The West Virginia Experience

TDB to TDC to TDB

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History

- Late 1980’s Insurance Executive elected Governor
- TDB Plan UAL of $5 Billion
- TDB Plan assets $290 Million
- PEIA 6 months behind paying claims
- Health Providers refuse PEIA beneficiaries
- State Income Tax refunds months behind
Early 1990 – Governor Proposed

- $400 million in New State Taxes
- Close TDB Plan & Freeze debt
- Amortize debt in TDB over 40 years
- Begin New TDC Plan for new hires
  - Employee contribution 4.5%
  - Employer contribution 7.5%
- TDB participants have option to join TDC
  - Hard sales pitch – TDB broke – 4,000+ transferred
State hired Actuary
Consolidation of pension administration
Constitutional Amendment – Equities
Creation of WV Investment Management Board
Creation of Revenue Shortfall Reserve Funds
Elements of Successful DC Plan

- Administration
- Education
- Diversification
- Reporting
West Virginia DC Plan Failed

- Administration – non professionals
- Education – non existent
- Reporting
  - Quarterly
  - Two weeks to make changes
- Diversification
  - 7 investment options – retail vs institutional
  - Included VALIC annuity – 54% participation
  - Some options mirror images
What we found after 15 years

- TDC members age 60 & ready to retire:
  - 97.95% had balance under $100,000, 83.51% had average balance of $23,193
  - 2.05% had balance above $100,000
  - One member had balance of $157,464 and remaining 22 had average balance of $111,832
What we found after 15 years

- All TDC members:
  - 0.04% had average balance of $174,447
  - 1.69% had average balance of $110,285
  - 21.69% had average balance of $72,746
  - 76.30% had average balance of $21,016
  - Average balance for all members $33,944
Observations

- Members age 60 cannot afford to retire Unless they have significant outside retirement income
- Younger members have longer to accumulate funds but target accumulation is much higher and plan lacks diversification, education and ability to make investment changes in timely fashion related to individual needs/life style changes
Return Analysis - 2006

- 67.23% average return of 4.62%
- 15.88% average return of 8.44%
- 16.90% average return of 11.56%
- Professionally managed TDB return 9.55%
- Individually managed accounts should trail professionally managed accounts by .5% to 1.5% - average TDC over 6 years trailed by 2.72%
TDC Participant Accounts

Average Return Rate Per Age Group for FY2006

- Membership Return
- Valuation Rate
- IMB Return
TDC and TDB IMB Return Comparison

![Graph showing plan average return rates from 2001 to 2006 for TDC Total Plan Return and TRS IMB Return](image-url)
Strategy – Document Failure

- Member Testimony
  - Surveys

- Actuarial Reports
  - State’s Actuary
    - TDC cost to state 7.5% of payroll – TDB normal cost to state 4.01% - savings of $22 million
  - Buck Consultants
  - Segal Associates
Research

“Protecting Retirement Security” - NEA
National Association of State Retirement Admn.
“Myths and Misperceptions of Defined Benefit and Defined Contribution Plans”

Journal of Pension Plan Investing
“Are Defined Contribution Plans Better Than Defined Benefit Plans for State and Local Government Employees?” by Claire Wolkoff and Joseph Metz

WV DC Plan Guide - states that this plan is “…a savings plan designed to allow employers to supplement their employees’ existing retirement and pension benefits.”
Legislative Strategy

- Meet with legislative leadership
- Meet with Governor
- Local Leaders/Members
  - Meet with legislators at home
    - Talking points
  - Letters to editors
  - Lobbying at state capitol
2005 Legislative Session – HB-2984

- Re-open TDB Plan – Close TDC Plan - 7/1/2005
- Required TDC Participants receive Education on Merger process
- Election March 2006
  - 50% must vote – simple majority rules
  - All TDC go to TDB or all TDC stay in TDC
  - Ballots in favor of Merger 61.4%

Merger challenged in court

- Issue- Violation of WV & US Constitution – sweeping of assets to TDB amounts to an illegal taking of property rights by the State
- Court Challenge successful
Legislative Results - continued

- 2008 Legislative Session HB-101
  - Begin Education Program – “Choose your retirement”
    - Law - Transfer
    - Mechanics of Transfer
    - Election Process
    - Dates and Time Lines
    - Individual Statements – Benefits, Potential
    - Advantages and Disadvantages of DC & DB
    - Tax Implications
Legislative Results – continued

- Participant Election April - May 2008
  - 65% Must Vote
  - 78.3% selected to transfer to TDB
    - 15,152 Transferred
    - 4,831 Remained in TDC
Recommendations for Other States

- Document Failures
- Research
- Develop Legislative Strategy
- Never Give Up
Update - 2016

- TDB UAL $3.5 Billion, Assets $6.7 Billion
  - Legislative leaders – refinance UAL
- Shortfall Reserve Funds $834 Million
- PEIA has $105 Million in Reserve
- Pressure each year from remaining TDC participants for legislation to transfer to TDB
- State of WV suffering as a result of decline in demand for coal and price of natural gas
Contact Information

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