



# **Federal Update and Overarching Trends**

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# Factors Driving Public Pension Changes

## Factors

-  Sub-par investment returns
-  Sustained low interest rates
-  Lower projected investment returns
-  Maturing public sector workforce
-  Plan sponsor fiscal constraints

## Changes

-  Higher unfunded pension liabilities
-  Increased plan costs
-  More conservative actuarial assumptions and methods
-  Lower benefit levels
-  Shifting risk from employers to employees

# Comparison of Retirement Benefits in the U.S.

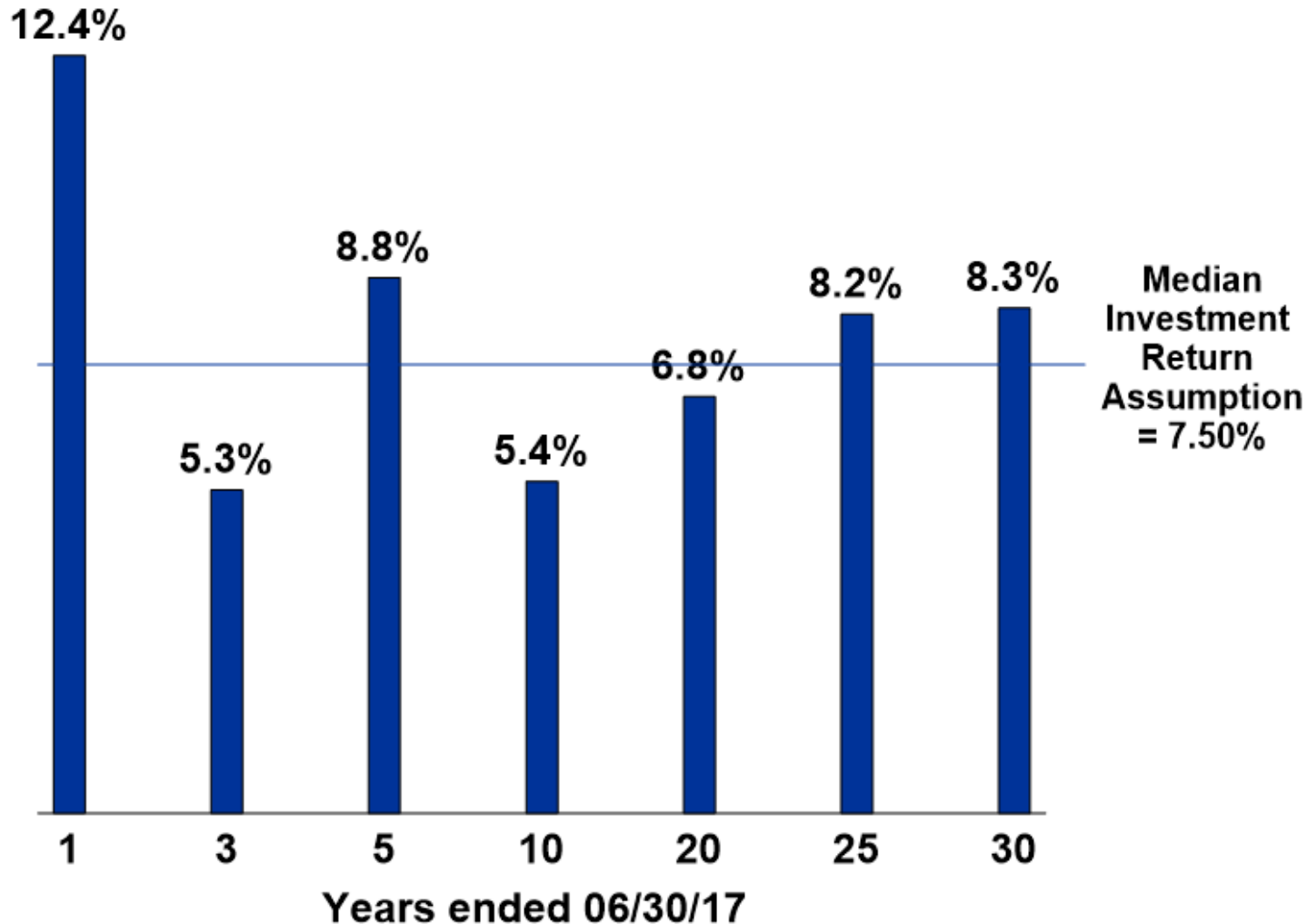
## Private Sector

- ▲ 60% of full-time private sector workers participate in an employer-sponsored retirement plan; 21% of part-time workers participate
- ▲ In total, 49% of all private sector workers participate in an employer-sponsored retirement plan
- ▲ Fewer than one in five have a traditional pension (DB) plan
- ▲ Social Security coverage is universal

## Public Sector

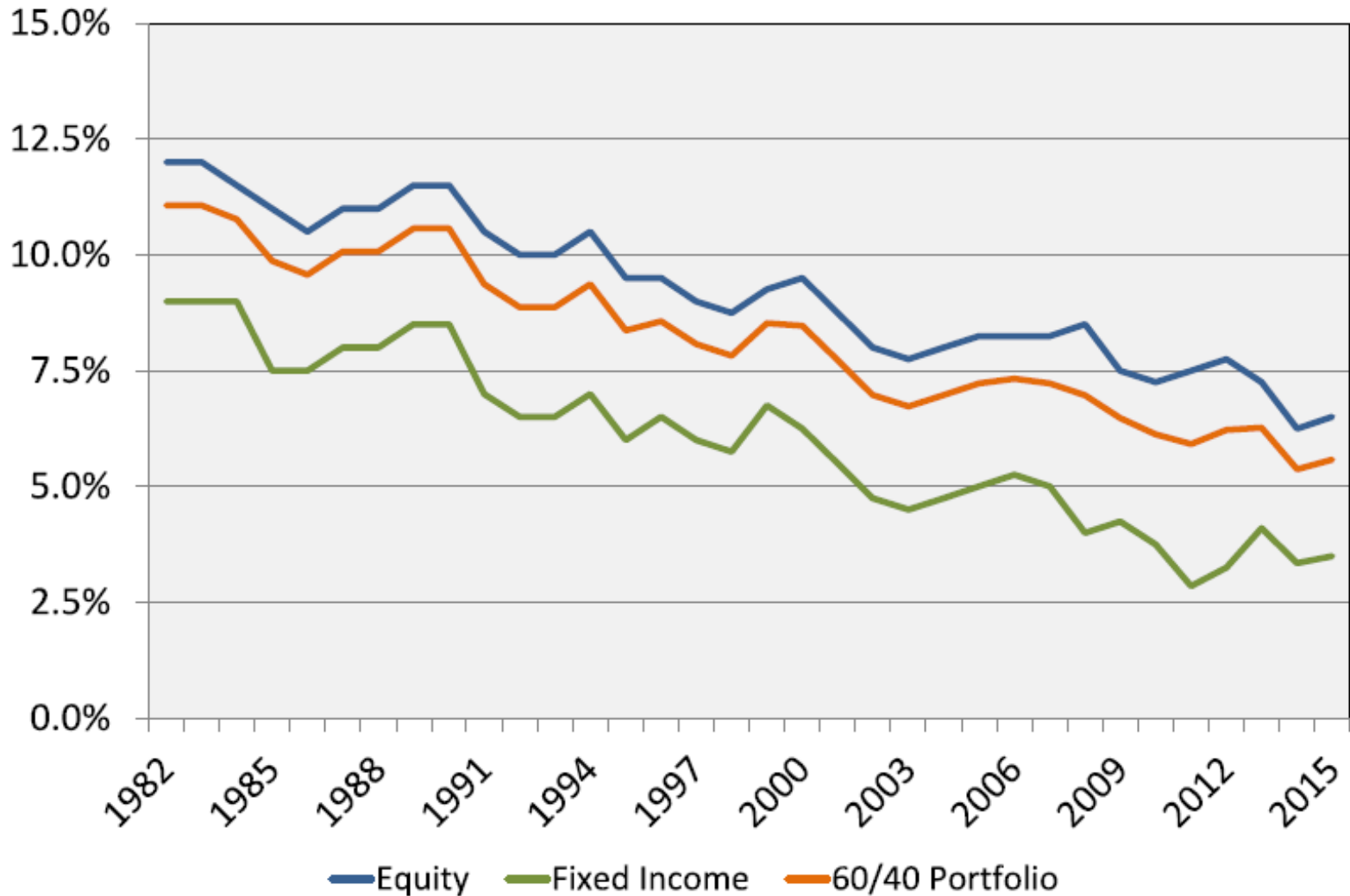
- ▲ Nearly all full-time workers have access to an employer-sponsored retirement benefit; most have access to a traditional pension (DB plan)
- ▲ 87% of full-time employees participate in a pension plan; virtually all others are in a DC plan
- ▲ Three-fourths participate in Social Security

# Median annualized public pension fund returns for periods ended 6/30/17

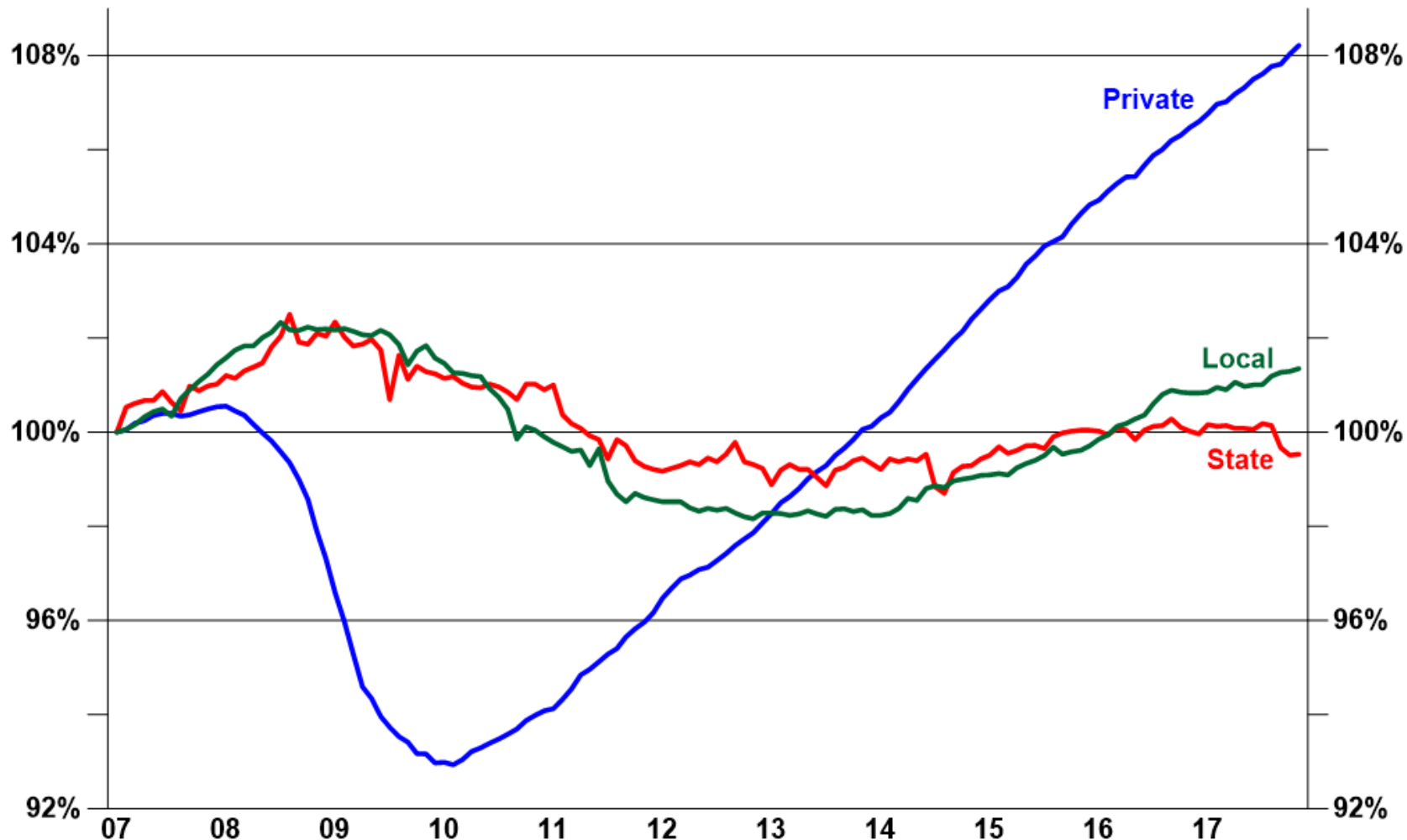


Callan Associates

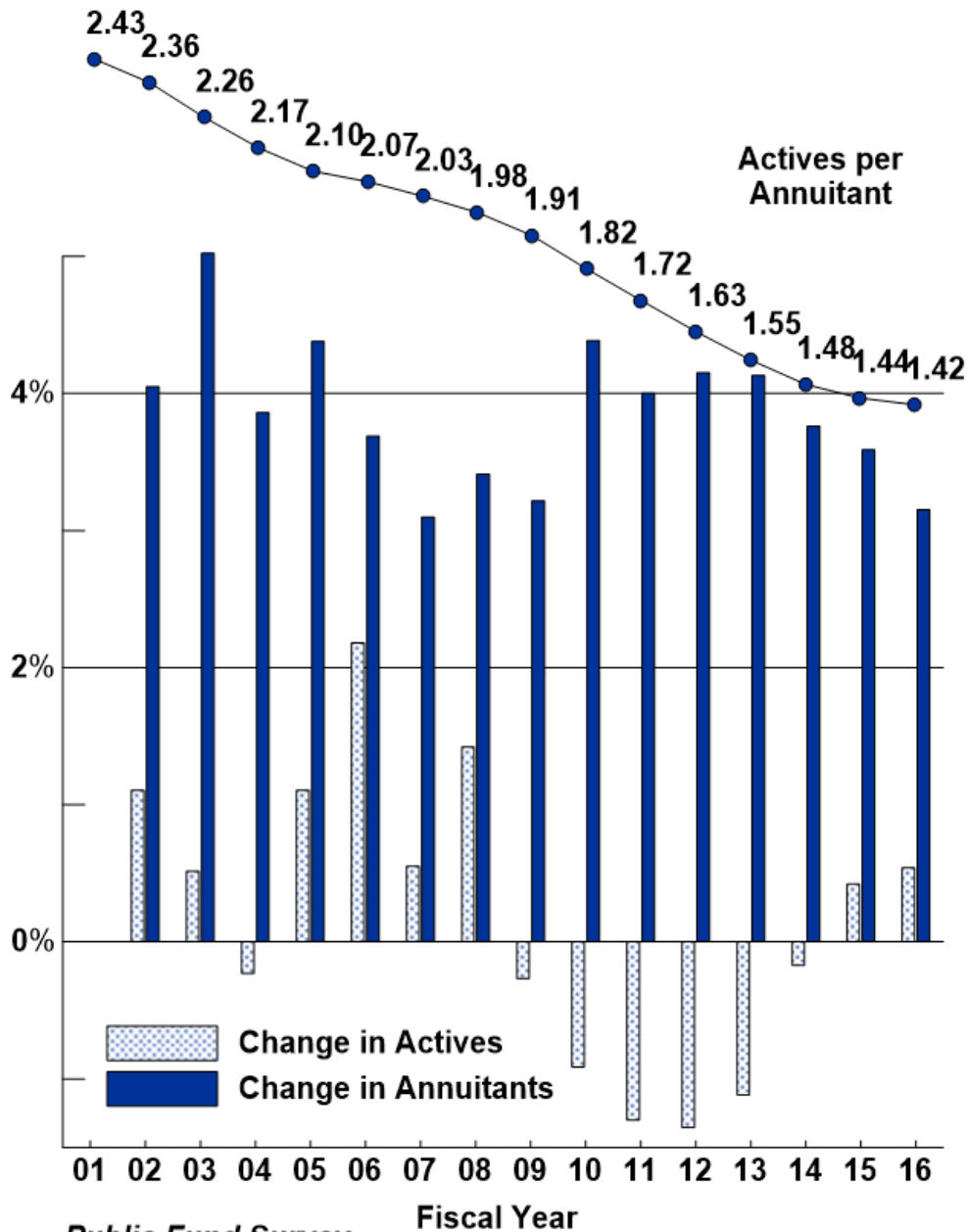
# Wilshire 10-Year Projected Returns



# Change in employment, private sector and state and local government, FY07- FY17

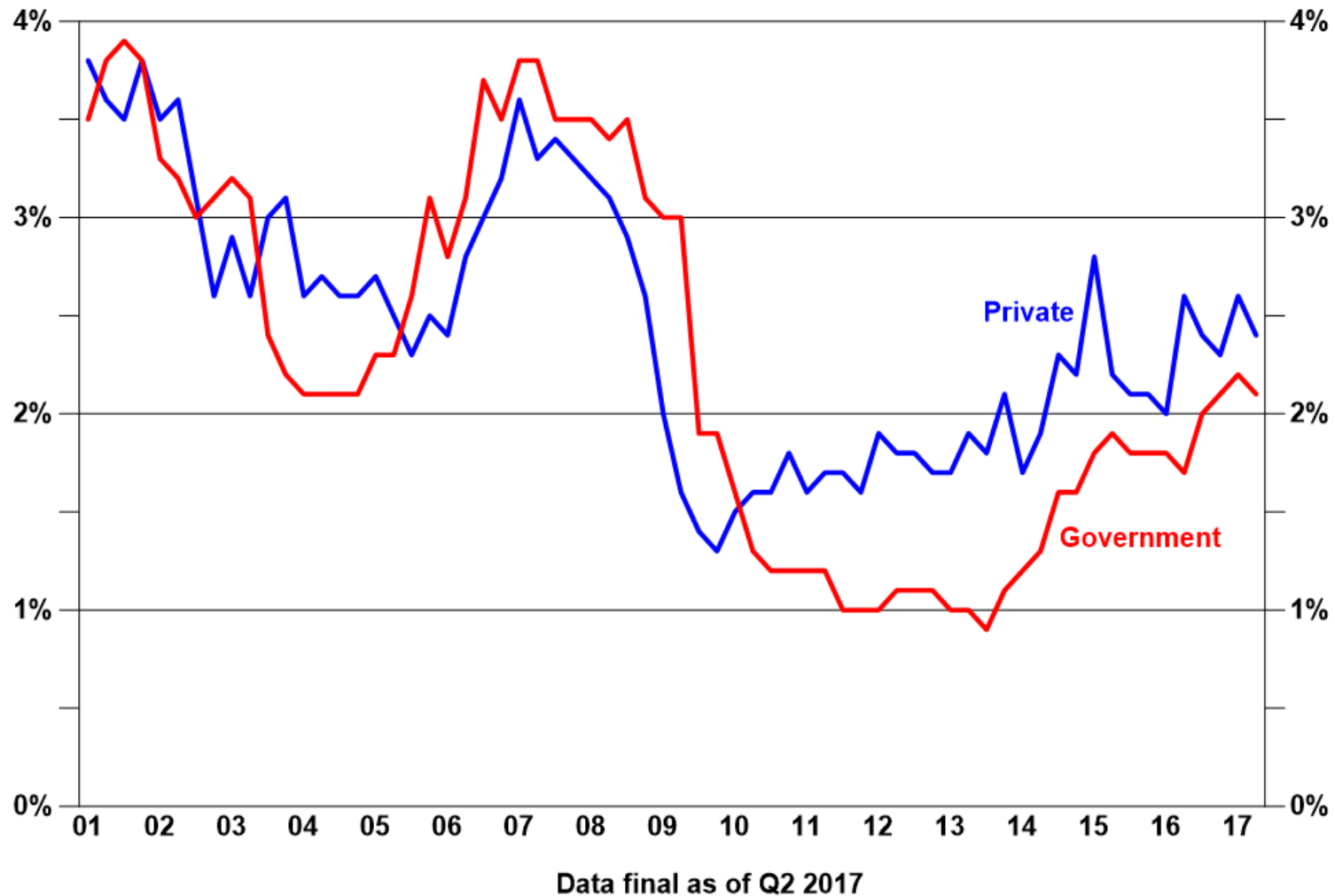


Final data as of November 2017



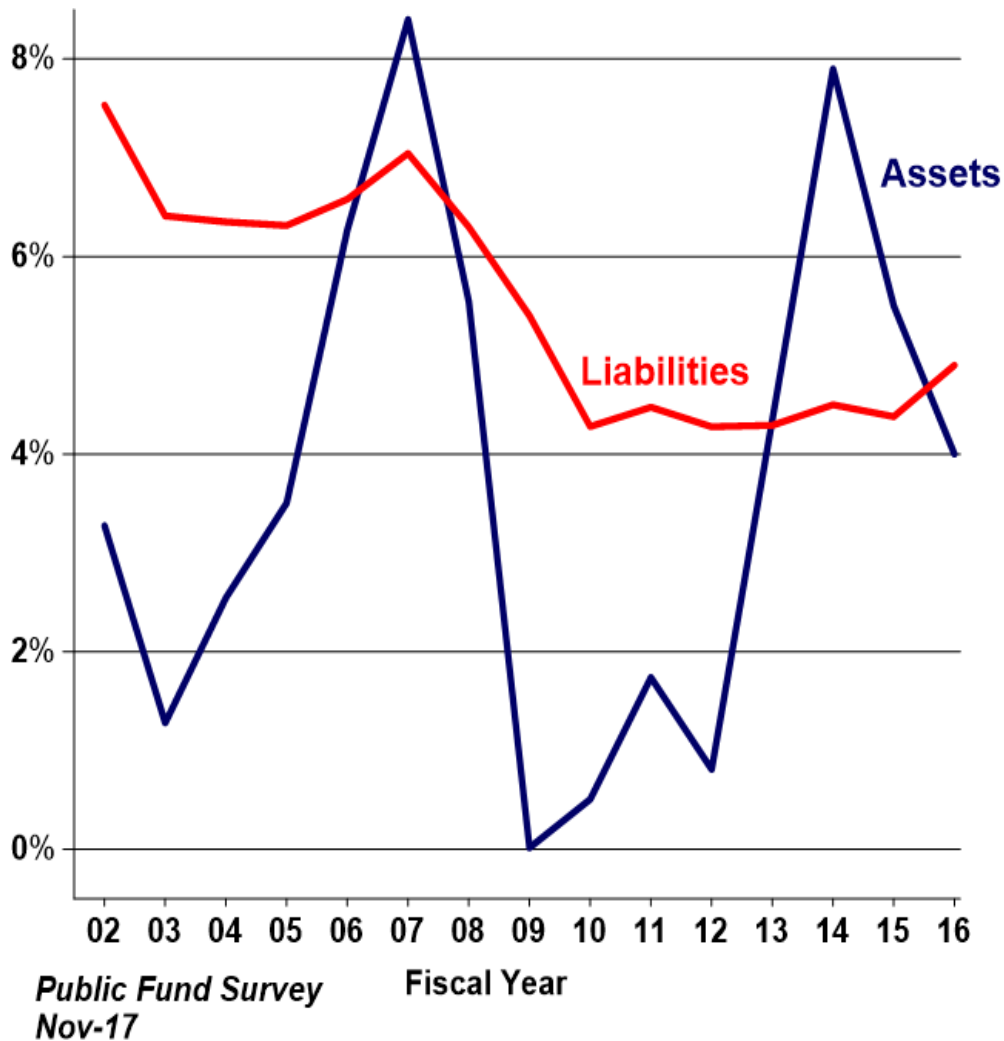
**Median change  
in number of  
actives and  
annuitants, FY  
01 to FY 16**

# Annual change in wages and salaries, private sector and state and local government, 2001-2017

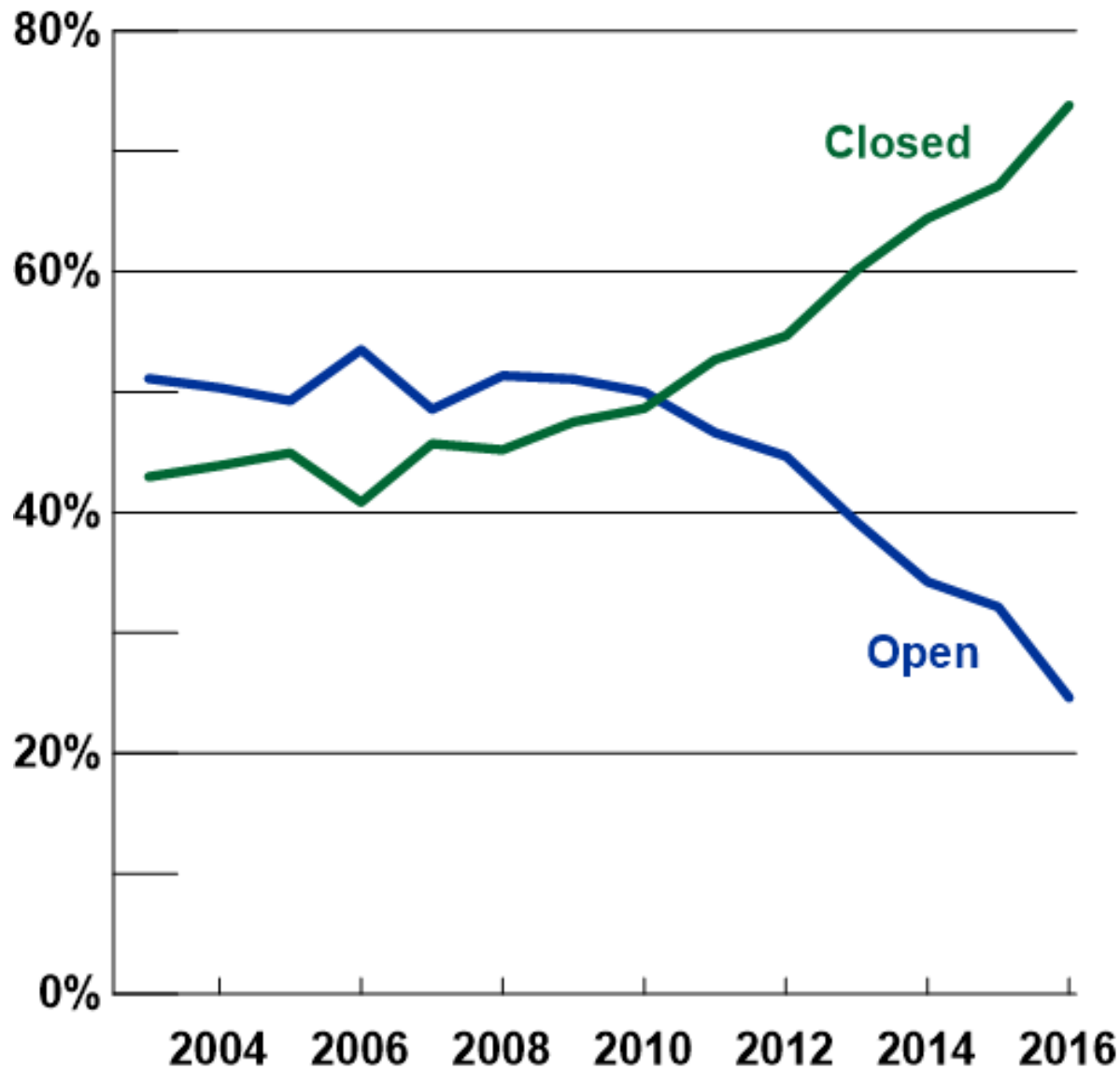


US Bureau of Labor Statistics, compiled by NASRA



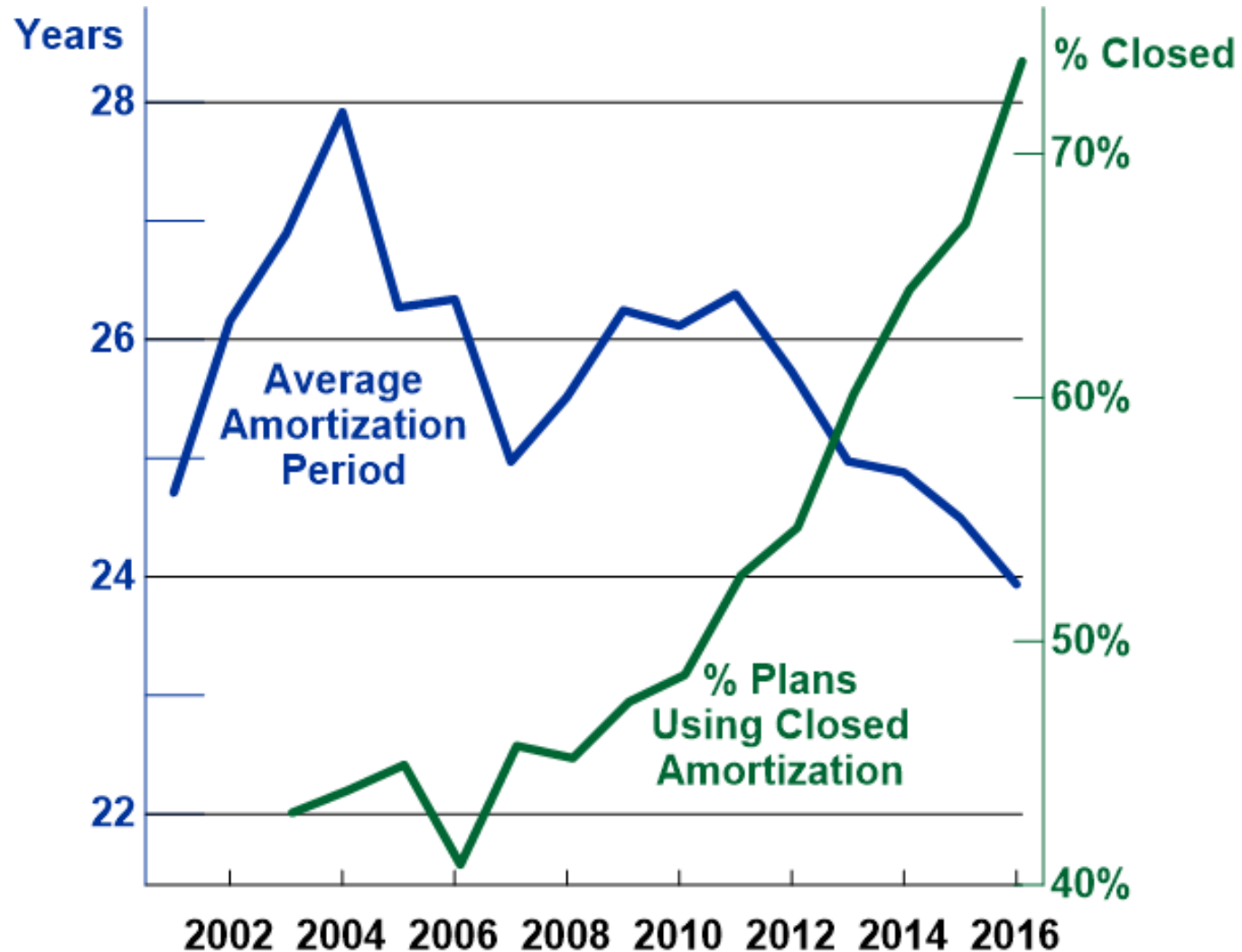


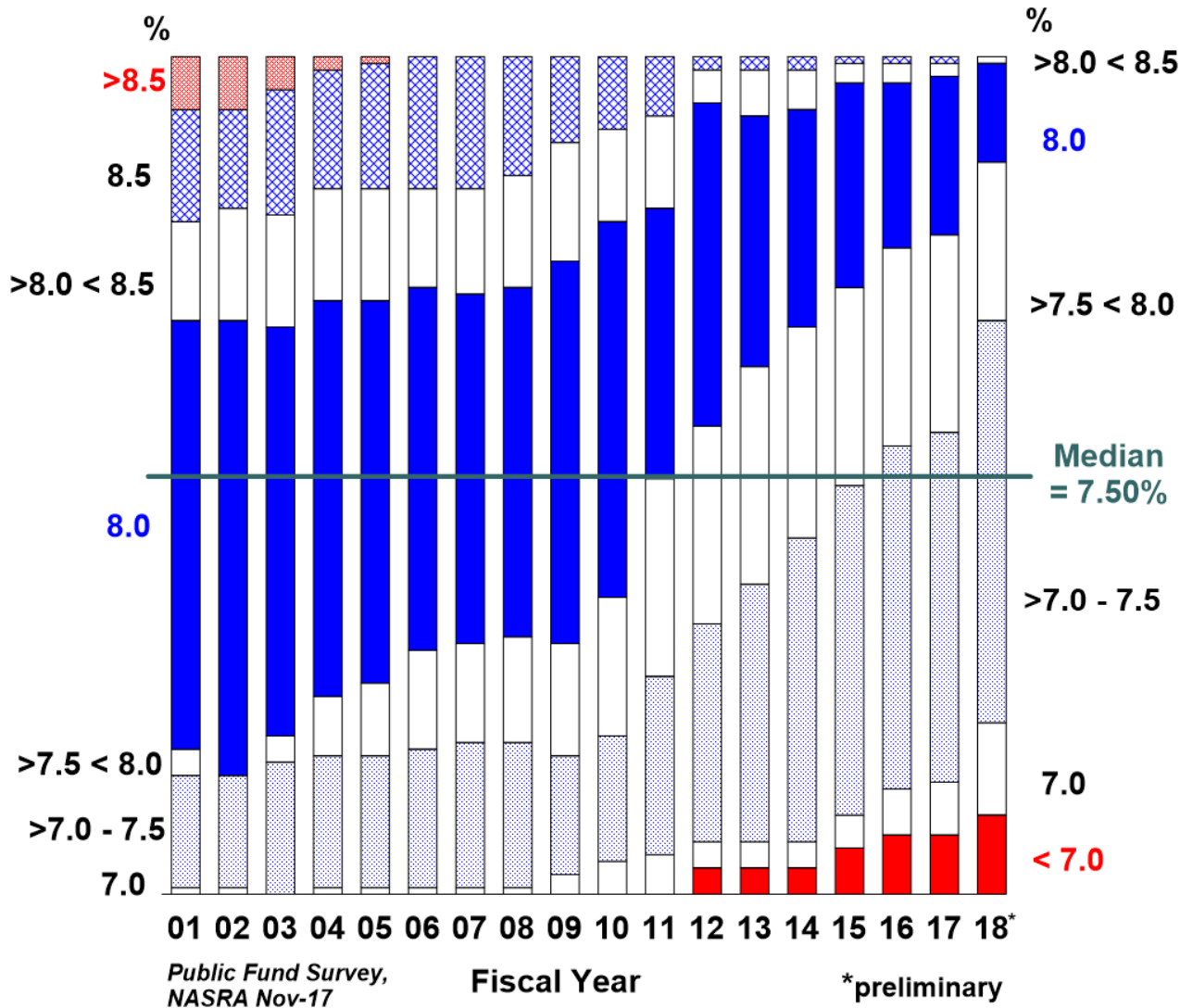
**Median change  
from prior year  
in actuarial  
value of assets  
and liabilities  
FY02-FY16**



## Change in use of amortization methods

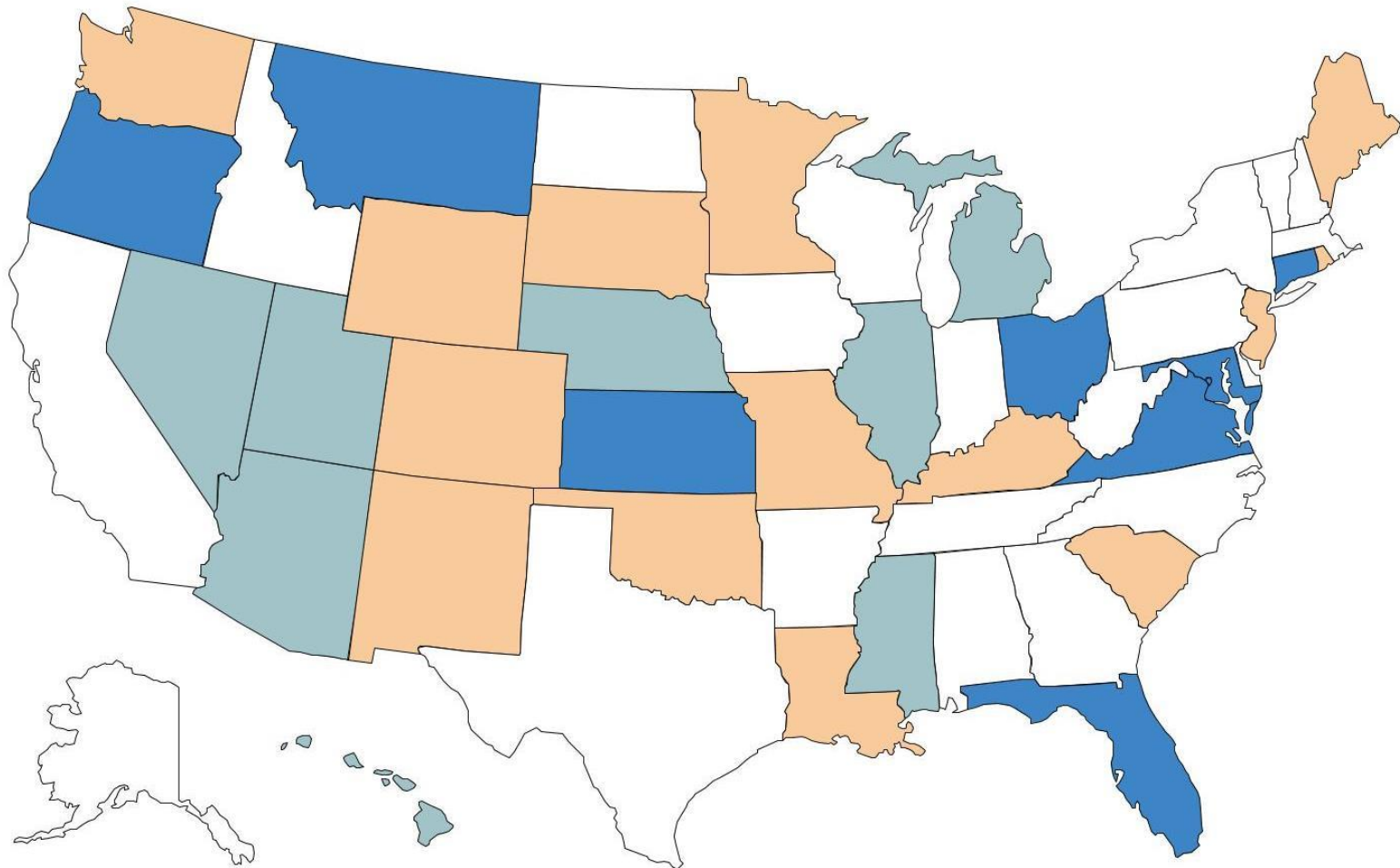
# Change in average amortization period and plans using closed amortization





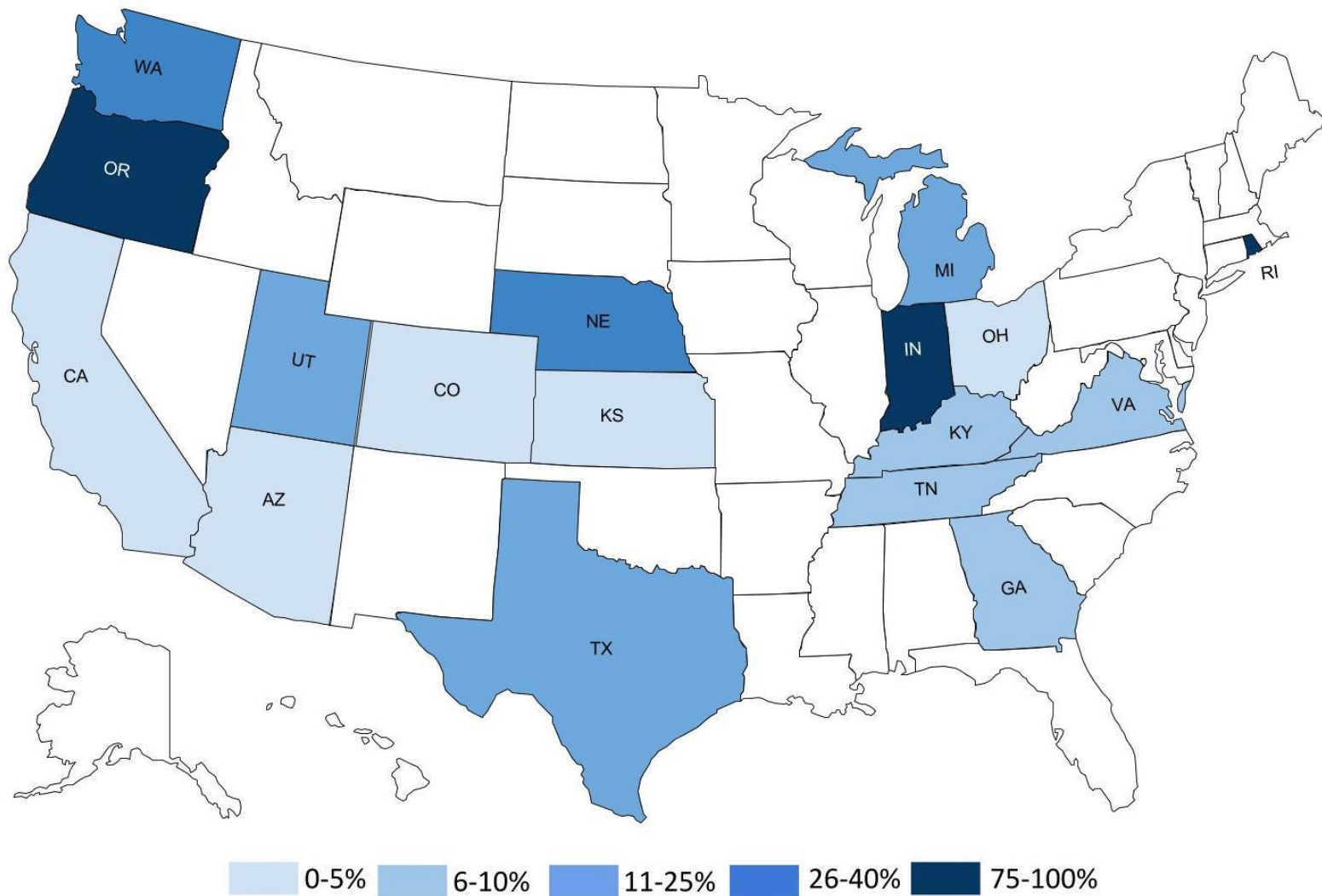
**Change in distribution of nominal investment return assumptions, FY 01 to FY 18**

# States that reduced automatic COLAs



■ Affecting New Hires Only ■ Affecting Current Employees & New Hires ■ Affecting Retirees

# Statewide Hybrid Plans, 2017











# Statewide Defined Contribution Plans In Place for Broad Employee Groups\*






## Mandatory

-  District of Columbia, for general employees
-  Michigan, for state employees hired since 3/1/97
-  Alaska, for all public employees hired since 7/1/06
-  Oklahoma, for state employees hired since 11/1/15

## Optional

-  Arizona
-  Colorado
-  Florida
-  Indiana
-  Montana
-  Ohio
-  South Carolina
-  Utah

# Final Thoughts

-  Following a long period of improving funding conditions and expanding benefit levels, public pension funding and benefit levels have been declining for 15 years.
-  Most states have retained core elements of traditional retirement plan design—sharing of benefit costs between employees and employers, pooled assets and liabilities, and annuitized benefits.
-  More conservative actuarial assumptions and methods are driving costs higher.
-  Changes to plan designs focus on lower benefit levels and shifting risk from employers to employees.
-  For political and legal reasons, the type and extent of changes to plan designs varies among states.



# Evolving NASRA Federal Relations

## Congress and the Administration

- ▲ Less advocating for changes to federal laws and regulations and more defending against them
- ▲ More/renewed concern about federal role

## State/Local Government Associations and Employee Organizations

- ▲ Coming together on advocacy and a common set of facts

## Private Sector Retirement Groups and Employee Organizations

- ▲ Building understanding, support &/or lessening muddling of issues

## Policy Organizations, Think Tanks, Academics

- ▲ Education, redirection and/or opposition

# Pension Tax Provisions in Play



- ▲ Limits
- ▲ “Rothification”
- ▲ Combining 457/403(b)/401(k) into one
- ▲ Eliminating “special” rules for governmental 457 plans
- ▲ Changing tax treatment of employee contributions to state/local DB plans
- ▲ ***Min. age for in-service distributions***
- ▲ ***Unrelated Bus. Income Tax (UBIT)***

# Additional Retirement Tax Proposals

## Public Employee Pension Transparency Act (PEPTA)

- ▲ Costly/conflicting federal reporting requirements; severe penalties on sponsors for non-compliance





## Secure Annuities for Employee (SAFE) Retirement Act

- ▲ Title 1 – Private insurance annuity vehicle to replace state/local DB plans

## Retirement Enhancement Security Act (RESA)

- ▲ Unanimously approved out of Senate Finance Committee
- ▲ No adverse provisions for public plans

# Muddling of Public and Multiemployer DB Plan Issues

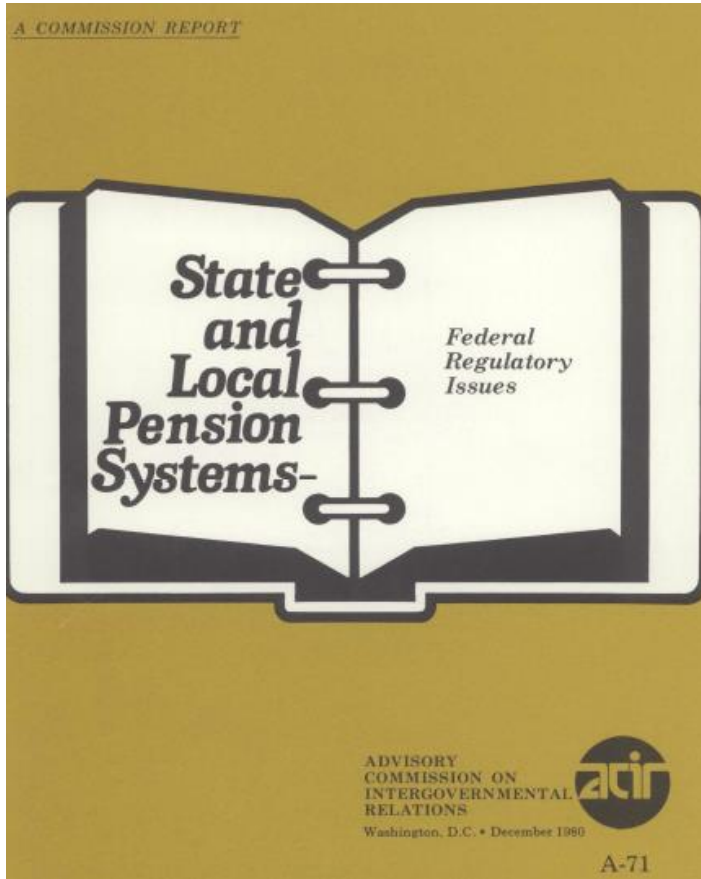
-  Continued conflation of state/local plans and multiemployer plans (particularly Central States Pension Fund)
-  Efforts to move mine worker pension legislation and pension loan proposals spur “bailout” concerns
-  Backlash to cuts approved under the Multiemployer Pension Reform Act (MPRA)
-  Confusion over fact that MPRA is not applicable to state/local plans

# Continued Interest by Market Regulators

- 🚩 Securities and Exchange Commission enforcement unit on Municipal Finance and Public Pensions
- 🚩 Municipal Securities Rulemaking Board expanded jurisdiction
- 🚩 Financial Stability Oversight Council (FSOC) monitoring of markets and state/local economies
- 🚩 Treasury Office of State and Local Finance



# Renewed Efforts on Intergovernmental Relations?



PRESS RELEASE

## Speaker and Democratic Leader Announce Task Force on Intergovernmental Affairs

May 18, 2017 | Speaker Ryan Press Office

WASHINGTON—Today, Speaker Paul Ryan (R-WI) and Democratic Leader Nancy Pelosi (D-CA) announced creation of the Speaker's Task Force on Intergovernmental Affairs, a bipartisan group of lawmakers focused on balancing the interests between federal, state, tribal, and local governments. Speaker Ryan released the following statement:

*"Federalism is not a Republican or Democrat principle, but an American principle—and one that is integral to a thriving culture and economy. But in recent years, the principle of federalism has been slowly chipped away at by an overzealous federal government. Under Chairman Bishop's leadership, the Task Force on Intergovernmental Affairs will study ways to restore the proper balance of*



# Strong, United Opposition to Federal Intervention

National Association of Counties (NACo)  
 International Association of Fire Fighters (IAFF)  
 U.S. Conference of Mayors (USCM)  
 National Education Association (NEA)  
 National League of Cities (NLC)  
 National Association of Police Organizations (NAPO)  
 International City/County Management Association (ICMA)  
 American Federation of State, County and Municipal Employees (AFSCME)  
 National Association of State Auditors Comptrollers and Treasurers (NASACT)  
 Service Employees International Union (SEIU)  
 Government Finance Officers Association (GFOA)  
 International Public Management Association (IPMA)  
 National Public Employer Labor Relations Association (NPELRA)  
 National Council on Teacher Retirement (NCTR)  
 National Conference of State Social Security Administrators (NCSSEA)  
 National Association of Government Defined Contribution Plans (NAGDCP)  
 National Conference on Public Employee Retirement (NCPER)  
 National Association of State Retirement Administrators (NASRA)

National Conference of State Legislatures (NCSL)  
 International Association of Chiefs of Police (IACP)  
 United States Fraternal Congress (USFC)  
 National Association of Fire Fighters (IAFF)  
 National Association of Police Organizations (NAPO)  
 National Education Association (NEA)  
 National League of Cities (NLC)  
 International City/County Management Association (ICMA)  
 National Association of Public Employees (NAPE)  
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 National Education Association (NEA)  
 National League of Cities (NLC)  
 American Federation of Teachers (AFT)  
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National Governors Association  
 National Conference of State Legislatures  
 The Council of State Governments  
 National Association of Counties  
 National League of Cities  
 The U.S. Conference of Mayors  
 International City/County Management Association  
 Government Finance Officers Association  
 National Council on Teacher Retirement  
 National Association of State Retirement Administrators

April 15, 2015  
 The Honorable Mike Crapo  
 Co-Chair, Committee on Finance Tax Reform Working Group on Savings & Investment  
 United States Senate  
 Washington, DC 20510

The Honorable Mitch McConnell  
 Majority Leader  
 United States Senate  
 Washington, DC 20510

Dear Majority Leader McConnell:  
 On behalf of the national elected officials, employees and appointed officials, public employees and public pension systems (S. 2381). These provisions mandate on all state and local States and localities, and as

VIA ELECTRONIC MAIL: [Savings@finance.senate.gov](mailto:Savings@finance.senate.gov)  
 Dear Co-Chairs Crapo and Brown:  
 On behalf of the national organizations listed above, elected officials, public employees and appointed officials, public employees and public pension systems (S. 2381). These provisions mandate on all state and local States and localities, and as

March 14, 2016  
 The Honorable Paul Ryan  
 Speaker of the House  
 U.S. House of Representatives  
 Washington, D.C., 20515

Dear Mr. Speaker:  
 On behalf of the national organizations listed above, representing state and local governments, elected officials, public finance professionals, public employees and appointed officials, public employees and public pension systems (PEPTA, not yet reintroduced). This legislation creates a tax exemption for state and local government pension plans, which is a provision that is under consideration.

The proposal does not protect benefits, save taxpayer dollars, or address the long-term solvency of state and local government pension plans. To the contrary, it imposes federal unfunded mandates on sovereign States and localities, and is conflicting, administratively burdensome, and threatens to eliminate the tax-exempt bonding authority of state and local governments.

The legislation not only violates the principles of federalism, but also undermines the ability of state and local governments to manage their own affairs. It imposes federal unfunded mandates on sovereign States and localities, and is conflicting, administratively burdensome, and threatens to eliminate the tax-exempt bonding authority of state and local governments. The provisions are not generally accepted, and Congress as stand-alone bills in many hearings pertaining to the financial condition of state and local governments.

June 16, 2014  
 Daniel M. Gallagher  
 Commissioner  
 U.S. Securities and Exchange Commission  
 100 F Street, NW  
 Washington, DC 20549

VIA FACSIMILE  
 Dear Commissioner Gallagher:  
 On behalf of the national associations listed above—representing state and local governments, elected officials, public finance professionals, public employees and appointed officials, public employees and public pension systems—we are writing to express serious concern with your recent remarks before the Municipal Securities Rulemaking Board's 1<sup>st</sup> Annual Municipal Securities Regulator Summit and to share salient facts regarding state and local government retirement plans and financial reporting. In addition, we are providing information on recent initiatives by our organizations, as well as the state and local government community, to ensure the continued financial integrity and sustainability of governmental retirement programs.

We understand the SEC's interest in appropriate disclosure of state and local government pension obligations. However, your comments could lead many to believe that the disclosure issues are systemic, rather than individualized problems. Public pension funds hold some \$3.6 trillion in assets, professionally managed and invested in diversified portfolios. This amount equals 16 times the annual payout of these funds, assuming no additional contributions or investment earnings.

Attached for your review is an analysis of data referenced in your remarks before the summit, as well as 2014 facts regarding state and municipal bankruptcy, municipal bonds and state and local pensions, which better discloses the common condition of state and local finance. While you may disagree with the decisions made by the Governmental Accounting Standards Board, GASB considered, discussed and rejected alternative standards as inappropriate for state and local governments. You may not be aware of the many significant changes state and local governments have made to their retirement plans. Nearly every state and numerous local governments have made changes to strengthen their pension reserves and to ensure the sustainability of their retirement plans since the Great Recession. These changes have included increases in employee contributions to pension plans, increased risk-sharing and other hybrid features, reduced benefits levels, higher retirement ages and lower cost-of-living adjustments. Some modifications to pension plans have affected current employees, retirees, or both. The Center for Retirement Research at Boston College has examined the impact of the financial crisis on the sponsors' costs. Furthermore, they project that pension costs as a share of state-local budgets will eventually fall below pre-crisis levels, assuming a healthy stock market and a reversion of the full annual required contribution LARC.



# Opposition, cont.

## Unhelpful

- ▲ Does NOT lower costs, protect benefits or improve pension financing
- ▲ Public plan issues are not systemic; differing fiscal and legal frameworks defy a one-size-fits-all solution

## Unwarranted

- ▲ Significant reforms have been enacted across the country
- ▲ New GASB reporting standards in effect
- ▲ Information is public
- ▲ Online database already exists



# Public Information & Disclosures

## State and Local Fiscal Facts: 2017

State and Local Finances • Municipal Bonds • State and Local Pensions



### Fiscal Condition of State and Local Governments

In the past few years, the fiscal conditions of state and local governments have stabilized, but improvements have been uneven. While challenges remain, officials have been taking steps to replenish rainy day funds and address long-term structural imbalances.

#### State Finances<sup>1</sup>

For states, 2016 brought a modest spending increase on track to grow in on states' enacted budgets. For numerous factors such as declining regional economic disparities, also face rising spending demands for healthcare, education, infrastructure.

- Thirty-two states spent less in dollar terms.
- Half of states reported FY projections and 19 states enacted in above projections
- States have replenished including K-12 and higher
- Most states continue to see deposits in fiscal 2016, and

#### City Finances<sup>2</sup>

City fiscal conditions are strong growth and solid performance the revenue behavior, spending the factors most negatively impact demands and employee and wages. Positive factors include economy, and in most cities, the

- Property tax revenue has increased
- Sales and income tax revenue

#### Issued By:

- NGA - National Governors' Association
- NCSL - National Conference of State Legislatures
- CSG - The Council of State Governments
- NACo - National Association of Counties
- NLC - National League of Cities
- USCM - U.S. Conference of Mayors
- ICMA - International City Managers Association
- NASBO - National Association of State Budget Officers
- NASACT - National Association of State Auditors, Comptrollers and Treasurers
- GFOA - Government Finance Officers Association
- NASRA - National Association of State Retirement Administrators

**Public Plans Data**

Comprehensive database of state and local public pension plans

[www.publicplansdata.org](http://www.publicplansdata.org) | @publicplansdata

## 10 Things You Should Know About Public Pension Disclosure Changes

State and local government retirement systems have significant oversight and disclosure requirements, some of which are being considerably modified. Several new and separate public pension calculations are being published – each derived in different manners and for distinct purposes – and could easily be misunderstood and create confusion. Below are ten key takeaways regarding existing disclosures, notable changes, and their effects.



1. **State and local governments provide significant oversight for their retirement systems and require open reporting and processes.** These systems are established under state statutes, local ordinances, or both; subject to fiduciary, investment and administrative laws, as well as to open records and sunshine statutes; overseen by elected governmental bodies, state and local regulators, elected office holders, the public, and independent boards of trustees.
2. **The Governmental Accounting Standards Board (GASB) is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments.** GASB standards must be followed to receive a clean audit. GASB was established by state and local government organizations in conjunction with the Financial Accounting Foundation, in recognition of the fact that governments are fundamentally different from for-profit business enterprises, including their unique time horizons, oversight, revenue streams, constitutional or contractual protections, stakeholders and accountability for resources.
3. **GASB has recently completed a multi-year process of reviewing and revising its accounting standards on public pension reporting.** GASB Statement 68, which will be implemented into state and local government financial statements this year, includes many changes. Notably, state and local governments will now be required to report their net pension liability on their balance sheets.
4. **The new GASB requirements do not affect actuarial funded ratios or pension contribution requirements;** they only change where and how pension costs are accounted for in financial statements to provide additional and more prominent information.
5. **The placement of net pension liabilities on an employer's balance sheet could create the erroneous impression that this is an obligation that is due immediately. This is not the case.** Pensions are funded and paid out over very long periods – contributions are made over employees' careers and distributions are provided in monthly installments in their retirement.



# Getting the Facts



## Helpful Resources on State & Local Government Retirement Systems



### Significant Reforms to State Retirement Systems

In recent years, nearly every state made meaningful changes to pension benefits, financing arrangements, or both. This publication provides a comprehensive overview of changes to statewide plans, including trends and detailed descriptions of the modifications made in every state. [nasra.org/reforms](http://nasra.org/reforms)

### Facts on State and Local Finance, Bonds and Pensions

National organizations representing state and local governments, elected officials, and public finance and retirement officials jointly released salient facts on the financial condition of state and local governments, municipal bonds and public pensions. Aimed at correcting misperceptions, this publication details finances at the state, county and local levels; discusses municipal bankruptcy; the types and level of municipal debt and their security; as well as the fiscal condition of public pension trusts. [nasra.org/fiscalfacts](http://nasra.org/fiscalfacts)



### Public Pension Disclosure

State and local government retirement systems have significant oversight and disclosure requirements. Recently, accounting standards for public pensions underwent a multi-year review process and were modified considerably. National organizations representing state and local governments, elected officials, and public finance professionals jointly released a summary of 10 key takeaways regarding public pension disclosures, notable changes, and their effects. [nasra.org/files/disclosurechanges](http://nasra.org/files/disclosurechanges)

### Public Plan Investment Return Assumptions

This brief details investment return experience and assumptions for 126 of the largest state and local government retirement systems, recent trends, and provides an overview of how investment return assumptions are established and evaluated. [nasra.org/returnassumptionsbrief](http://nasra.org/returnassumptionsbrief)



### Government Spending on Public Employee Retirement Systems

Nationally, pension contributions made by state and local governments account for roughly 4.5 percent of total spending. Current pension spending levels vary widely and are sufficient for some entities and insufficient for others. This brief discusses pension costs as a percentage of state and local government spending, over time, by state, as well as other cost and financing factors. [nasra.org/costsbrief](http://nasra.org/costsbrief)

### Employee Contributions to Public Pension Plans

Nearly all employees of state and local government are required to share in the cost of their retirement benefit, and most states increased employee contribution rates in recent years. This issue brief examines varying public policies for determining public employee pension contributions, the rates in state-administered plans, whether these are in addition to, or in lieu of, Social Security payroll taxes, and notable trends. [nasra.org/contributionsbrief](http://nasra.org/contributionsbrief)



### State and Local Government Contributions to Statewide Pension Systems

Building on previous research examining the funding experience of statewide pension plans for FY 01 to FY 13, this issue brief describes how contribution rates are determined, identifies the contribution rate experience for FY 14, and looks at longer term trends. [nasra.org/arcsnapshot](http://nasra.org/arcsnapshot) & [nasra.org/adcbrief](http://nasra.org/adcbrief)



### Shared Risk in Public Retirement Plans

Most states offer a retirement program that distributes some level of financial responsibility and risk to both the employer and the employee. The use of shared-financing and shared-risk grew in recent years as states modified required employer and employee contributions, restructured benefits, or both. Some states also established so-called "hybrid" plans that combine elements of traditional pensions and individual account plans. This brief analyzes longstanding and emergent uses of risk-sharing features enacted by states and designed to meet their specific financing and human resource goals. [nasra.org/sharedriskbrief](http://nasra.org/sharedriskbrief)

### Hybrid Retirement Plans

Although hybrid plans - which combine elements of traditional pensions and individual retirement accounts - have been in place in the public sector for decades, this type of retirement plan design has received increased attention in recent years. This brief outlines the different design elements among two distinct types of hybrid plans: a cash balance and a combination plan (a smaller traditional pension combined with an individual account plan). [nasra.org/hybridbrief](http://nasra.org/hybridbrief)



### Cost-of-Living Adjustments

Cost-of-living adjustments (COLAs) in some form are provided on most state and local government pensions. The purpose of a COLA is to fully or partly offset the effects of inflation on retirement income. Considerable variation exists in the way COLAs are designed, and in many cases they are determined or affected by other factors, such as inflation or the condition of the plan. COLAs add both value and cost to a pension benefit. Public pension COLAs received increased attention recently amid challenging fiscal conditions and the current low-inflationary environment. [nasra.org/colabrief](http://nasra.org/colabrief)

### Public Pension Data

The Public Plans Database, is a public, online compendium of key financial data, benefits information, and source documents for state and local government retirement systems that together account for nearly 90 percent of the assets and workforce covered by U.S. public pension plans. An annual Public Fund Survey Summary of Findings presents aggregated annual changes across plans. [publicplansdata.org](http://publicplansdata.org) & [nasra.org/publicfundsurvey](http://nasra.org/publicfundsurvey)



For More Information

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



National Association of  
State Retirement Administrators

202.624.1417  
[nasra.org/contact](http://nasra.org/contact)

