

Dealing with Legacy Costs: Pension and Health Benefits

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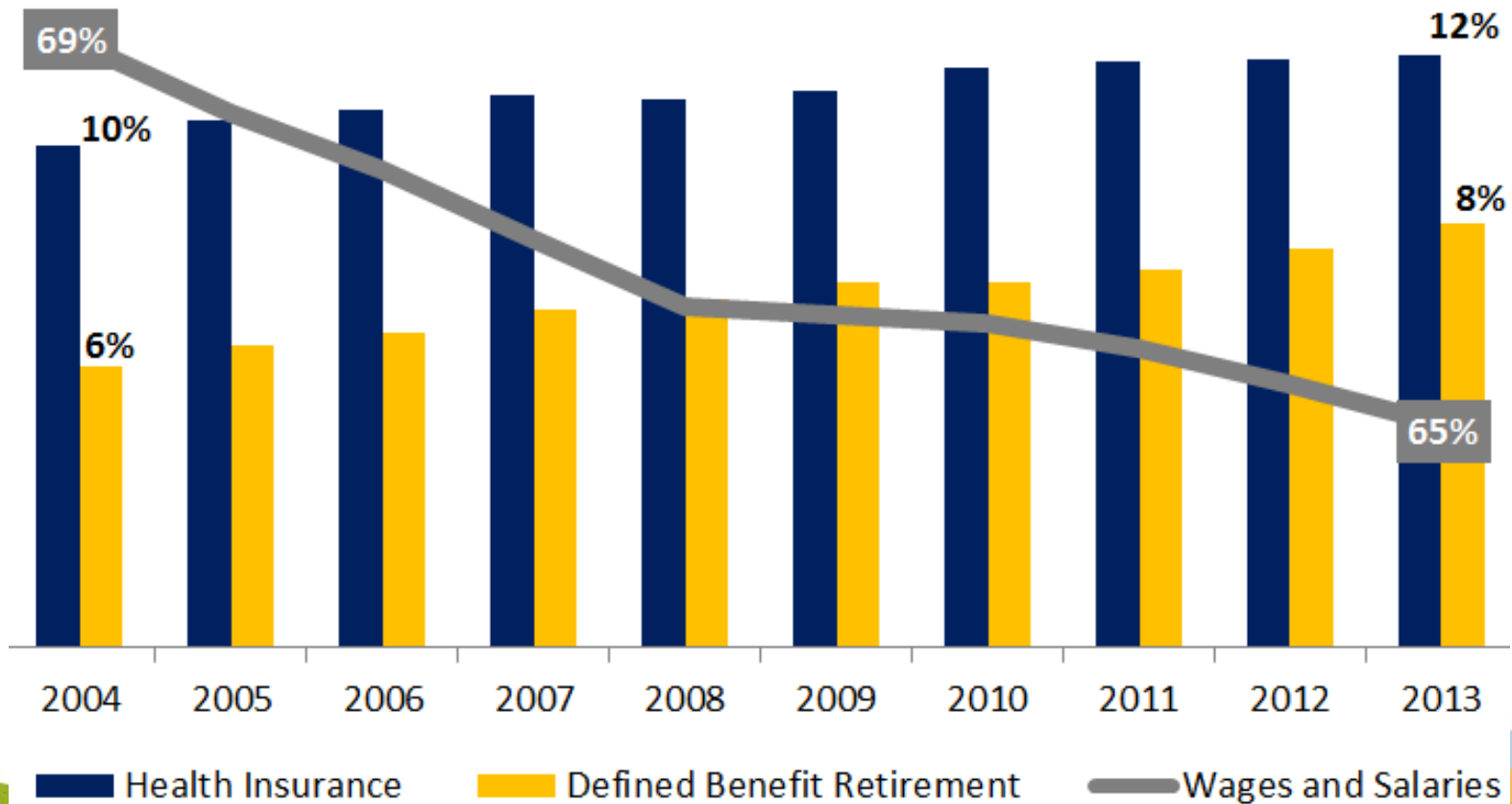


Poll Question

What portion of total compensation costs are defined benefit pensions?

- A. 4-5 percent
- B. 5-6 percent
- C. 7-8 percent
- D. 9-10 percent
- E. 11-12 percent

The portion salary and benefits make up of overall employer costs

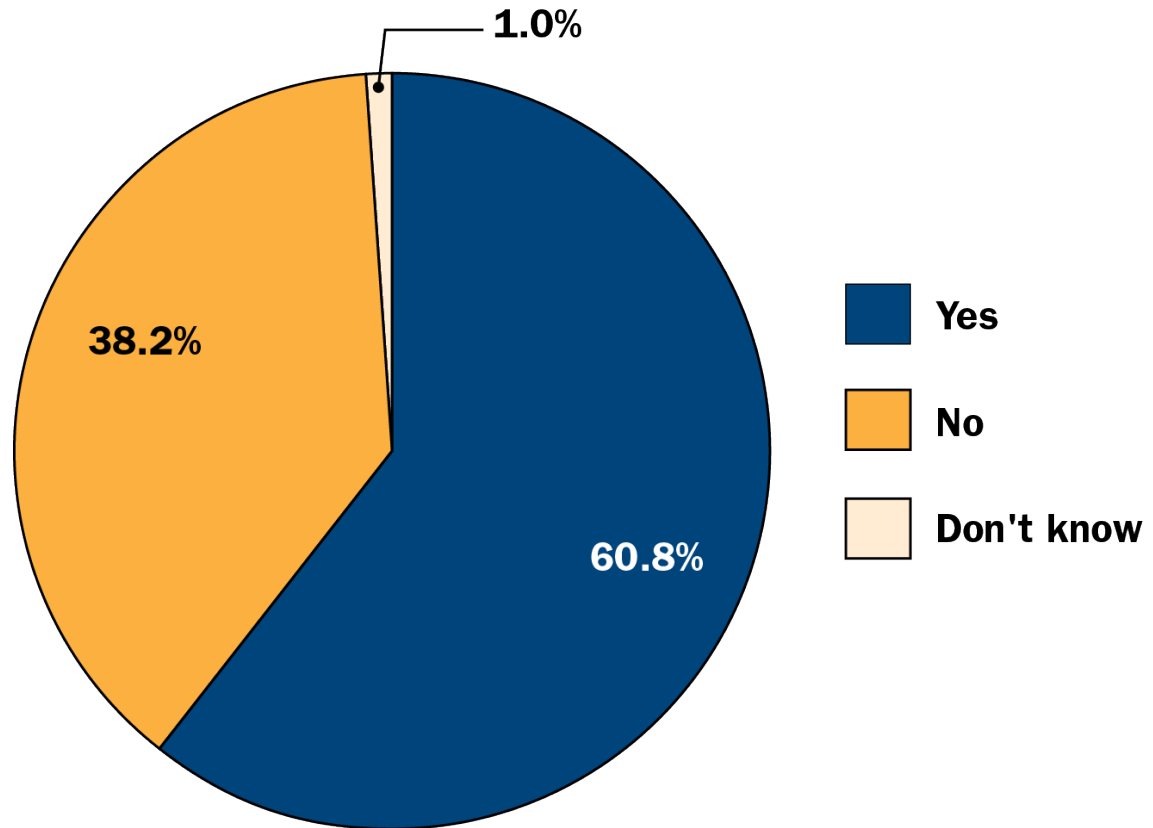


Pressure on wages

- Many governments have had pay freezes for 3-5 years
- Situation improving -- 37% gave pay increases in 2013
- 66% hired employees last year; 32% hired contract or temporary employees
- Workforces remain smaller since the 2008 economic downturn

Health care plan changes

Over the past year, has your government made any changes to the health benefits you offer to your employees and retirees?



Cost containment strategies

- Cost sharing with employees/retirees
- Wellness program
- Chronic care management
- Dependent eligibility audits
- Shift to high deductible plan with health savings account
- Self insure
- Onsite clinics

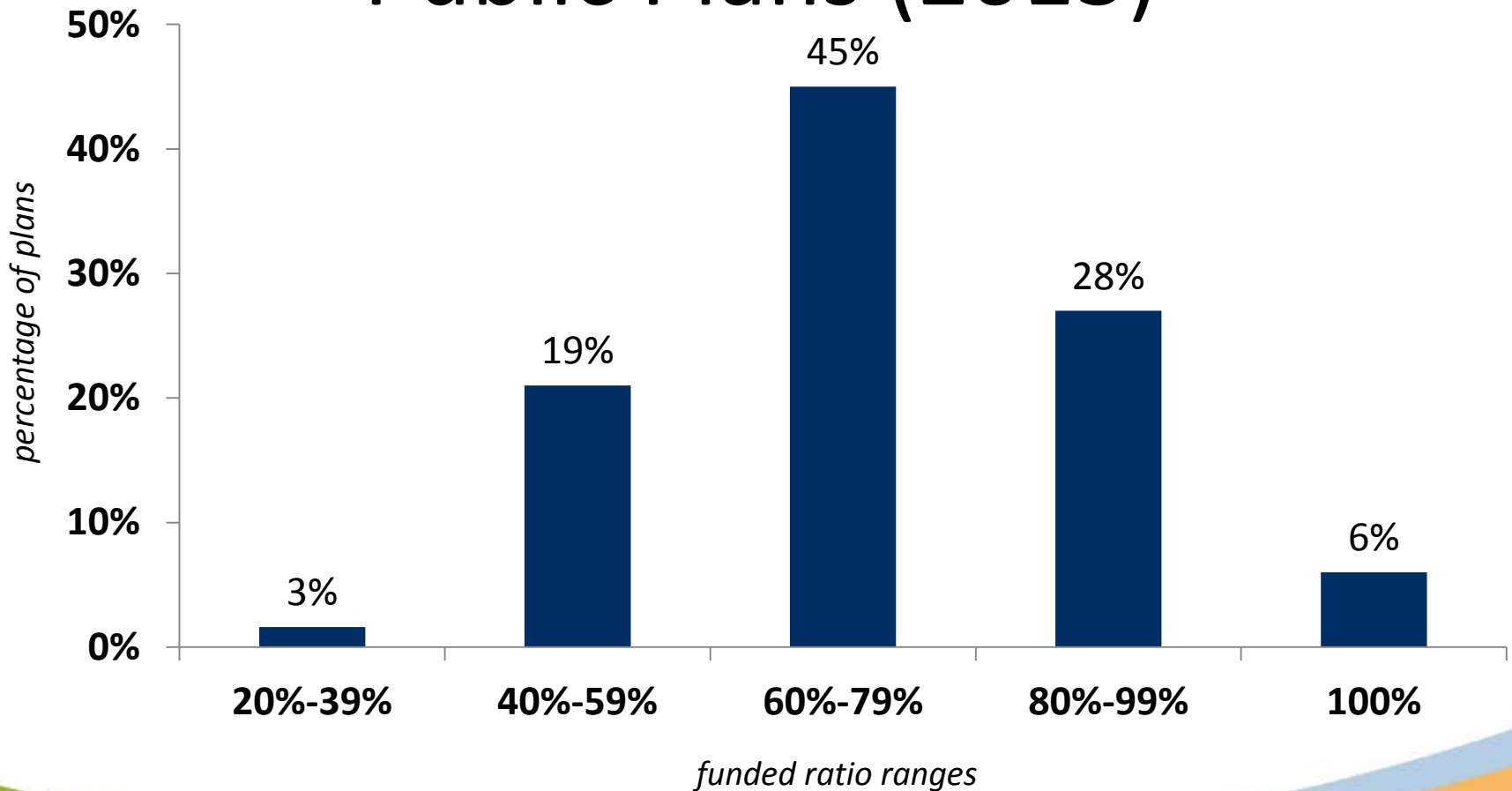
Other strategies

- Employee engagement
- Prescription drugs
- Retiree health changes
 - Switch to defined contribution plan
 - Eliminate dependent care
 - Increase years to vest
 - Shift to Medicare
 - Eliminate

Are Pensions the Cause of Fiscal Distress?

1. Poor fiscal management
2. Economic factors
3. Pension costs

Distribution of Funded Ratios for Public Plans (2013)



What you need to know

- Costs for some plans may be higher than you realize
- Life expectancy is increasing – reflected in new mortality tables
- Making changes sooner than later pays big dividends
- The situation varies greatly across the country – and even within states

Other pension funding issues

- Plan sponsors paid 83% of ARC in 2013, a slight increase over 2012.
- ARC has grown over last 4 years – now 17.6% of payroll.
- Rolling amortization periods a problem
- New GASB accounting standards don't address funding

Three Sets of Pension Numbers

1. Books - accounting (GASB) – balance sheet
2. Bonds – (ratings agencies)
3. Budgets - funding (government) – the annual required contribution (ARC)

For more information see **Big 7+ Pension Funding Guidelines Overview**

http://icma.org/en/icma/knowledge_network/documents/kn/Document/305141/Pension_Funding_Guidelines_Overview

Pension Funding Task Force

- Released recommendations in 2013
- Guidance consistent with actuarial and financial community
- Plain English
- **Who?** Convened by the Center for State and Local Government Excellence
- **Members:** ICMA, NLC, NACo, USCM, GFOA, NGA, NCSL, CSG, NASRA, NCTR, & NASACT

Pension funding policy objectives

1. Base pension funding policy on actuarially determined ARC
2. Be disciplined about funding so that promised benefits can be paid
3. Maintain intergenerational equity
4. Manage employer costs so they are a consistent percentage of payroll
5. Have clear reporting that shows how and when plans will be fully funded.

**Have a credible plan – and
communicate!**

What to do?

- Get a funding plan
- Identify any changes you need to make
- Agree on a transition plan (over how many years will you phase in changes)
- Make sure your funding policy complies with actuarial standards
- Secure an actuarially determined contribution (ADC) so you can budget
- Accumulate funding reserves

Be sure your funding plan addresses three core elements:

- Amortization policy
 - e.g., 25 years, closed
- Actuarial cost method
 - e.g., Entry Age Normal (GASB requires)
- Asset smoothing method
 - e.g., a maximum 5-year smoothing period
 - gains and losses subject to same treatment

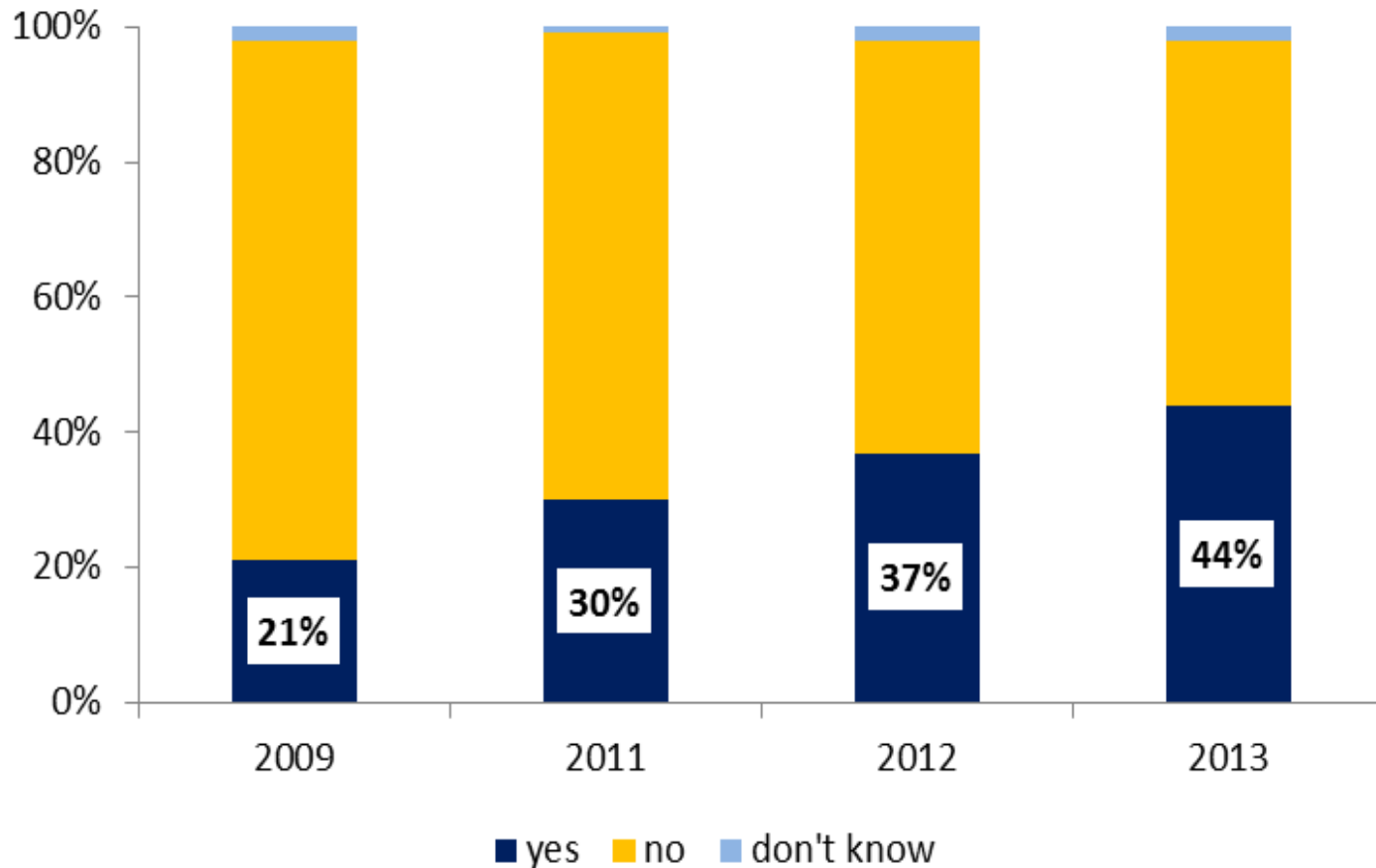
Poll Question

The pace of retirement plan changes is:

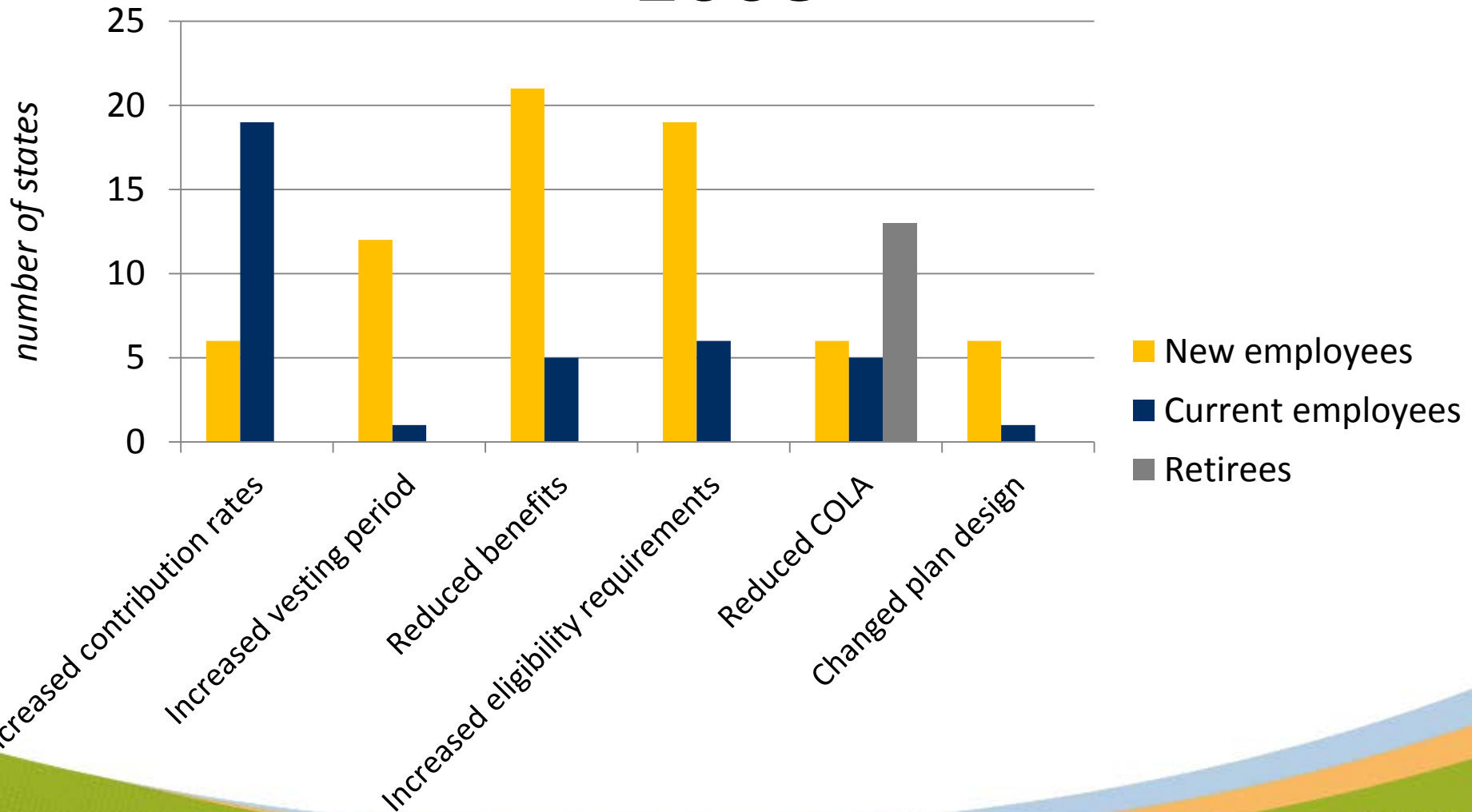
- A. Growing
- B. Leveling off
- C. Decreasing

Retirement Plan Changes

Over the past year, has your government made any changes to the retirement benefits you offer to your employees?



Pension benefit reforms since 2008



Lessons Learned

- Keep recruitment and retention in mind when making changes
- Ask the plan administrator and actuary for an annual briefing
- Use long range forecasting models
- Consider hiring your own actuary
- Keep employees and the public fully informed; post actuarial reports online

Resources

- ***Pension Funding: Guide for Elected Officials*** (Report from the Pension Funding Task Force)

<http://slge.org/publications/pension-funding-a-guide-for-elected-officials>

- ***Understanding New Public Pension Funding Guidelines and Calculations***

http://icma.org/en/icma/knowledge_network/documents/kn/Document/305141/Pension_Funding_Guidelines_Overview

- ***2014 Facts: State and Municipal Bankruptcy, Municipal Bonds, State and Local Pensions***

http://icma.org/en/icma/knowledge_network/documents/kn/Document/306005/2014_Facts_State_and_Municipal_Bankruptcy_Municipal_Bonds_State_and_Local_Pensions

<http://slge.org> for more research

Questions/Comments?

Additional Information...

<http://slge.org>





ICMA
100th

ANNUAL CONFERENCE

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SEPTEMBER • 14-17 • 2014

