

Pension Industry Update: **The Latest News From Across the Nation**



Annual Delegates Meeting
November 2017

Major Headlines

- Changes on the local, state, and federal level
- Continued shift from traditional Defined Benefit (DB) plans to alternatives
- A retirement crisis for many Americans
- 11/7/17 vote on NYS constitutional convention

Major Headlines

- Local Government:
 - Jacksonville: No DB for new hires; only a 401(k).
 - Dallas / Houston: Benefits reduced for active members.
- State Government:
 - Colorado: Plans to suspend for two years the cost-of-living adjustment (COLA) retirees receive and change the FAS rules for members with < 5 years of credit.

Major Headlines

- State Government:
 - Ohio: TRS will stop paying a COLA for five years, and PERS will reduce the COLA retirees receive.
 - Kentucky: May end the DB plan for new hires and suspend current retirees' COLA for five years.
 - Pennsylvania: Ended DB for new hires, who now only have a choice between two hybrid plans and a Defined Contribution plan (DC).

States Where Most New Employees Can No Longer Join a Traditional DB Plan

New employees instead participate in either a cash balance, DC, or hybrid plan.

Many states give members the option of joining those plans instead of a DB.

- Alaska
- Georgia
- Hawaii
- Indiana
- Kansas
- Louisiana
- Michigan
- Nebraska
- Oklahoma
- Oregon
- Pennsylvania
- Rhode Island
- Utah
- Virginia
- Washington

Major Headlines

- State Government:
 - Florida: Defaulting new hires who don't make a plan election into the DC, rather than the DB.

Given the Choice, Most Employees Choose DB Over DC

Table 2. New Hire Elections in 2015 For Systems with Choice of DB or DB/DC and DC Plan

System	DB Plan Enrollments	DC Plan Enrollments	Combined Plan Enrollments
Colorado PERA	88%	12%	Not offered
Florida Retirement System	76%	24%	Not offered
Michigan PSERS	75%	25%	DB is a combination plan
North Dakota Public Employees Retirement System	98%	2%	Not offered
Ohio PERS	95%	4%	1%
Ohio STRS	89%	9%	2%
South Carolina Retirement Systems	82%	18%	Not offered
Utah Retirement System	80%	20%	DB is a combination plan

**Not offered* means enrollment in a combined DB/DC plan is not offered.*

“Decisions, Decisions: An Update on Retirement Plan Choices for Public Employees and Employers”
The National Institute on Retirement Security (NIRS), August 2017

Major Headlines

- Federal Government:
 - Secure Choice Plans: Treasury Department ended myRa. Congress made it harder for states to offer similar plans.
 - Military: New hires will be in blended plan, not a DB.
 - Federal Budget: The House passed the Senate's version of the budget resolution, avoiding the House's proposals:
 - Higher contributions for active members.
 - Reduction / elimination of COLA for current retirees.
 - “The need for new federal employees to transition to a DC.”

Major Headlines

- Multi-Employer Pension Plans
 - Over 15 million Americans are covered by these plans in which various employers join together to provide benefits to their workers, often in the same industry (e.g., construction, trucking, mining, retail).
 - Some of these plans are facing insolvency due to the economic challenges of those industries, company bankruptcies, and resulting situations where plans have more retirees than active workers.

Major Headlines

- Multi-Employer Pension Plans
 - Under a 2014 law, the Treasury Department approved a 29% pension cut this year to 16,000 retired NYS Teamsters, and an 18% cut for 21,000 active workers.
 - Cleveland Iron Workers had a 20% average cut, and some United Furniture Workers had a 12% cut.
 - Cuts to four more funds are now under review: Alaska ironworkers, Detroit machinists, Ohio carpenters, and Long Island City teamsters.

Major Headlines

- Supreme Court Ruling

- The Court says a pension can qualify as a “church plan” exempt from protections even if the plan wasn’t established or maintained by a church.

For members of hospital pension plans that might face insolvency (like St. Clare’s in Schenectady), that means they may not be paid their promised benefits.

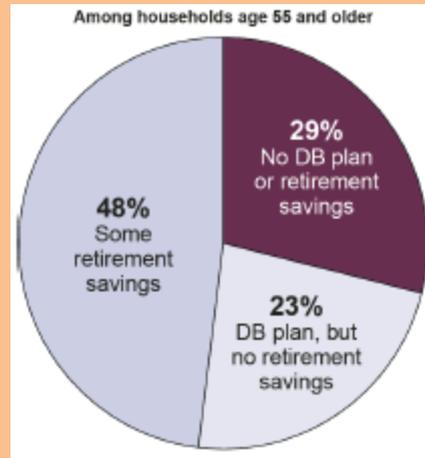


U.S. Government Accountability Office

“Over the past 40 years, the nation has sought to address the issues facing the U.S. retirement system in a piecemeal fashion. This approach may not be able to effectively address the interrelated nature of the challenges facing the system today. Fundamental economic changes have occurred, as well as the shift from DB to DC plans, with important consequences.”

“A panel of retirement experts convened by GAO in November 2016 agreed that there is a need for a new comprehensive evaluation. Congress should consider establishing an independent commission to comprehensively examine...and improve how the nation promotes retirement security.”

29% of U.S. households 55 or older don't have either a pension or any retirement savings.





In the next 30 years, those 65+ are expected to increase from 15% of the U.S. population to 22%, and we need to consider benefit adequacy.

Researchers have defined “adequate” retirement income differently. Is it...

- Maintaining your standard of living before retirement?
- Merely living above the poverty level?

The CBO recommends the Elder Index, which is a basic needs threshold based on the expenses common among the elderly. A recent analysis using the index found that half of those age 65+ in single-person U.S. households have inadequate income (and a quarter of those in two-person households).

2017 Retirement Confidence Survey

Employee Benefit Research Institute

Currently, how stressed are you mentally or emotionally, if at all, about preparing for retirement?
(Workers n=1,082)

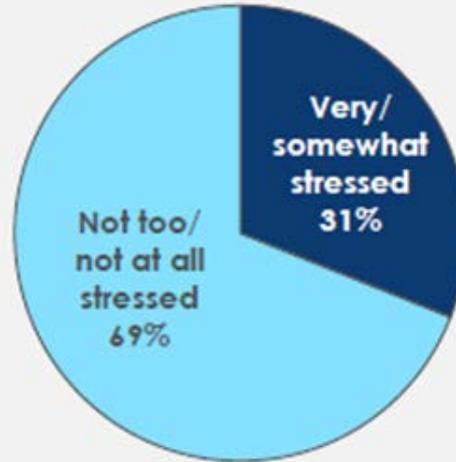
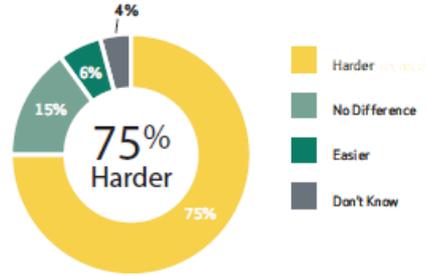


Figure 11: 75 percent of Americans say that it's getting harder to prepare for retirement.

Do you feel that—compared to today—it will be easier or harder for Americans to prepare for retirement in the future, or will there be no difference?



Retirement Security Survey 2017 NIRS

Figure 20: 87 percent say retirees don't know enough about managing investments to make their savings last.

To what extent do you agree or disagree: The average retiree does not know enough about managing investments to be able to make their retirement savings last.

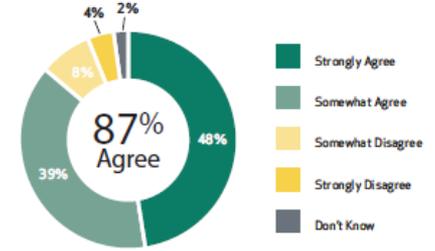
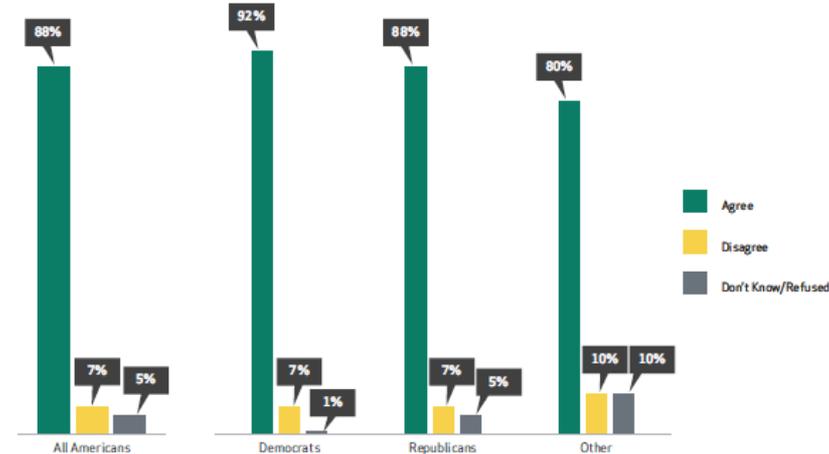


Figure 2: Across party lines, Americans feel strongly that the nation faces a retirement crisis.

To what extent do you agree or disagree with the following statement: America is facing a retirement crisis.



Retirement Security Survey 2017 NIRS

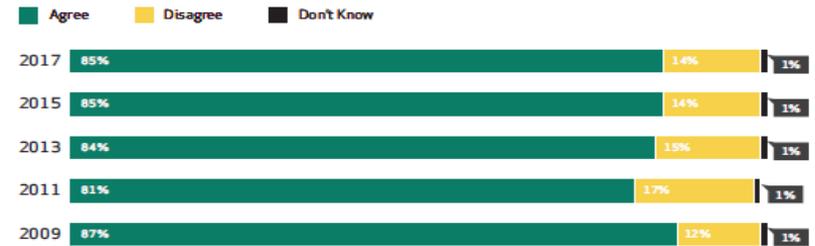
Figure 19: In 2017, 88% of Americans say those with a pension are more likely to have a secure retirement.

To what extent do you agree or disagree: Americans with traditional pensions are more likely than those without pensions to have a secure retirement.



Figure 16: 85% of Americans say all workers should have a pension to be self-reliant in retirement.

Tell me whether you agree or disagree: I believe that all workers should have access to a pension plan so they can be independent and self-reliant.



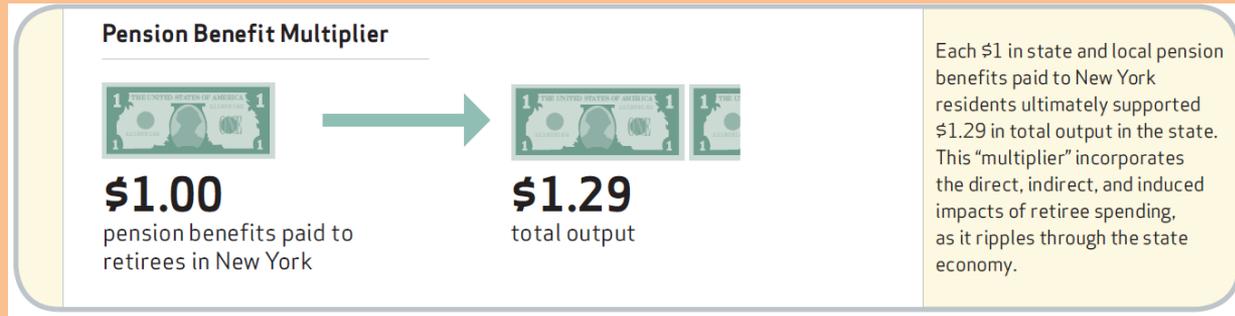
Help Spread the Word!

There is a lot of misinformation out there about pensions, and many people don't understand the the importance they play to a state's economy and the great value they provide.

- Educate Yourself: Get information from our online Pension Education Toolkit or the new Reference feature on our mobile app.
- Educate Others: Help correct those misperceptions.

The U.S. has a retirement crisis, but it's not because of pensions. In fact, pensions make things better.

Pensions Help the Economy



NYS public pensions support an estimated \$35 billion per year in total economic output.

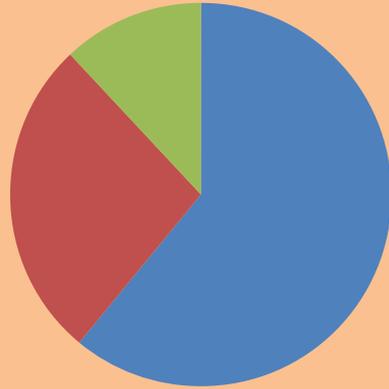
DB plans play a stabilizing role in the economy since they provide retirees with steady income available for spending regardless of the ups and downs of the financial markets.

The Efficiency of DB Plans

A typical DB provides an equivalent benefit at half the cost of a DC.

- DB plans pool longevity risk and can save for the average life expectancy. Individuals need to save more in case they live longer than the average because they don't want to outlive their money.
- DB plans can perpetually maintain an optimally balanced portfolio. Individuals adjust investments over time to lower risk.
- DB plans earn higher investment returns than individuals because they have lower fees and are managed by investing professionals.

U.S. Public Pension Revenue Sources



- Investment Earnings - 61%
- Employer Contributions - 27%
- Member Contributions - 12%

U.S. Census Bureau (1987 – 2016) / National Association of State Retirement Administrators



NYSTRS' Efficiency

Public pension funds keep improving cost efficiency.

- Average administrative cost = 56¢ per \$100 invested (compared to 60¢ in 2015, 68¢ for stock mutual funds, and 77¢ for hybrid mutual funds).

NYSTRS' administrative cost = 24¢.

- Average funding level = 76.2% (up from 74.1% in 2015 and 71.5% in 2014).

NYSTRS' funding ratio was 100% as of 6/30/17.

(By law, we receive our full annual employer contributions on time.)

NYSTRS' Success

- NYSTRS is one of the strongest, best-funded public pension plans in the country.
- A 2017 study by WalletHub rated New York the best state to be a teacher. Pensions counted for 7% of the grade, and that helped New York finish #1, both for opportunity and overall.

Remember...

- Teacher effectiveness increases with experience. DB plans help recruit and retain high-quality teachers. Higher retention of mid-career teachers boosts the overall quality of public education.
- Like other states, NYS adjusted the benefits structure of its pension plans. But members in all our tiers still have the security of a strong DB plan, and the changes did not impact current members / retirees.

That Right to the DB Plan We Were Promised Is Guaranteed by the NYS Constitution

- Article 5, Section 7 says “membership in any state retirement system shall be contractual, the benefits of which shall not be diminished or impaired.”

Constitutional Protection

TABLE 1. LEGAL BASIS FOR PROTECTION OF PUBLIC PENSION RIGHTS UNDER STATE LAWS

Legal basis	Benefit accruals protected			
	Past and future	Past and maybe future	Past only	None
State constitution	AK, IL, NY	AZ	HI, LA, MI	
Contract	CA, GA, KS, MA, NE, NH, NV, OR, PA, TN, VT, WA, WV	CO, ID, MD, MS, NJ, RI, SC	AL, AR, DE, FL, IA, KY, MO, MT, NC, ND, OK, SD, UT, VA	
Property	ME, WY	CT, NM	WI, OH	
Promissory estoppel ^a	MN			
Gratuity				IN, TX ^b

^a Promissory estoppel is the protection of a promise even where no contract has been explicitly stated.

^b In Texas, this gratuity approach applies only to state-administered plans. Accruals in many locally-administered plans are protected under the Texas constitution.

Sources: Munnell and Quinby (2012); and subsequent communications with plan administrators and legal experts.

“State and Local Pension Reform Since the Financial Crisis” – 2017

Center for Retirement Research at Boston College

For states with just contract protection, court rulings have varied.

- When did member become entitled to that right: upon membership; when the member satisfied eligibility requirements; or upon retiring?
- Did the reform impair the contractual obligation?
- If it did, was the impairment substantial, and was it “reasonable and necessary to serve an important public purpose”?

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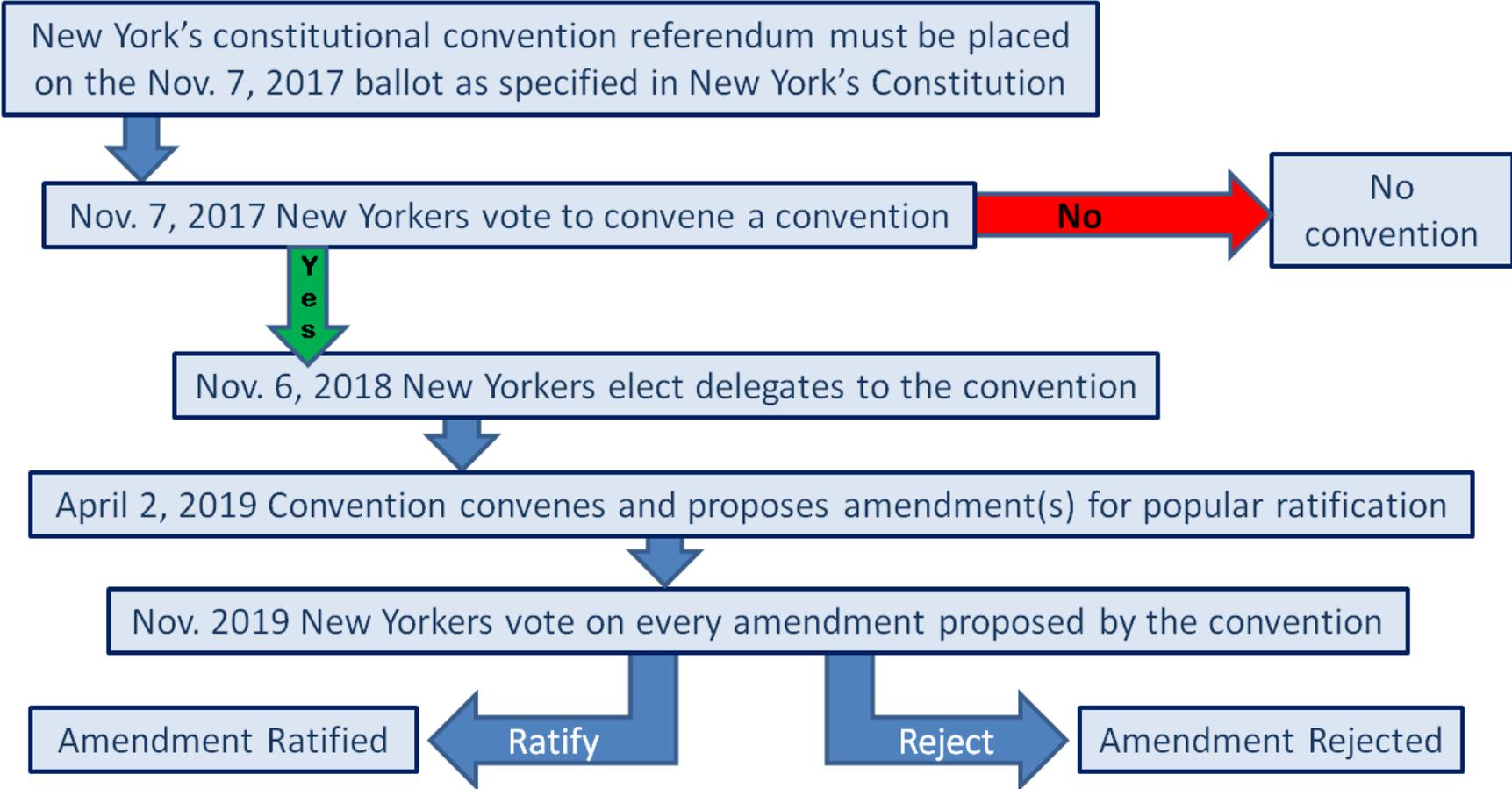
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- Wording of Illinois constitutional protection almost matches NYS.
- Illinois passed a law raising the retirement age for current members.
 - Chicago passed a law increasing current member’s contributions.
 - Both laws also reduced the COLA for existing retirees.
 - Illinois courts ruled that both laws were unconstitutional.

Constitutional Convention Process



Constitutional Convention History

- New York State's Constitution was adopted by the Convention of Representatives of the State of New York in 1777.
- Voters approved the recommendations of constitutional conventions held in 1801, 1821, 1846, 1894, and 1938.
- Voters rejected the recommendations of constitutional conventions held in 1867, 1915, and 1967.
- Voters elected not to have a constitutional convention the last two times the question appeared on the ballot: 1977 and 1997.