Retirement Resilience in a Wobbly Economy

NCSL 2023 Legislative Summit
August 16, 2023
Moderator and Speakers

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Representative, North Dakota House of Representatives

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Senator, Alaska State Senate
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 losses 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 pension 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 System**—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 and retirement goals.
- Conduct stress testing and risk analysis.
State Risk Reporting Practices
25 states conduct forward-looking assessments of investment risk on pension plan funding contributions.
Key Takeaways

- Good policy can allow states to offer robust retirement benefits while 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 from economic uncertainty and investment volatility.
- Policymakers can learn from each other—successful states as well as states that have pursued reforms offer a toolkit.
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“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

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

<table>
<thead>
<tr>
<th>Plans</th>
<th>Plan Assets</th>
<th>Unfunded Liability</th>
<th>Funded %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teacher Retirement System</td>
<td>$96,868</td>
<td>$23,623</td>
<td>80.4%</td>
</tr>
<tr>
<td>Employee Retirement System</td>
<td>$14,632</td>
<td>$5,628</td>
<td>72.2%</td>
</tr>
<tr>
<td>Judicial Retirement System</td>
<td>$547</td>
<td>$(42)</td>
<td>108.3%</td>
</tr>
</tbody>
</table>
Alaska’s Experience: Defined Contributions vs. Pensions

August 16, 2023

National Conference of State Legislatures

Alaska State Senator Cathy Giessel
OMB Director Neil Steininger

NEARLY 1 IN 5 ALASKA STATE JOBS ARE VACANT!

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.
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.

Alaska State Troopers 25% Salary increase in the past two years!
27% higher than national average!
CHALLENGE

• Recruitment and Retention has collapsed
• Staggering vacancy rates

“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**

<table>
<thead>
<tr>
<th>Participant Directed Disbursements by Plan and Type</th>
<th>PERS DCR Plan</th>
<th>TRS DCR Plan</th>
<th>Supplemental Annuity Plan</th>
<th>Deferred Compensation</th>
<th>TOTAL</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment to Beneficiary</td>
<td>$151,031</td>
<td>$2,582</td>
<td>$777,993</td>
<td>$159,991</td>
<td>$891,957</td>
<td>0.3%</td>
</tr>
<tr>
<td>Death Benefit</td>
<td>1,695,951</td>
<td>718,906</td>
<td>7,598,035</td>
<td>2,336,717</td>
<td>12,149,609</td>
<td>4.3%</td>
</tr>
<tr>
<td>Disability / Hardship</td>
<td>3,115</td>
<td>48,223</td>
<td>198,746</td>
<td>250,084</td>
<td>557,166</td>
<td>0.1%</td>
</tr>
<tr>
<td>Minimum Required Distribution</td>
<td>128,059</td>
<td>62,714</td>
<td>10,973,521</td>
<td>4,370,787</td>
<td>15,535,091</td>
<td>5.5%</td>
</tr>
<tr>
<td>Denominis Account Balance Distribution</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>4,856</td>
<td>4,856</td>
<td>0.0%</td>
</tr>
<tr>
<td>Qualified Domestic Relations Order</td>
<td>1,002,290</td>
<td>442,279</td>
<td>2,255,425</td>
<td>99,665</td>
<td>3,411,489</td>
<td>1.2%</td>
</tr>
<tr>
<td>Separation from Service / Retirement</td>
<td>47,906,411</td>
<td>15,127,467</td>
<td>38,884,265</td>
<td>227,791,646</td>
<td>385,851,700</td>
<td>12.0%</td>
</tr>
<tr>
<td>Purchase of Service Credit</td>
<td>10,390,553</td>
<td>7,462,575</td>
<td>2,447,301</td>
<td>24,862</td>
<td>14,356,290</td>
<td>4.5%</td>
</tr>
<tr>
<td>59% In-Service Distribution</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Qualified Birth / Adoption Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>22,627</td>
<td>22,627</td>
<td>0.0%</td>
</tr>
<tr>
<td>CARES Act Distributions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>DCR to DB Conversion</td>
<td>7,101,829</td>
<td>1,368,317</td>
<td>8,461,146</td>
<td>100.0%</td>
<td>100.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*TOTAL: $68,079,247 in PERS DCR, $18,757,240 in TRS DCR, $86,836,487 in TOTAL*

*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 employer after conversion is included in "Separation from Service".

### PERS & TRS Participant Directed Disbursements by Plan and Vested Percentage

<table>
<thead>
<tr>
<th>Vesting</th>
<th>PERS DCR Plan</th>
<th>TRS DCR Plan</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>$67,385,184</td>
<td>$16,452,889</td>
<td>$83,838,073</td>
<td>90.7%</td>
</tr>
<tr>
<td>75%</td>
<td>1,064,359</td>
<td>811,555</td>
<td>1,875,914</td>
<td>2.2%</td>
</tr>
<tr>
<td>50%</td>
<td>1,408,813</td>
<td>641,232</td>
<td>2,049,045</td>
<td>2.5%</td>
</tr>
<tr>
<td>25%</td>
<td>1,136,679</td>
<td>499,981</td>
<td>1,636,660</td>
<td>1.9%</td>
</tr>
<tr>
<td>0%</td>
<td>2,084,212</td>
<td>531,583</td>
<td>2,615,795</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

*TOTAL: $68,079,247 in PERS DCR, $18,757,240 in TRS DCR, $86,836,487 in TOTAL* 

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

*But, it shows that $22.7 million was withdrawn from the system. It shows withdrawals of PERS DC, TRS DC, Supplemental Annuity (SBS) and Deferred Compensation (voluntary).*

*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.*

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Prepared by the Division of Retirement and Benefits

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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