

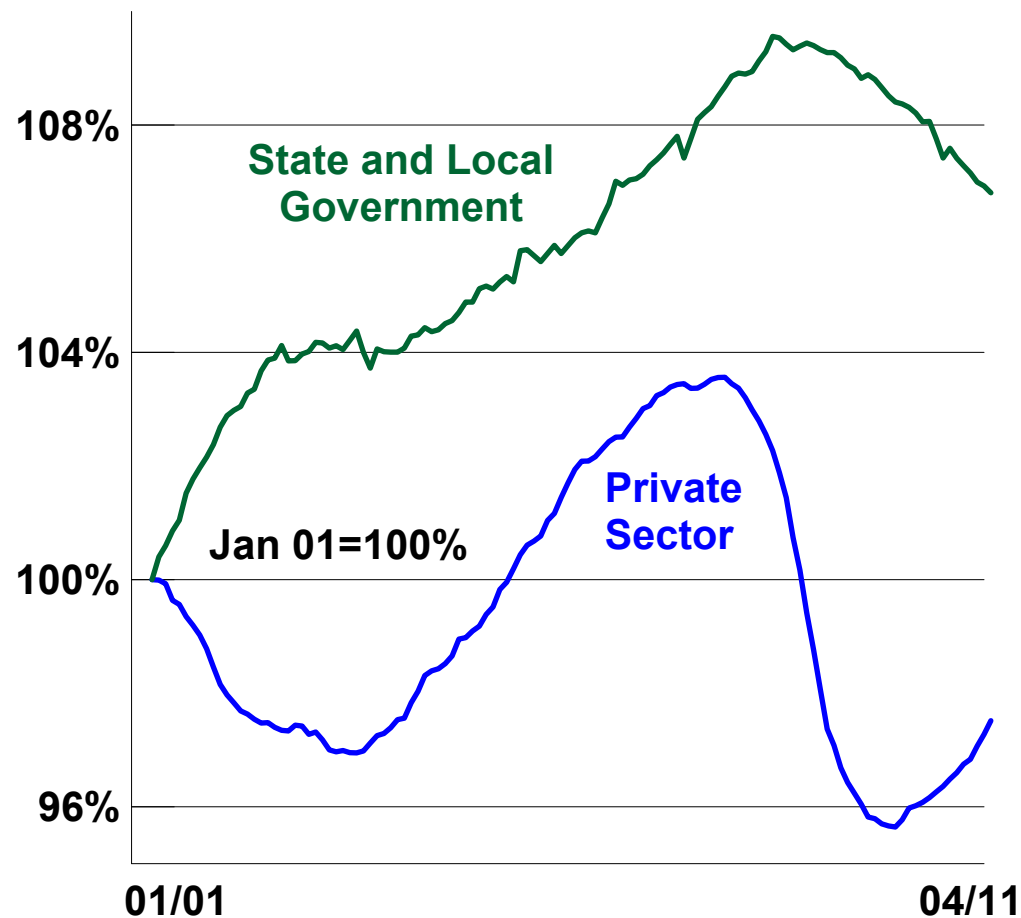
**Where have we been...
where are we headed ?**

SCTR
Southern Conference on Teacher Retirement

May 18, 2011

Keith Brainard, Research Director
National Association of State Retirement Administrators

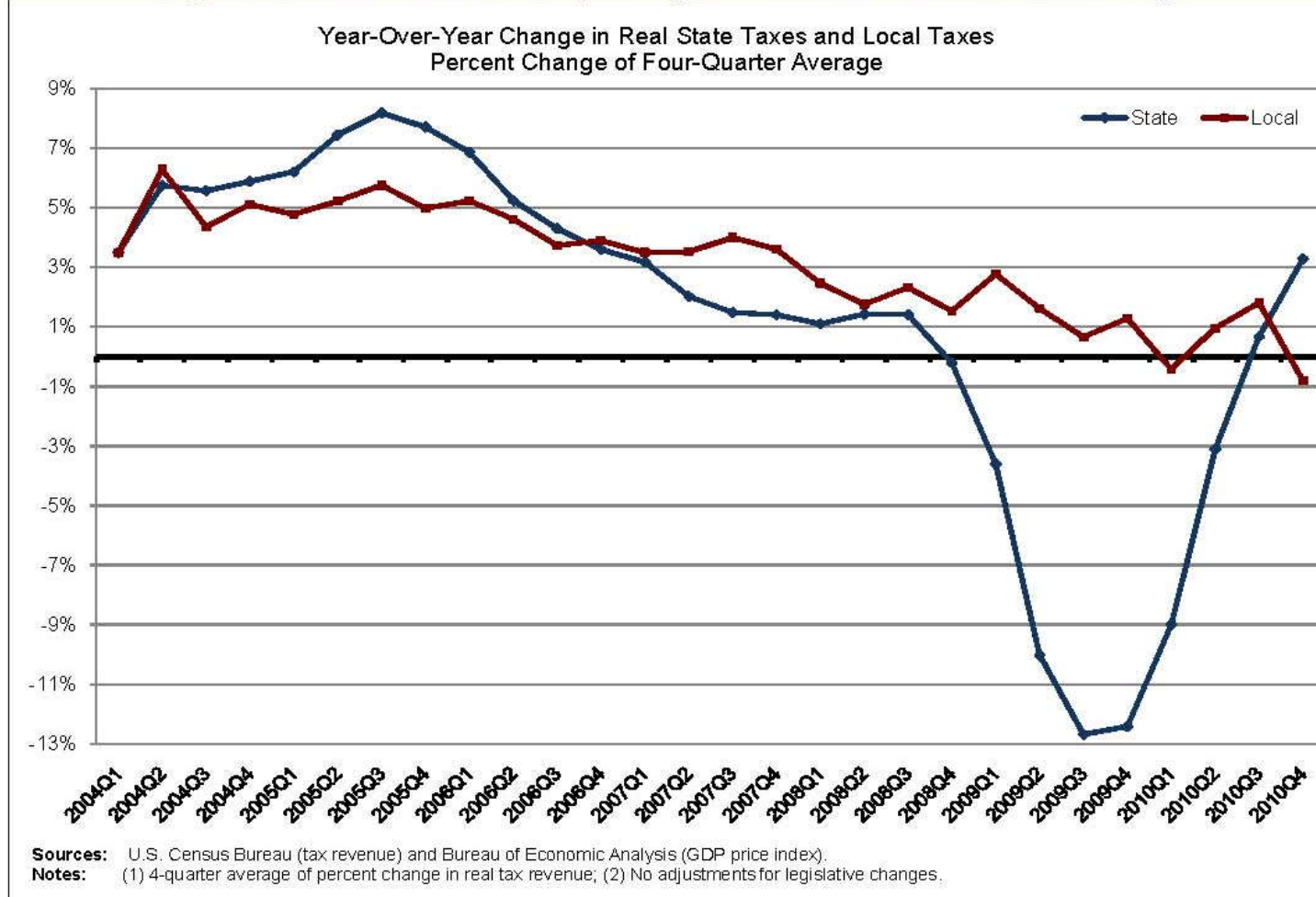
Change in employment, state and local government and private sector, 2001 to April 2011



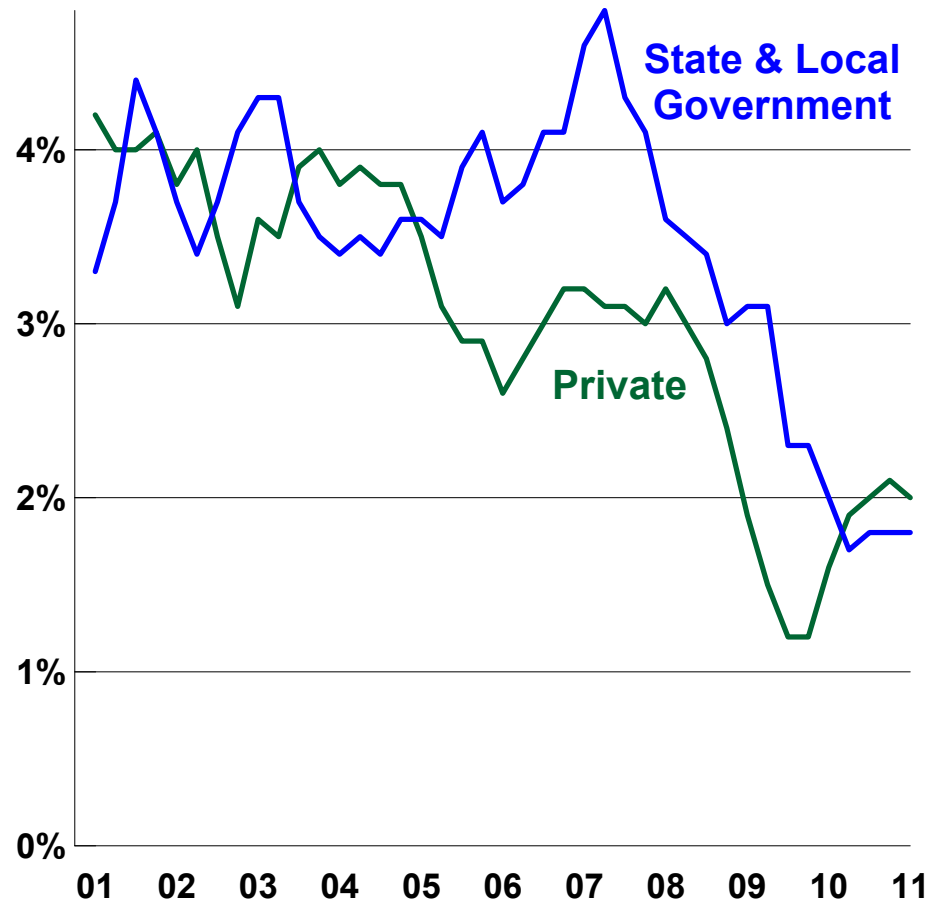
Bureau of Labor Statistics

State revenues are recovering; local revenues are declining

Figure 2. State Taxes Are Improving While Local Taxes Are Declining

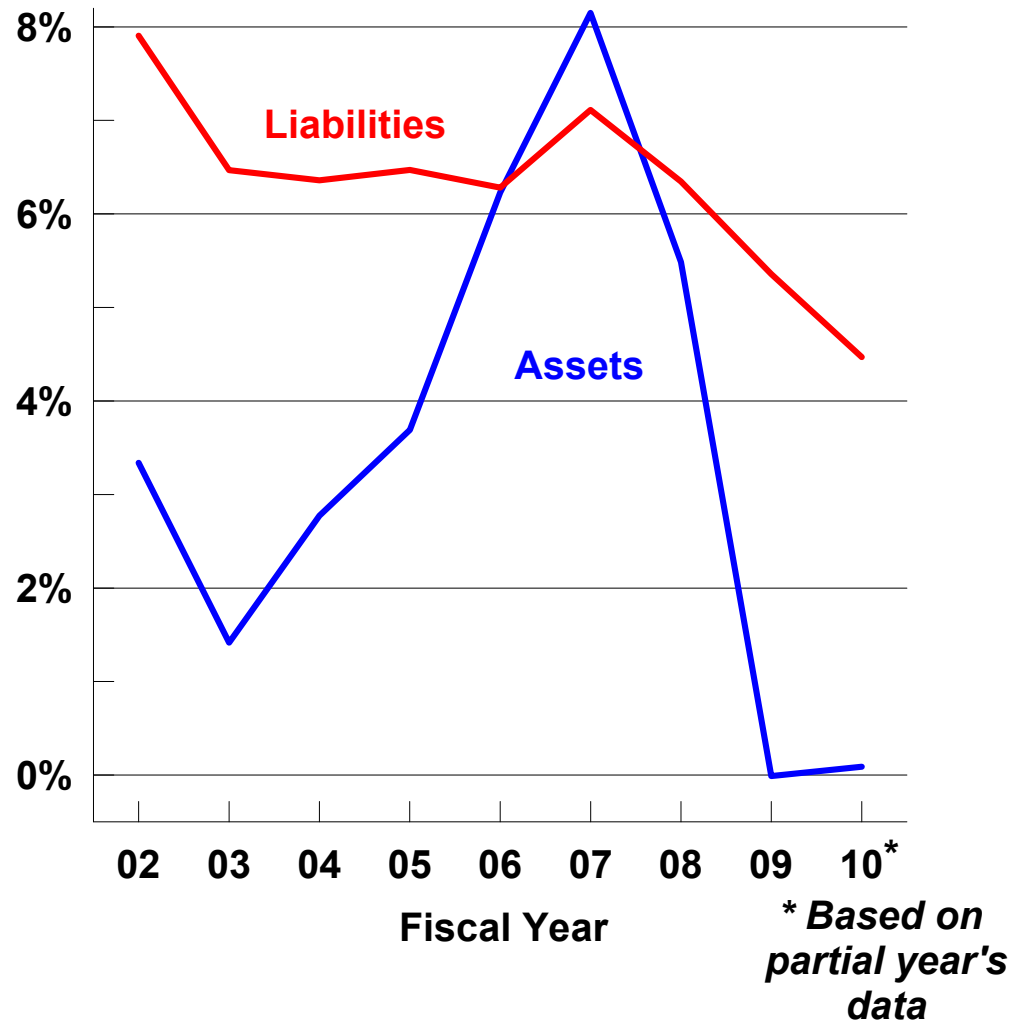


Change in quarterly compensation (annualized), state and local government and private sector, 2001 to 1Q 2011

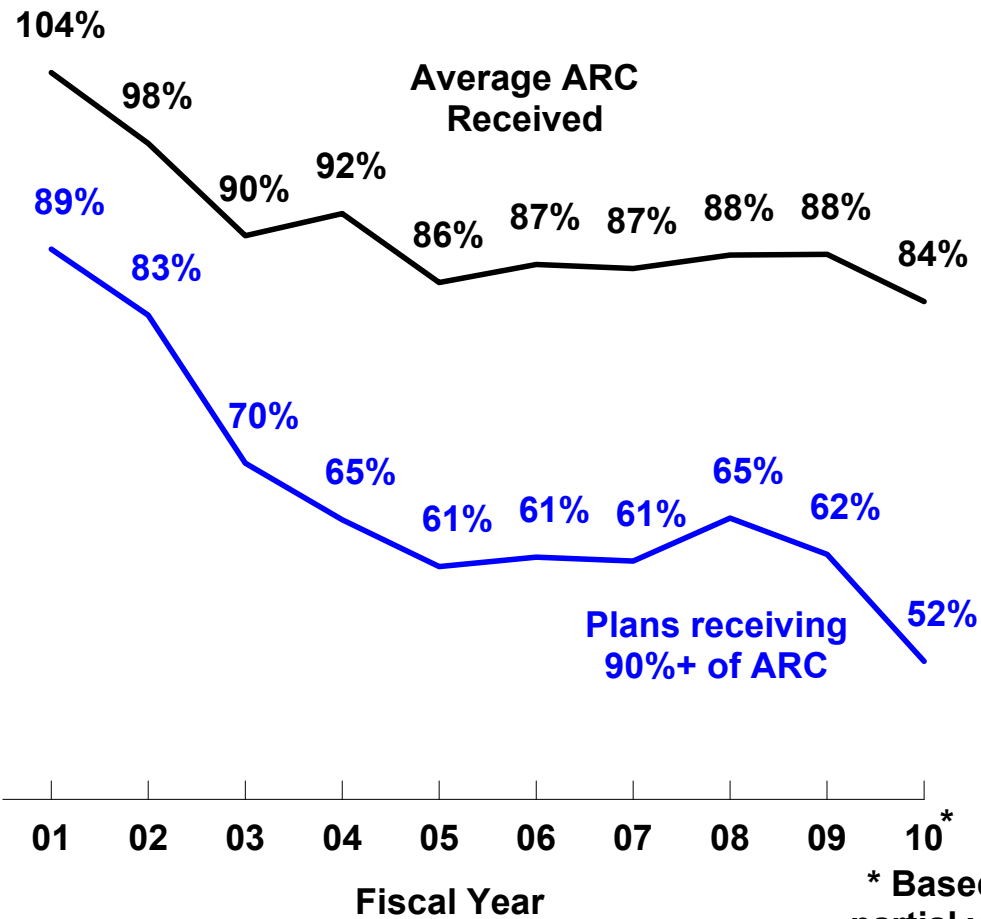


U.S. Bureau of Labor Statistics

Median annual change in actuarial value of assets and liabilities



Annual Required Contribution experience FY 01 to FY 10



* Based on
partial year's
data

Recent changes made to public pension plans

- Following the 2008-09 market decline:
 - the pace of change is faster
 - the breadth of change is wider
 - the magnitude of change is greater
- More cases of higher employee contributions
- More changes affecting existing plan participants, rather than new hires only
- 2010 was “unprecedented”
- Particularly interesting changes: Utah and Pennsylvania
- Other recent changes: Arizona, Florida, Oklahoma, Kansas

Overview of Changes, continued

- Plan sponsors are sticking with their traditional pension plans
- Many have considered and rejected switching to defined contribution plans
- Transition cost from DB to DC is significant, and generally higher for DB plans in worse condition
- Growing number of hybrid plans
- Most hybrids feature a traditional, but more modest pension benefit, combined with a DC plan

Sharing the risk

- Utah RS
 - New hires in Utah as of 7/1/11 will have a choice of a hybrid or DC plan
 - Hybrid features DB plan with a multiplier of 1.5%
 - Employer contribution rate is capped at 10% of pay (12% for public safety workers)
 - Cost of plan is currently estimated to be 8.5%
 - Difference of 1.5% will go into employee's DC plan account
 - If DB plan cost exceeds 10%, employee pays the difference
- Pennsylvania SERS and PSERS
 - Establishes “shared risk” for new hires as of 7/1/11
 - Employee contribution rates will fluctuate depending on investment performance

Changes in Arizona

- Apply mostly to public safety personnel, correctional officers, elected officials' plans
- AZ public workers participate in Social Security
- Police and firefighters' contributions will rise gradually from 7.65% to 11.65%
- Actuarial return must exceed 10.5% to trigger COLA

Changes in Florida

- Plan was non-contributory
- Employees will be required to contribute three percent of pay effective 7/1/11
- For new hires:
 - Increases final average salary period to eight years, from five
 - Increases vesting period to eight years, from six
- Eliminates COLA for service earned after July 2011
- Reduced DROP rate, from 6.0 to 1.3 percent
- Higher retirement eligibility criteria for new hires
- Florida governor: “It is my goal to continue to modernize Florida’s retirement system until it is not longer reliant on our state’s taxpayers.”

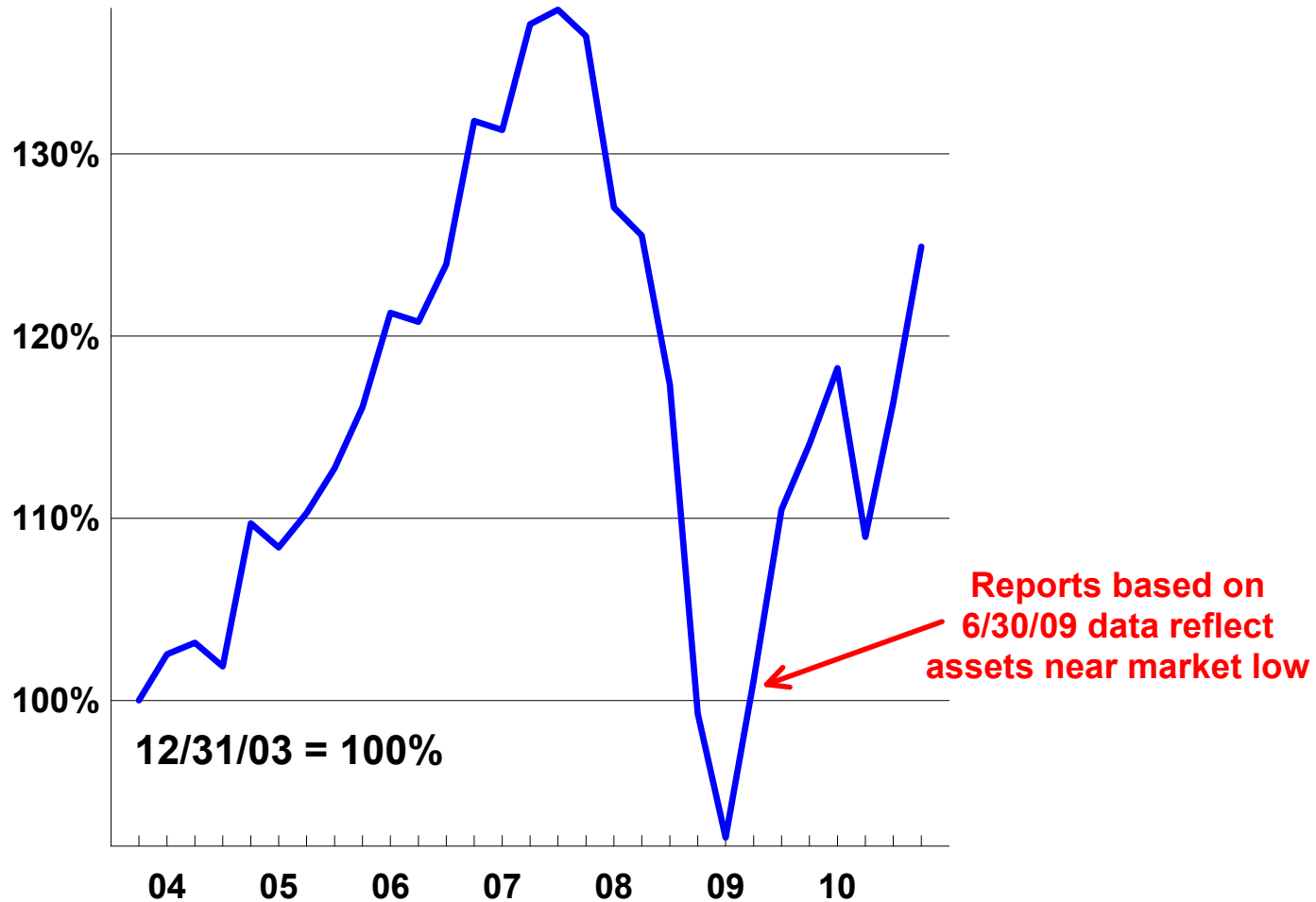
Changes in Oklahoma

- No payment of COLAs unless funds are provided
- Changing the plans' actuarial assumptions regarding future ad hoc COLAs reduces unfunded pension liabilities by \$5 billion, or some 30 percent
- Also, higher normal retirement eligibility for new hires

Changes in Kansas

- Most active members may choose to contribute more (from 4% to 6%) to keep their DB plan accrual rate, or maintain 4% contribution and accrue at a lower rate

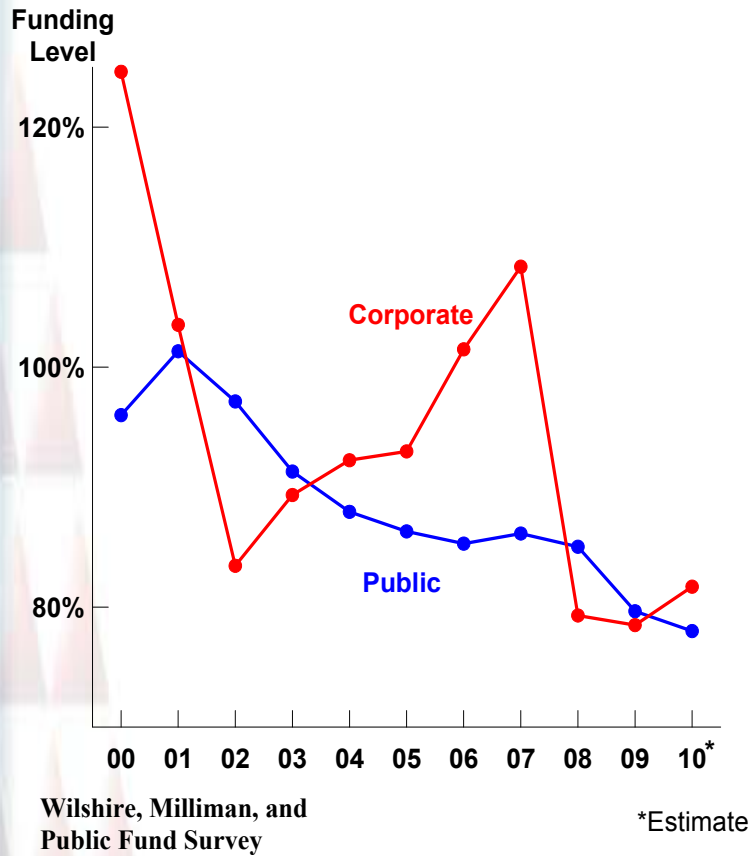
Change in aggregate value of public pension fund assets, 12/31/03 to 12/31/10



U.S. Federal Reserve

Corporate vs. public pension funding levels and costs

Comparison of corporate and public pension funding levels, 2000 to 2010



Comparison of change from prior year in corporate and public pension contributions, 1989 to 2009

