

Retirement Security: What Americans Want & What Washington Might Give Them

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Diane Oakley
Executive Director



NATIONAL INSTITUTE ON
Retirement Security

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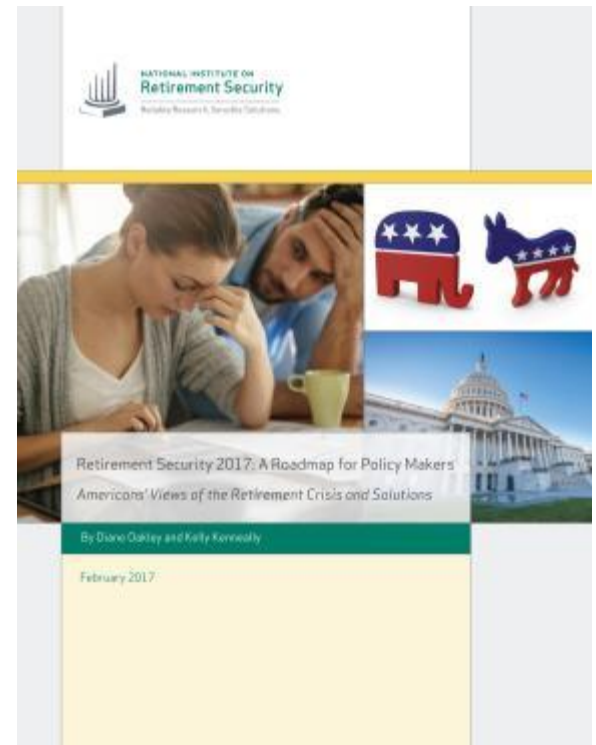
Agenda

- Americans' Views on Retirement Security
- New Retirement Security Issues from Washington
- Ongoing Concerns for Public Pension Plans from Washington
- Pension Activity at Other Levels
- Americans Support Public Pension Plans
- Q&A



Americans Views on Retirement Security – Key Findings

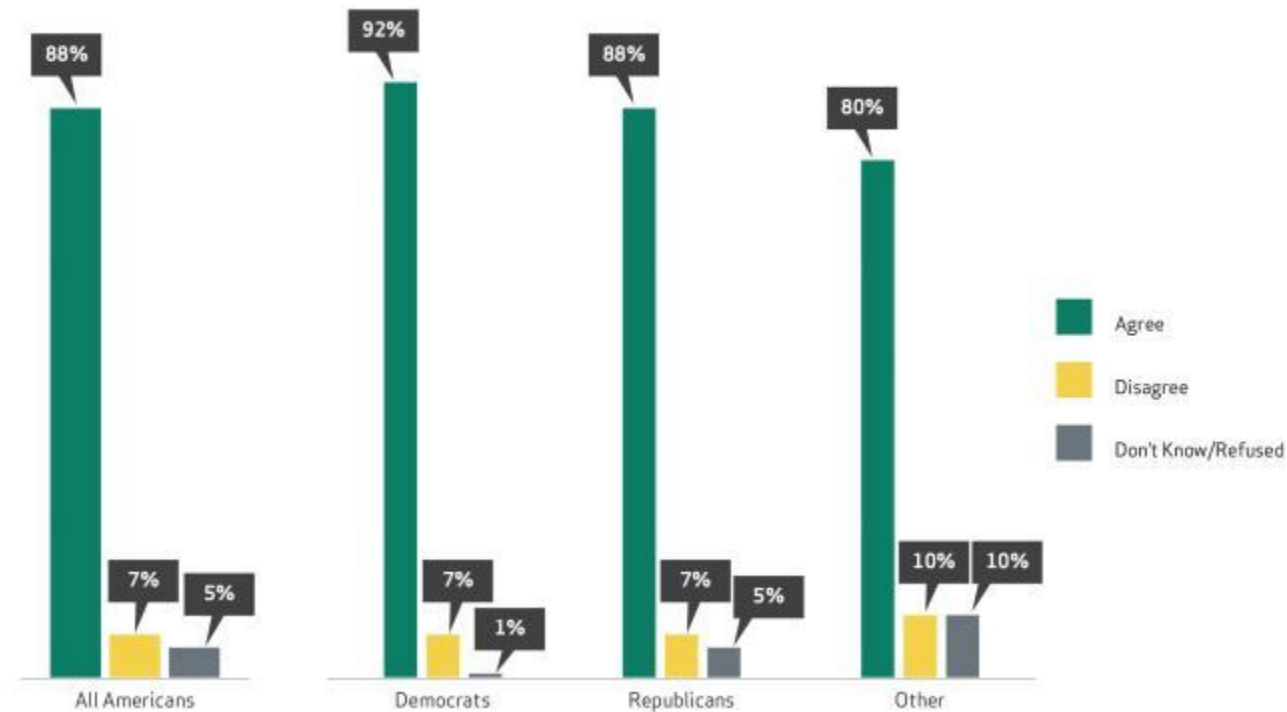
- Nation Faces Retirement Crisis
- Pensions Are a Route to Security.
- Leaders in Washington Don't Get It. Americans Want Help.
- Americans Support Public Pensions and see as help to recruit employees.



Across party, Americans see a retirement crisis.

Figure 2: **Across party lines, Americans feel strongly that the nation faces a retirement crisis.**

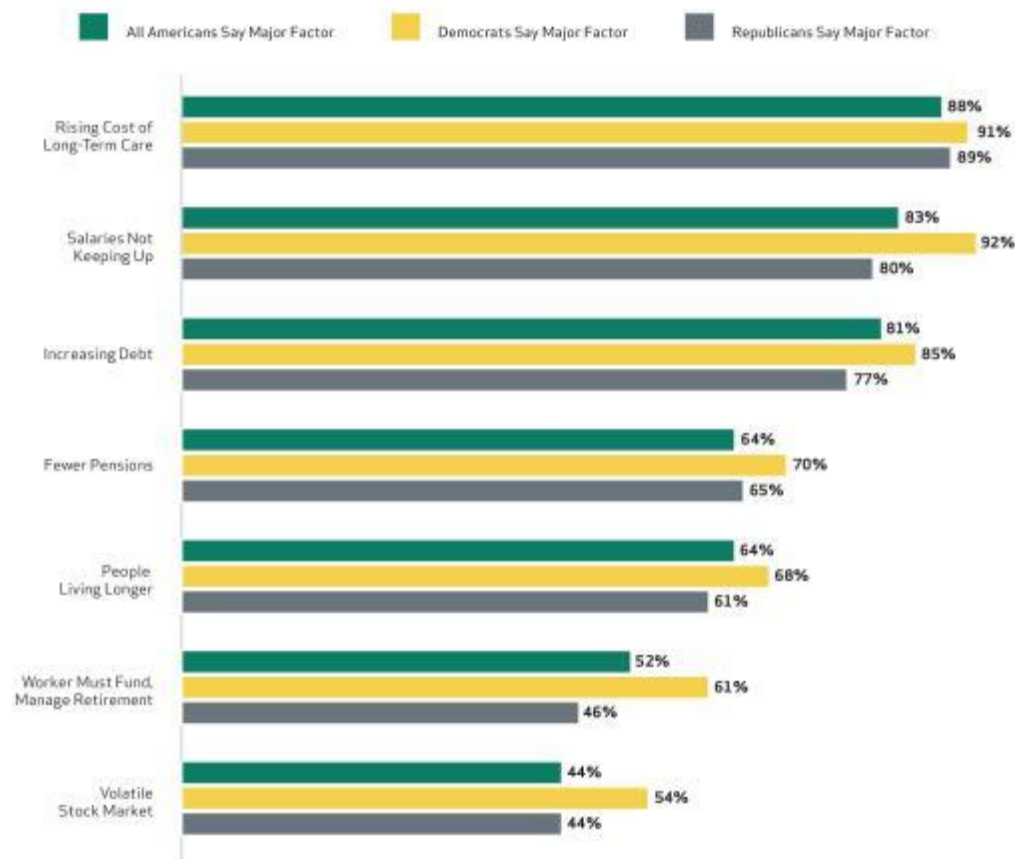
To what extent do you agree or disagree with the following statement: America is facing a retirement crisis.



Across party, Americans say long-term care, low wages factor in retirement crisis.

Figure 6: Across party lines, Americans agree that long-term care costs and low wages are major factors in making retirement more difficult.

Please tell me if you believe it is a major factor, a minor factor, or not a factor making it harder for Americans to prepare for retirement as compared to previous generations.



Worker's dilemma – 79% can't save enough & 74% employers don't contribute enough.

Figure 9: **79 percent of Americans agree that the average worker cannot save enough on their own for a secure retirement.**

To what extent do you agree or disagree with the following statement:
The average worker cannot save enough on their own to guarantee a secure retirement.

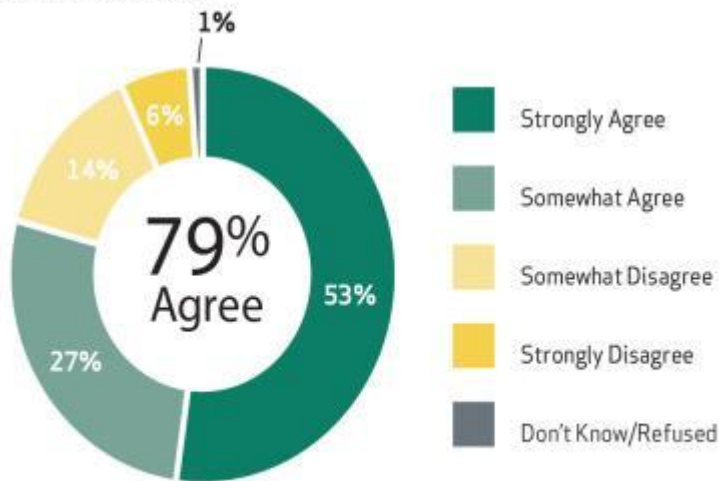
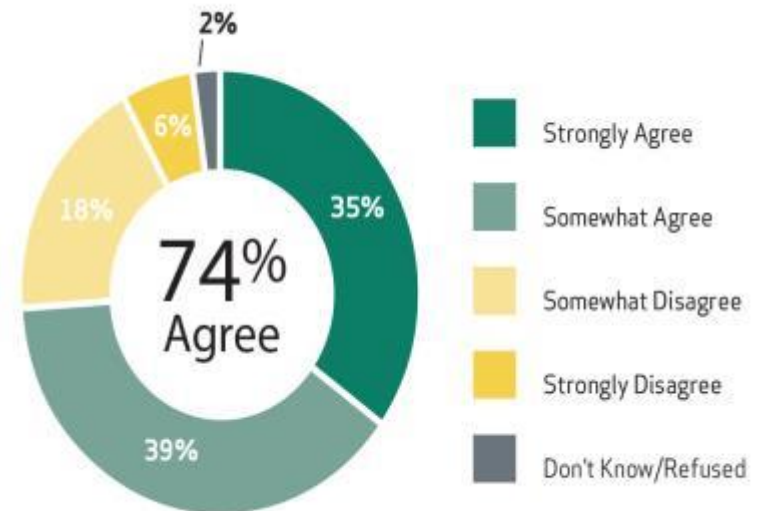


Figure 10: **74 percent of Americans say that employers aren't contributing enough for workers to have a secure retirement.**

Please tell me whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree: Employers do not contribute enough money for workers to be able to achieve a secure retirement.



Americans maintain favorable view of pensions- Consistently above 80%.

Figure 15: **Americans overwhelmingly maintain a favorable view of pensions.**

How would you describe your overall view of traditional pension plans?



85% Americans say Washington doesn't get it and they want help.

Figure 21: **85 percent say leaders in Washington just don't understand that it is hard to prepare for retirement.**

To what extent do you agree or disagree: Leaders in Washington do not understand how hard it is to prepare for retirement.

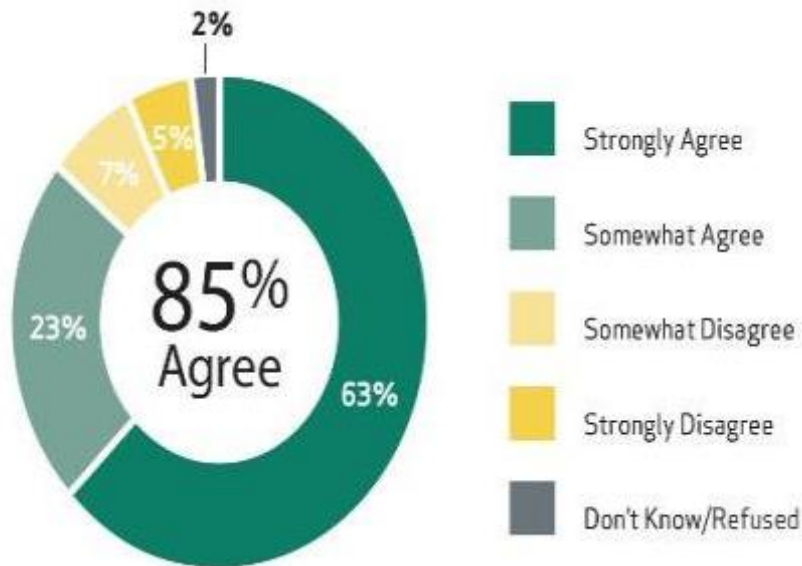
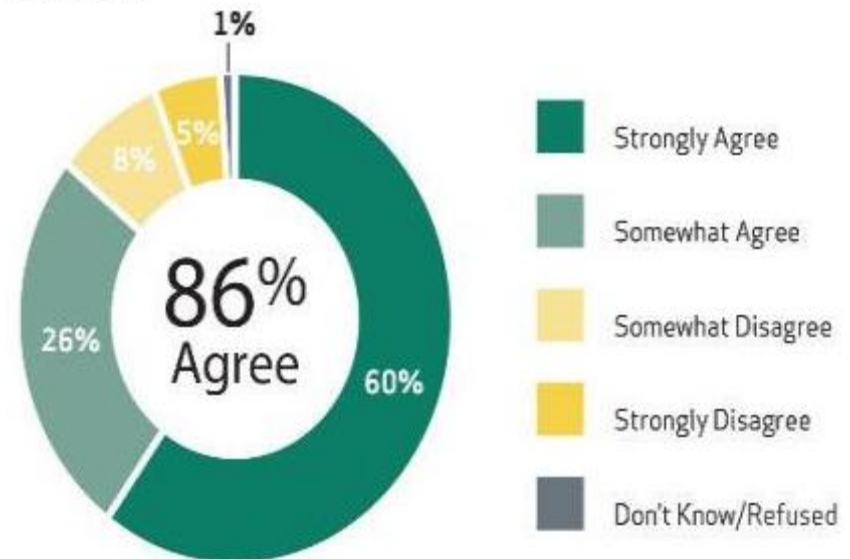


Figure 22: **86 percent of Americans say leaders in Washington need to give retirement a higher priority.**

To what extent do you agree or disagree: Leaders in Washington need to give a higher priority to ensuring more Americans can have a secure retirement.



Leading Retirement Issues for President Trump and Congress

ACA Repeal and Replace; Lesson that details on replacement plan matter.

Tax Reform – How huge? How to pay for reform?

Dodd- Frank Repeal – Replace?

Regulations – Freeze, Two for One Issued and Congressional Review Act.

Infrastructure – How to fund?



Tax Reform What happened in 1986

Tax Reform Act of 1986 passes with split control of House and Senate. Multi-year process starting with President Reagan.

Jeffrey H. Birnbaum in *Showdown at Gucci Gulch* offered lessons for tax reform :

- *Fair or simple -- take your pick.* One precludes the other.
- *Divide and conquer.* Divided government is a boon to reform.
- *Block K Street.* Tax reform doomed if lobbying groups are united against it. Someone's break gets gored in Gucci Gulch.
- *Stick it in neutral.* Stressed tax system doesn't raise the money to fund the federal government now.
- *Don't lose those hedge clippers.* The more severely Congress prunes the tax code the bigger it will grow.



Tax Reform Process Underway

- Trump Administration – Start with corporate tax reform to reduce tax rate from 35% (most corporations pay less) to 15%. Argue that economic growth will pay for the lost revenue. Individual tax reform to follow.
- Senate Finance and Ways and Means Committees Established Bipartisan Workgroups in 2015.
- House Republicans issued "A Better Way: Tax" in July 2016 covering tax reform ideas. Chairman Hatch proposed tax integration.



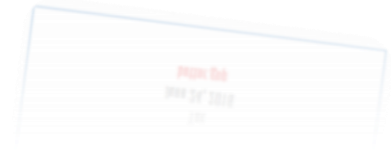
Tax Reform House Better Way

Speaker Ryan House Republican Blueprint

- Continue the current tax incentives for savings
- Consolidate the multiple retirement savings provisions in the current tax code to provide effective and efficient incentives for savings and investment

Concern about Pensions as revenue raiser in tax reform

- Make all contributions Roth-like
- Taxation of Pension Interest
- Change taxation of public employee DB contributions (pick-ups)



Tax Reform: Finance Chairman Hatch Proposes Integration

- Tax-exempt entities own more than 75% of stock, so few shareholders pay taxes on dividends.
- Integration seeks to change corporate tax so that tax on income is paid just once by eliminating tax at corporate level. Shareholders would pay tax.
- If this does not offset revenue loss, would we see tax rate on dividends, capital gains (perhaps both) increase for individuals and tax-exempts? In 1992, an estimate of approximate the uniform tax rate needed on investment income received by tax-exempt shareholders was 6 to 8% at that time.



Tax Reform-Pensions as an offset

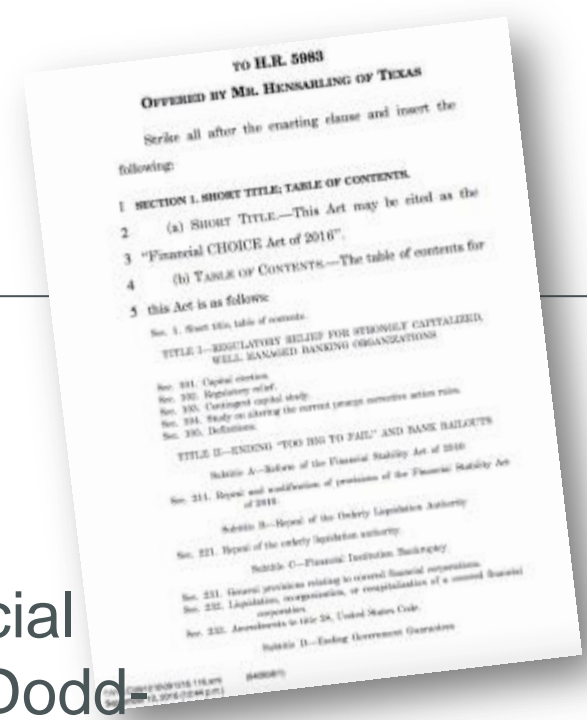
- ✓ Revenue lost from granting favorable tax treatment equaled \$1.3 trillion for 2013; in comparison \$1.2 trillion in revenue came from raised from individual income tax in 2013.
- ✓ Cap contributions, limit deductions, repeal pick-up, and reduce employees annual contributions.

	<u>2012-16</u>	<u>2013-17</u>
Employer-provided health care	\$706.6 b	\$760.4 b
Retirement security incentives	\$654.3 b	\$714 b
Home mortgage interest deduct.	\$364 b	\$379 b



Dodd- Frank Reform

- Trump Executive Order to revisit
- House Financial Services Committee Chairman Hensarling's (R-TX) Financial Choice Act of 2016 repeals much of Dodd-Frank, including the funding mechanism for GASB.
- In WSJ opinion piece, Hensarling stated the federal government should penalize government bond issuers that fail to disclose unfunded pension liabilities.



Regulation Freeze & Reform

Trump Executive Order Freeze

Pending regulations for Public Plans

- Proposed Normal Retirement Age regulations for governmental plans
- Advanced notice of proposed rulemaking for definition of governmental plan
- Notice released on Charter Schools
- Guidance regarding OMB pension cost principles for federal grants/awards



Regulations for Public Pensions

- Proposed **Normal Retirement Age** rules apply to in-service distributions prior to age 62.
- Offered additional safe harbors for governmental plans based on age and service with earlier and shorter requirements for public safety.
- ANPRM on **definition of Public Pension Plan** – since 2011 release IRS held forums, heard public comment period and held a hearing.
- A notice regarding inclusion of charter schools in governmental plans came in 2015 and proposed rules expected,



Infrastructure Investments

Broad interest in the role pensions might play:

- Senate/House Offices
- U.S. Chamber of Commerce
- White House Infrastructure Initiative
- Infrastructure Investment Summit
- Bipartisan Policy Center Infrastructure Investment Council
- National Governors Association
- Coalition to Modernize American Infrastructure



Repeat Concerns for Public Pensions

- **Public Employee Pension Transparency Act (PEPTA)**
Nunes' bill to impose costly and confusing accounting standards on public pension plans.
- **Secure Annuities for Employee Retirement Act (SAFE)**
Senator Hatch prospectively offers an annuity option as an alternative to DB pensions. Underfunding not solved.
- Some map Puerto Rico dire finances to all public plans.
- Muddle public pension plans with solvency issues in the Multiemployer Plan space (i.e. Central States & MEPRA)
*“will learn about **disturbing parallels** between multiemployer pensions and the **defined benefit pension plans run by many state and local governments.**”* (Senator Hatch)

h)



Public Pensions and Social Security

Mandatory Social Security for Public Employees

- Debt reduction commissions recommend for newly-hired employees after 2020
- 2014 and 2016 CBO “Options” Report
- BRT proposal on SS and Medicare

WEP/GPO Reform Legislation

- Way & Means Chair Brady (R-TX) and Rep. Neal (D-MA) replace WEP with new formula; but pulled from mark-up
- WEP Repeal bill by Rep. Davis and 89 cosponsors
- Senators Brown and Collins - companion bill, S-915.



Strong, United Opposition to Federal Intervention

National Association of Counties (NACo)
 International Association of Fire Fighters (IAFF)
 U.S. Conference of Mayors (USCM)
 National Education Association (NEA)
 National League of Cities (NLC)
 National Association of Police Organizations (NAPO)
 International City/County Management Association (ICMA)
 American Federation of State, County and Municipal Employees (AFSCME)
 National Association of State Auditors, Comptrollers and Treasurers (NASACT)
 Service Employees International Union (SEIU)
 Government Finance Officers Association (GFOA)
 International Public Management Association (IPMA)
 National Public Employer Labor Relations Council (NPELRC)
 National Council on Teacher Education (NCTE)
 National Conference of State Societies (NCSO)
 National Association of Government Defined Contribution Plans (NAGDCP)
 National Conference on Public Employment (NCPE)
 National Association of State Retirement Administrators (NASRA)

April 15, 2015

The Honorable Mike Crapo
 Co-Chair, Committee on Finance Tax Reform Working Group on Savings & Investment
 United States Senate
 Washington, DC 20510

VIA ELECTRONIC MAIL: Savings@senate.gov

Dear Co-Chairs Crapo and Brown:

On behalf of the national organizations of elected and appointed officials, I am writing in response to the request for public comment on the important policy work before the Committee on Finance Tax Reform Working Group on Savings & Investment. Our organizations support the important work of the Working Group to ensure that the investment industry continues to invest, finance, and manage

December 11, 2015

VIA FACSIMILE: (202) 224-2499

The Honorable Mitch McConnell
 Majority Leader
 United States Senate
 Washington, DC 20510

Dear Majority Leader McConnell:

On behalf of the national organizations of elected officials, employees and retirees, we are writing to express our strong opposition to the proposed legislation (S. 2381). These provisions are not only a mandate on all state and local governments and localities, and are contrary to the principles of federalism.

The provisions are not germane to the Committee's jurisdiction and impose costs or improve retirement systems on stand-alone bills. We urge Congress to stand-alone bills and to hold hearings pertaining to public pension reform.

National Conference of State Legislatures (NCSL)
 International Association of Chiefs of Police (IACP)
 United States Fraternal Congress (USFC)
 Fraternal Order of Police (FOP)
 National Association of Public Administrators and State Officials (NAPASO)
 National Education Association (NEA)
 National League of Cities (NLC)
 International City/County Management Association (ICMA)
 National Association of State Auditors, Comptrollers and Treasurers (NASACT)
 American Federation of State, County and Municipal Employees (AFSCME)
 Government Finance Officers Association (GFOA)
 International Public Management Association (IPMA)
 National Conference of State Societies (NCSO)
 National Conference on Public Employment (NCPE)
 National Council on Teacher Education (NCTE)
 National Association of State Retirement Administrators (NASRA)

March 14, 2016

The Honorable Paul Ryan
 Speaker of the House
 U.S. House of Representatives
 Washington, D.C., 20515

Dear Mr. Speaker:

On behalf of the national organizations of elected officials, public finance professionals, and state and local government employees, we are writing to express our strong opposition to the proposed legislation (PEPTA, not yet reintroduced). This legislation would impose a federal uniform tax and regulation of state and local government pension plans, which is under consideration.

The proposal does not protect benefits, as intended. To the contrary, it imposes federal uniform tax and regulation on state and local government pension plans, which is a threat to eliminate the tax-exempt status of state and local government pension plans.

The legislation not only violates the principles of federalism, but also imposes a federal uniform tax and regulation on state and local government pension plans, which is a threat to eliminate the tax-exempt status of state and local government pension plans.

The legislation not only violates the principles of federalism, but also imposes a federal uniform tax and regulation on state and local government pension plans, which is a threat to eliminate the tax-exempt status of state and local government pension plans. We urge you to please see the following document: [State and Local Fiscal Facts: 2016](#).

National Conference of State Legislatures (NCSL)
 International Association of Chiefs of Police (IACP)
 United States Fraternal Congress (USFC)
 Fraternal Order of Police (FOP)
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 American Federation of State, County and Municipal Employees (AFSCME)
 Government Finance Officers Association (GFOA)
 International Public Management Association (IPMA)
 National Conference of State Societies (NCSO)
 National Conference on Public Employment (NCPE)
 National Council on Teacher Education (NCTE)
 National Association of State Retirement Administrators (NASRA)

June 16, 2014

Daniel M. Gallagher
 Commissioner
 U.S. Securities and Exchange Commission
 100 F Street, NW
 Washington, DC 20549

VIA FACSIMILE

Dear Commissioner Gallagher:

On behalf of the national associations listed above—representing state and local governments, elected and appointed officials and public retirement systems—we are writing to express serious concern with your recent remarks before the Municipal Securities Rulemaking Board's 1st Annual Municipal Securities Regulatory Summit and to share salient facts regarding state and local government retirement plans and financial reporting. In addition, we are providing information on recent initiatives by our organizations, as well as the state and local government community, to ensure the continued financial integrity and sustainability of governmental retirement programs.

We understand the SEC's interest in appropriate disclosure of state and local government pension obligations. However, your comments could lead many to believe that the disclosure issues are systemic, rather than individualized problems. Public pension funds hold some \$3.6 trillion in assets, professionally managed and invested in diversified portfolios. This amount equals 16 times the annual payout of these funds, assuming no additional contributions or investment earnings.

Attached for your review is an analysis of data referenced in your remarks before the summit, as well as 2014 facts regarding state and municipal bankruptcy, municipal bonds and state and local pensions, which better discloses the common condition of state and local finance. While you may disagree with the decisions made by the Governmental Accounting Standards Board, GASB considered, discussed and rejected alternative standards as inappropriate for state and local governments.

You may not be aware of the many significant changes state and local governments have made to their retirement plans. Nearly every state and numerous local governments have made changes to strengthen their pension reserves and to ensure the sustainability of their retirement plans since the Great Recession. These changes have included increases in employee contributions to pension plans, increased risk sharing and other hybrid features, reduced benefit levels, higher retirement ages and lower cost-of-living adjustments. Some modifications apply to new workers only; others affect current employees, retirees, or both. The Center for Retirement Research at Boston College has examined these reforms and has determined that for most plans, the reforms fully offset or more than offset the impact of the financial crisis on the sponsors' costs. Furthermore, they project that pension costs as a share of state-local budgets will eventually fall below pre-crisis levels, assuming a healthy stock market and a continuation of the full annual required contribution (ARC).

National Governors Association
 National Conference of State Legislatures
 The Council of State Governments
 National Association of Counties
 National League of Cities
 The U.S. Conference of Mayors
 International City/County Management Association
 Government Finance Officers Association
 National Council on Teacher Retirement
 National Association of State Retirement Administrators

Correcting Misperceptions

- Public plan issues are not systemic; there is no one-size-fits-all solution
- Continued conflation with other types of pensions such as Central States Pension Fund
- Chapter 9 municipal bankruptcy is not a federal bailout, nor is it even available to most governments
- Many new disclosures for state and local pensions have recently been adopted



New Public Pension Calculations

Books—computing an annual position regarding pensions for financial statements

Bonds—calculating how pension obligations affect a government's creditworthiness

Budgets—determining the appropriate annual contribution to the retirement system for sound funding



Ten Things You Should Know About Public Pensions Disclosure Changes

- Significant State & Local regulation
- GASB sets Accounting Standards
- GASB recent multi-year review
- New requirements do not impact funding or plan contributions
- Pension liabilities are long-term
- New GASB term- “Pension Expense”
- “Actuarially determined contribution”
- Credit Agencies adjustments do not change pension liability
- Still encourage policymakers to review effectiveness of funding policies
- All 50 states strengthened pensions

10 Things You Should Know About Public Pension Disclosure Changes

State and local government retirement systems have significant oversight and disclosure requirements, some of which are being considerably modified. [Learn more and stay up to date.](#)

[Learn more about GASB](#) and [how to get involved](#) in the process. Below are ten key takeaways regarding existing disclosures, notable changes, and their effects.

1. State and local governments provide significant oversight for their retirement systems and require open reporting and processes. These systems are established under state statutes, local ordinances, or both; subject to fiduciary, investment and administrative laws, as well as to open records and sunshine statutes; overseen by elected governmental bodies, state and local regulators, elected office holders, the public, and independent boards of trustees.
2. The Governmental Accounting Standards Board (GASB) is recognized by governments, the accounting industry, and the capital markets as the official source of generally accepted accounting principles (GAAP) for state and local governments. GASB standards must be followed to receive a clean audit. GASB was established by state and local government organizations in conjunction with the Financial Accounting Foundation, in recognition of the fact that governments are fundamentally different from for-profit business enterprises, including their unique time horizons, oversight, revenue streams, confidentiality or contractual protections, stakeholders and accountability for resources.
3. GASB has recently completed a multi-year process of reviewing and revising its accounting standards on public pension reporting. GASB Statement 68, which will be implemented into state and local government financial statements this year, includes many changes. Notably, state and local governments will now be required to report their net pension liability on their balance sheets.
4. The new GASB requirements do not affect actuarial funded ratios or pension contribution requirements; they only change where and how pension costs are accounted for in financial statements to provide additional and more government information.
5. The placement of net pension liabilities on an employer's balance sheet could create the erroneous impression that this is an obligation that is due immediately. This is not the case. Pensions are funded and paid out over very long periods - contributions are made over employees' careers and distributions are provided in monthly installments in their retirement.

Logos: GASB, CSF, NACSO, NATIONAL LEAGUE OF CITIES, ICMA, NASBO, NASRA, NACIPET.



Public Employers Made Changes

- Have never been more numerous or significant than in the years following the Great Recession
- Differing plan designs, budgets, and legal frameworks defied one-size-fits all solutions

Spotlight
on
Significant Reforms to State Retirement Systems

Keith Brainard and Alex Brown
National Association of State Retirement Administrators
June 2016

Executive Summary

Although states have a history of making adjustments to their workforce retirement programs, changes to public pension plan design and financing have never been more numerous or significant than in the years following the Great Recession.¹ The global stock market crash sharply reduced state and local pension fund asset values, from \$3.2 trillion at the end of 2007 to \$2.1 trillion in March 2009,² and due to this loss, pension costs increased. These higher costs hit state and local governments right as the economic recession began to severely lower their revenues.³ These events played a major role in prompting changes to public pension plans and financing that were unprecedented in number, scope and magnitude.

Since this time, nearly every state passed meaningful reform to one or more of its pension plans. Although the global market crash and recession affected all plans, differing plan designs, budgets, and legal frameworks across the country defied a single solution; instead, each state met its challenges with tailored changes specific to its unique circumstances. For example, some states faced legal limitations on how much modification could be made to their existing retirement plans. Other states did not require major law changes due to their financial condition or the presence of automatic adjustments in their plan designs.

Balanced Objectives

Public pension reforms typically adjusted retirement plan provisions while balancing multiple stakeholder objectives:

- For employees, competitive compensation that includes income security in retirement;
- For employers, a management tool to maximize the training and experience invested in their employees; and
- For taxpayers, public services performed in the most effective and cost-efficient manner.

These objectives can both conflict with and complement one another. Retirement plan reforms focused on one of these goals, to the exclusion of others, are likely to produce unintended negative outcomes. While public pension changes took different forms throughout the country, reforms generally kept those core features known to balance retirement security, workforce management, and economic efficiencies sought by stakeholders, namely:⁴

Keith Brainard is research director at the National Association of State Retirement Administrators
Alex Brown is research manager at the National Association of State Retirement Administrators
NASRA gratefully acknowledges the financial support from AARP to undertake this research project

 NASRA

Significant Reforms to State Retirement Systems, National Association of State Retirement Administrators, June 2016

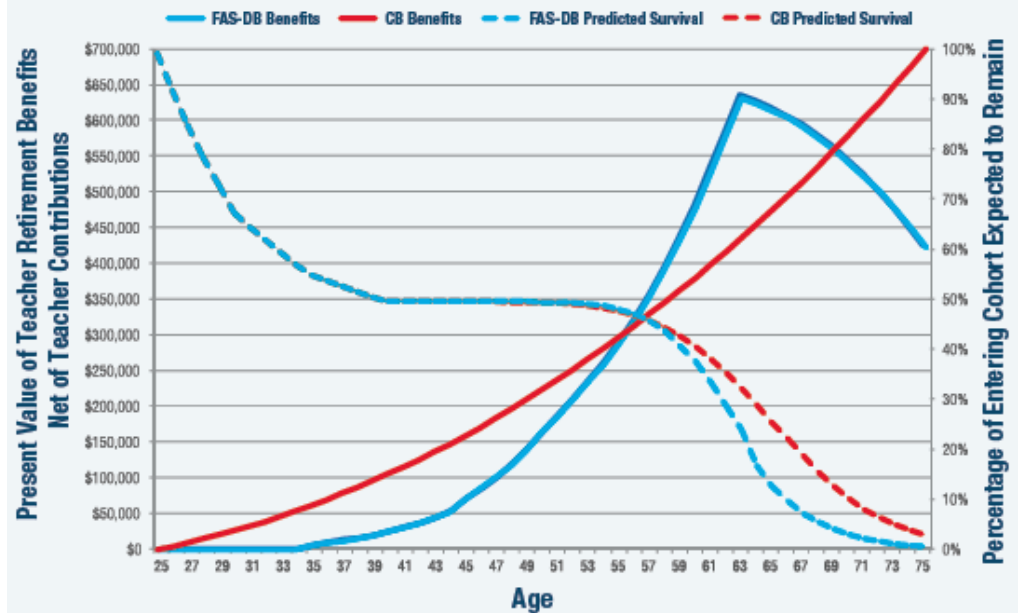


LJAF & Manhattan Institute: Better Teacher Retention - Cash Balance Plan



FIGURE 1.

Teacher Retirement Benefits and Teacher Attrition, New York City



Source: Authors' calculations based on data from the New York City Department of Education and the Teachers' Retirement System of the City of New York.



New Criticism: Teachers Do Not Value Pension Benefits

Starts with a big assumption, in St. Louis teacher's plan and then concludes:

- Teachers simply do not value their pension benefits"; or,
- "Opportunistic resource extraction" occurred by senior teachers.

Totally unsupported by the facts and the actual situation in 1999.

Do Pension Enhancements Improve Teacher Retention?

Cory Koedel

Summary

- In 1999, St. Louis Public Schools (SLPS) made a substantial, retroactive improvement to the pension benefit formula for public school teachers.
- The retroactive benefit improvement was expensive – in a recent paper we estimate that the implementation cost, in present value, was roughly \$166 million for the single cohort of SLPS teachers working at the time, or \$52,000 on average per teacher (dollar figures are in 2013 dollars). The enhancement also committed SLPS to providing pension benefits under the improved formula, which is still in place today, for new hires.
- A policy rationale for the enhancement is that it increased teachers' retention incentives. However, we do not find any evidence that teachers' retention out comes responded to the changes in their pension incentives.
- The proportion of SLPS's budget devoted to paying pension benefits for its teachers has been rising in recent years. Although it would be irresponsible to claim that SLPS's pension-cost issues stem solely from the 1999 pension enhancement covered in this brief, it would be equally irresponsible to deny that the enhancement has played an important role.

Policy Context

Unlike their private-sector professional counterparts, public workers – including public school teachers – receive a significant fraction of their compensation in the form of a defined-benefit (DB) pension. For St. Louis teachers, who are the focus of this policy brief, current pension costs are over 20 percent of earnings (with 5 percent coming directly from teachers and the remainder being paid by SLPS). These costs are only to cover pension benefits and do not cover other benefits, like health insurance.

By design, benefit payments in DB plans are not directly tied to contributions at the individual level; rather, they are defined by a formula that depends on the employee's years of service and salary. The SLPS annual benefit formula – which has the same structure as other public pension plans nationally – is as follows:

$$B = F * YOS * FAS$$



Koedel is an Assistant Professor at the Harry S Truman School of Public Affairs. His research areas include Economics of Education, Labor Economics and Applied Microeconomics.



NATIONAL INSTITUTE ON
Retirement Security

Report 10-2016
October 2016

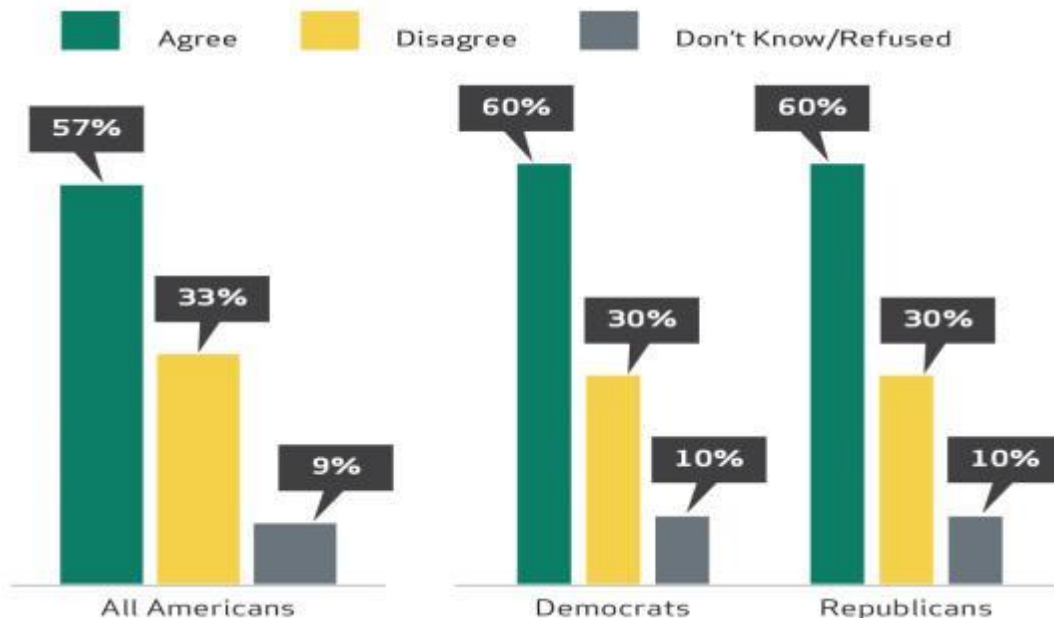
Institute of Public Policy
Harry S Truman School of Public Affairs
University of Missouri



Six out of ten agree that public pensions have made changes to keep promises.

Figure 38: How much do you agree or disagree with the following statement about public pensions, which are offered to state and local government workers?

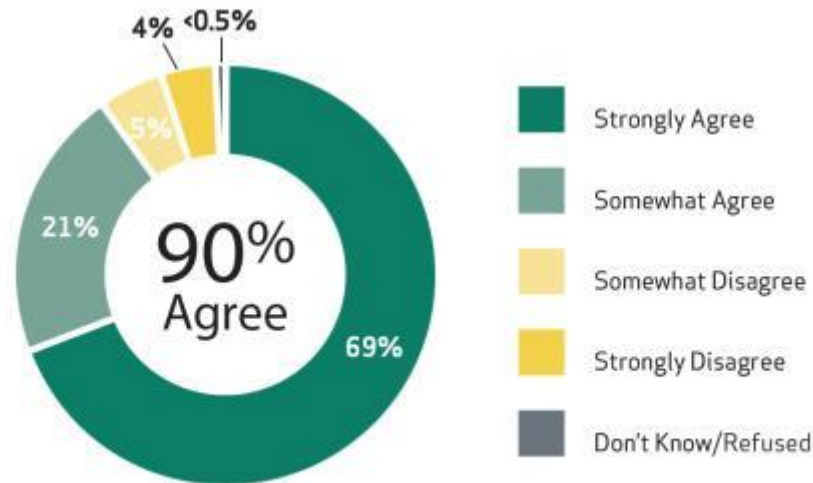
Do you strongly agree, somewhat agree, somewhat disagree, or strongly disagree that public pensions have made the changes they need to in order to continue providing promised benefits?



90% support pensions for police/fire.

Figure 31: **90 percent of Americans support pensions for risky jobs like police officers and firefighters.**

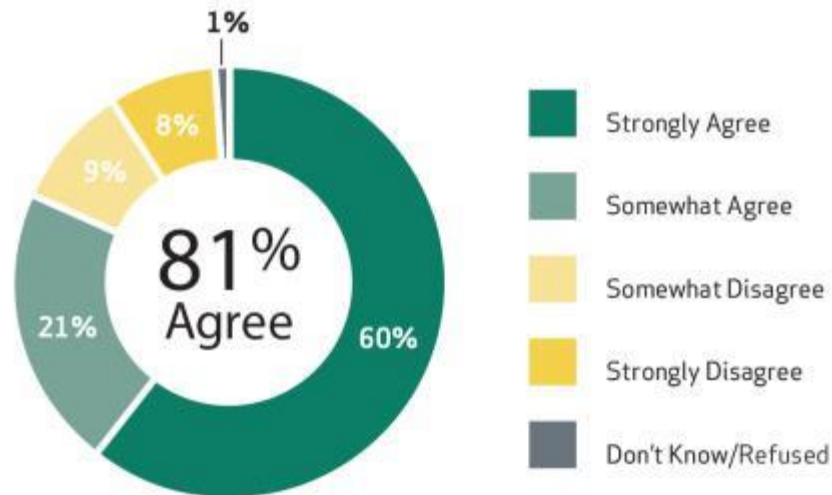
Please tell me whether you (agree/disagree): Police and firefighters have agreed to take jobs that involve risks and therefore deserve pensions that will afford them a secure retirement.



81% support pensions for teachers.

Figure 32: **81 percent of Americans support pensions for public school teachers given their lower salaries.**

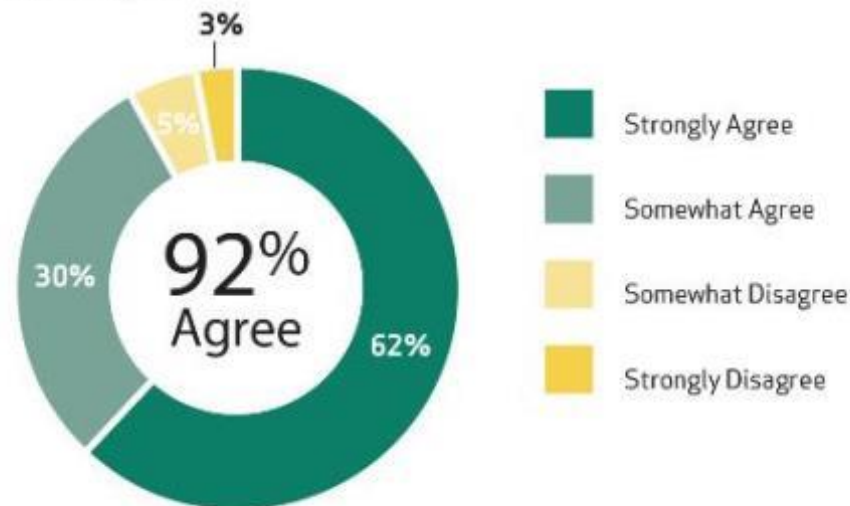
Please tell me whether you (agree/disagree): Public school teachers deserve pensions to compensate for lower pay.



92% see pensions as public pensions as recruitment tool.

Figure 35: **92 percent of Americans say pensions help recruit and retain qualified employees.**

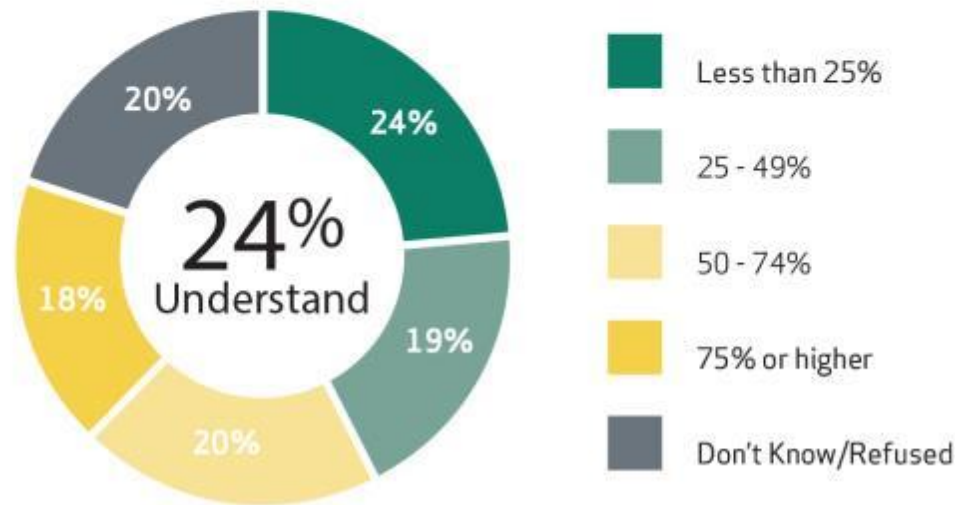
Please tell me whether you (agree/disagree): Pensions are a good way to recruit and retain qualified teachers, police officers, and firefighters.



Only 24% understand financing of public pensions is shared responsibility.

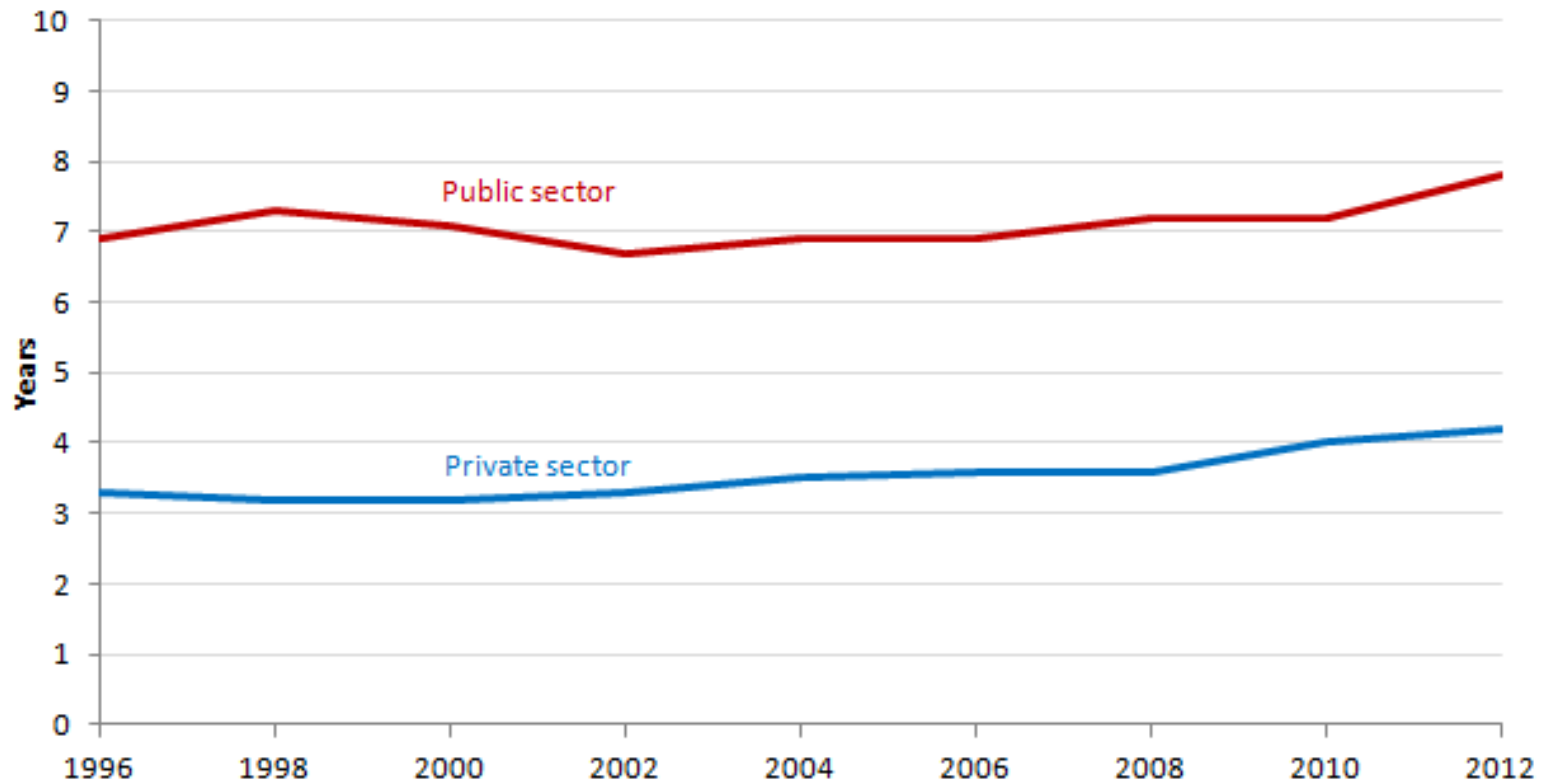
Figure 37: **Only about one-fourth of Americans understand that taxpayers fund only 24% of public pension benefits.**

What percentage of public pensions do you think are paid for by taxpayers.



Public Sector Has Median Employee Tenure Equal to Twice the Private Sector

Median years of tenure with current employer for private and public sector employees, 1996–2012

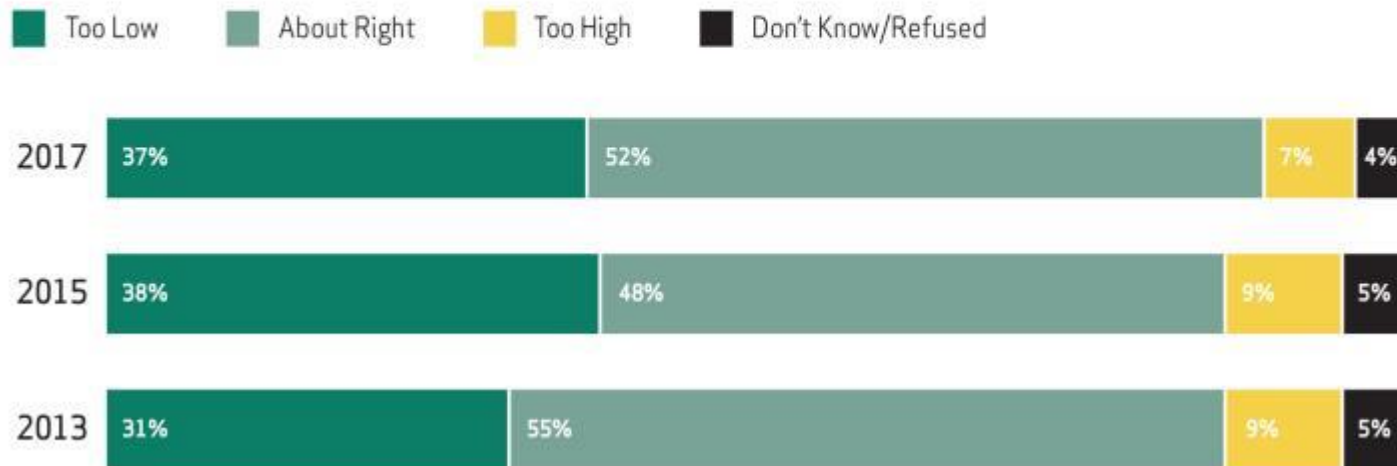


Source: U.S. Bureau of Labor Statistics.

Nearly nine of ten see pension benefit payments as too low or about right.

Figure 34: **Most Americans believe public pension benefit levels are about right.**

The average retirement benefit for public workers is about \$2,205 a month, though some may receive more or less depending on their local cost of living. Judging based on what you think is reasonable, do you think that this amount of retirement income is:



Questions?



National Institute on Retirement Security
www.nirsonline.org



NATIONAL INSTITUTE ON
Retirement Security