Retirement Resilience in a Wobbly Economy

NCSL 2023 Legislative Summit

August 16, 2023

Moderator and Speakers

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Retirement Resilience in a Wobbly Economy

National Conference of State Legislatures
Annual Summit
August 16, 2023

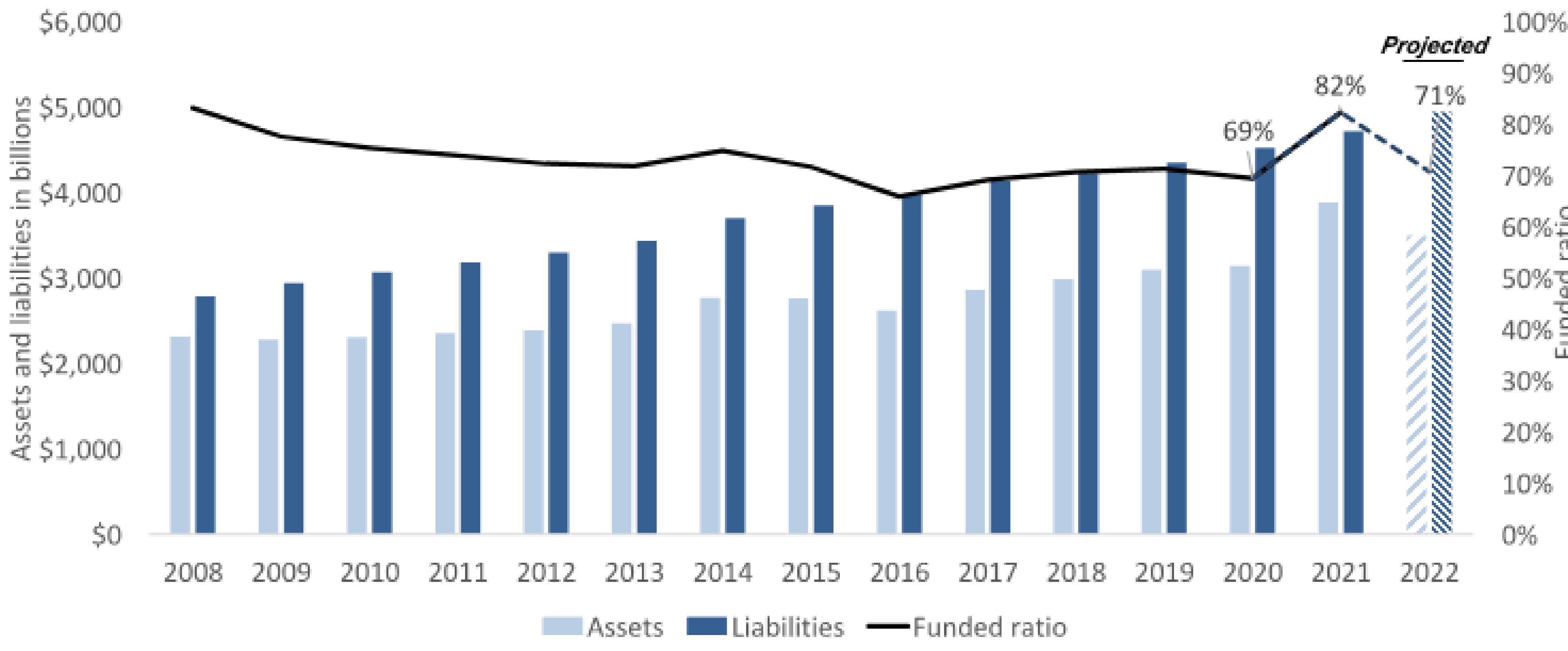
David Draine, Principal Officer
Strengthening Public Sector Retirement Systems

Overview

- How have risk and investment volatility posed challenges to the resilience of public sector retirement plans?
- Are there states that have shown fiscal sustainability across recessions and economic downturns?
- What can policymakers in other states and localities learn from these examples and apply in their home jurisdictions?

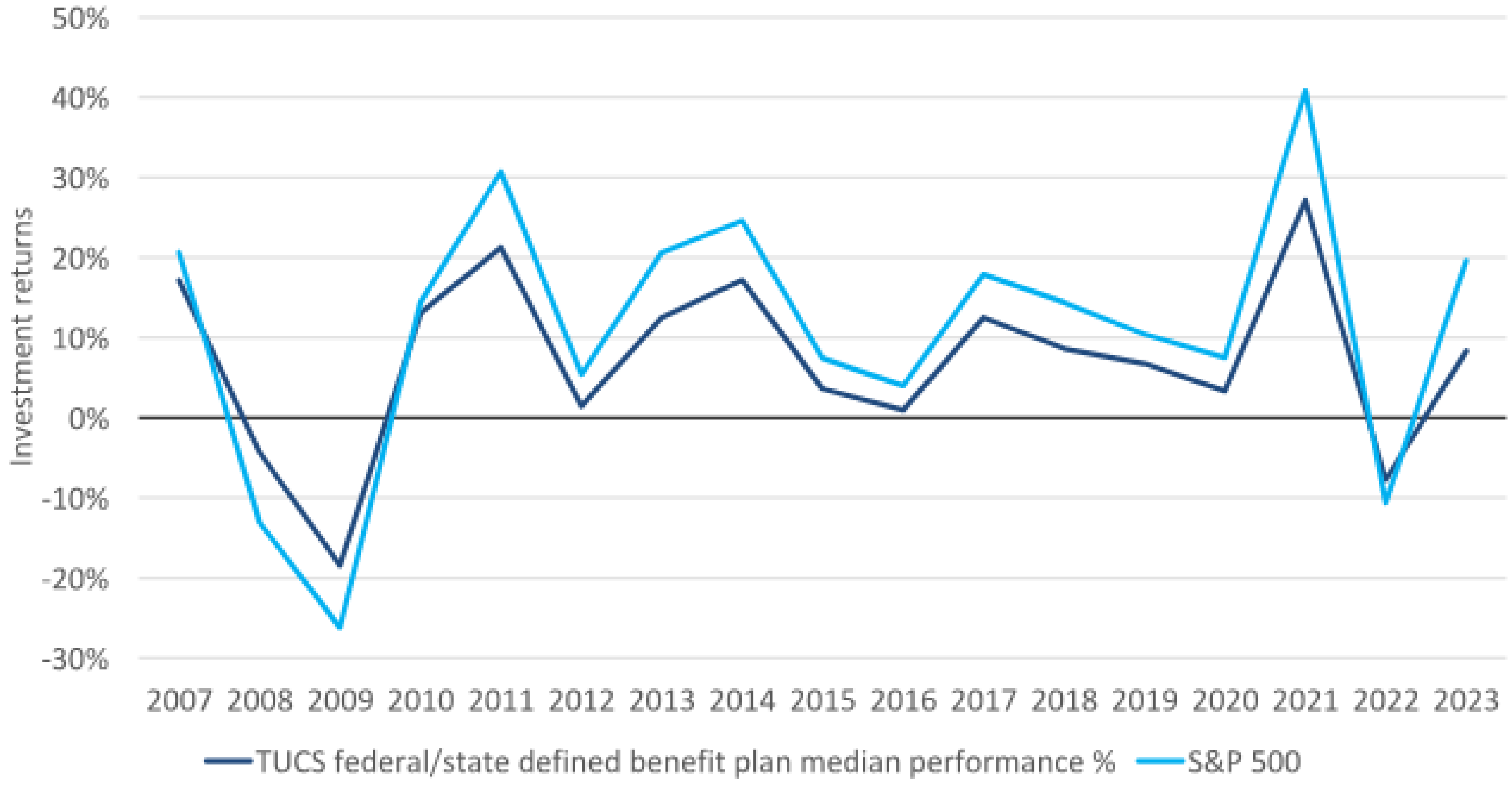
Pension Plan Assets and Liabilities Over Time

Windfall investment returns pushed the funded ratio above 80% in 2021 but subsequent
have erased those gains.



Pension Plan Investments Track Stock Performance

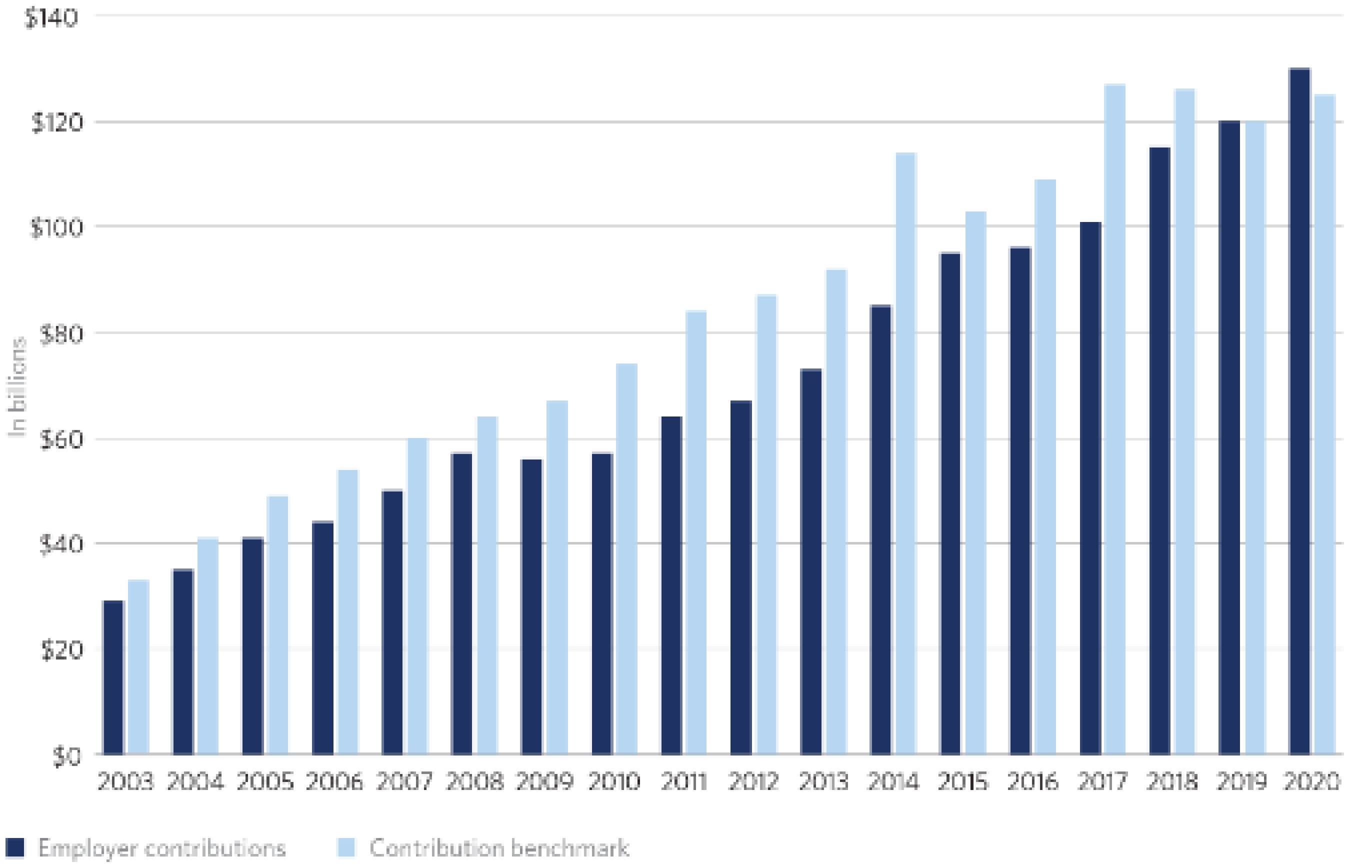
The typical pension plan's investments follow the ups and downs of equity markets



Sources: Analysis by The Pew Charitable Trusts using data from Wilshire Trust Universe Comparison Service

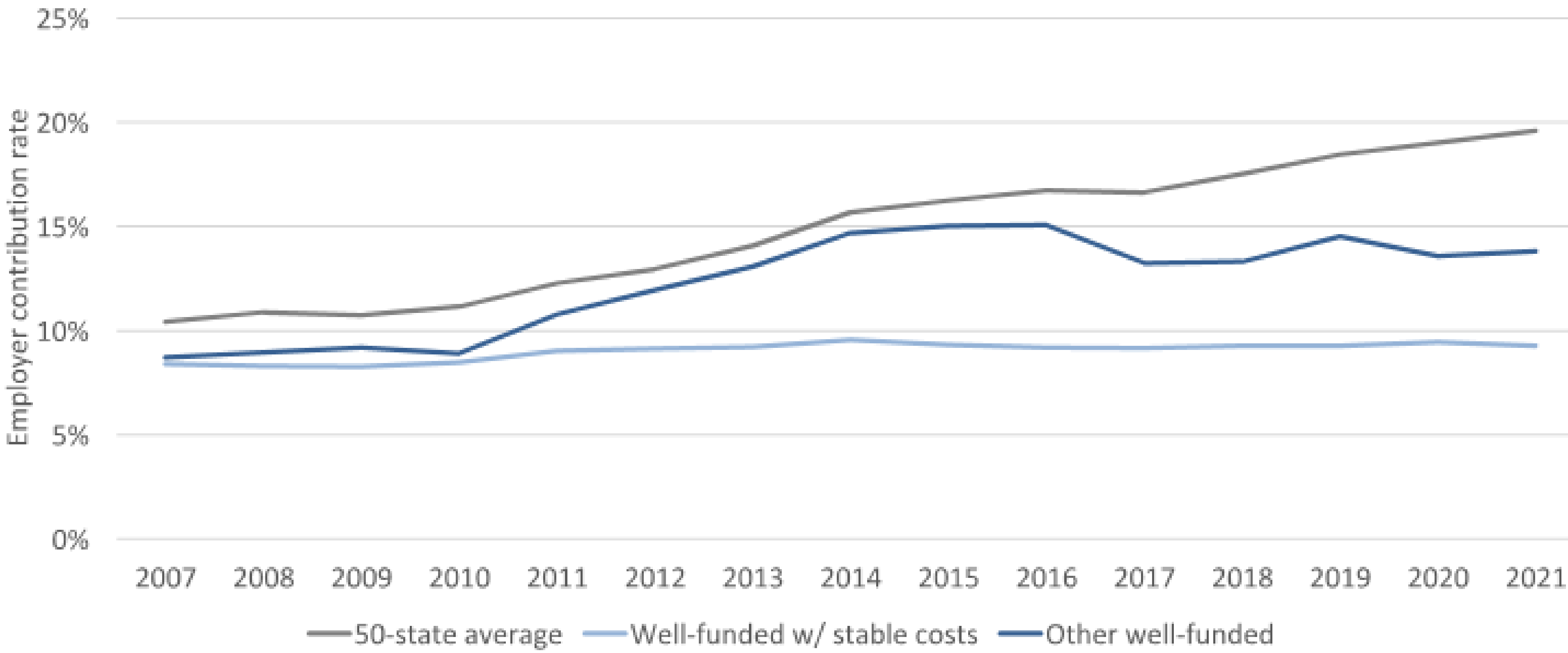
States Hit Important Contribution Benchmark

In 2020, states met the net amortization benchmark—the amount needed to keep pensi
debt from growing. States had been falling short since 2001.



Good Policy Can Make a Difference

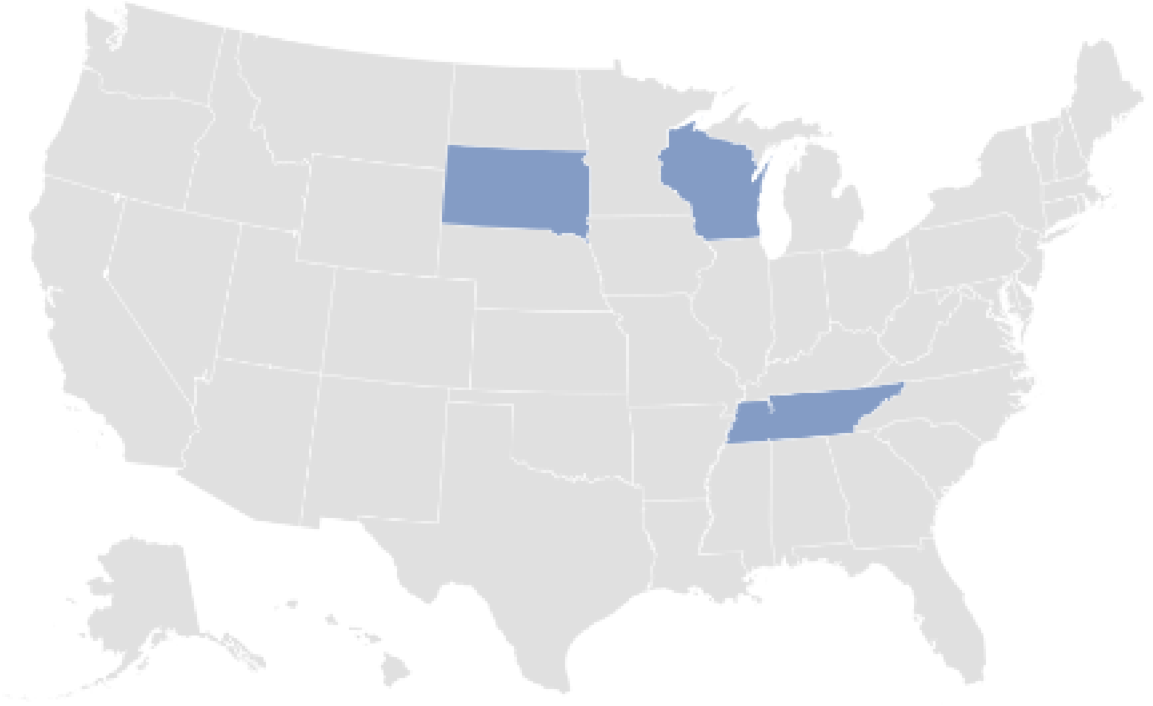
Well-funded states with tools to manage risk can keep costs stable over time



Well-funded states with risk-sharing include Idaho, Nebraska, South Dakota, Tennessee, and Wisconsin. Other well-funded states includes Delaware, North Carolina, New York, Utah, and Washington.

Spotlight on Three State Pension Plans: No One-Size-Fits-All

Different policies but all three were well funded with stable costs and strong outcomes for retirement security.



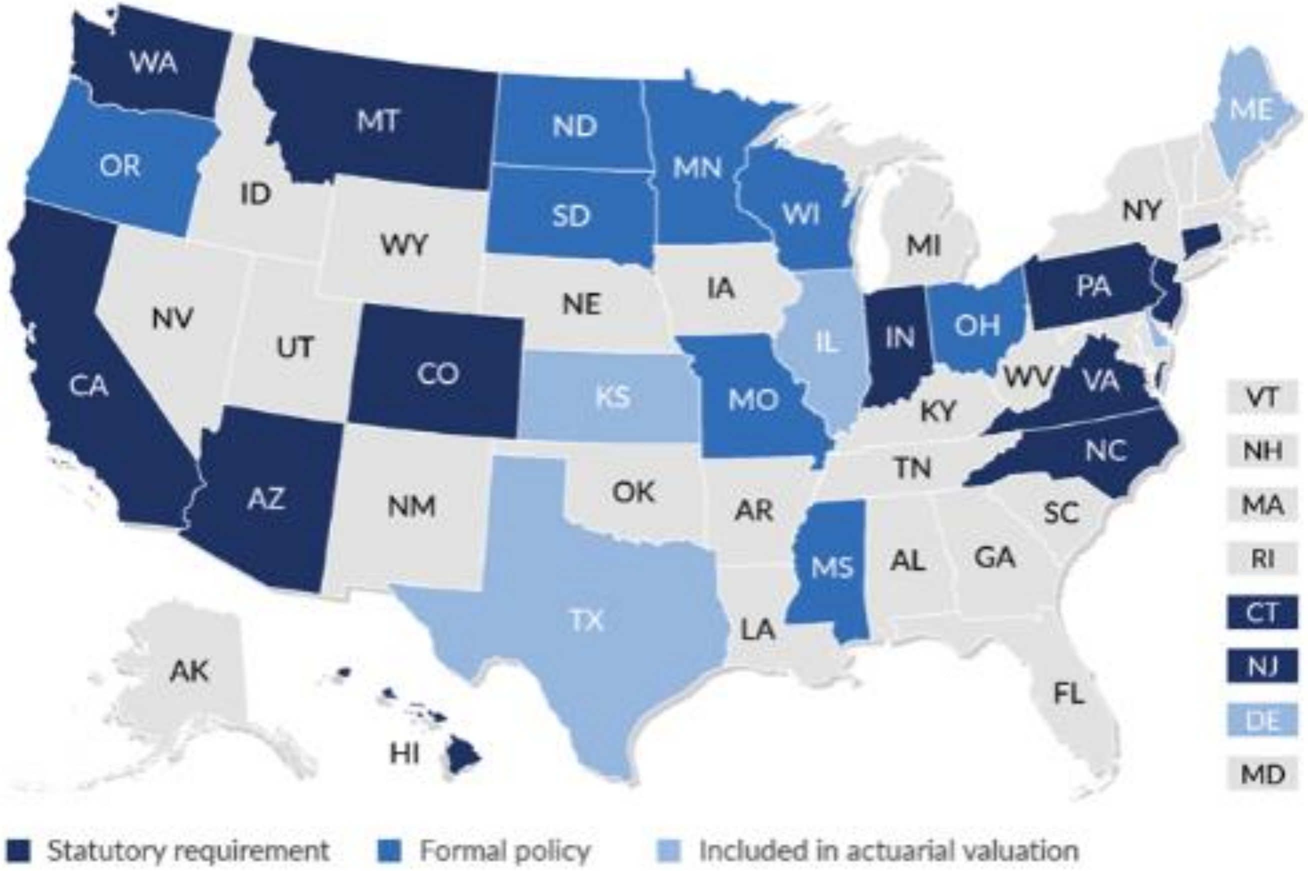
- **Wisconsin Retirement Syste** Shared risk design
- **South Dakota Retirement System—**Adjustable benefits
- **Tennessee Consolidated Retirement System—** Risk-managed hybrid

Lessons from Successful States

- Ensure actuarial funding is met.
- Manage to a target cost.
- Variable cost-of-living adjustments are a powerful stabilizer.
- Fiscal sustainability allows benefits that match workforce needs retirement goals.
- Conduct stress testing and risk analysis.

State Risk Reporting Practices

25 states conduct forward-looking assessments of investment risk on pension plan fundi
contributions.



Key Takeaways

- ☐ Good policy can allow states to offer robust retirement benefits whi keeping costs stable and maintaining healthy balance sheets.
- ☐ There is no one-size-fits-all approach.
- ☐ Fiscal discipline is the foundation of long-term sustainability.
- ☐ Stress testing can help states measure, plan for, and mitigate risk fr economic uncertainty and investment volatility.
- ☐ Policymakers can learn from each other—successful states as well a states that have pursued reforms offer a toolkit.

For more information:

https://www.pewtrusts.org/en/projects/public-sector-retirement-systems

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North Dakota

HB 1209 Study

"Develop a plan for new hires under the Public Employees Retirement main system to participate in a defined contribution plan and to close the defined benefit program to new entries effective January 1, 2024. During the 2021-2022 interim, Legislative Management may develop a plan for new hires under the PERS main retirement system to participate in a defined contribution, cash benefit or hybrid plan and to close the defined benefit plan to hires effective on a date certain."

Representative Mike Lefor, North Dakota Majority Caucus Leader

Unfunded Liabilities, 2000-2022

Fiscal Year	Assets	Liabilities	Unfunded	Funded Ratio
2000	1,009,744,796	879,189,877	130,554,919	114.8%
2005	1,210,287,848	1,333,491,341	(123,203,493)	90.8%
2010	1,576,794,397	2,156,560,553	(579,766,156)	73.1%
2015	2,027,476,214	2,976,071,808	(948,595,594)	68.1%
2020	3,112,920,033	4,557,679,020	(1,444,758,987)	67%
2022	3,440,000,000	5,300,000,000	(1,860,000,000)	64.95%

North Dakota
HB1209 Study

1. State turnover rate of nearly 50% over the past five years. In 2016, the millennial generation became the largest in the workforce at 35%. By 2025, millennials and younger will make up 75% of the workforce.
2. It is predicted these individuals will hold many different jobs by age 38, they look at their jobs as "projects."
3. From 2019 to 2022 the number of individuals who work remotely has skyrocketed as employers struggle to maintain workforce and give employees more options.
4. "When we capture early talent at Team North Dakota at less than 30 years old, we are not keeping them." (OMB)

North Dakota
HB1209 Study

With all this information, consultants were tasked to do the following:

1. Design a “best practices” defined contribution plan to be competitive in the marketplace.
2. How do we successfully exit the defined benefit plan? What amount as a percentage should we as employers invest in a defined contribution plan as a component of “best practices?”
3. What amount of time should be given to allow for a more orderly transition?”
4. What are all the potential costs associated with moving from a defined benefit plan to a defined contribution plan?”

North Dakota HB1209 Study: Results

1. Put into the legislation an “ADEC’ component which means actuarially determined employer contribution. This includes funding the defined benefit plan and defined contribution plan as it pertains to employer contribution as a percentage and a thirty-year plan to fully fund the defined benefit plan.

2. A contribution rate of up to 12%-15% (employer and employee contributions).

3. Throughout their working careers this contribution and Social Security participation, should achieve adequate retirement security including the income target range of 70% -100%.

North Dakota HB1209 Study: Results

4. Provide 15-20 low risk investments, including in-plan annuities and a default investment option of their retirement savings into guaranteed lifetime income.

5. Provide employees with advice and guidance education, tools, and services throughout their lifetime that considers changing life events (marriage, children, elder care, etc.) which allows employees to be on track to reach their lifetime goals.

Georgia Pension Plans

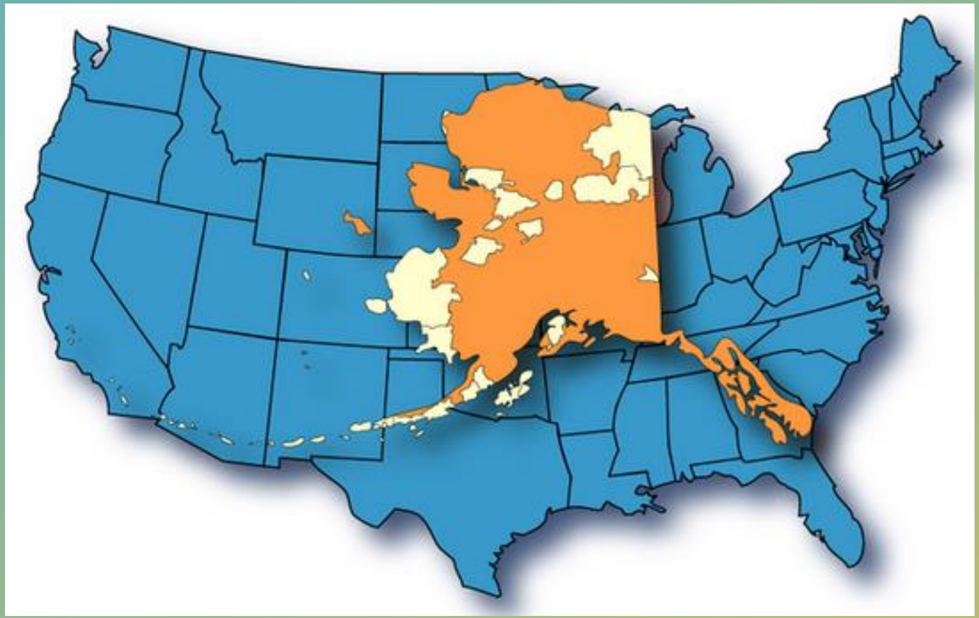
State of Georgia - Major Pension Plans

As of June 30th, 2022

$mil

Plans	Plan Assets	Unfunded Liability	Funded %
Teacher Retirement System	$ 96,868	$ 23,623	80.4%
Employee Retirement System	$ 14,632	$ 5,628	72.2%
Judicial Retirement System	$ 547	$ (42)	108.3%

Alaska's Experience: Defined Contributions vs. Pensions



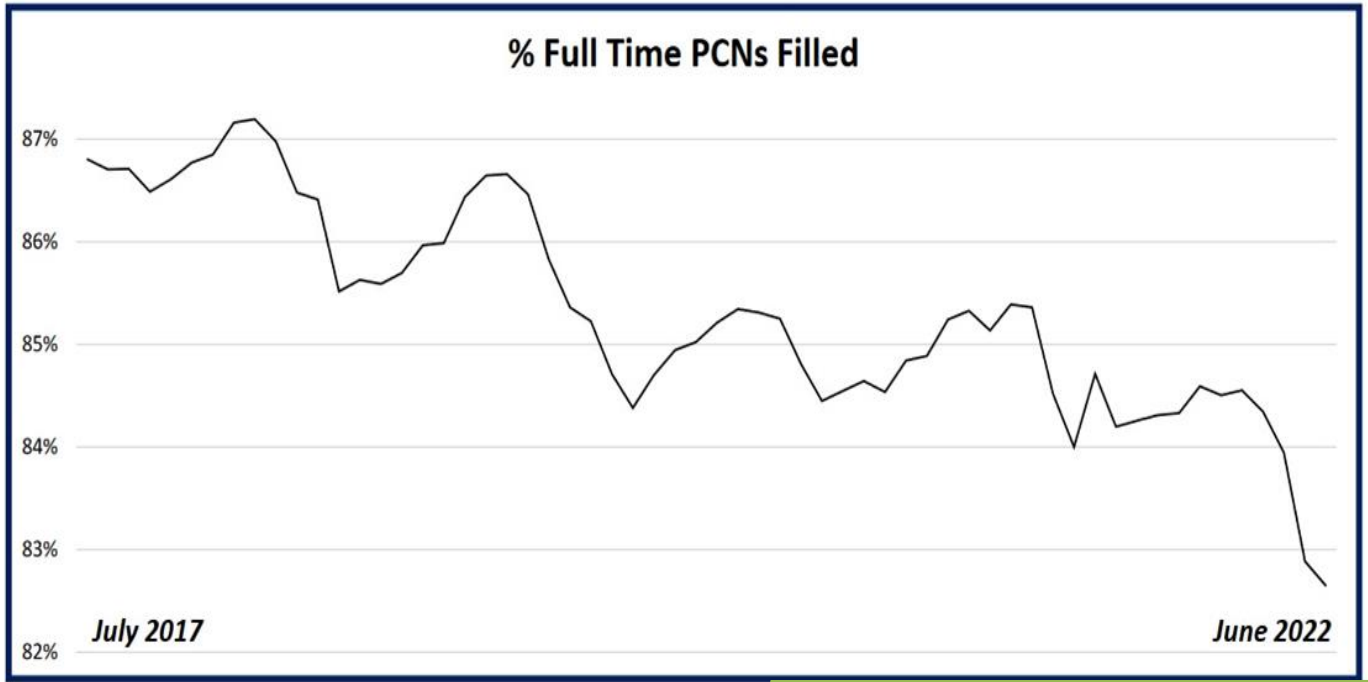
August 16, 2023

National Conference of State Legislatures

Alaska State Senator Cathy Giessel

Budget Challenges - Vacancy

% Vacant PCNs	December 2022
DOA	14.4%
DCCED	19.1%
DOC	17.8%
DEED	15.5%
DEC	15.6%
DFG	19.3%
Gov	14.0%
DOH	22.8%
DFCS	19.5%
DOL&WD	20.8%
Law	11.4%
DMVA	12.2%
DNR	23.4%
DPS	17.4%
DOR	21.1%
DOT&PF	16.5%
Total	**17.6%**



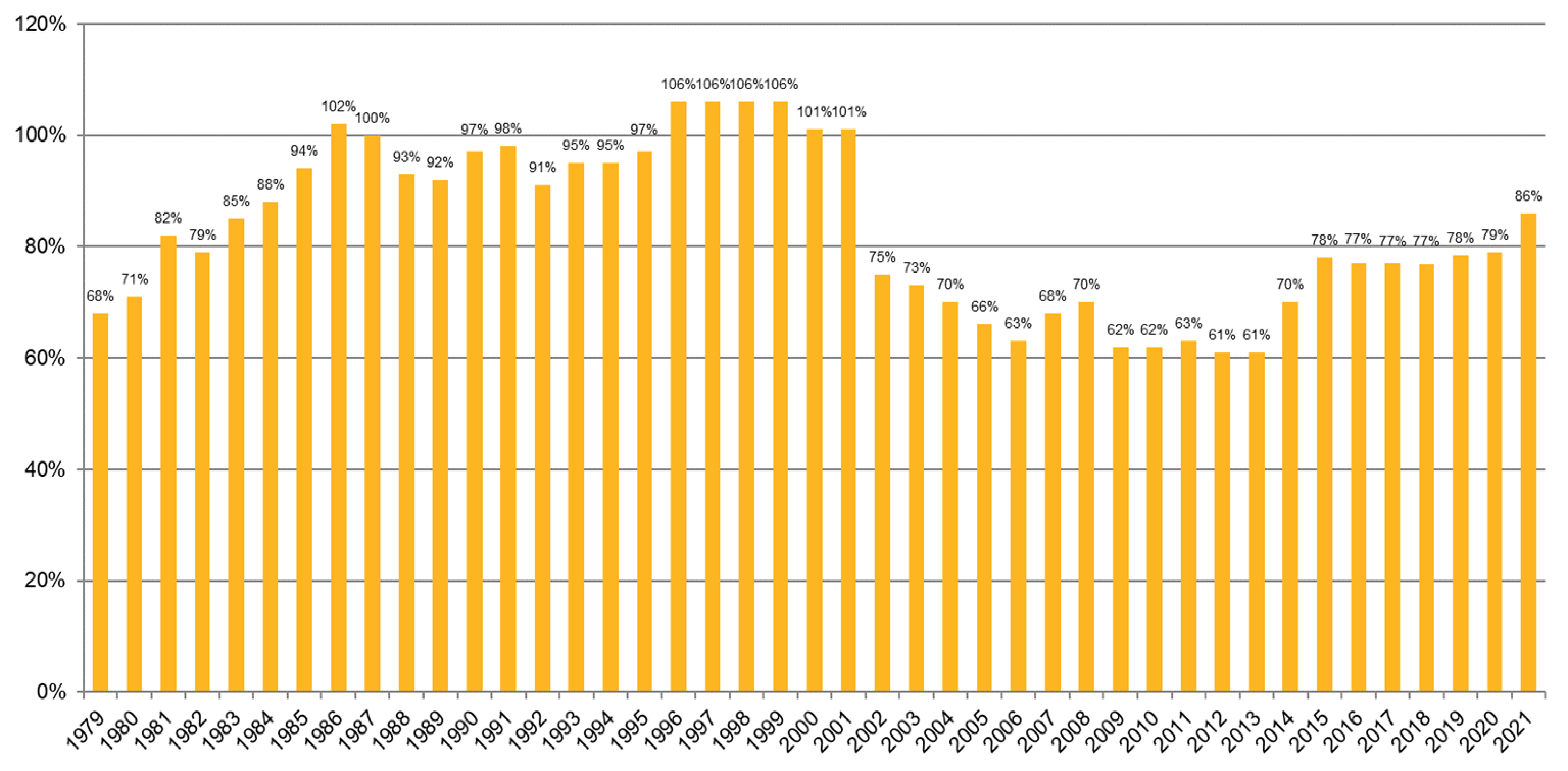
- Most departments are experiencing significantly greater vacancy than pre-pandemic levels.
- Recruitments are taking longer and are less likely to result in a hire.
- Recruitment incentives being used to address most critical public needs.

NEARLY
1 IN 5
ALASKA STATE JOBS
ARE VACANT!

"...probably the biggest challenges that faces our state agencies right now in terms of executing on the programs in the appropriations they've been entrusted with, and that is ***the challenge of recruiting and retaining the staff to actually do the work."***

OMB Director Neil Steininger
S FIN 1-24-23

DB System Funded Ratio History



Source: Buck Actuarial Valuation Report - May 2022

RECRUITMENT DESPERATION IN ALASKA !

Alaska State Troopers **25%** Salary increase in the past two years!

27% higher than national average!

Fairbanks, Alaska -

Ordinance No. 6248 before City Council on June 19 amending the incentive bonus program with the Fairbanks Police Department for Recruitment and Hiring from **$20k** to **$60k** with finder's fees of **$5k** encouraging city employees to assist in recruitment process.

CHALLENGE

- Recruitment and Retention has collapsed
- Staggering vacancy rates

KTOO News Shows & Podcasts Radio TV About Support

Education

Weeks from restarting, schools across Alaska are struggling to find teachers

July 21, 2022 by Lisa Phu, Alaska Beacon

LAWLESS

Alaska's Law Enforcement Crisis Is a Public Emergency. Here's How Experts Want to Fix It.

More than a third of Alaska communities have no local poli…
hired as cops in some remote villages. A fed…
dollars are promised, but here…

by Kyle…

Sections ANCHORAGE DAILY NEWS Iditarod • Alaska News • Politics • Opinions • Talk to us

Anchorage

Frustrations linger in Anchorage over pace of snow removal weeks after winter storms

By Zachariah Hughes
Updated: December 31, 2022
Published: December 30, 2022

Alaska's unprecedented food stamp backlog is taking a harsh toll on rural communities

March 2, 2023 by Annie Berman, Anchorage Daily News

"We're sending Troopers to domestic violence by themselves. Bad things happen. Either we end up hurting the person… or a Trooper gets assaulted and gets hurt. I mean this is ridiculous, really, when you think about it."

DPS Commissioner James Cockrell, Joint House and Senate State Affairs, February 7, 2023

ARM Board Schedule of Non-Investment Changes By Fund

ALASKA RETIREMENT MANAGEMENT BOARD
SCHEDULE OF NON-INVESTMENT CHANGES BY FUND
(Supplement to the Treasury Division Report)
For the Seven Months Ending January 31, 2023

This report is only for the previous 7 months

PARTICIPANT DIRECTED DISBURSEMENTS BY PLAN AND TYPE

Type	PERS DCR Plan	TRS DCR Plan	Supplemental Annuity Plan	Deferred Compensation	TOTAL	% of Total
Payment to Beneficiary	$ 151,031	$ 2,582	$ 577,993	$ 159,991	$ 891,597	0.3%
Death Benefit	1,495,951	718,906	7,598,035	2,336,717	12,149,609	4.3%
Disability / Hardship	3,115	-	48,223	198,746	250,084	0.1%
Minimum Required Distribution	128,069	62,714	10,973,521	4,370,787	15,535,091	5.5%
Deminimus Acct Balance Distribution	-	-	-	4,856	4,856	0.0%
Qualified Domestic Relations Order	1,002,290	44,279	2,325,425	99,695	3,471,689	1.2%
Separation from Service / Retirement	47,806,411 [a]	15,126,867 [a]	125,976,100	38,882,266	227,791,644	80.1%
Purchase of Service Credit	10,390,551 [a]	1,493,575 [a]	2,447,301	24,862	14,356,289	5.1%
59-½ In-service Distribution	-	-	-	1,037,381	1,037,381	0.4%
Qualified Birth / Adoption Expense	-	-	-	22,627	22,627	0.0%
CARES Act Distributions	-	-	-	-	-	0.0%
DCR to DB Conversion	7,101,829 [a]	1,308,317 [a]	-	-	8,410,146	3.0%
TOTAL	$ 68,079,247	$ 18,757,240	$ 149,946,598	$ 47,137,928	$ 283,921,013	100.0%

[a] Employer distributions sent to the DB plan are shown as "DCR to DB Conversion". Employee funds sent to the DB plan are included with "Purchase of Service Credit". Excess employee money sent to employee after conversion are included in "Separation from Service".

But, it shows that $227 million was withdrawn from the system. It shows withdrawls of PERS DC, TRS DC, Supplemental Annuity (SBS) and Deferred Compensation (voluntary)

Withdrawals from the TRS DC and PERS DC plans alone were north of $62 million dollars

PERS & TRS PARTICIPANT DIRECTED DISBURSEMENTS BY PLAN AND VESTED PERCENTAGE

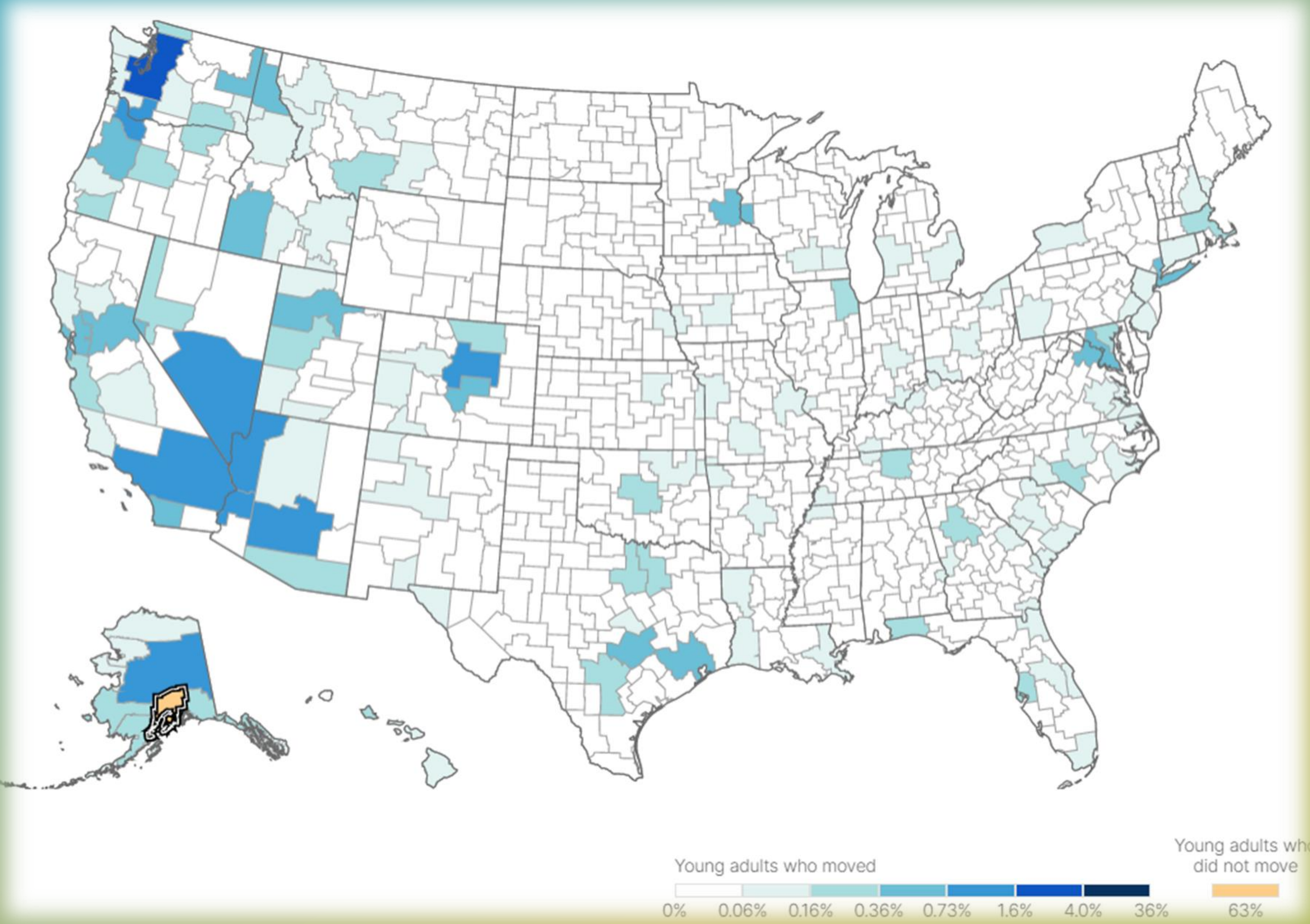
Vesting	PERS DCR Plan	TRS DCR Plan	TOTAL	% of Total
100% Vested	$ 62,385,184	$ 16,452,889	$ 78,838,073	90.7%
75% Vested	1,064,359	811,555	1,875,914	2.2%
50% Vested	1,408,813	461,232	1,870,045	2.2%
25% Vested	1,136,679	499,981	1,636,660	1.9%
0% Vested	2,084,212	531,583	2,615,795	3.0%
TOTAL	$ 68,079,247	$ 18,757,240	$ 86,836,487	100.0%

A very interesting and notable point is that 90% of these withdrawals came after 5 years, or 100% vested. People waited to leave until they could take all of their employer contributions?

DEFINED BENEFIT REFUNDS BY PLAN, TIER, CONTRIBUTION TYPE AND VESTED STATUS

Contribution Type	PERS DB Pension Plan Tier 1	PERS DB Pension Plan Tier 2	PERS DB Pension Plan Tier 3	PERS DB Pension Plan Total	TRS DB Pension Plan Tier 1	TRS DB Pension Plan Tier 2	TRS DB Pension Plan Total	JRS DB Pension Plan	TOTAL DB Pension Plan
Mandatory Vested	$ 30,829	$ 638,049	$ 1,002,442	$ 1,671,320	$ -	$ 83,465	$ 83,465	$ -	$ 1,754,785.00
Mandatory Non-Vested	107,694	172,848	471,736	752,278	222,034	600,419	822,453	-	1,574,731
Geographic Differential	-	142,534	62,514	205,048	-	-	-	-	205,048
Voluntary Full	211,010	924,533	1,115,387	2,250,930	-	-	-	-	2,250,930
Indebtedness, Lagging & Partial	14,050	83,347	174,949	272,346	-	54,310	54,310	-	326,656
TOTAL	$ 363,583	$ 1,961,311	$ 2,827,028	$ 5,151,922	$ 222,034	$ 738,194	$ 960,228	$ -	$ 6,112,150

WHERE ARE WORKING AGE ALASKANS GOING?



63% Stay in Anchorage

3.1% Move to Areas in Alaska

34% Other States

Washington (3.4%)
Oregon (1.6%)
California (1.2%)
Arizona (1.1%)
Colorado (1.0%)

SOURCE: AEDC Presentation June 2023

A PROPOSED SOLUTION
SENATE BILL 88

A Retirement System with Reasonable Costs and Fair Benefits

- ***Strength of a United Coalition***
  vs.
  Single Employee

- ***Safeguards in Place to Prevent Underfunding***

- ***Cost Savings***

CONCLUSION

- The Defined Contribution system is **NOT** working!

- The previous changes resulted in today's staggeringly **HIGH** public service agency **VACANCY** rates.

- Has affected public safety, education, state services, road maintenance, licensing, permitting, public assistance, foster care and more.

- Alaska's **workforce challenges**, recruiting and retaining public workforce are the **primary motivation** driving this legislation.

- **Pensions remain the BEST** fiscal **choice** for the state to meet these goals: Recruitment and Retention.

THANK YOU

Alaska State Senator Cathy Giessel