

The Future of Defined Benefit Plans

Hank Kim, Esq.

Executive Director & Counsel

National Conference on
Public Employee Retirement Systems



National Conference on Public Employee Retirement Systems

- **NCPERS is the largest nonprofit trade association representing approximately 500 public sector DB plans that have more than \$3 trillion in assets.**
- **Who we *ARE*:**
 - ***A***dvocacy
 - ***R***esearch
 - ***E***ducation
- **www.NCPERS.org**



American Retirement Landscape

Private Sector Plans

- \$2.889 Trillion in defined benefit plans
- \$5.994 Trillion in defined contribution plans

State/Local Plans

- \$3.909 Trillion in defined benefit plans
- \$479 Billion in defined contribution plans

Federal Plans

- \$1.796 Trillion in defined benefit plans
- \$570 Billion in defined contribution plan



Public Pension History

- Public pensions have been around for more than 150 years.
 - 1857 New York state established lump sum benefit for NYC police.
 - 1866 FDNY gets lump sum LOD benefit.
 - 1878 Proto pension for NYC police & fire
 - 1894 First teachers benefit.
 - Many statewide public plans established soon after 1935.



Public Pensions Now

- 5,529 plans state and local plans
- 20.6 million participants (14.5 million active)
- \$4.031 trillion AUM
- Contributory plans
- Large segments not covered by Social Security
- Regulated at the state and local level

[2017 Annual Survey of Public Pensions: State & Local Tables](#) (2016 data), U.S. Census Bureau



2018 NCPERS Public Retirement Systems Study

- www.ncpers.org/surveys
- 8th year comprehensive study
- Explore public sector retirement practices
- Analyze the most current data available on retirement funds' current fiscal condition and steps they are taking to ensure fiscal and operational integrity
- Identify best practices and strategies for lowering unfunded actuarial accrued liability

2018 NCPERS Public Retirement Systems Study

January 30, 2019

Study conducted by the
National Conference on Public Employee Retirement Systems and
Cobalt Community Research



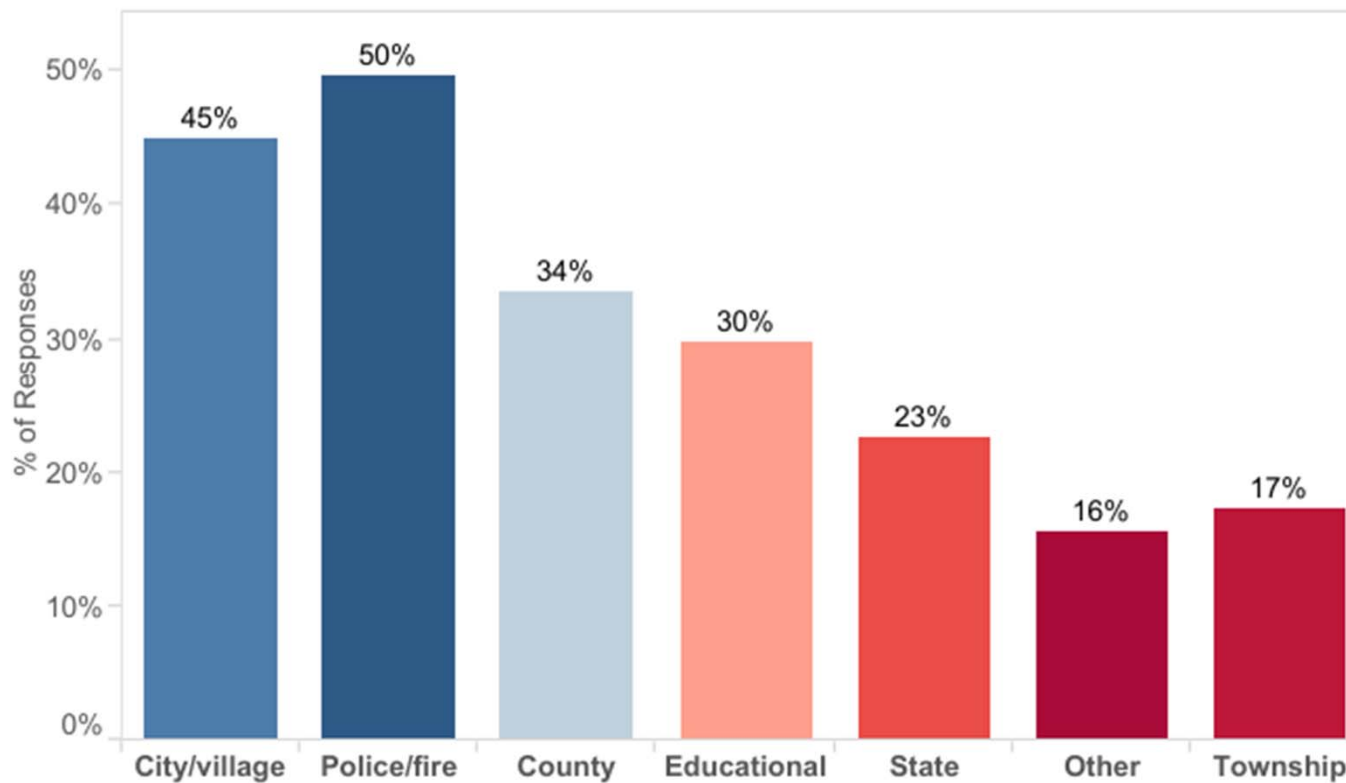
Methodology

- Conducted between September and December 2018 (same timeframe as prior studies)
- Conducted via email with a mailed reminder
- Two pools of respondents:
 1. NCPERS members
 2. Largest non-NCPERS member funds by assets and participants
- Valid response from 167 funds, of which 98 also responded to the 2017 study
 - This group provides direct comparisons on several key dimensions in the survey, such as: funded status, contribution rates, and actuarial assumptions



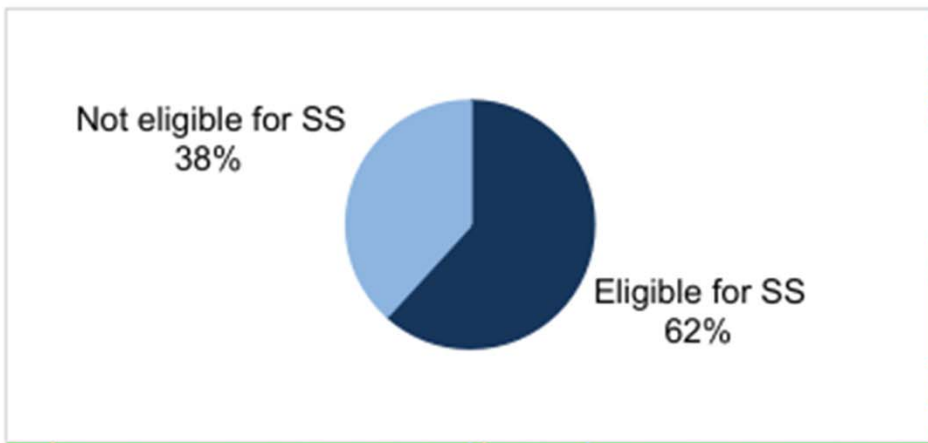
Who Responded

Jurisdictions Served

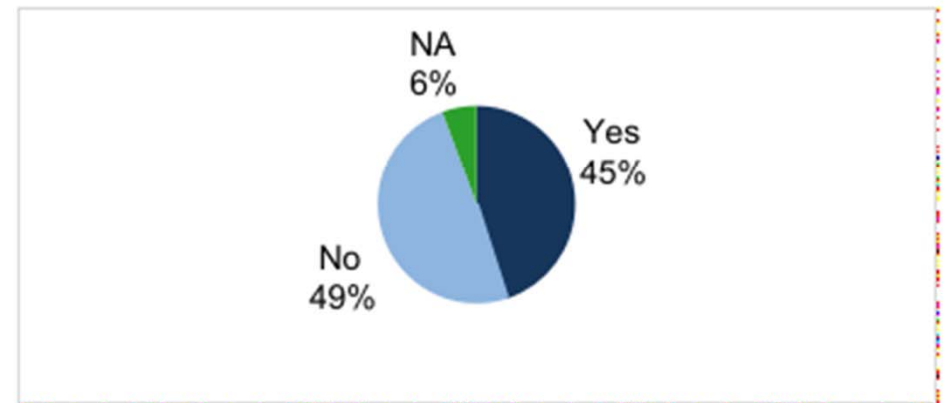


Who Responded

Social Security Eligibility

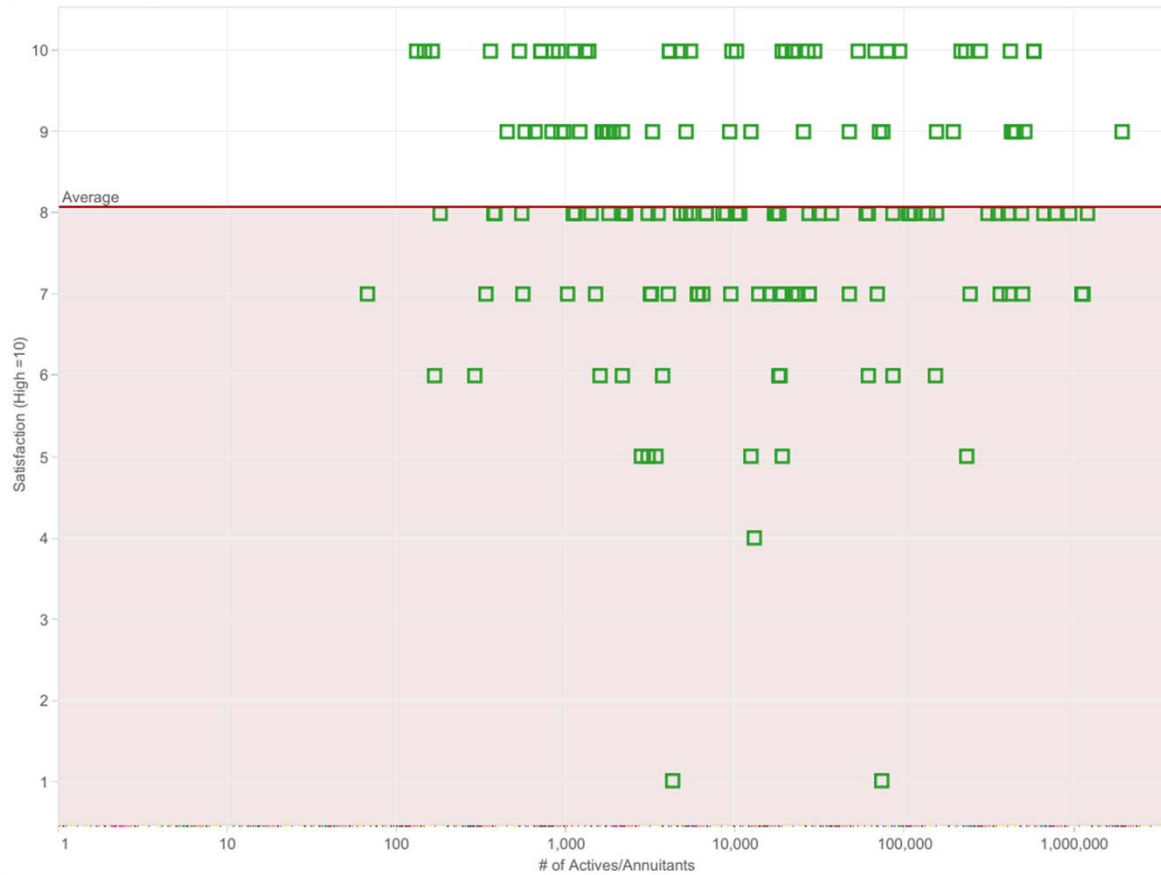


Include Overtime in Benefit Calculation

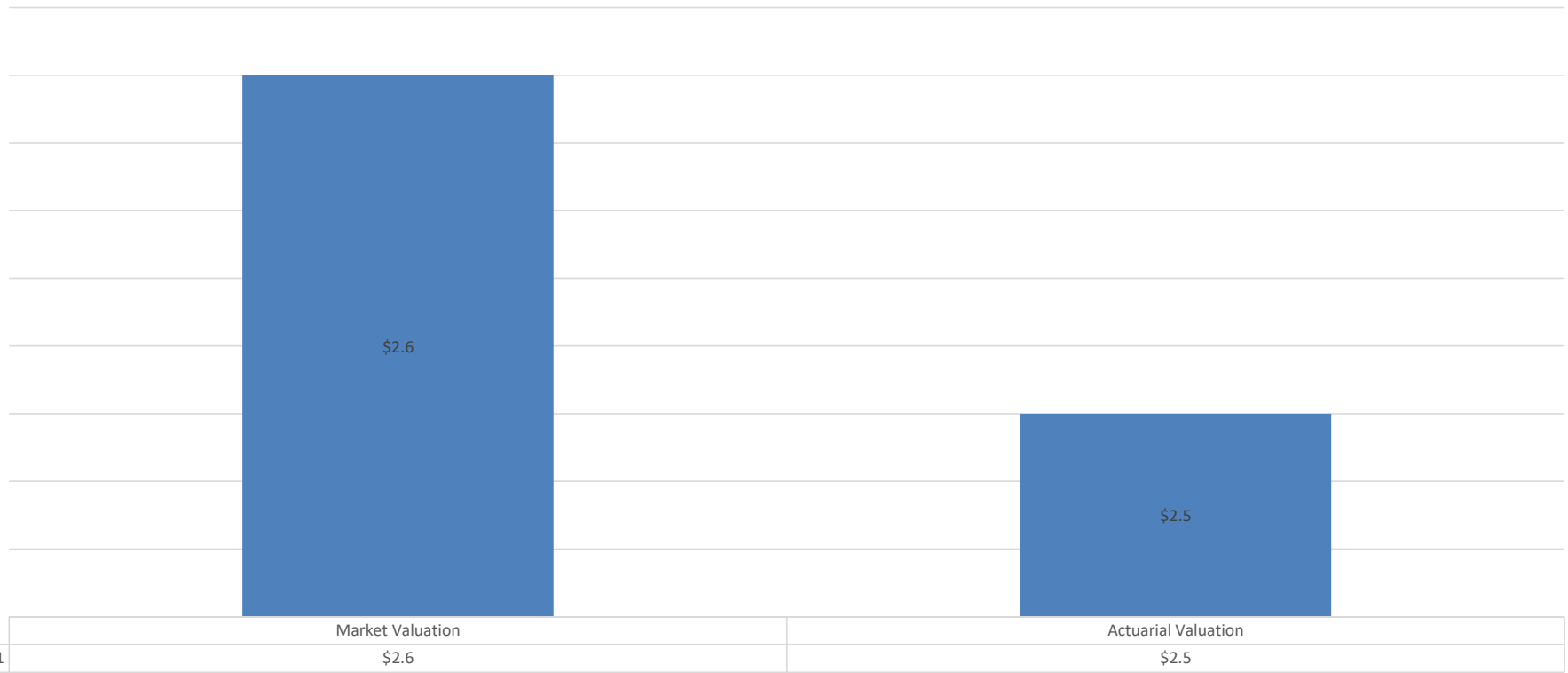


Fund Confidence

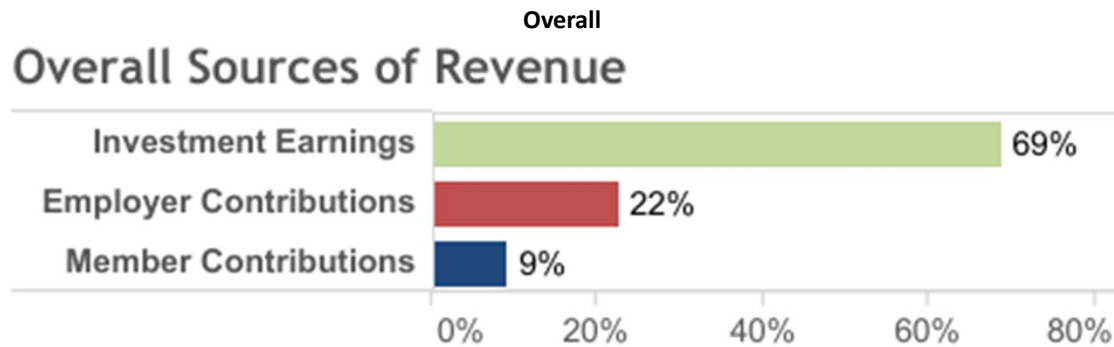
How satisfied are you with your readiness to address retirement trends and issues over the next two years?
(Scale 1 to 10)



Assets Under Management



Sources of Revenue

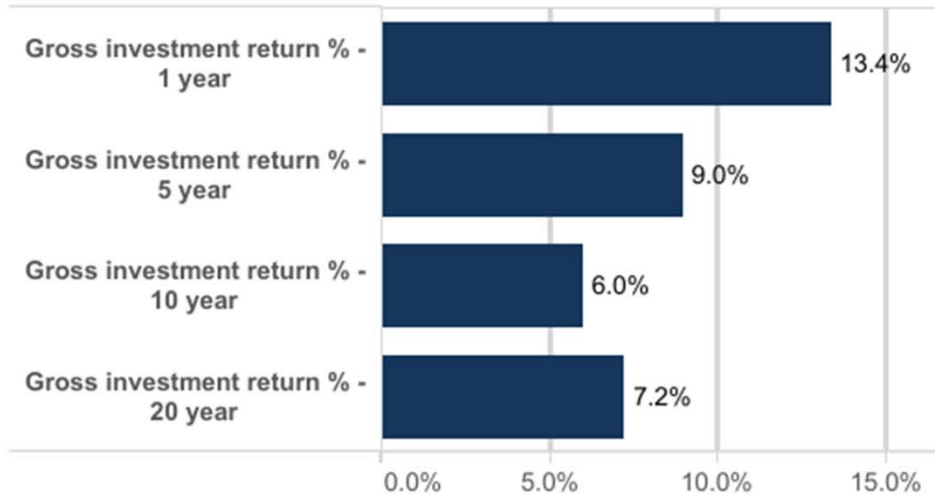


Contributions As a Percent of Payroll			
Year	EE	ER	Total
2018	9%	22%	31%
2017	8%	22%	30%

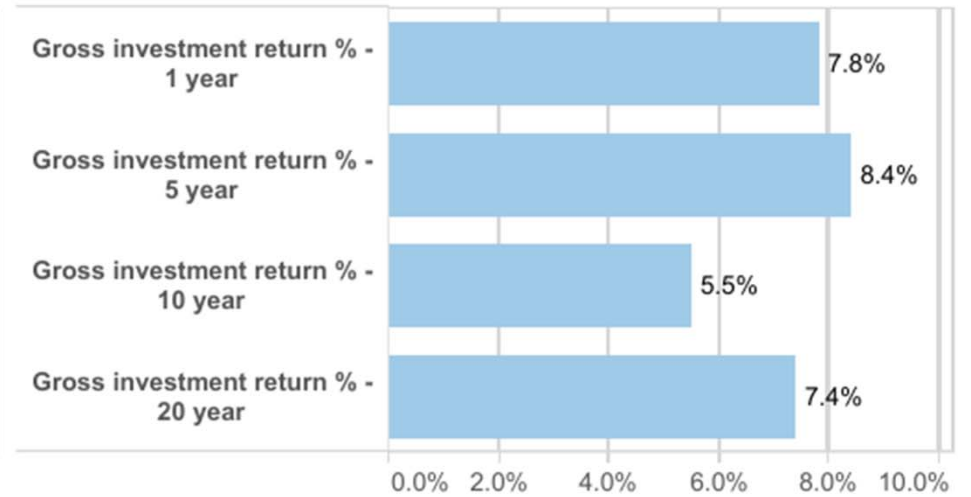


Investment Performance

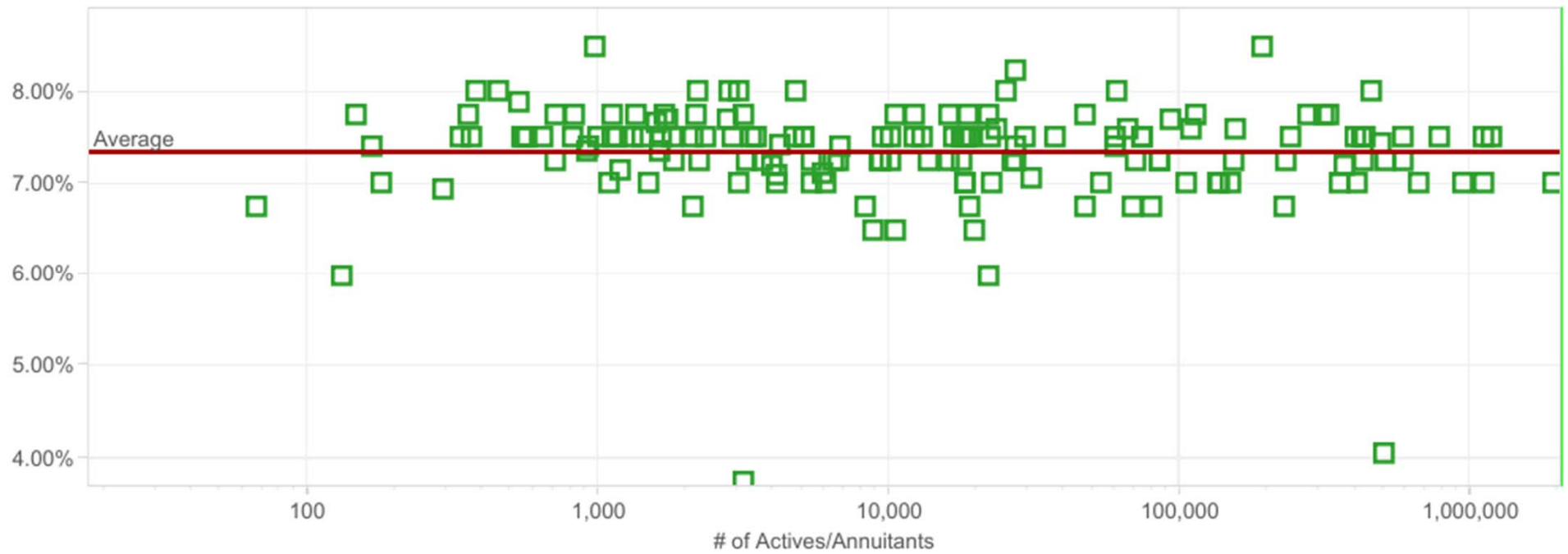
2018 Study Investment Returns



2017 Study Investment Returns

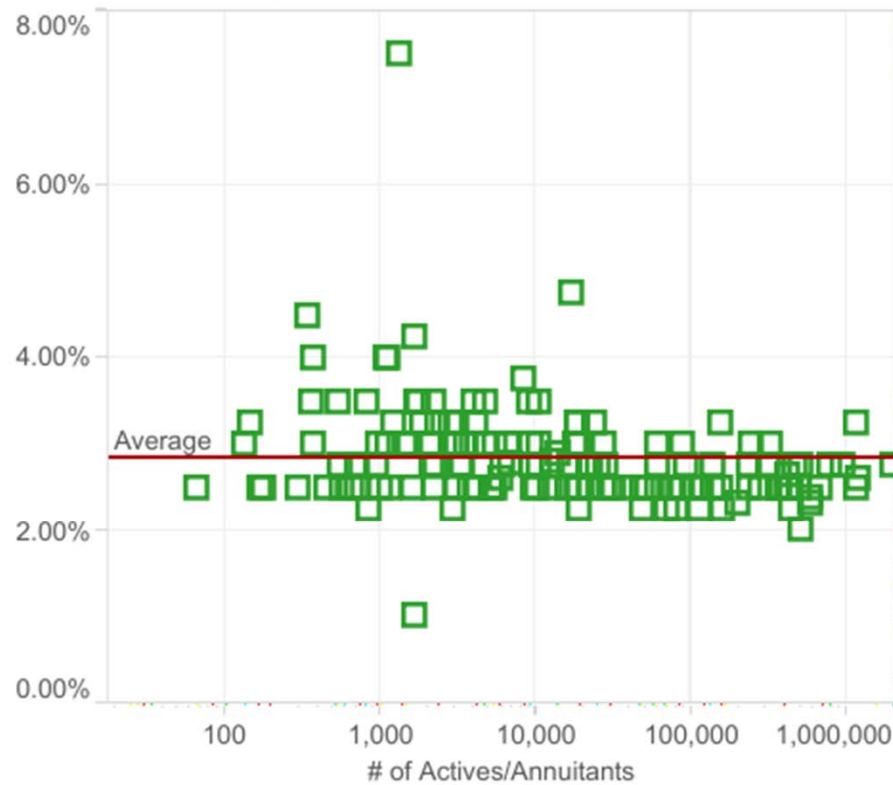


Discount Rate

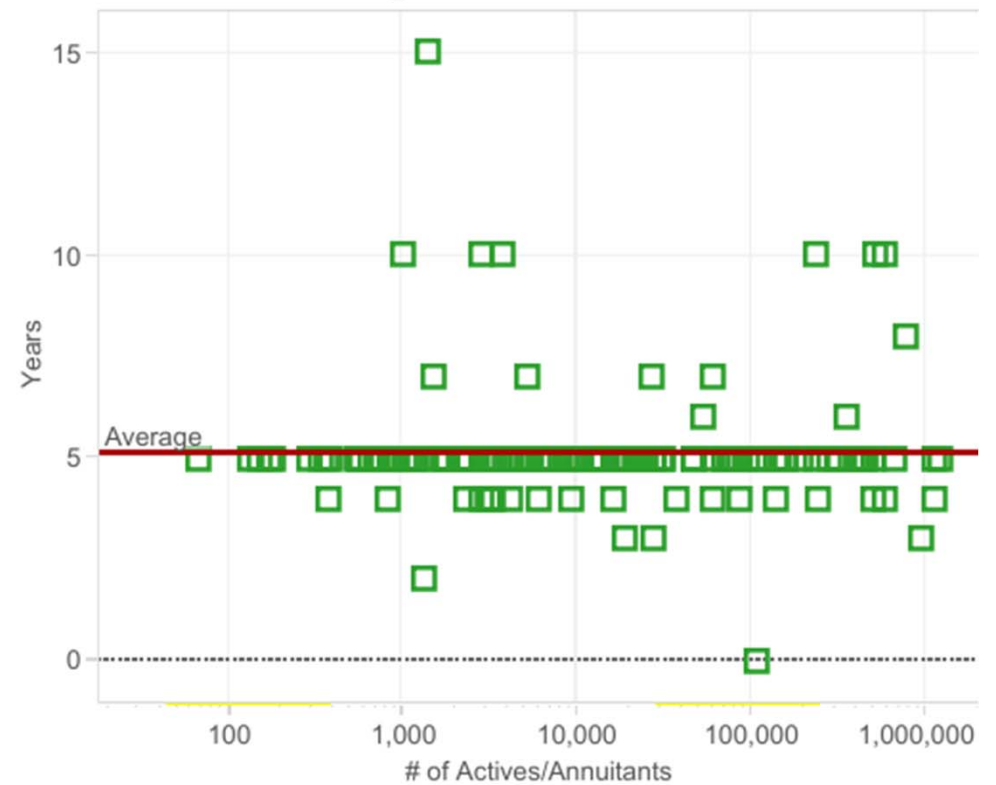


Inflation & Smoothing

Inflation Assumption

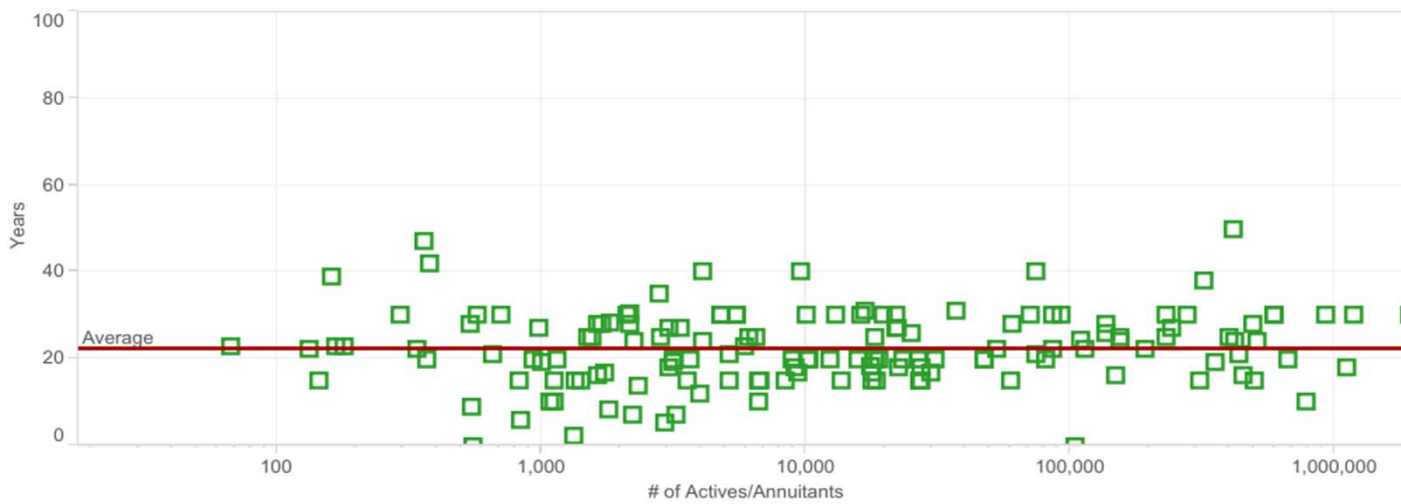


Investment Smoothing

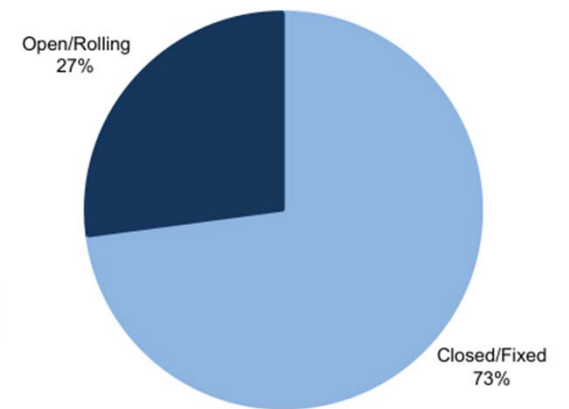


Amortization

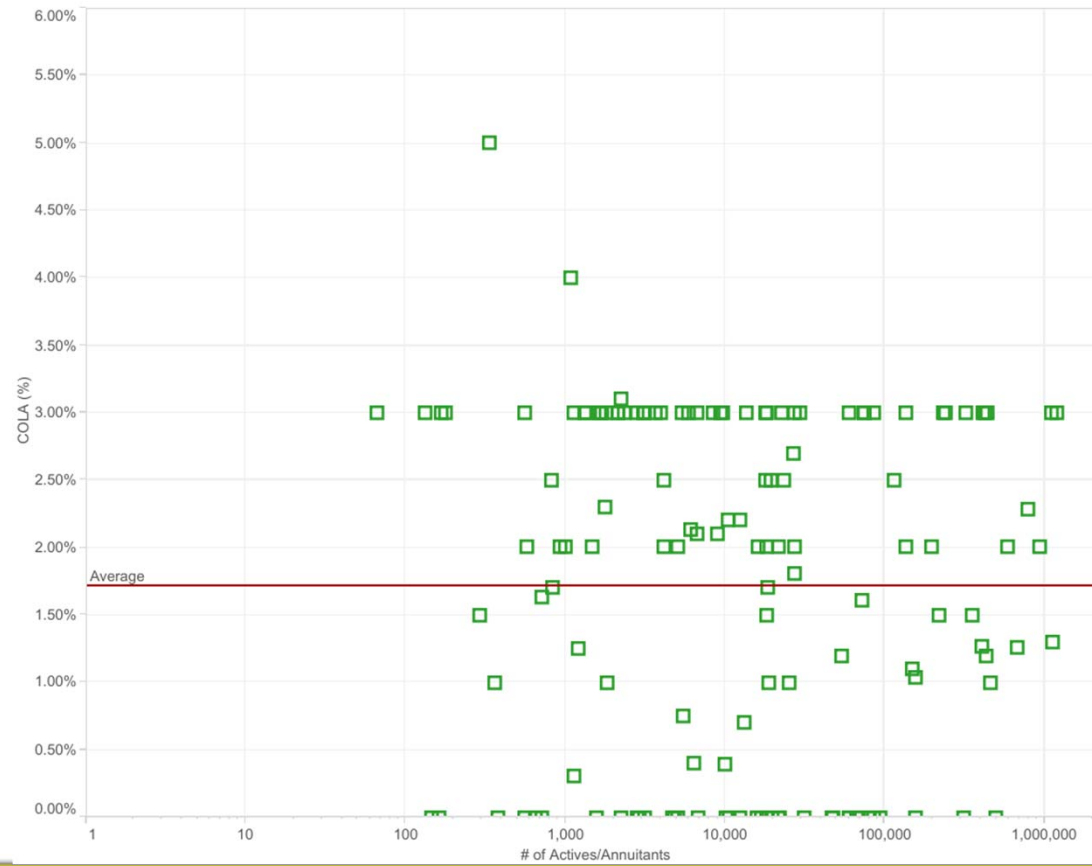
Amortization Period



Type of Amortization Period

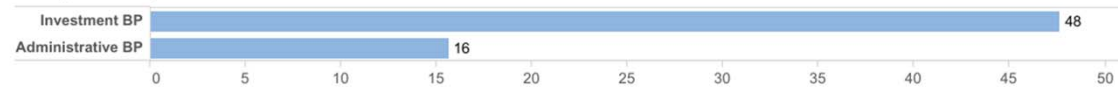


COLA

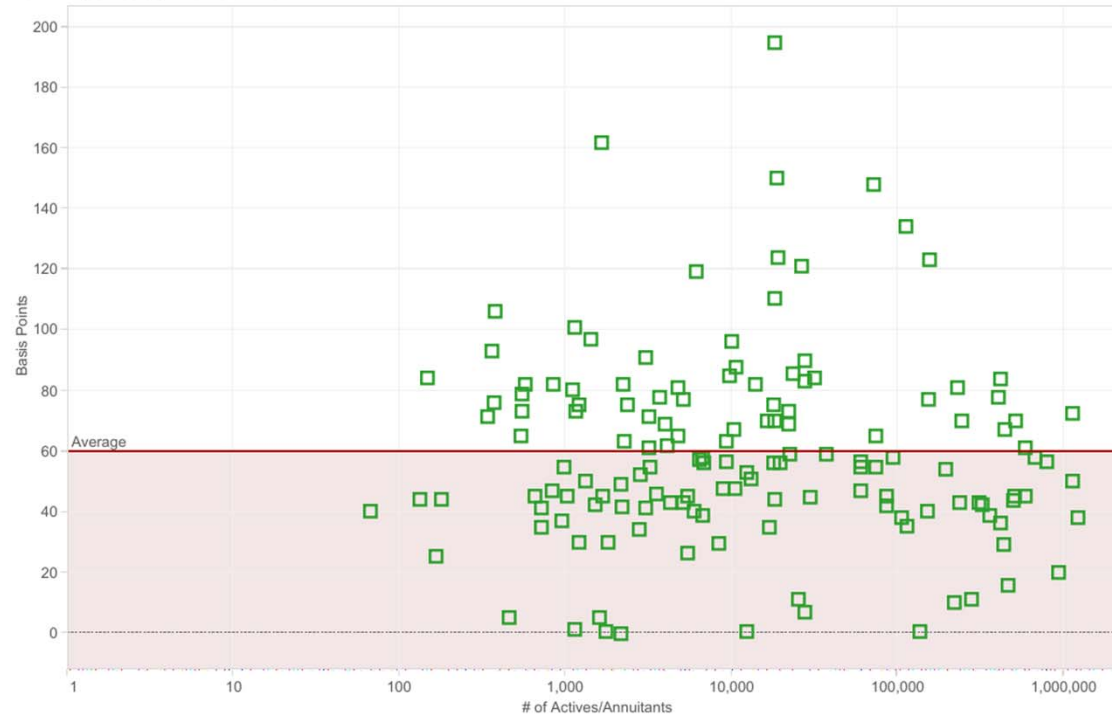


Administrative and Investment Expenses

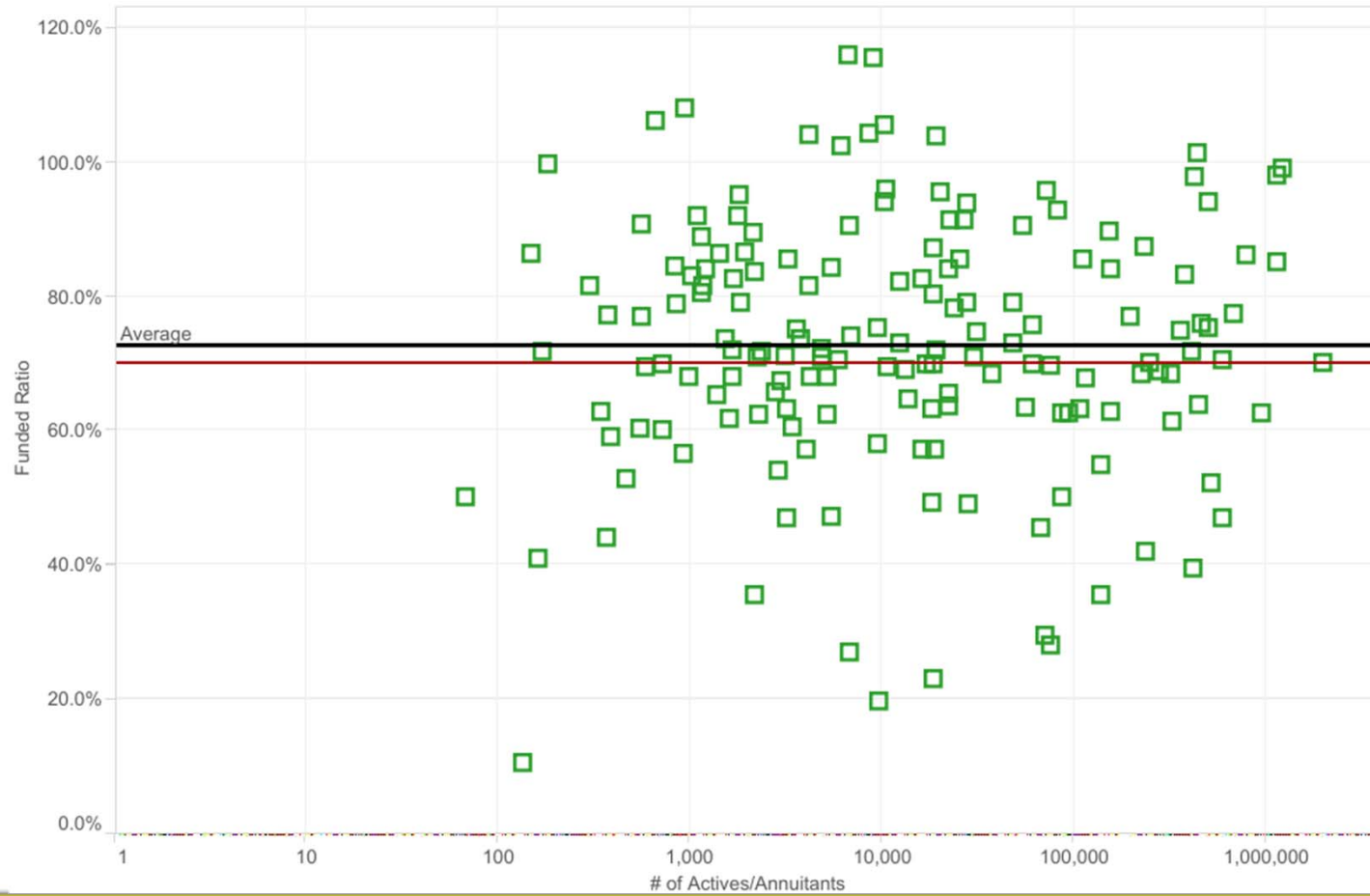
Study Plan Expenses



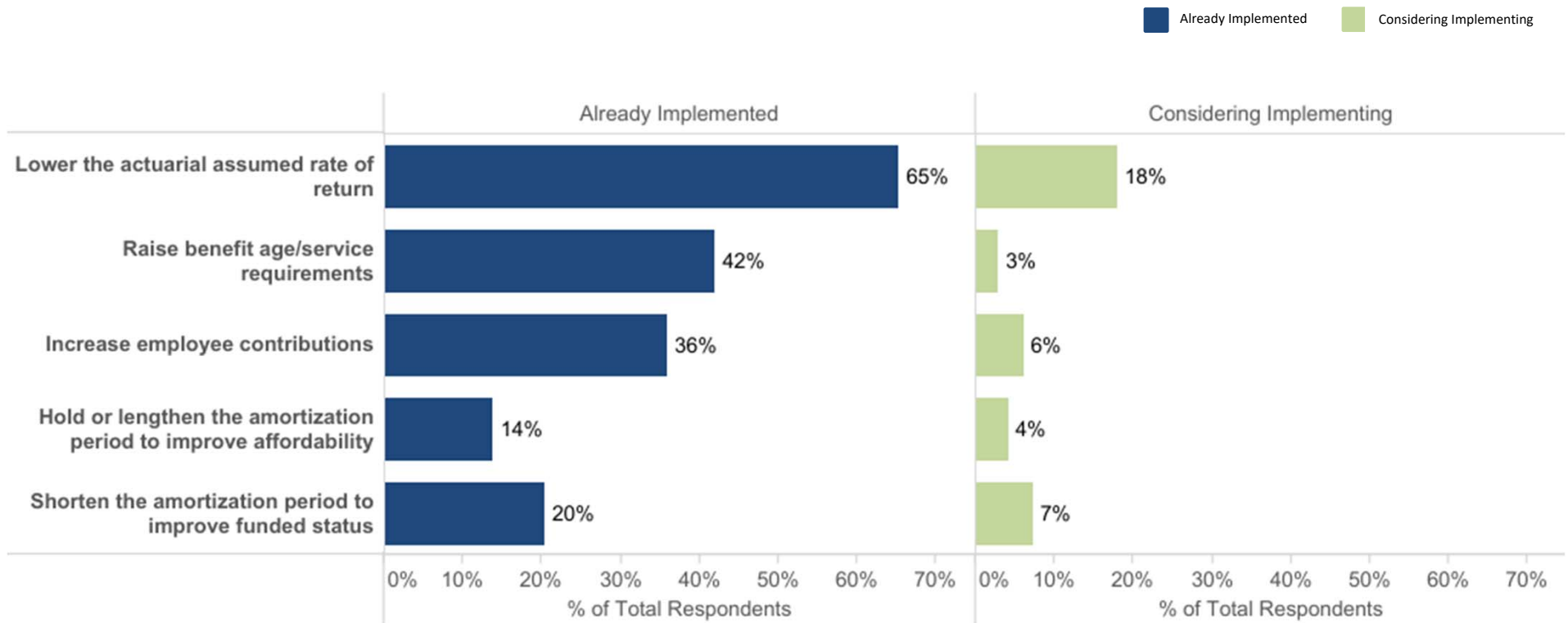
Plan Expense by Fund Size



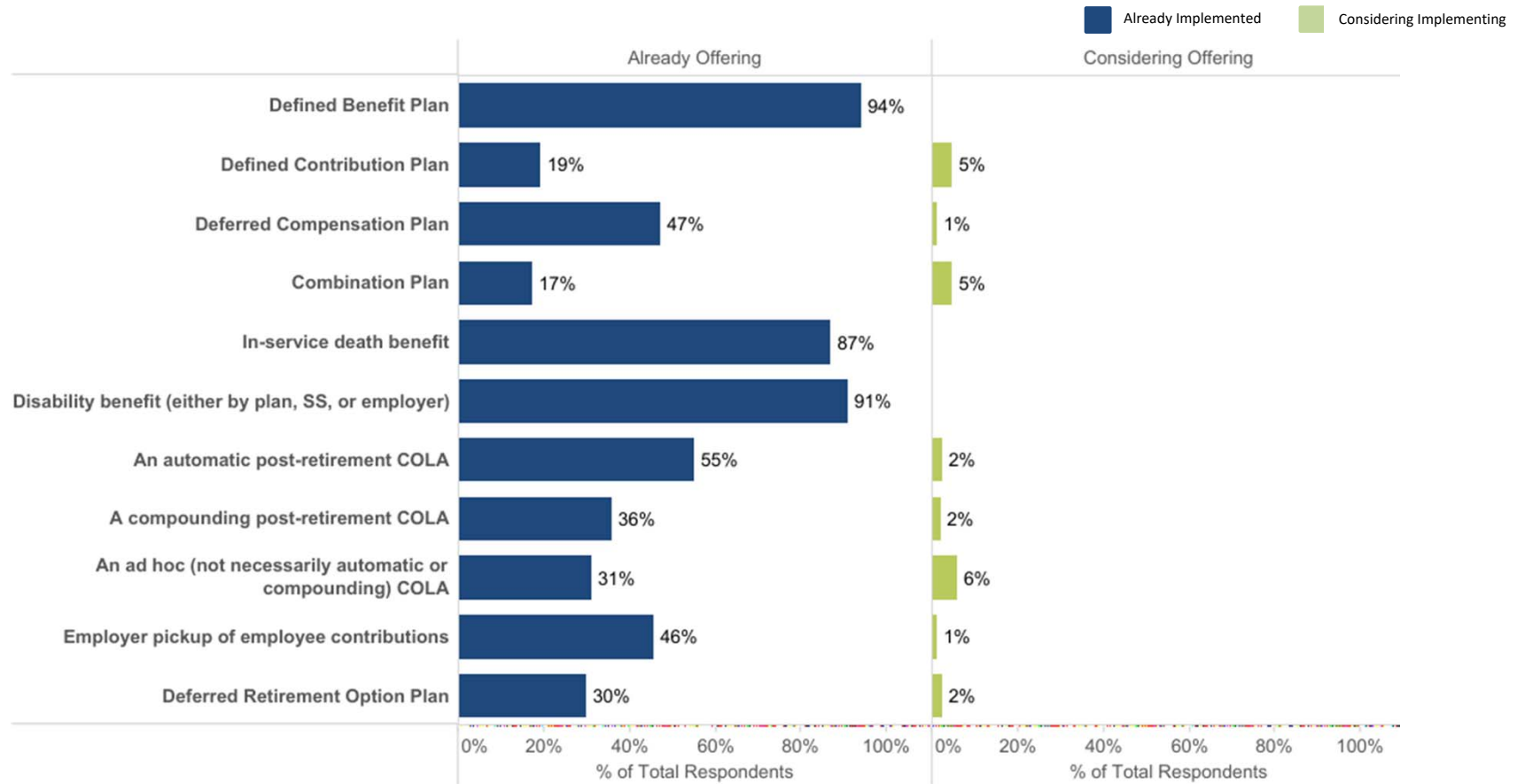
Funded Status



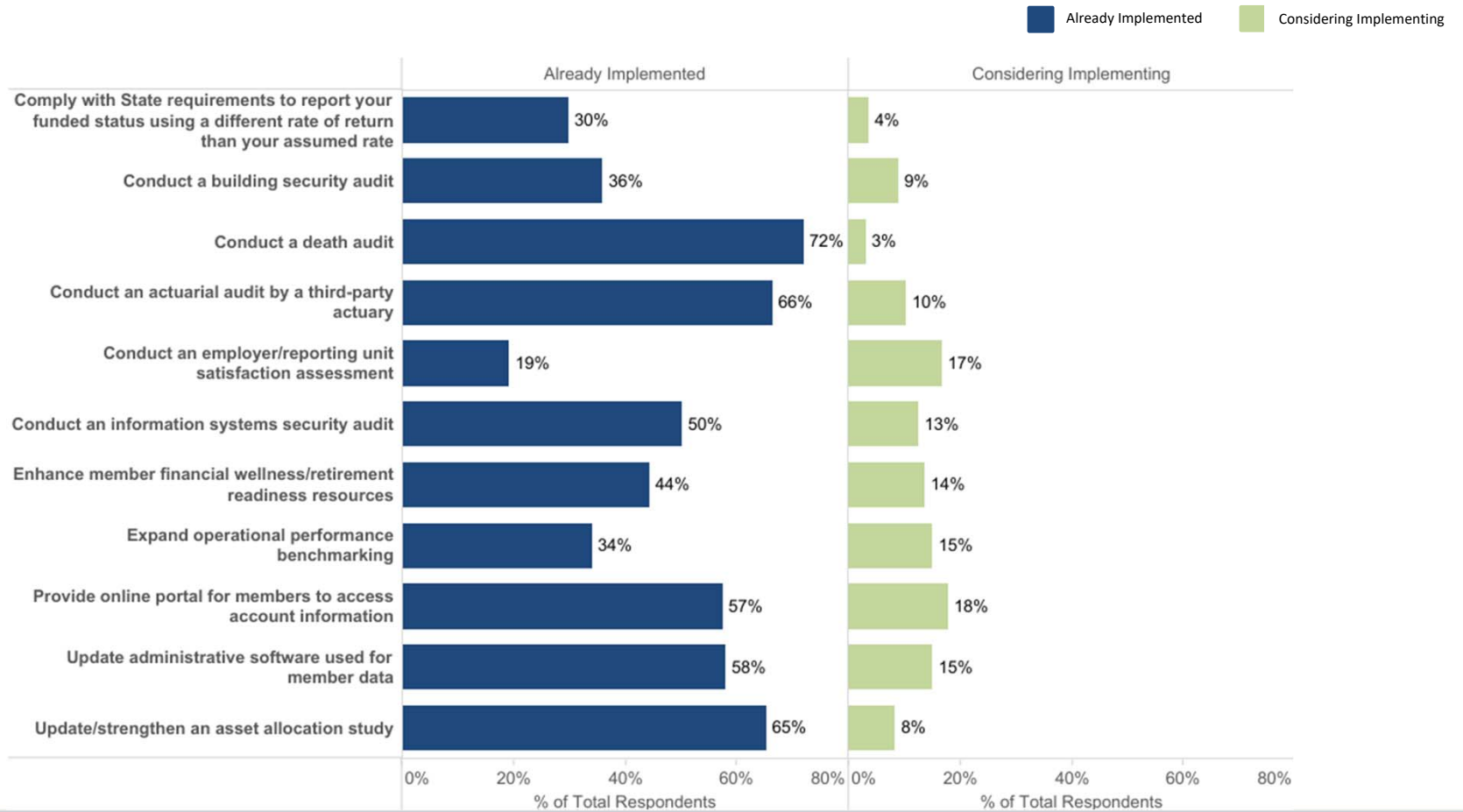
Trends in Plan Changes



Trends in Benefits



Trends in Business Practices



Bottom Line

- Funds continue to tighten assumptions
- The trend of public funds becoming more cost effective continues
- Responding funds have funded levels that are sustainable
- Income used to fund pensions come from three sources: investment returns 69%, employer contributions 22%, and member contributions 9%.



Private Sector Pensions Now

Multi-Employer Plans

- 1,400 multi-employer plans*
- 10 million participants*
- 4.1 million active participants**
- \$501 billion AUM (as of 2015)**

Single Employer Plans

- 22,000 single employer plans*
- 28 million participants*
- 23.8 million active participants**
- \$2.362 trillion AUM (as of 2015)**

Noncontributory plans, i.e., contributions entirely by sponsor

Covered by Social Security

ERISA is governing law

Regulated by the federal government (DOL and PBGC)

*[FY 2017 PBGC Projections Report](#), Pension Benefit Guaranty Corporation, May 2018

**[Private Pension Plan Bulletin Historical Tables and Graphs 1975-2015](#), EBSA, February 2018



Challenges

Public Pensions

- Continued state/local efforts to convert DBs to DCs
- Anti-DB advocacy groups, foundations, think tanks, and other nonprofits
- Janus and future cases against unions
- Actuarial community (some members)
- Solutions for IL, NJ, KY that are reasonable, truly shared sacrifice, and sustainable
- Near-term economic outlook and long-term demographics
- Potential Federal actions
 - Public Employee Pension Transparency Act (PEPTA)
 - Annuity accumulation plan

Private Sector Pensions

- Flight of single employer plans
- Solvency of some multiemployer plans
- Solvency of PBGC multiemployer insurance program
- Near-term economic outlook and long-term demographics
- Federal actions
 - Pension Protection Act (PPA) 2006
 - Multiemployer Pension Reform Act (MPRA) 2014
 - Joint Select Committee on Solvency of Multiemployer Pension Plans? 2018



Future of Defined Benefit Plans

Public Pensions

- State/local plans likely to continue
- Efforts to convert to DC plans exclusively will largely fail
- But more plans could change their benefits and design
 - Higher employee contribution, increase age requirement, lower multiplier, eliminate/reduce/modify COLA, etc.
 - Combination
 - Cash balance

Private Sector Pensions

- Single employer plans may be history
- If federal government provides intelligent & thoughtful assistance, multiemployer plans likely to continue
- But plan design could change
 - Higher age requirement, lower multiplier, etc.
 - Combination
 - Cash balance
 - Contributory (with tax change)



Future of Retirement Security

Public Sector

- Those in new tiers or switched from DB to DC, combination, cash balance will likely have less retirement security (RS)
- Innovations in DC and deferred comp design and management could increase RS
- Innovations in DC and deferred comp decumulation phase could increase RS
- Sophisticated coordination of DB, DC, personal savings, and Social Security could increase RS

Private Sector

- Likely similar experience to public sector
- 401(k) lawsuits could increase RS
- Secure Choice access for those without employer sponsored retirement plans could increase RS



Thank You

NCPERS

444 North Capitol Street, NW

Suite 630

Washington, DC 20001

202-624-1456

info@ncpers.org

www.NCPERS.org

