THE PEW CHARITABLE TRUSTS

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The Mission

- The Pew Charitable Trusts ("Pew") & the Laura and John Arnold Foundation ("LJAF") partnered to help states & local governments with public pension challenges

    - According to Pew's most recently compiled data, states have accumulated pension deficits totaling at least $757 billion, and 61 key U.S. cities have accumulated an additional $99 billion

        - Closing pension gaps will increasingly crowd-out core government services, especially at the local levels

- The partnership supports efforts in select jurisdictions that seek to pursue data-driven pension reforms that are comprehensive, sustainable and fair

- The joint project has provided non-partisan support and analysis in multiple localities, most recently working closely with the State Pension Task Force in Kentucky and with numerous locally-administered pension plans in Rhode Island

The Process

- There are various paths towards improving pension funding and no one-size-fits-all solution
  - ➢ Local governments need to find bi-partisan solutions that meet their own needs and are agreeable to all stakeholders, including public sector employees and their representatives
- The process of identifying reform options should be data-driven, open, transparent and inclusive of these stakeholders
  - ➢ It should also accomplish three primary goals:
    1) Create a credible plan to pay off pension deficits over a reasonable time frame
    2) Safeguard that future pension promises are affordable, sustainable and secure
    3) Ensure that the compensation package being offered will help recruit and retain a talented public sector workforce

The Services

- Pew & LJAF can offer assistance to help local governments identify and understand what levels of responsible pension reforms would be required to reach those goals

  - The partnership provides assistance several ways, including but not limited to:

    Education & Policy Advice: Policymakers are often knowledgeable about their own retirement systems but may not know as much about other systems or other experiences with reform. The partnership can provide a national perspective by sharing collective knowledge of public sector retirement systems, reform options and plan designs from across the nation

    An Analysis of Pension Challenges: The partnership can conduct a full financial and actuarial analysis of the City's pension plan. The analysis would present a clear picture of the plan's current fiscal position and make accurate projections, taking into account estimates for future pension costs under a variety of scenarios. This could serve as a baseline for discussions of what's required going forward. We would work with both the City pension plan's actuary as well as our own outside actuarial partners to ensure that policymakers have all the information and data they need to make informed decisions

    Modeling Reform Options: We can work with local governments to develop and analyze reform options, enabling policymakers to understand what policies or potential savings are sufficient and appropriate for them

Successful blueprint in other states:

1. Kentucky:

<u>Problem</u>

- *June 2012*: Main pension fund (KERS) in dire shape - 27% funded as of June 30, 2012
  - ARC funding shortfalls, excessive benefits, investment shortfalls, missed actuarial assumptions

<u>Process</u>

- *June 2012*: Bi-partisan taskforce (12 members) created to address pension challenges
  - Non-partisan support from PEW/LJAF
  - Listened to support from key stakeholders (public employees, labor groups, business leaders)
- Avoided political grandstanding and focused on finding a comprehensive solution

<u>Result</u>

- *November 2012*: After 6 months, taskforce reached comprehensive solution
  - Commitment to fund ARC
  - A limit on future cost-of-living adjustments (COLAs) unless the benefit could be fully paid
  - Created a well-designed hybrid plan for new employees
- *November 2012 – February 2013*: Compromise solution endorsed 11-1 by taskforce – passed in Senate on a bi-partisan basis
- *March 2013*: House made minor changes, including new revenues, and passed final version of reform bill on March 26

Successful blueprint in other states (cont'd):

2. Rhode Island:

Problem *(June 2011)*

- Rhode Island pensions burdened by years of fiscal irresponsibility
  - Prior reform efforts fell short

Process *(June 2011)*

- Treasurer Gina Raimondo exerted leadership and formed task force with major stakeholders (State government, public sector unions, plus representatives from cities & towns)
- Three key components of process:
  - A commitment to avoiding blame-games
  - Rigorous data and actuarial analysis
  - An earnest discussion of objectives required for reform
- Lowered discount rate, forcing policymakers to choose between paying required pension contributions or achieving reform

Result *(November 2011)*

- Passed bi-partisan solution
  - Raised retirement age
  - Temporarily halted COLAs (until 80%-funding levels)
  - Current and future employees placed in a new hybrid plan
- New hybrid plan awards a smaller guaranteed benefit with an individual retirement account funded by both employee and employer, providing a portable plan for workers and shared risk for employers
- Reducing COLAs and changing retirement age reduced liability facing taxpayers

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