CENTER FOR STATE & LOCAL GOVERNMENT EXCELLENCE

Success Strategies for Well-Funded Pensions

Center for State and Local Government Excellence
PAPERS Spring Forum
May 26, 2016

Is It True?

- Pension liabilities are causing many downgrades in credit ratings.
- Pension funding would improve if Congress passed legislation to require reporting to the U.S. Treasury.
- Pension funding would improve if governments switched to a DC plan.
- New GASB standards resolve pension funding questions.

Truth in Accounting

Annual budget process for pensions

Secrets of well-funded plans

- Commitment to fund the annual required contribution
- Realistic assumptions
  - Annual investment returns in 4 cases studied ranged from 7.2% to 7.5%.
  - Updated mortality tables
  - Making adjustments as needed, e.g., increasing contributions, retirement age.

Illinois Municipal Retirement Fund

- 87% funded in 2014 (93% market basis)
- 7.5% assumed rate of return on investments (in good and bad years)
- Unfunded liabilities amortized over a closed 29-year period
- Mandatory contributions - local governments contribute 11.7% of payroll in 2016

IMRF – additional strategies

- General employees contribute 4.5% and public safety employees 7.5%
- Annual review of annuitant financial reserve to ensure the fund has 100% of assets needed to pay benefits for retirees.
- Fully funded reserves for employees and retirees
- Plain language financial report

Locally funded, financially sound.

Oak Brook, Illinois

EXECUTIVE SUMMARY

IMRF's *2014 Popular Annual Financial Report* (PAFR) provides insight into the organization's financial condition. Derived from IMRF's *2014 Comprehensive Annual Financial Report* (CAFR), the PAFR is written for IMRF stakeholders who do not have a background in finance. The document relies on graphics and other visual elements to compliment the financial message, and is not technical in nature.

FIDUCIARY NET POSITION AND FUNDING STATUS

IMRF's fiduciary net position—total assets minus liabilities—was $34.9 billion as of December 31, 2014. That was an increase of $1.6 billion, or about 5%, from 2013. Most of the increase is attributable to 2014 investment gains. Over the last five years, IMRF's fiduciary net position has increased by $9.8 billion.

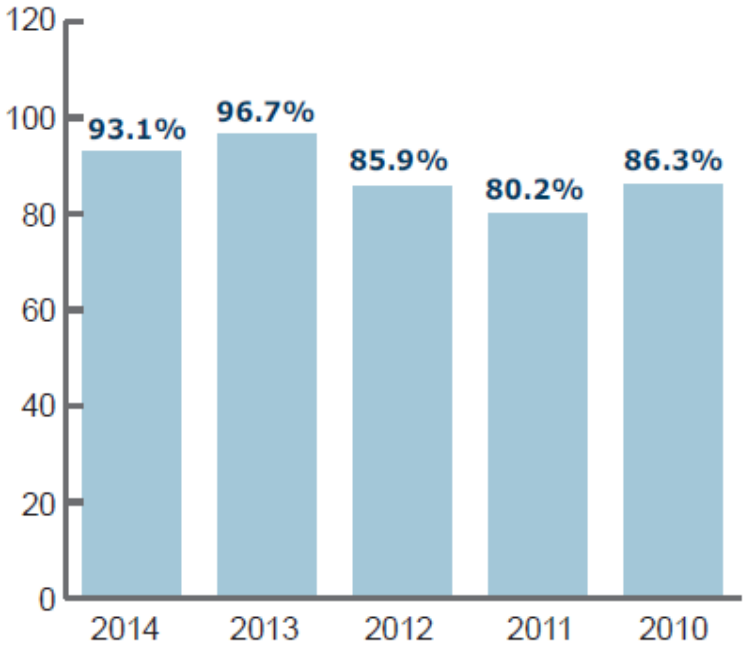
As of December 31, 2014, IMRF was 93.1% funded on a market basis. This means IMRF had 93 cents for every $1 in promised benefits.

IMRF Funding Status 2014

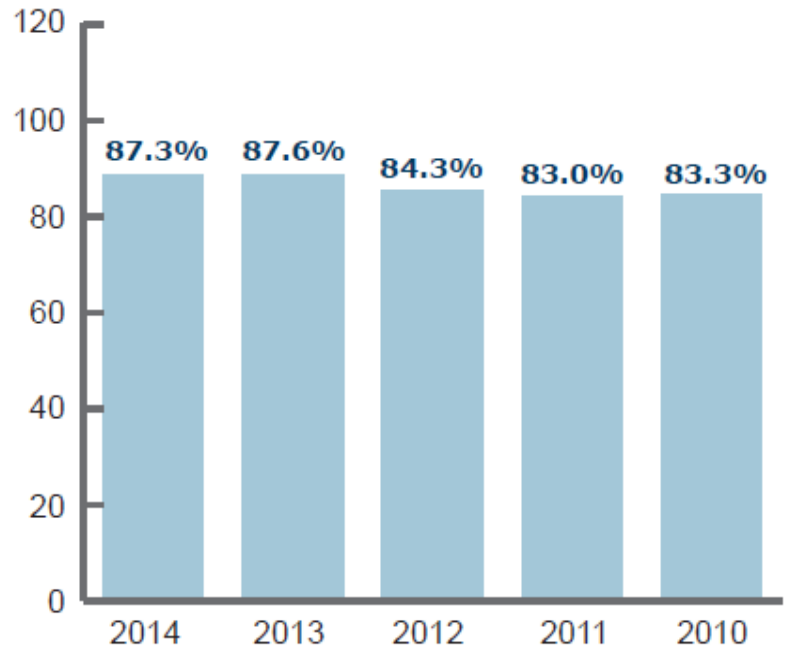
One method to determine funding status is market funding status. This describes the percentage of assets IMRF has to pay all current and projected benefits, as of a specific date in time. **As of December 31, 2014, IMRF was 93.1% funded on a market basis.**

Another method to determine funding status is the actuarial funding status. Under this method, independent actuaries determine the actuarial value of IMRF assets using a "smoothing" technique that recognizes investment gains and losses ove a five-year period. **As of December 31, 2014, IMRF was 87.3% percent funded on an actuarial basis.**

MARKET FUNDING STATUS
FOR THE PAST 5 YEARS



ACTUARIAL FUNDING STATUS
FOR THE PAST 5 YEARS



Ohio Public Employees Retirement System

Dear Fellow Members:

On behalf of the OPERS Board of Trustees, management and staff, it is our pleasure to present this *2014 Summary Annual Financial Report* for the fiscal year ended December 31, 2014. We believe all stakeholders will find the theme, Strength for our future—planted deep, growing strong, reaching high, accurately reflects the spirit of our history and our 2014 achievements. You're invited to review our key 2014 activities:

Ongoing implementation of pension changes: As a System, we must be able to fund the unfunded pension liabilities within a 30-year window. Changes implemented in 2014 from the 2012 legislation have enabled us to continue to meet that mandate. OPERS can demonstrate that both the strength of the pension fund and solvency of the health care fund have steadily improved in 2014—as was anticipated when we partnered with stakeholders to ensure the pension legislation passed.

Health Care Preservation Plan 3.0: Neither mandated nor guaranteed, we know access to health care for our retirees is important for a secure retirement. While OPERS has one of the largest health care trust funds in the U.S., we recognized the need for change to ensure sufficient health care funds would be available for both current and future retirees.

3 / 16

A Tale of Two Cities: Detroit and Kalamazoo

- Use the same actuary: Gabriel Roeder, Smith; both fiscally distressed

Kalamazoo created investment policy and committee in 1981

- Funded ratio in 1981 = 56%
- Funded ratio in 2014 = 128.3%
- Policy: actuarial assets may not be less than 80% of market value of assets

Detroit

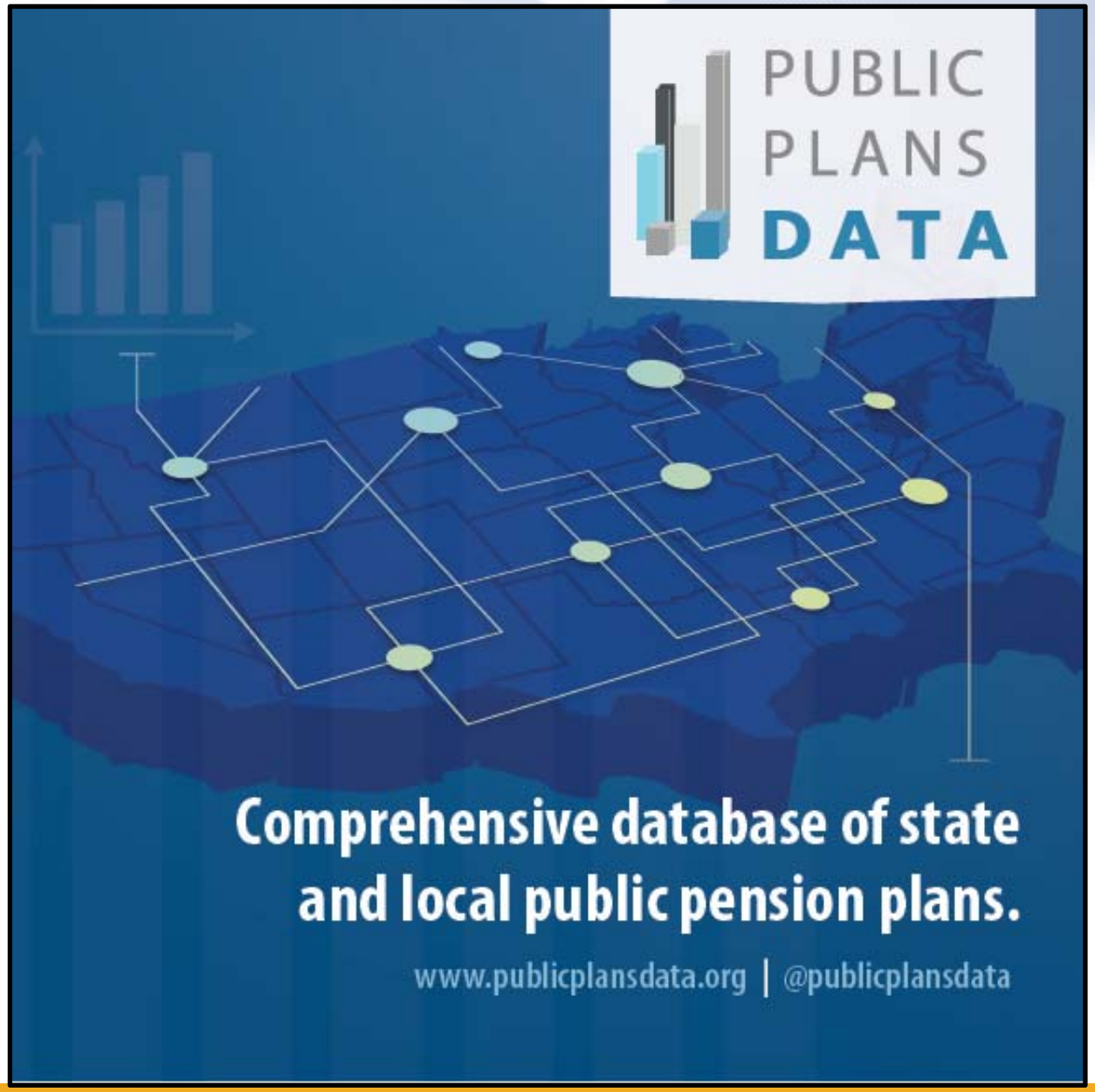
- Issued pension obligation bonds in 2005
- Payments became unaffordable
- Economic factors and fiscal mismanagement were the primary factors in Detroit's bankruptcy
- Non-uniformed retirees took a 4.5% cut in their pension

Delaware Public Employees' Retirement System (as of 6/30/15)

- Over $9.3 billion in assets
- Covers the following plans:
  - State Employee
  - State Police
  - Judiciary
- Over 36,000 active state employee members in these three plans
- 92.7% funding ratio for State Employees' Pension Plan

Strategies for Success

- Sustained commitment to funding the ARC
- Cost of living adjustments (COLAs) are not embedded into the pension statute but are considered annually by the Legislature, and funded on a five year basis
- Active board with deep expertise in finance
- Partnership between executive and legislative branch on pension issues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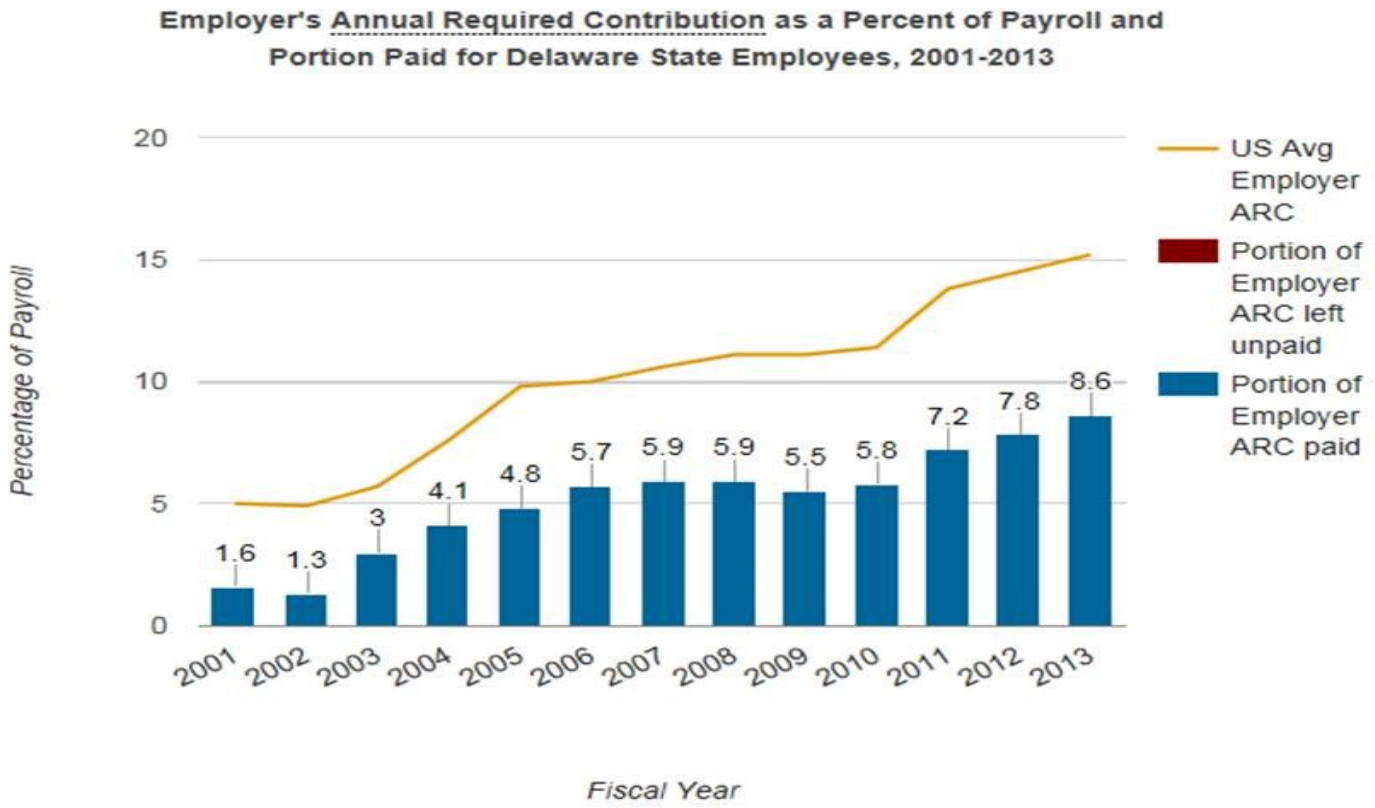
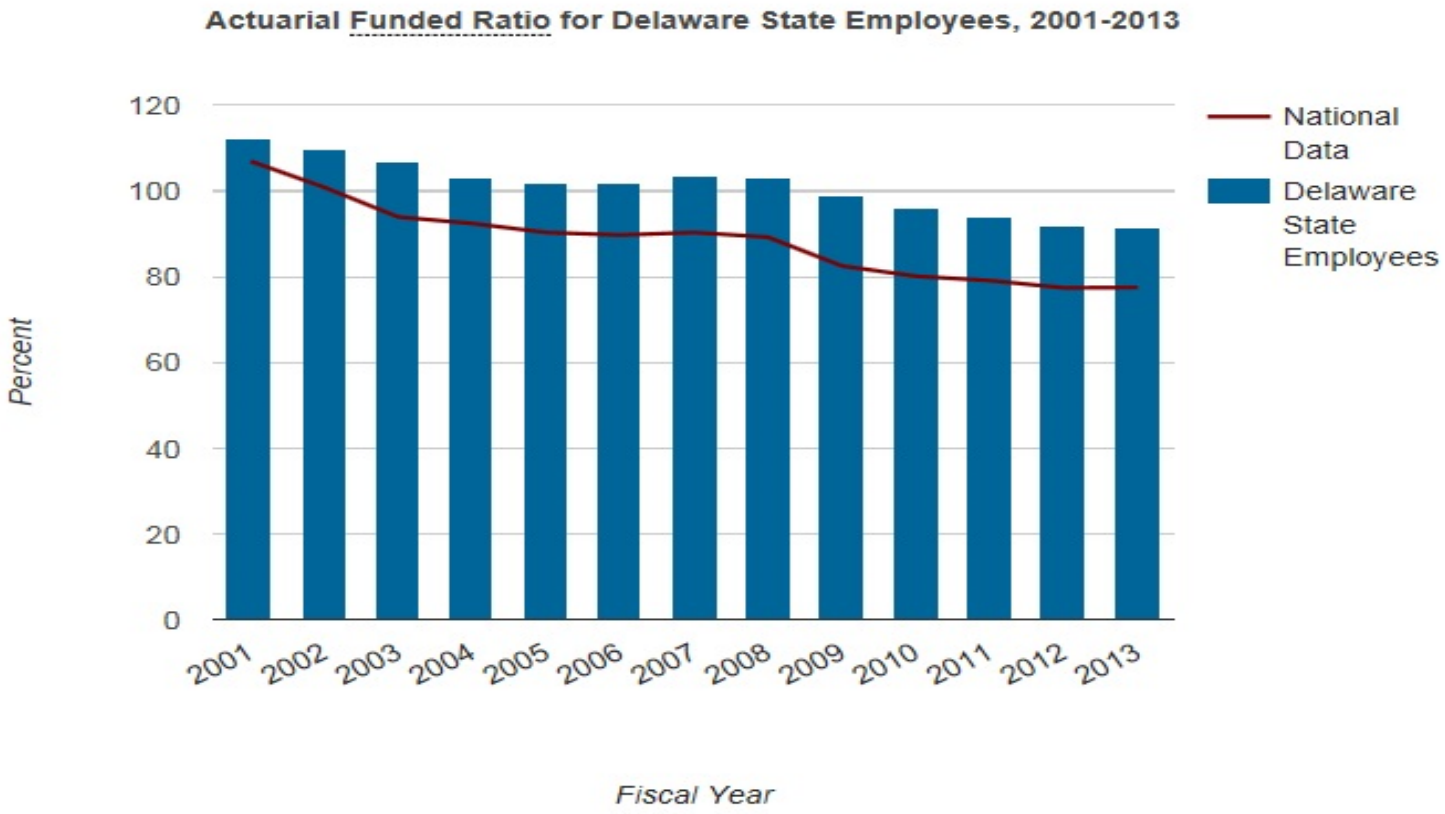


Note: The employer's annual required contribution as a percent of payroll is calculated by dividing the dollar amount reported in the schedule of employer contributions by the covered payr... Read more »

Source: Public Plans Database

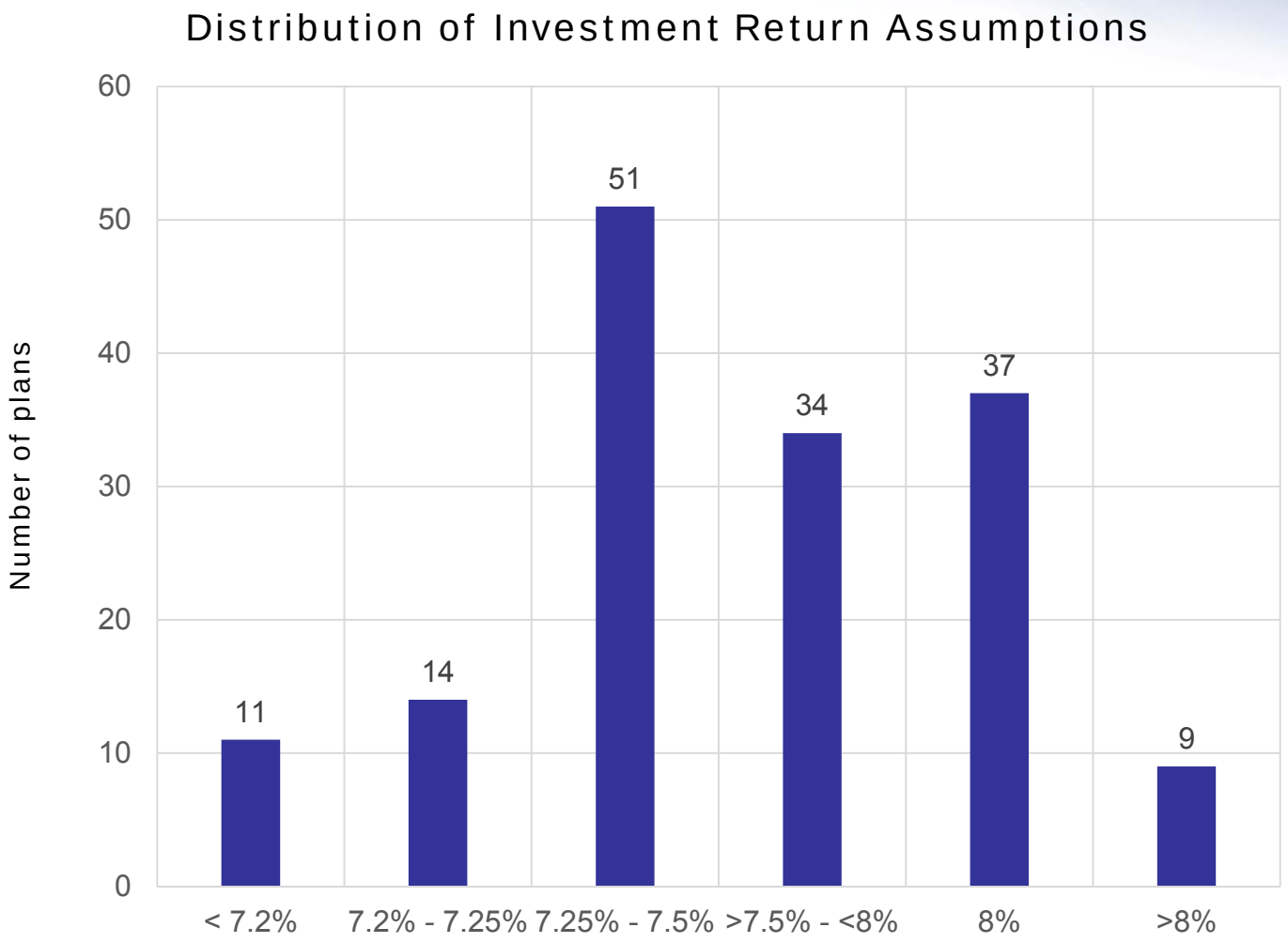
Delaware's Funded Ratio Compared to PPD National Data



Note: National data reflects the average for plans of similar type and Social Security coverage.

Source: Public Plans Database

Delaware's Investment Return Assumption Is 7.2%



Public Employees Retirement Association of Minnesota

Myth: Pensions are a huge drain on government resources in Minnesota.

Fact: Public pensions currently account for 1.6 percent of spending in Minnesota. Thus, the percentage of government spending dedicated to pensions in Minnesota falls well below the national average.

Minnesota PERA

Myth: PERA's public pensions are excessive and far better than the retirement average taxpayers can expect.

Fact: While PERA pensions provide members with a monthly income for life, the majority of our retirees receive modest benefits. **Seventy-five percent of our retirees receive under $2,000 per month.** The majority of those receiving the larger pensions from PERA are retired firefighters and police officers who earned no Social Security benefits during their years of service to the community

CalPERS Myths v. Facts

Myth: Pensions are among the highest costs of state government.

Fact: 42% of the state general fund budget for Fiscal Year 2013-14 is earmarked for public education, 11.4% for higher education, and 9.5% for Corrections. Pension costs represent about 3.4 percent of total state spending.

Lessons Learned

- Maintain the discipline of contributions in good and bad times
- Have an experience study every 5 years to make sure assumptions are good
- Find out what benefit improvements cost – and fund them
- Do not give retroactive benefit increases

Lessons Learned

- Shorten the amortization period if you have an aging workforce
- If COLAs are provided on an ad hoc basis, fully fund them when granted
- Establish pension reserves or set a goal of being 120% funded
- Look at asset allocation to minimize risk as you get closer to 100% funding
- Communicate!

Resources

1. *Pension Funding: Guide for Elected Officials (*Report from the Pension Funding Task Force)
2. *Understanding New Public Pension Funding Guidelines and Calculations ("Books, Bonds, Budgets" one pager*)
3. *State and Local Fiscal Facts: 2016*
4. www.PublicPlansData.org
5. http://slge.org

www.PublicPlansData.org

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