

Public Plan Design for the Future



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**Public Sector Pensions:
Current Challenges and Future Directions
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If public pension plans are to be both financially sustainable and relevant into the future, they must provide

- (1) reasonable retirement security for employees and*
- (2) funding mechanisms that meet the needs of state and local governments.*

Critical Employee Needs

- Pooling to protect against individual risks
 - Access to low-cost annuities
 - Enhanced investment opportunities
- Protection against the loss of earned benefits
 - Guaranteed and priority funding
 - Benefit growth and portability after termination or job loss
 - Benefit increases for those who postpone retirement
- Protection against post-retirement inflation

Meeting Employer Funding Needs

- Minimize costs, maximize investment return
 - $ER\ Contr = Benefits + Exp - Inv\ Rtn - EE\ Contr$
- Reconcile short vs. long-term financial perspectives
 - Understand fiscal nature of public employers
 - Identify effects of long-term financial uncertainty
 - Identify and develop means to bridge the gap
- Embrace and prepare for change
- Maintain public support

Critical Factors in Maintaining Public Support

- Acceptable benefit levels
- Reasonable employer cost
- Employer contribution rate stability
- Successful navigation through future political, economic, demographic and cultural environments
 - Embrace change with broad, forward-looking strategies
 - Be proactive in meeting the needs of employees and retirees
 - Establish effective two-way communication with all stakeholder groups
 - Seize opportunities to lower risks and improve funding flexibility

Sample Techniques for Meeting Funding Needs and Reducing Risk

- ❑ Allow employers to set benefit levels and to periodically raise and lower them
- ❑ Monitor and actively participate in the actuarial process
- ❑ Set aside reserves for lean years or sudden, unanticipated events
- ❑ Determine retirement benefits on the basis of employee account balances
- ❑ Provide employers with options for managing contribution rate risk
- ❑ Provide a flexible process for allocation of investment return
- ❑ Consolidate smaller plans into multiple-employer plans

Public Pension Plan Paradox

Public pension plans must give the appearance of a duck gliding smoothly across a seemingly calm river without any indication of the currents, the frantic paddling and the lurking dangers beneath the surface.