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

13th Annual PAPERS Forum

Harrisburg, PA

May 25, 2017

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Executive Director

NATIONAL INSTITUTE ON
Retirement Security

Reliable Research. Sensible Solutions.

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

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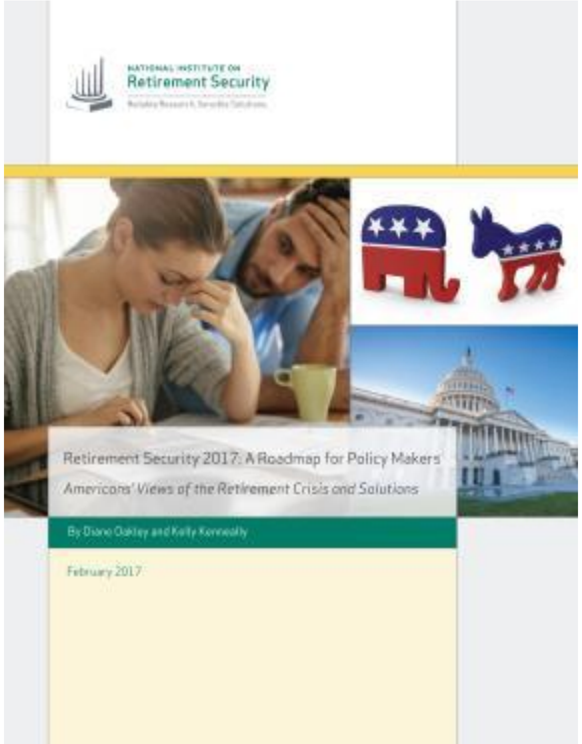
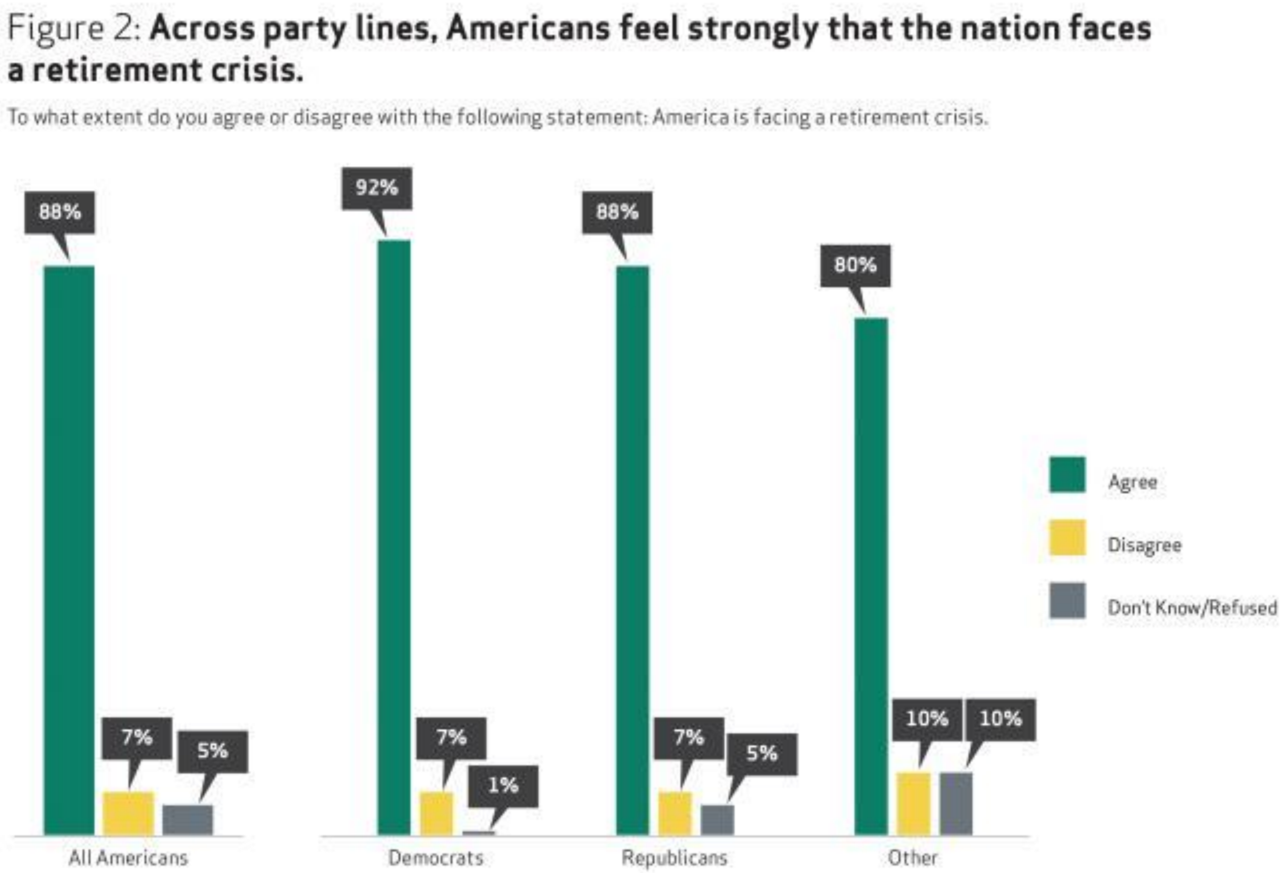
Americans Views on Retirement Security – Key Findings

- 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.



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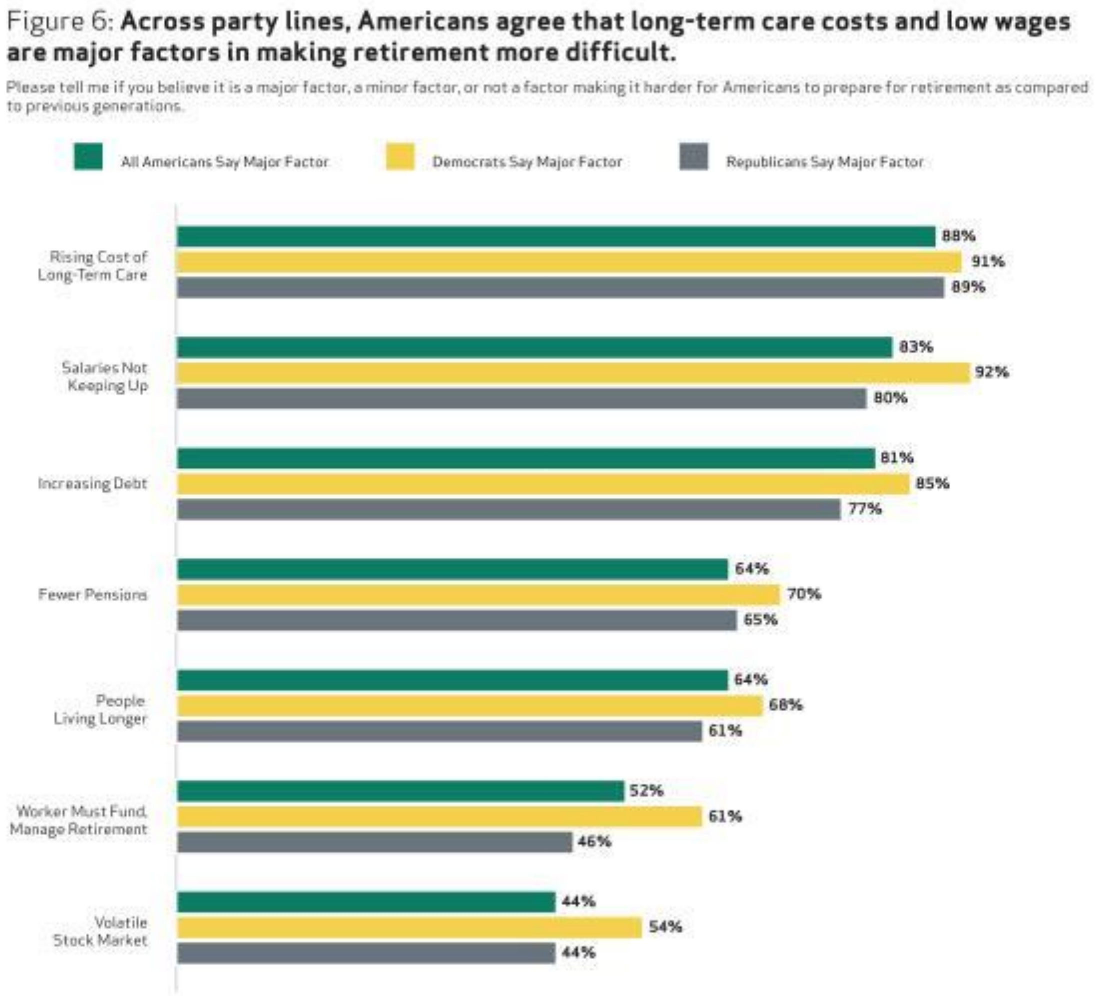
Across party, Americans say long-term care, low wages factor in retirement crisis.



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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.

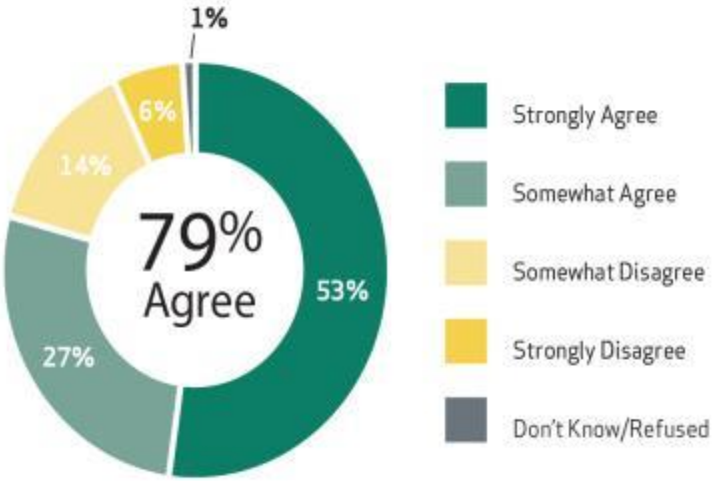
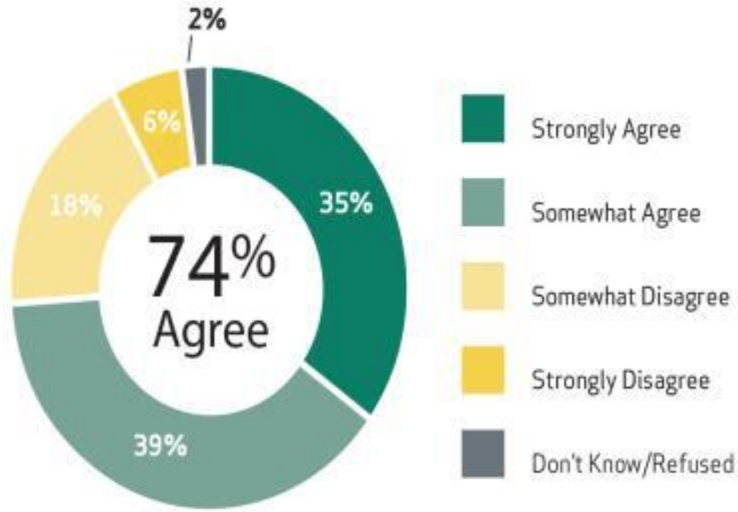


Figure 10: **74 percent of Americans say that employers aren't contributing enough for workers to have a secure retirement.**

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.



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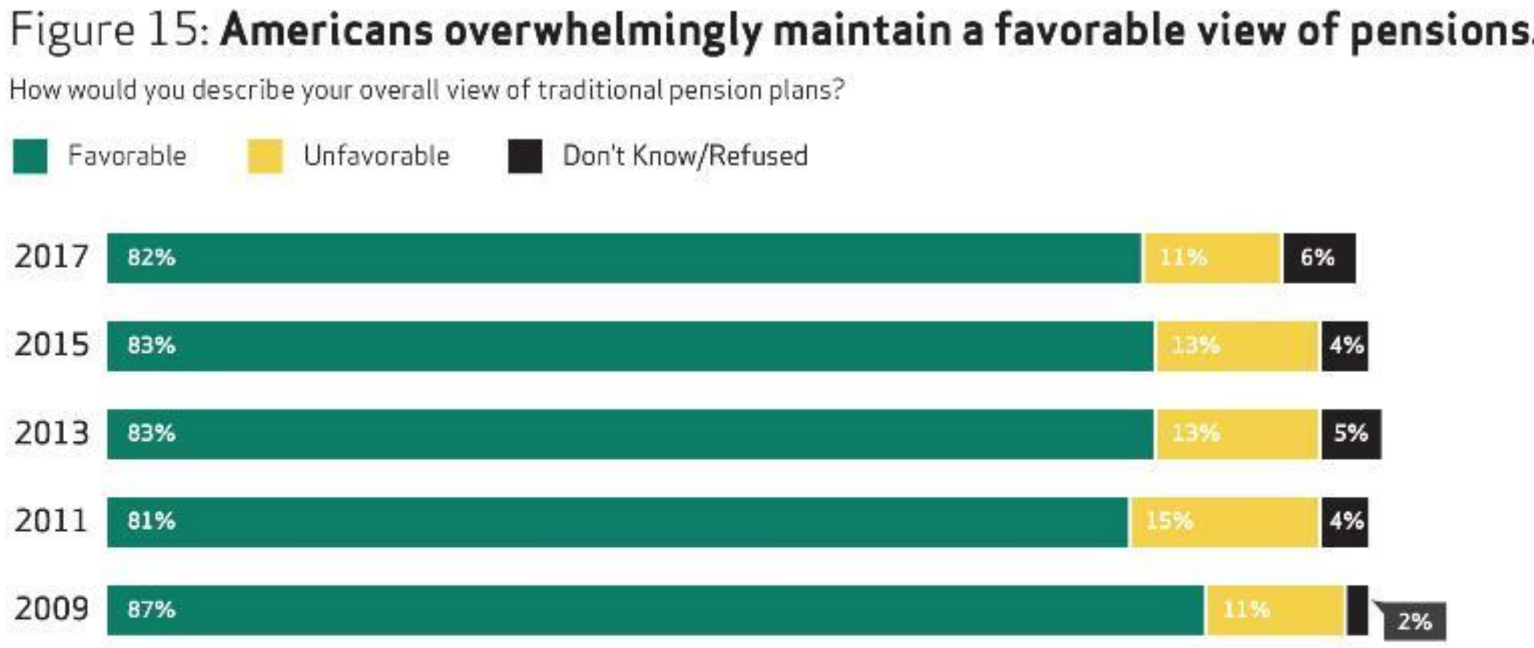
Americans maintain favorable view of pensions- Consistently above 80%.



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

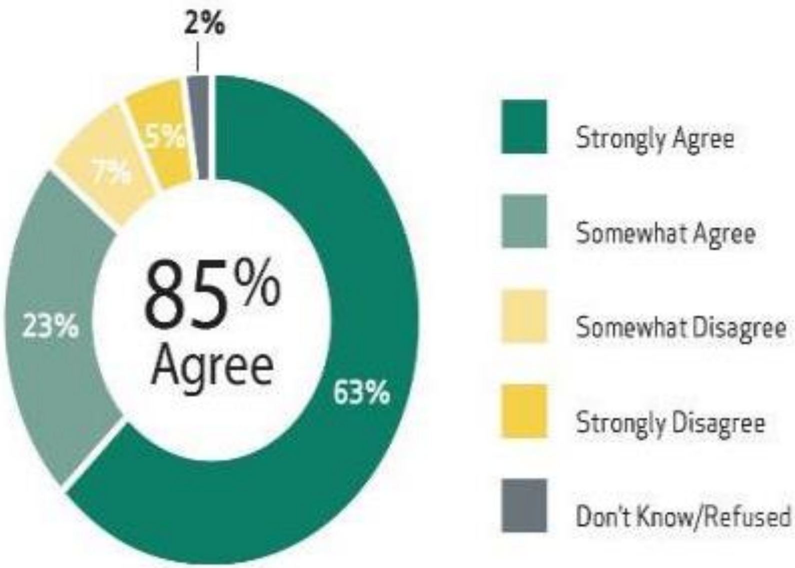
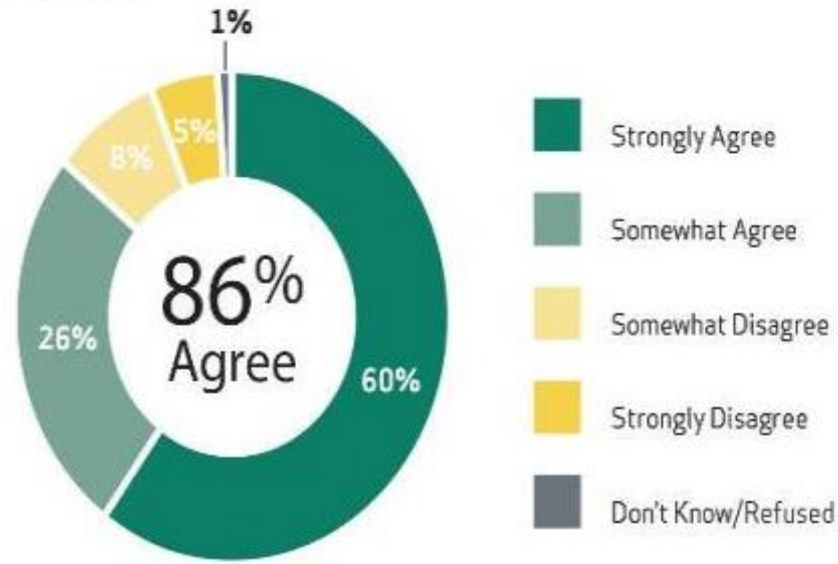


Figure 22: **86 percent of Americans say leaders in Washington need to give retirement a higher priority.**

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.



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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. S*tressed 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.

	2012-16	2013-17
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

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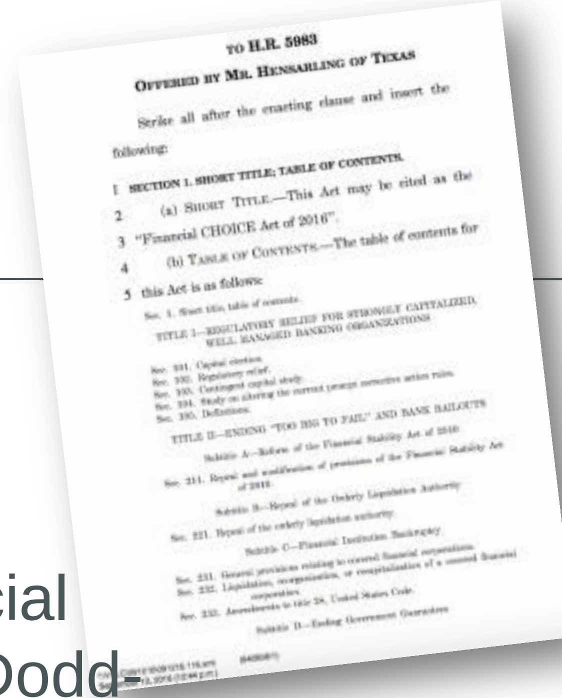
Dodd- Frank Reform



TO H.R. 5983

OFFERED BY MR. HENSARLING OF TEXAS

Strike all after the enacting clause and insert the following:

1 SECTION 1. SHORT TITLE; TABLE OF CONTENTS.

2 (a) SHORT TITLE.—This Act may be cited as the

3 "Financial CHOICE Act of 2016".

4 (b) TABLE OF CONTENTS.—The table of contents for

5 this Act is as follows:

Sec. 1. Short title; table of contents.

TITLE I—REGULATORY RELIEF FOR STRONGLY CAPITALIZED, WELL MANAGED BANKING ORGANIZATIONS

Sec. 101. Capital election.
Sec. 102. Regulatory relief.
Sec. 103. Contingent capital study.
Sec. 104. Study on altering the current prompt corrective action rules.
Sec. 105. Definitions.

TITLE II—ENDING "TOO BIG TO FAIL" AND BANK BAILOUTS

Subtitle A—Reform of the Financial Stability Act of 2010

Sec. 211. Repeal and modification of provisions of the Financial Stability Act of 2010.

Subtitle B—Repeal of the Orderly Liquidation Authority

Sec. 221. Repeal of the orderly liquidation authority.

Subtitle C—Financial Institution Bankruptcy

Sec. 231. General provisions relating to covered financial corporations.
Sec. 232. Liquidation, reorganization, or recapitalization of a covered financial corporation.
Sec. 233. Amendments to title 28, United States Code.

Subtitle D—Ending Government Guarantees

- 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


The White House
January 24, 2017
Memorandum: Implementation of Regulatory Freeze
M-17-16
MEMORANDUM FOR THE HEADS AND ACTING HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES
FROM: Mark Sandy, Acting Director
SUBJECT: Implementation of Regulatory Freeze
This Memorandum provides guidance on implementing the Memorandum of January 20, 2017, entitled "Regulatory Freeze Pending Review" ("Freeze Memo").
Postponement of Effective Dates of Certain Published Regulations
Memo instructs your departments and agencies

The White House
Office of the Press Secretary
For Immediate Release
January 30, 2017
Presidential Executive Order on Reducing Regulation and Controlling Regulatory Costs
EXECUTIVE ORDER
- - - - - - -
REDUCING REGULATION AND CONTROLLING REGULATORY COSTS
By the authority vested in me as President by the Constitution and the laws of the United States of America, including the Budget and Accounting Act of 1921, as amended (31 U.S.C. 1101 et seq.), section 1105 of title 31, United States Code, and section 301 of title 3, United States Code, it is hereby ordered as follows:

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 s tandards on pubic 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 multiempl oyer pensions and the **defined benefit pension plans run by many state and local governments**."* (Senator Hatc h)

Public Pensions and Social Security

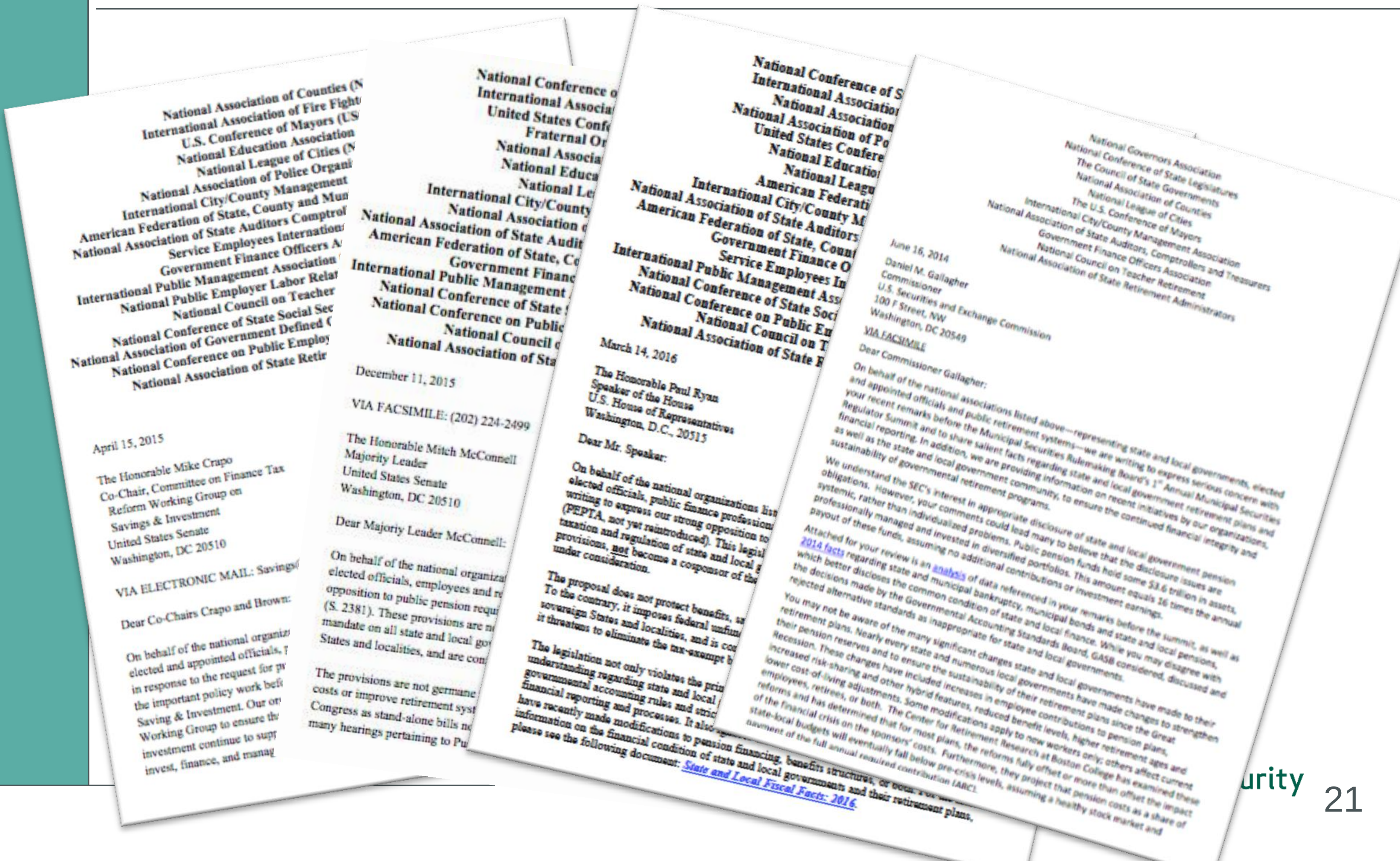
Mandatory Social Security for Public Employees

- 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



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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

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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]

NASRA

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

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

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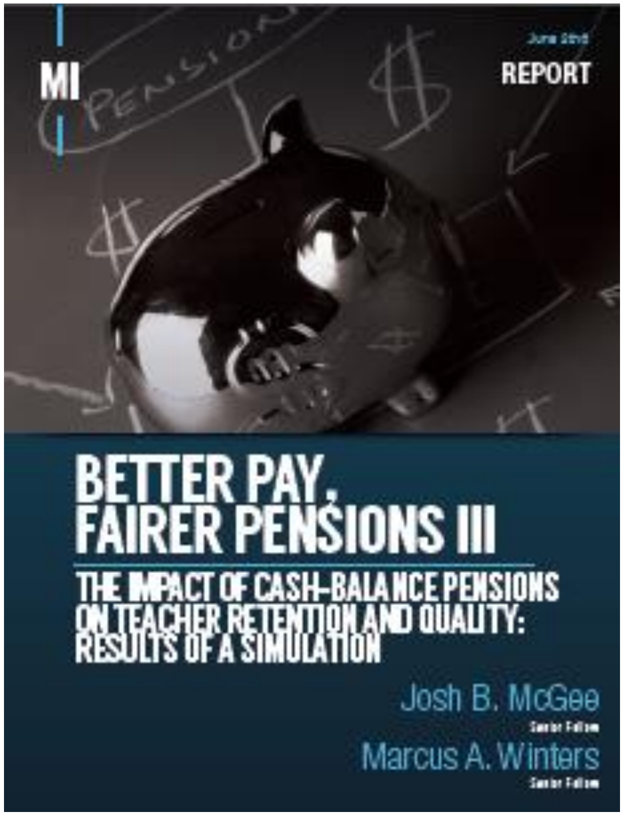
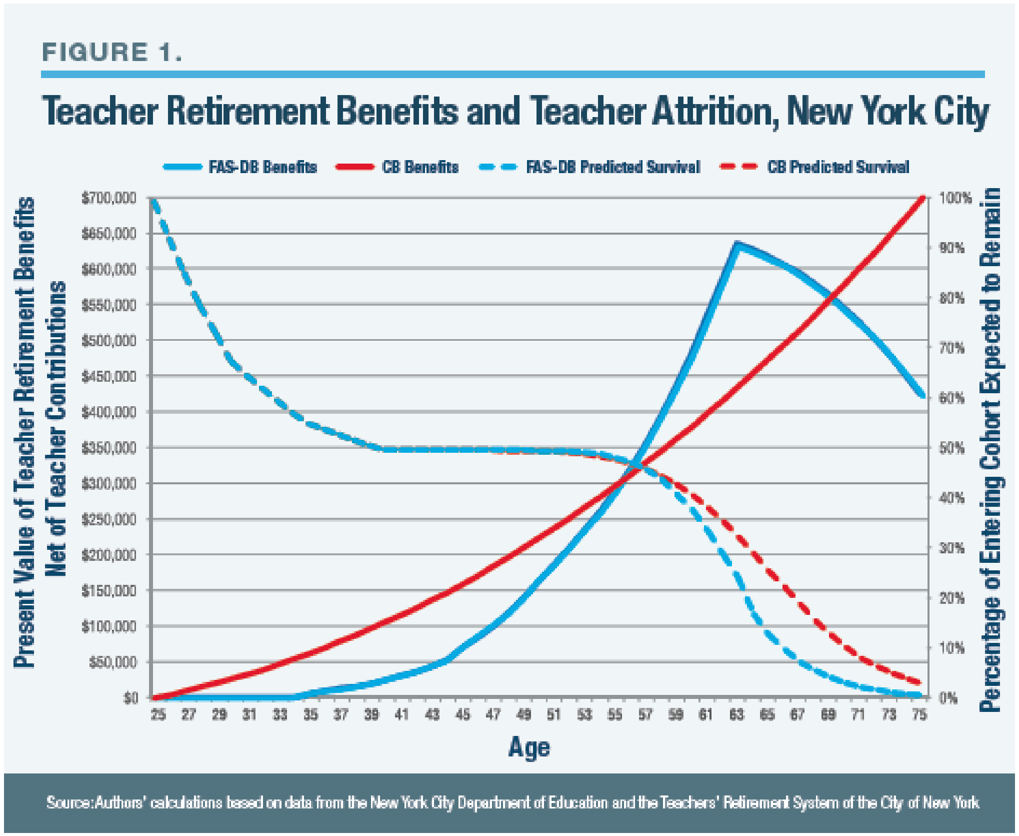
LJAF & Manhattan Institute: Better Teacher Retention - Cash Balance Plan





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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.

Report 10-2016

October 2016

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 outcomes 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.

Policy Brief

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

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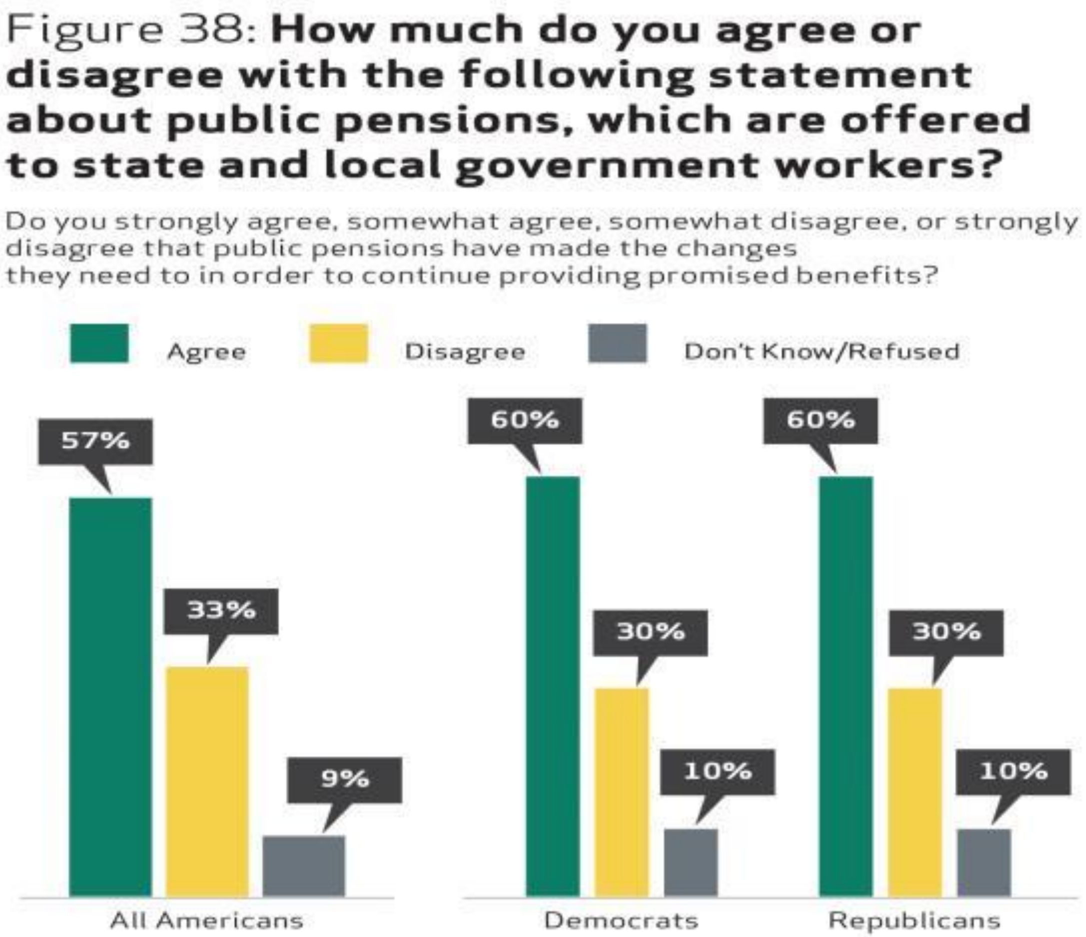
Six out of ten agree that public pensions have made changes to keep promises.



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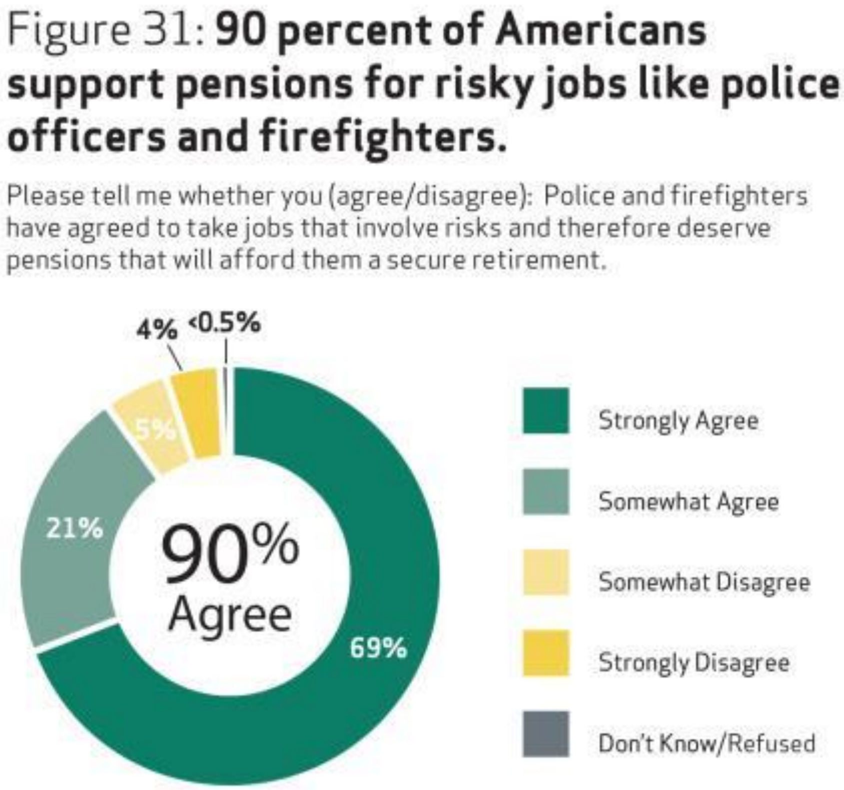
90% support pensions for police/fire.



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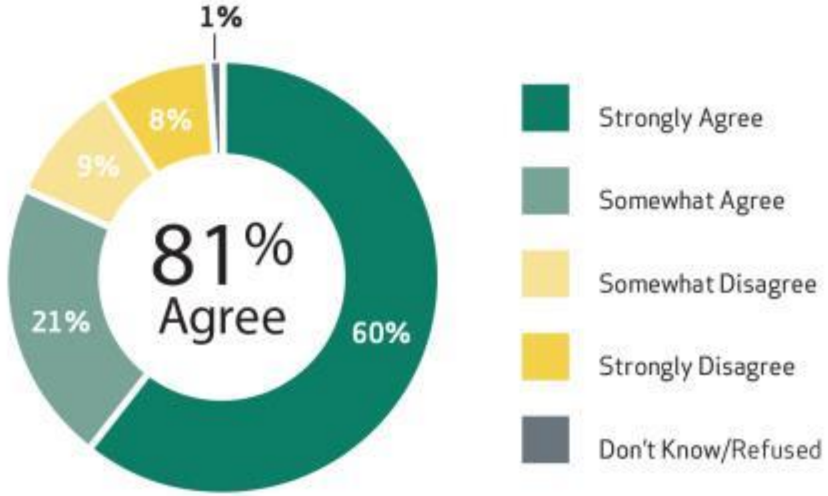
81% support pensions for teachers.

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

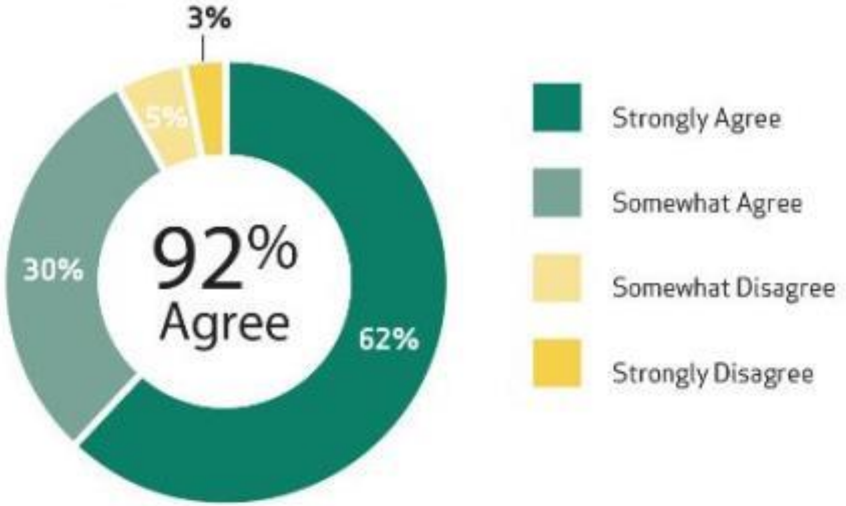
Please tell me whether you (agree/disagree): Public school teachers deserve pensions to compensate for lower pay.



92% see pensions as public pensions as recruitment tool.

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

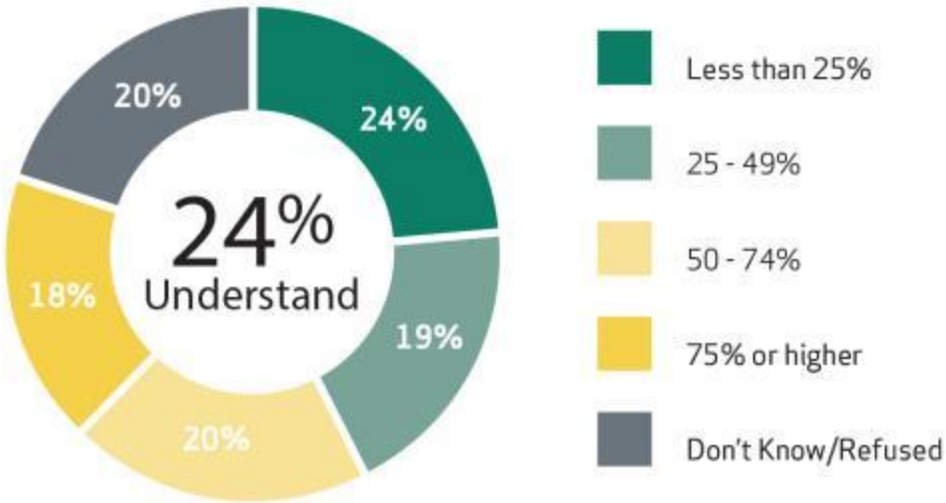
Please tell me whether you (agree/disagree): Pensions are a good way to recruit and retain qualified teachers, police officers, and firefighters.



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.



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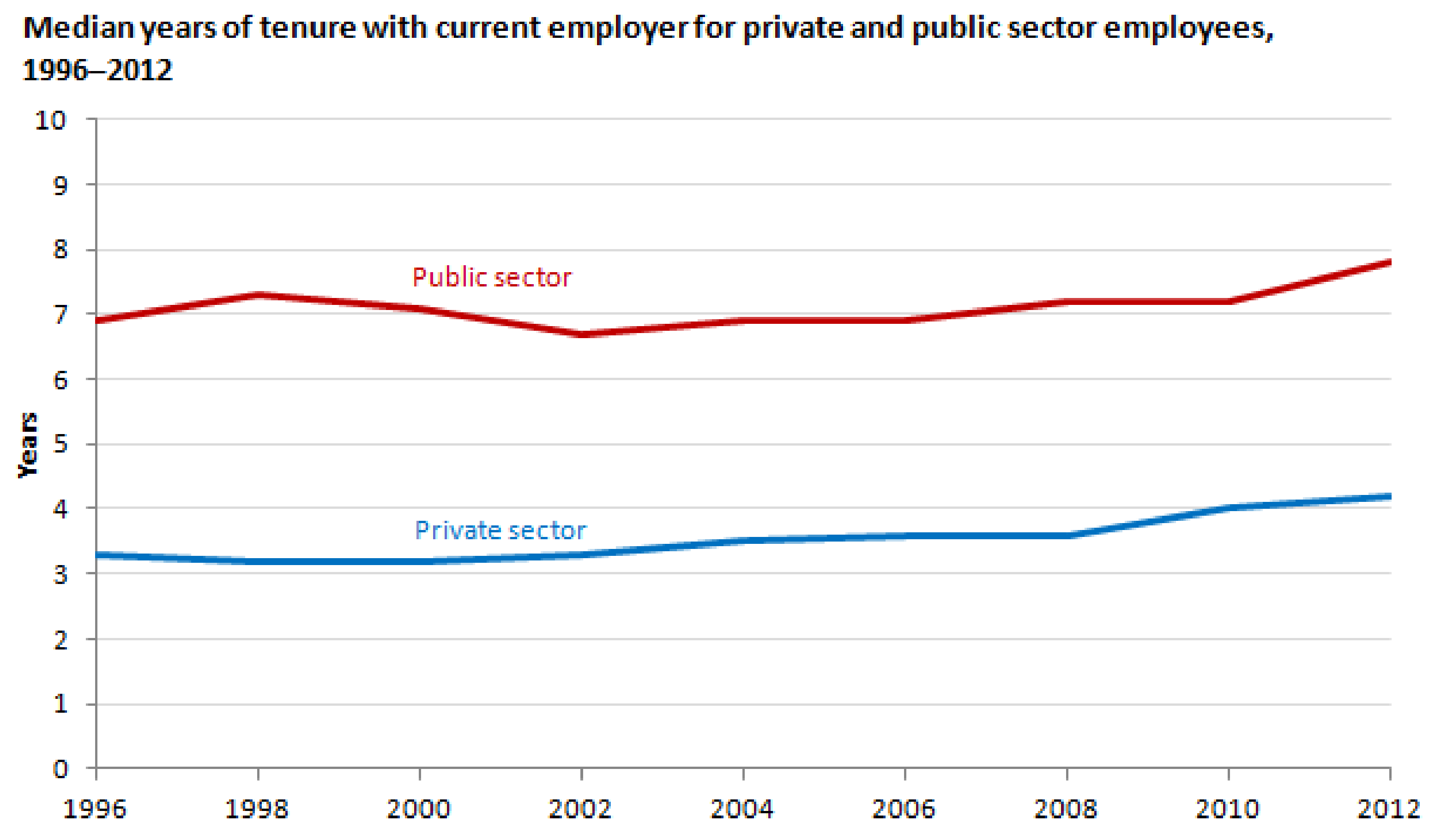
Public Sector Has Median Employee Tenure Equal to Twice the Private Sector

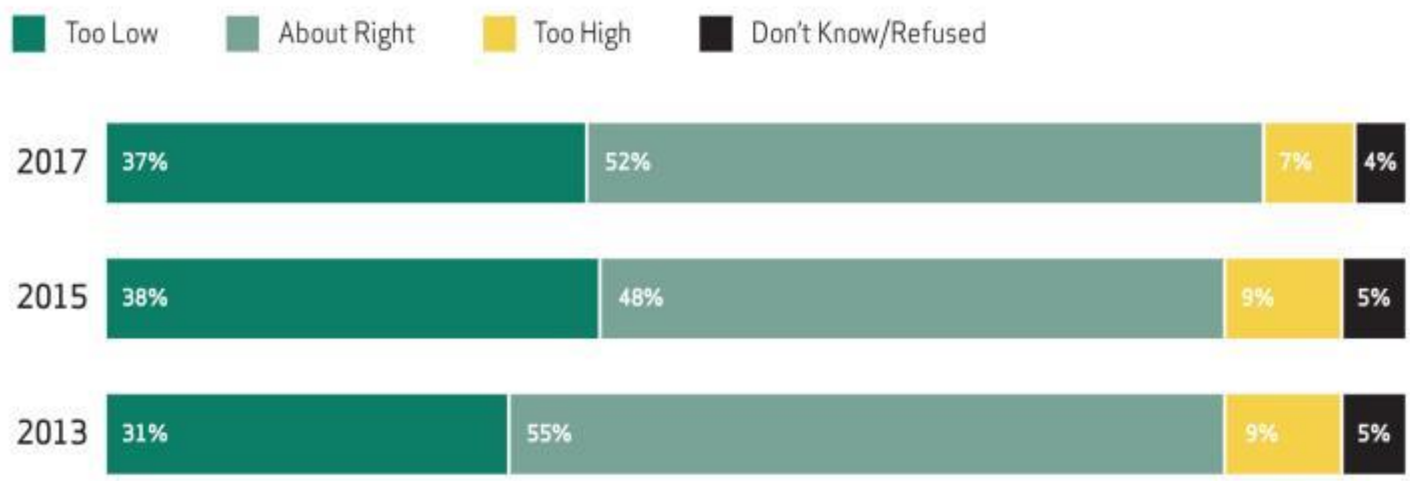


Source: U.S. Bureau of Labor Statistics.

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:



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Questions?

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