Observations on Risk-Sharing Pension Plans

House Finance Committee
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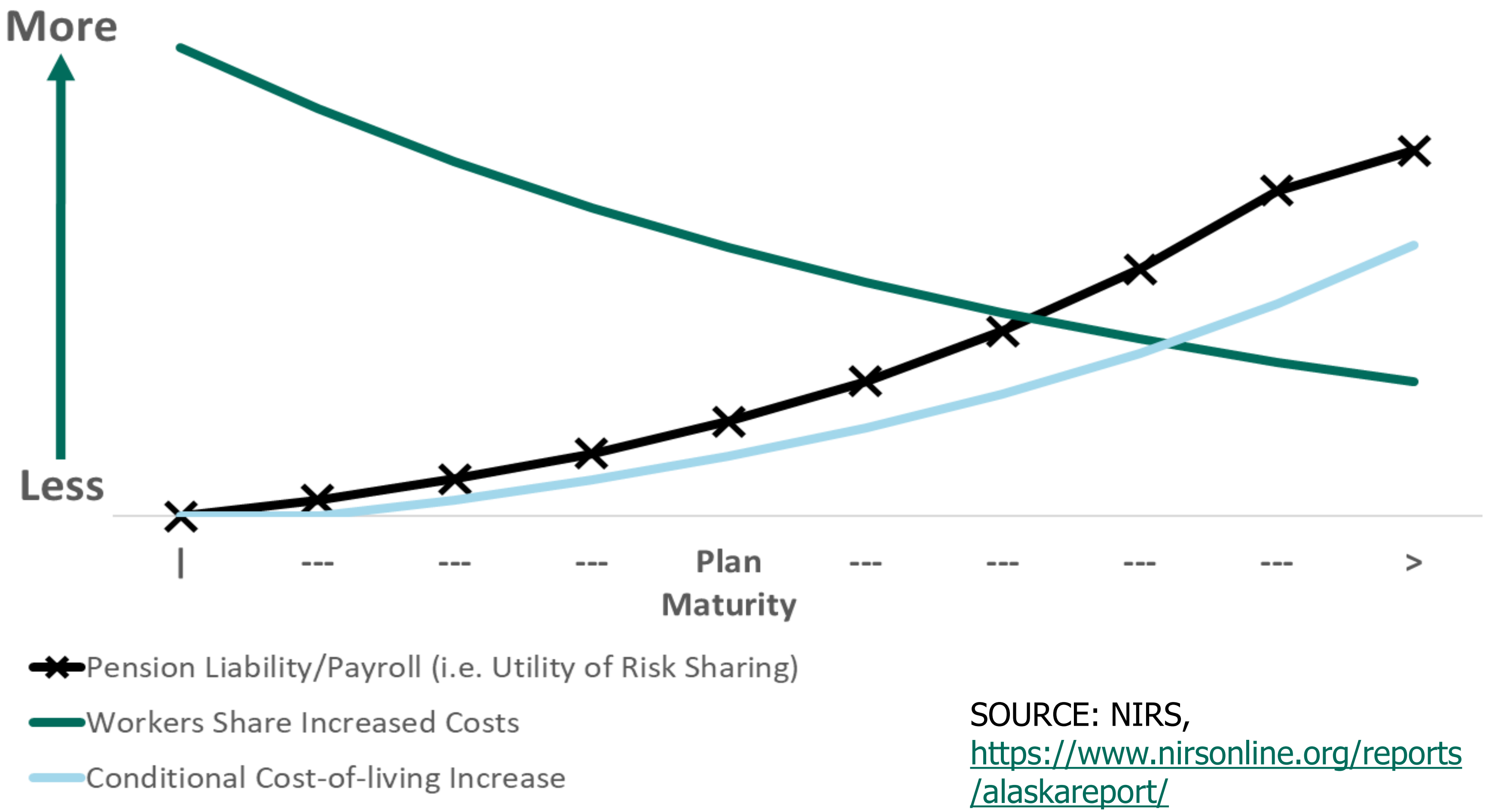
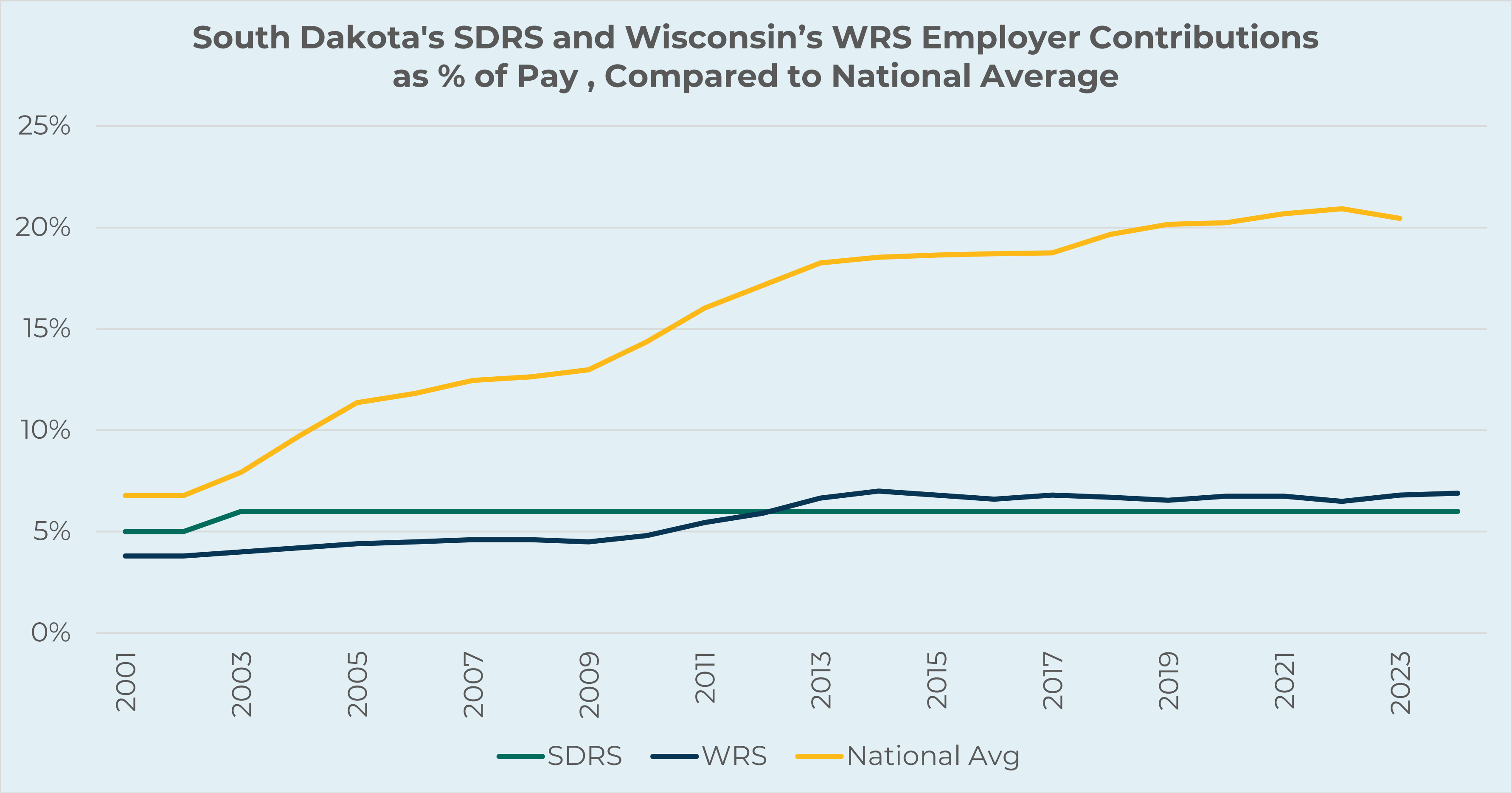
Effectiveness of Risk-Sharing Provisions Changes as a Plan Matures



SOURCE: NIRS, https://www.nirsonline.org/reports/alaskareport/

SDRS and WRS Maintained Stable Costs During Instability



SOURCE: Public Plan Database, https://publicplansdata.org/

Comparison: SDRS, WRS, and HB 78

Table 3: Strategies to Produce Stable Costs Employed by Four States	
Wisconsin WRS	Automatic Benefit Adjustments & Cost Sharing
South Dakota SDRS	Automatic Process Triggered by Policy
Indiana INPRS	Funding Policy
Tennessee CRS	Use of Reserve Fund & Risk Sharing

SOURCE: NIRS, www.nirsonline.org/reports/alaskareport/

HB 78: Variable post-retirement increases and employees share increased costs, if under 90% funded.

➔Board could adopt funding policy to reduce volatility.

➔Adopting a reserve fund policy may require legislation.

Other States Began to Follow

In-depth: Risk Sharing in Public Retirement Plans

Introduction

Nearly every state in recent years enacted reforms to pension plans within their purview. As a result, although most public employers in the U.S. have retained DB plans, in many plans, more risk has shifted from employers to employees.

The purpose of this paper is to increase knowledge and awareness of the wide variety of options that are currently being used to design and finance retirement benefits; it is not an endorsement of any particular plan design or feature. This paper describes risk-sharing features that are incorporated into public pension plans and provides case studies of specific plans that employ risk-sharing structures.

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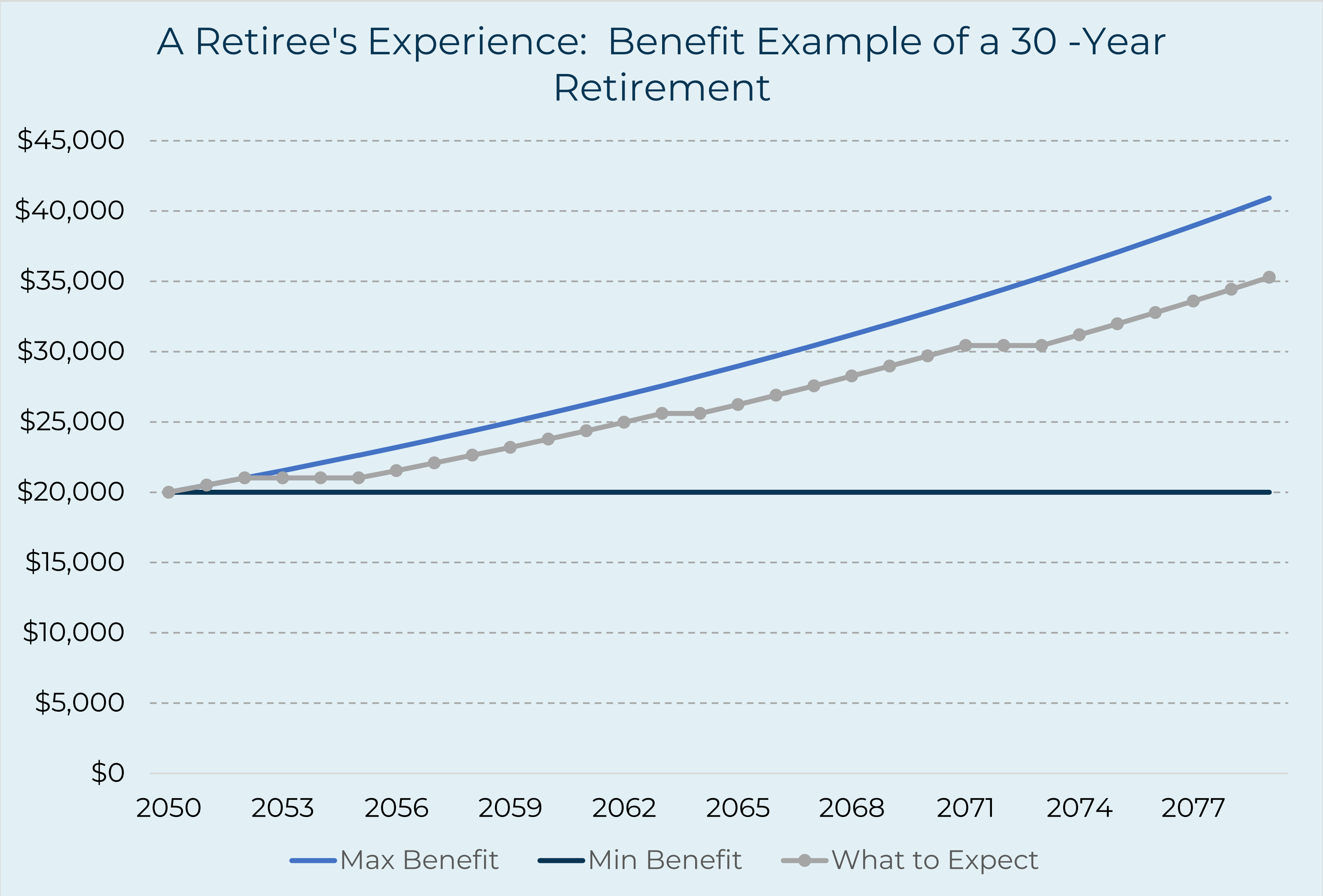
SOURCE: NASRA, https://www.nasra.org/content.asp?contentid=124

What this might look like for a retiree



Total Benefits Paid:

Max Benefit	$878,054
Min Benefit	$600,000
What to Expect	$796,485

What Happens When an Increase is Skipped?

- Plan assumes increases will be granted.
- If funding <90%, increases are reduced or eliminated.

= Experience gain of x% of retiree liabilities

➔If trigger was 60%, it would be less effective

Questions