Closing The Funding Gap Without Dismantling Public Pensions

The Problem and What Has Been Done

Sanford Rich
Executive Director
NYC Board of Education Retirement System
NCPERS 2019 Public Pension Funding Forum
September 11 – 13
New York, NY
THE PROBLEM

• Funding gaps have been failures of the asset side, largely funding discipline

• Historically, remedies for funding gaps have attacked the liability side or transferred risk to system participants
Tax Revenues are the Foundational Protections for Public Pensions

The IPOD ratio: State, City and County debt burdens
% of municipality’s revenues required to pay the sum of interest on net direct debt, the municipality’s share of unfunded pension and retiree healthcare liabilities, and defined contribution plan payments; assuming 6% plan return and 30 year level dollar amortization

Source: J.P. Morgan Asset Management, Center for Retirement Research at Boston College, CAFRs, Moody’s. FY 2015.
How Have Politicians Responded on the Liability Side to Pension Costs?

Figure 4. Statewide Hybrid Plans Established 2009-2018

Plan Type: Red = Combination hybrid, Blue = Cash balance
How Have Politicians Responded on the Liability Side to Pension Costs?

Figure 2. States that Reduced Pension Benefits, 2009-2018
How Have Politicians Responded on the Liability Side to Pension Costs?

Figure 3. State COLA Reductions, 2009-2018
How Have Politicians Responded on the Asset Side to Pension Costs?

*Figure 1. States that have increased employee contribution rates, 2009-2018*
How Have Politicians Responded on the Asset Side to Pension Costs?

Detroit Bankruptcy

NJ move to “contribute” the State’s Lottery to the pension fund

CT Pension Sustainability Commission
What Can We Do?

Do we have a Fiduciary obligation to future generations of Public Employees? If so, what is our obligation to mitigate under funding pressure by assuring that adequate funding is provided to Public Pension Systems? Should there be a requirement that funding be made? Should there be more fulsome disclosure of the financial risks?
What Can We Do?

Advocate for Actuarial Determined Contribution funding and fight against funding flexibility

ASOP 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, may, or should, prompt more transparent conversations about how Public Pension Systems operate and get into underfunded status

PEPTA, Public Employee Pension Transparency Act, Federal Legislation?
Thank you