Public Pension Funding Forum

Review of 2014 Presentation: Pension Funding: It’s Not a Math Problem

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Presented by: Daniel Kozloff
Framing the Problem

Total unfunded pension liabilities of the 50 states: $833 billion
(Bloomberg)

Total with more realistic discount rate and reinvest assumptions: $1.875 trillion
(Moody’s)

Starting in 2016, ten thousand baby boomers will retire or reach age 65 each day for the next 17 years
(Kiplinger)

Only 53% of individuals believe they will be financially ready to retire
(Mercer’s 2012 Workplace Survey)

By 2033, thirty million individuals will have reached age 65 leaving both Medicare and Social Security unable to pay their bills from current revenue, with adjustments

Today, retiree spending equals 5.3% of our GNP and retirees hold 36% of the nation’s invested capital
“States that have the largest relative pension liabilities have at least one thing in common: a history of contributing less to their pension plans than the actuarially required contribution.”

- Moody's Investors Service
Challenges Persist

- Sizeable unfunded pension liabilities continue to result in ongoing budget pressures, create downward pressure on credit ratings and remain a focal point for local and national media.
Funding Policy Concepts & Objectives

• A funding policy must be established with specific objectives.
  ✓ Lay out a plan to fund pensions
  ✓ Provide guidance in making annual budget decisions
  ✓ Demonstrate affordable financial management practices to taxpayers
  ✓ Reassure bond rating agencies
  ✓ Assure employees how pensions will be funded

• Sustainability through policy implementation.
  ✓ Have a pension funding policy that is based on an actuarially determined contribution
  ✓ Build funding discipline into the policy to ensure that promised benefits can be paid
  ✓ Maintain intergenerational equity so that the cost of employee benefits is paid by the generation of taxpayers who receive services
  ✓ Make employer cost a consistent percentage of its current and projected payroll
  ✓ Require clear reporting to show how and when pension plans will be fully funded
The Importance of Shared Sacrifice

**Prevailing Solutions**

- Holistic view of total compensation
- Higher employee contribution
- Required ARC funding
- Caps on benefits
- Funding underfunded systems
- Fixed retirement age
- Elimination of retroactive increases
- Development of hybrid systems
- Create contribution certainty and risk parity
- Monitor with vigilance and engage employees

**Solutions that could be considered as part of a larger context / strategy**

- *Benefits bonds*
- Asset monetization
To be effective and sustainable, a pension funding strategy must be considered across three primary areas.
GFOA Best Practices for POBs

- The Government Finance Officers Association (“GFOA”) advocates a thorough review and the use of caution before issuing Pension Obligation Bonds.

**POBs as part of a larger strategy**
- Pension Obligation Bonds, if used, should be utilized in conjunction with, and not in place of, sensible funding and investment policies.

**Broader budgetary impacts must be considered**
- Stakeholders should be aware that pension liabilities with debt service payments can limit budgetary flexibility, and may not eliminate unfunded liabilities in perpetuity.

**Avoid extension of UAAL**
- Pension Obligation Bond debt should not extend the unfunded actuarial accrued liability.

**Creation of ‘hard liability’; impact on debt capacity**
- Issuers should be mindful of the impacts on debt capacity, and the reporting implications of the hard debt liability.

**Impact on multiple-employer systems**
- Employers participating in multiple-employer systems should pay additional attention to the actuarial and cost implications of those plans.
Conclusion

- Any strategies implemented with the goal of strengthening a public retirement system must be part of a long-term plan that spreads the impact of changes across employers, employees, and taxpayers.
- These stakeholders’ interests must be balanced to create…

Sufficiency,

Affordability,

and Sustainability.
Additional Information

PFM Center for Retirement Finance

Available at: https://pfm.com/financial-advisory/retirement/