introduction to NCPERS
- Public Pension History & Facts
- The Great Recession and the Battles Ahead
- Wrap up and Q & As



# NCPERS

- **Largest nonprofit trade association representing 500+ public sector DB plans**
- **Who we ARE:**
  - **Advocacy**
  - **Research**
  - **Education**



# NCPERS Position

- All workers (public and private) should have a traditional pension benefit (DB plan) as their primary pension plan
- DB plans are good for governments, employees, taxpayers and the economy



# Why is a defined benefit pension better than a 401(k)?

- Guaranteed benefits upon retirement for life.
- Disability or death benefits.
- Survivor benefits.
- Professionally managed.
- Low fees.
- Most economical way to fund retirement.
- For every dollar of benefits, 75 to 80¢ paid by investment returns and participant.



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# Public Pension History

- Public pensions have been around for more than 150 years.
  - 1857 New York state established benefit for NYC police.
  - 1866 FDNY gets benefit.
  - 1894 First teachers benefit.
  - 1900's state plans in ND, CA, MA, CT, PA, NJ.
  - Most public plans established soon after 1935.



## Public Pension Fact

- 2,547 public pension plans in the United States
- \$2.7 trillion
- Nearly 22 million public servants
- \$21,800/yr



[www.NCPERS.org](http://www.NCPERS.org)



National Conference on Public  
Employee Retirement Systems

# NCPERS Research Series

May 2007



## The Top Ten Advantages of Maintaining Defined Benefit Pensions

**L**egislation has been proposed in several states to replace state and local government defined benefit (DB) retirement plans with defined contribution (DC) plans. At issue is not whether state and local employees should have access to DC plans—many already do in conjunction with their DB plans or else through supplemental DC-type plans, which play a useful role in providing additional tax-deferred retirement savings.<sup>1</sup> Rather the issue is whether defined benefit plans should be eliminated and replaced with defined contribution plans.

While recognizing that DC plans are useful in providing supplemental retirement benefits, this paper discusses the advantages of maintaining state and local DB plans and argues against replacing them with DC plans. Eliminating the DB plan and switching to a DC plan is likely to be a lose-lose situation for governments, their employees, and taxpayers for many reasons. After briefly describing how DB and DC plans work, this paper will discuss the following 10 advantages of retaining DB plans:

- Retaining a DB plan is likely to cost state and local governments less over the short term. The long-term cost savings of switching to a DC plan are uncertain at best.
- Almost all state and local DB plans provide disability and survivor benefits as well as retirement income. Switching to a DC plan would require employers to obtain these benefits from another source, likely at a higher cost.
- DB plans enhance the ability of state and local governments to attract qualified employees and retain them throughout their careers. Switching to a DC plan would limit this ability, possibly producing or exacerbating labor shortages in key service areas by increasing employee turnover rates. Higher turnover rates result in increased training costs and lower levels of productivity that can, in turn, result in the need for a larger total workforce.

<sup>1</sup> Examples of DC-type plans available to state and local employees include governmental defined contribution plans (also known as "417 plans") and 403(b) annuities. In addition, some state and local employees are also covered by 401(k) plans, if the plans were established before May 6, 1994. As reported by the National Retirement Education Institute in their 2004 report, *America's Retirement Future: Public Sector Retirement: Retirees, Tools, and Tomorrow's Governmental 417 Plans* are the plans for most large and mid-size cities and counties and all 19 states, covering approximately 5 million participants. According to a 2006 survey by the National Association of Governmental Defined Contribution Administrators (NAGDCA), 1.6 million governmental employees are eligible to participate in some form of defined contribution plan. The report is about half of current state and local government employees.

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# Recent Victories

## **Defined Contribution to Defined Benefit**

- Nebraska (2000)
- West Virginia Teachers (2005)
- Alexandria, VA (2004)
- Fargo and Grand Forks, ND (2008/09)



# The Great Recession

- Dow Jones Industries
  - High: 14,165 October 9, 2007
  - Low: 6,440 March 9, 2009
- S&P 500
  - High: 1,565 October 9, 2007
  - Low: 677 March 9, 2009
- Unemployment near 10%



# Specific Threats to Public Sector Retirement Security

- Death by a 1,000 cuts – Work longer, pay more, get less...*STILL A DB HOWEVER*
- Defined contribution and combo plans—No clear goals about adequacy; goals are reduce costs; predictable contributions
- Retiree specific attacks – COLAs, retiree health/OPEB
- Unjust enrichment (\$100K Pensions/Spiking/RtW)
- Accounting changes (GASB) & Federal interest
- Public Dissatisfaction with Government
- Growing retirement insecurity in the private sector



# Growing Retirement Income Insecurity in the Private Sector

- “The Lost Decade” – for wage growth, retirement income, home equity, etc.
- Only 1 in 5 private sector workers have a traditional plan (21%)
- ½ don’t have or don’t participate in any employer provided savings option
- Rapid deterioration of personal/employer provided savings
- Homes values plummeting; foreclosures
- DB freezes, 401(k) match suspensions
- 401(k) losses due to market downturn and excessive fees
- More Americans insecure about ability to retire as planned



# Legislative Changes 2006-2010

- Retirement Age
- Age/Service Requirement
- Change COLA
- Change Multiplier
- Change Retiree Health eligibility
- EE contributions (formerly non-contributory)
- Contribution Rate increases (EE & ER)
- Reduced benefits for new hires
- Unjust enhancements/Return to Work
- DC plans and combo plans
- Board of Trustee changes
- Further study—Commissions, Task Forces



# Illinois

- 2010 legislation:
  - ↑ normal retirement age
  - ↓ pensionable salary, colas, survivor annuities and eliminates return to work
  - Effects all new hires after 2011
  - delays/reduces payments to Chicago public schools retirement system
- Doesn't change underlying problem—chronic underfunding, growing unfunded liability
- Still no legislative action on paying this year's contribution



# New Jersey

- 2010 Pension changes:
  - Bans future part-time workers from the pension system, requires part-timers who make more than \$5,000 to join a DC plan
  - Reduces future hire pensions by 9 percent
  - Requires pension payments to be based on one job
  - Limits payments of accrued sick leave for future workers to \$15,000.
  - Current employees must pay at least 1.5 percent of their salary toward health care.
- Focus on Headline Risk—underlying funding issues remain



# Utah

- Pre-legislation national perception: “Solid Performer” according to Pew (PCS)
- Consistent full ARC payments and aggressive action on prefunding
- 25 year amortization; moving to 20
- Reduced assumed rate of return
- 2010 changes to choice of hybrid or DC for new hires



# How did this happen?

- Strong political leaders/institutional will
- Strong *ideological* base for change
- Real actuarial risk – Headline Risk
- Compressed legislative timeline & decision making process

# Cautionary Tales

- The other side is using our language/values
- Our friends are flexible in the current fiscal environment
- Our tried and true methods aren't getting the results we need
- Not just one and done—RI, NH, CO, KS
- The debate has evolved and so must we



# What's Your Strategy?

- Case by case decision
- Form a coalition with stakeholders
- Decide what you'll fight for and what you can live with



# What's Your Message?



# Things to Remember

- ***Not a debate on the merits of DBs—it's a media and political battle!***
- Educate constituents early and often
- Build coalition with other stakeholders
- Have emotional stories and sympathetic figure
- Stay on message



# www.NCPERS.org



**NCPERS Research Series**  
November 2008

**The Advantages of Using Conventional Actuarial Approaches for Valuing Public Pension Plans**

**F**inancial uncertainty is a factor of concern that neither the capital markets, including why people leave, nor actuaries should be blind to. In fact, the uncertainty in the future is a key element in the design of public pension plans. The uncertainty in the future is a key element in the design of public pension plans. The uncertainty in the future is a key element in the design of public pension plans.



**THE MONITOR**  
The Voice for Public Pensions

**Agenda Set for the 2010 NCPERS Legislative Conference**

**T**he 2010 NCPERS Legislative Conference will take place in Washington, D.C., February 7-9 at the Hyatt Regency Capitol Hill. Mark Shields, David Keating and other administration leaders will be in attendance to discuss the state of the nation's public pensions. The agenda for the 2010 legislative conference, "Empowering and Inspiring Leaders to Advance Public Pension Security," will feature a variety of speakers and topics.

It is a historic time of government reform that should inspire confidence in the future. The NCPERS conference is a compelling case for legislative action. The agenda for the 2010 legislative conference is a compelling case for legislative action. The agenda for the 2010 legislative conference is a compelling case for legislative action.

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1. Conventional approaches focus on the underlying nature of the government's liabilities, the plan, or both as well as the government's ability to pay.
2. Conventional approaches have focused on funding, not on the plan's ability to pay.
3. Conventional approaches have focused on the underlying nature of the government's liabilities, the plan, or both as well as the government's ability to pay.
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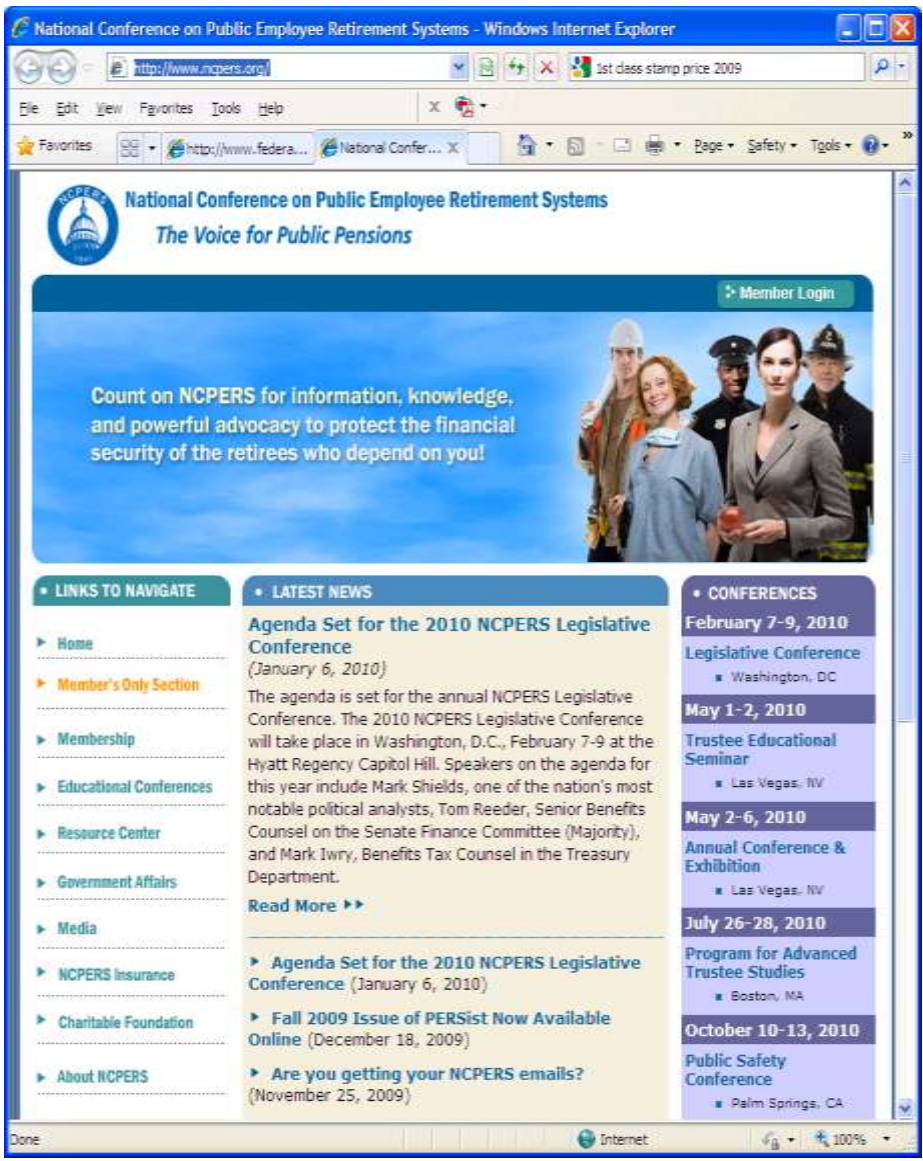


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Public Employee Retirement Systems Institute

**Entering the New Year Aware, Renewed, and Enthusiastic... it's who we ARE.**

As we enter a new year, we are excited and renewed. We are entering the new year with a renewed sense of purpose and enthusiasm. We are entering the new year with a renewed sense of purpose and enthusiasm.

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LATEST NEWS

**Agenda Set for the 2010 NCPERS Legislative Conference (January 6, 2010)**

The agenda is set for the annual NCPERS Legislative Conference. The 2010 NCPERS Legislative Conference will take place in Washington, D.C., February 7-9 at the Hyatt Regency Capitol Hill. Speakers on the agenda for this year include Mark Shields, one of the nation's most notable political analysts, Tom Reeder, Senior Benefits Counsel on the Senate Finance Committee (Majority), and Mark Iwry, Benefits Tax Counsel in the Treasury Department.

Read More >>

CONFERENCES

- February 7-9, 2010  
Legislative Conference  
Washington, DC
- May 1-2, 2010  
Trustee Educational Seminar  
Las Vegas, NV
- May 2-6, 2010  
Annual Conference & Exhibition  
Las Vegas, NV
- July 26-28, 2010  
Program for Advanced Trustee Studies  
Boston, MA
- October 10-13, 2010  
Public Safety Conference  
Palm Springs, CA



# **NCPERS 2010/11 Educational Programs**

## **Public Safety Employee Pension & Benefits Conference**

**October 10-13, 2010 in Palm Springs, CA**

## **Legislative Conference**

**Jan. 30 – Feb. 1, 2011 in Washington, DC**

## **Trustee Educational Conference**

**May 21-22, 2011 in Miami Beach, FL**

## **Annual Conference & Exhibition**

**May 22-26, 2011 in Miami Beach, FL**

## **Program for Advanced Trustee Studies**

**July 2011 in Cambridge, MA (Harvard Law School)**



# For More Information

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