



The Select Committee on Pension Policy

Change Plan 2/3 Default

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Office of the State Actuary

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What Is The Issue?

- Newly hired employees in PERS, TRS, and SERS who don't choose a plan are put into Plan 3
- Is the current default the preference of policy makers?



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Background

- SCPP studied the issue in 2008 Interim
- Recommended legislation for 2009 Legislative Session
 - Change the plan choice default for PERS only
 - House bill passed the House, neither bill was heard in the Senate Ways and Means committee
- Executive committee forwarded this issue for work session



How Are The Plans Different?

- Each plan designed to meet different needs
 - Plan 2
 - Defined benefit plan
 - Career employee
 - Little member risk or control
 - Plan 3
 - Hybrid plan
 - Defined contribution account
 - Defined benefit
 - Mobile employee
 - More member control and involvement
 - More member risk



The Plan Default Provisions

- New employees in PERS, TRS, and SERS have 90 days to choose a plan
 - Defaulted to Plan 3 if they don't make a choice
 - Minimum rate option (5 percent)
 - Contributions managed by WSIB
 - Plan membership is permanent, whether chosen or defaulted
- Plan 3 was original default plan
 - PERS in 2002
 - TRS and SERS in 2007

Plan Choice Data

- Data shows a strong preference for Plan 2 in PERS
- Less clear for TRS and SERS

	PERS*		TRS**		SERS**	
New Members	94,128		7,526		8,359	
Opting Into Plan 2	60,040	64%	2,999	40%	4,005	48%
Opting Into Plan 3	16,114	17%	3,106	41%	2,403	29%
Defaulted Into Plan 3	17,974	19%	1,421	19%	1,951	23%

*Data from March of 2002 through September 2009.
 **Data from July 2007 through September 2009.

Key Points Of Prior Deliberations

- Should the Plans 2/3 membership default be changed?
- If so, how should policy makers decide which plan should be the default plan?
- Should the default be changed at this time?



Why Was Plan 3 The Default Plan Originally?

- Choice likely based upon the values in the Plan 3 design
- Value for new workforce
 - Flexibility and control
 - Career mobility
- Lower guaranteed benefit so less risk for the state
 - Guaranteed benefit only half of Plan 2 amount
- Have the values behind the original choice of default changed?

How Should The Default Plan Be Determined?

- Use historical plan choice data
- Use plan design features to decide which plan best serves needs of new employees
 - Several Options
 - One default for all systems
 - System specific default
 - Default based upon new employee demographics



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8

Is Now The Right Time To Change?

- Possible legal concerns
 - TRS and SERS default part of plan choice created in HB 2391
 - Provisions of the bill are currently in litigation
- Linked to financial market concerns?
 - What happens when market returns change?



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9

Other States

- Two comparative systems provide similar plan choice to new employees
 - Ohio PERS
 - Florida Retirement System
- Both systems default new employees to a defined benefit plan



In Summary

- Have the values changed that set Plan 3 as the default?
- How should the default be chosen?
 - Use historical data
 - Use plan design features to decide which plan best meets needs
- Is now the right time to change?
 - Legal concerns
 - Market conditions

SCPP Recommendation For 2009 Legislature

- Change the Plan default from Plan 3 to Plan 2 for PERS only
 - TRS and SERS were not included in SCPP recommendation



Preliminary Fiscal Costs

- No impact to rates in current biennium

<i>(\$ in millions)</i>	PERS Only (Low)	PERS Only (High)	PERS, TRS, and SERS (Low)	PERS, TRS, and SERS (High)
2010-2011				
Total GFS	\$0.0	\$0.0	\$0.0	\$0.0
Total Employer	\$0.0	\$0.0	\$0.0	\$0.0
2011-2013				
Total GFS	\$0.0	\$0.2	\$0.0	\$1.0
Total Employer	\$0.0	\$0.4	\$0.0	\$2.0
25-Year*				
Total GFS	N/A	N/A	N/A	N/A
Total Employer	N/A	N/A	N/A	N/A

*25-year costs are not currently available

Possible Next Steps

- Move this issue forward for public hearing and possible executive session
 - Recommend the previous proposal to 2010 Legislature
 - Recommend a proposal to include all Plans 2/3
- Study the issue further
- Take no action

