

Select Committee on Pension Policy



Options for Managing Pension Risks: Constitutional Amendment

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2010 SCPP Activity

- September: Receive results from 2010 Risk Assessment
- October: Risk Management Work Session
 - Executive Committee requested November work session
- November: Constitutional Options for Managing Risks
 - Options presented in three areas
 - Funding
 - Benefits
 - Legacy costs
 - No recommendation from Executive Committee



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Today's Work Session

- Requested by chair
- Review non-SCPP proposals in more depth
 - Senate Joint Resolution (SJR) 8223 from 2010 Session
 - State Treasurer's proposal
- Compare to menu of options presented in November

Overview, Two Non-SCPP Proposals

SJR 8223 (2010)	State Treasurer's Proposal
Fund all plans based on valuation	Minimum floors for open plans at 80 percent of normal long-term costs
Exception by Legislative override (3/5 vote)	Minimum floors for closed plans at fixed rates starting in 2015
Exception when Legislature cuts benefits not already protected by Constitution	Legislature must set policies to prevent new legacy costs
	Two-year waiting period for changes to methods and assumptions that lower long-term expected costs

Funding Requirements, SJR 8223 (2010)

- Conduct biennial actuarial valuation
 - State actuary
 - Outside actuarial audit
- Set employer contribution rates
 - Pension Funding Council
 - "Use" valuation and audit
- Appropriate money
 - Legislature
 - Fund employer rates for upcoming biennium
- Like current practice



Legislative Flexibility Under SJR 8223

- Supermajority required to override PFC-adopted rates
 - Three-fifths of each house of Legislature
 - Current practice requires simple majority
- Legislature can reduce required funding by cutting benefits *not* guaranteed by state constitution

Summary, SJR 8223

- Pension Funding Council sets employer contribution rates using actuarial valuation
- Legislative flexibility
 - Override PFC by supermajority (3/5) vote
 - Cut benefits not protected by Constitution



Intent And Application, Treasurer's Proposal

- Intent section
 - Setting minimum standards
 - Two goals
 - More fiscal discipline
 - Improve intergenerational equity
- Application
 - Any defined benefit component of a state-administered retirement plan
 - Several exceptions based on small size or funded status
 - Judges
 - LEOFF 1
 - Volunteer Fire

Funding The Open Plans, Treasurer's Proposal

- Aimed at Legislature
- Fund open plans each year using minimum contributions
- Floors based on 80 percent of expected long-term annual cost of benefits
- Floors automatically adjust for future changes in plan benefits and assumptions
- Consistent with current law



Funding The Closed Plans, Treasurer's Proposal

- Aimed at Legislature
- Fixed minimum employer contribution rates begin in 2015 to pay off legacy costs in Plans 1
 - 5.25 percent for PERS 1
 - 8.00 percent for TRS 1
- Consistent with "plan 1 funding method" in current law
 - Rate relief in effect prior to 2015
- New benefit improvements require funding *in addition to* floors

Prevent Future Legacy Costs, Treasurer's Proposal

- Aimed at Legislature
- Adopt policies
 - Closed plans
 - Open plans
 - Plans closed to new entrants after effective date of amendment



Two-Year Waiting Period, Treasurer's Proposal

- Applies to legislative changes to actuarial methods or economic assumptions that result in lower expected long-term pension costs
- Takes away any incentive to use changes in methods or assumptions as a means to achieve budgetary "savings"

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Observations, Non-SCPP Proposals

SJR 8223	State Treasurer's Proposal
Simple, action-oriented	Complex (different approaches for different plans)
Focus on process (when, who, how)	Focus on when but not who or how
Uses general concepts (what)	Uses technical standards and actuarial concepts
Starts with full funding but leaves a Legislative "out"	Focuses on minimum funding with no "out"
Relies on two statutory entities and Legislature	Aimed solely at Legislature
Attempts to manage funding risk	Attempts to manage funding risk and policy reactions to short-term volatility
Would fund past legacy costs	Floors for past legacy costs start in 2015; directive to prevent new legacy costs
Applies to all state systems	Applies to most state pension systems

Questions, SJR 8223

- Will it result in full funding?
 - What does it mean to “utilize” the actuarial valuation and audit to determine rates?
 - How often would an override by 3/5 vote occur?
 - Does it protect against short-term funding policy?
 - Will people and processes be susceptible to political pressures?
- Will it be clear which benefits are constitutionally protected and which are not?
- Affordable?
 - Are reserves needed?
 - Is full funding for legacy costs affordable in short term?

Questions, State Treasurer's Proposal

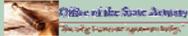
- Will minimum floors be enough to manage financial risks over the long term?
- Is it realistic to have no Legislative “out” for floors?
- Will a Legislative directive be enough to prevent future legacy costs?
 - Leaves it to Legislature to determine how accomplished



General Comparison – All Options Discussed To Date

Options for Managing Pension Risks – Constitutional Amendment*	SJR 8223	Treasurer Proposal
Full funding	X	
Full funding with over-ride by supermajority	X	
Dedicated reserves		
Eighty percent funding		X
Waiting period for changes to methods and assumptions		X
Non-contractual benefits		
Strict funding for retroactive benefit improvements		
Avoid benefit improvements in unhealthy plans		
Supermajority for unfunded benefit improvements		
Voter approval for unfunded benefit improvements		
Pay off legacy costs	X	X
No new legacy costs		X

*These options were generally outlined in the SCPP's November 16, 2010, work session:
Handout: http://www.leg.wa.gov/SCPP/Documents/2010/11-16/4_ConstAmend.pdf .
Power Point: http://www.leg.wa.gov/SCPP/Documents/2010/11-16/4.PPT_ConstAmnd.pdf


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Possible Next Steps

- Take no further action
- Recommend further study in 2011
- Develop an SCPP recommendation in 2011
 - Pick from options previously outlined
 - Develop one or more new options
- Study or endorse a non-SCPP proposal
 - SJR 8223
 - State Treasurer’s proposal
- Focus on other strategies for managing pension risks




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