Presentation to the Fairfax Retirement WG

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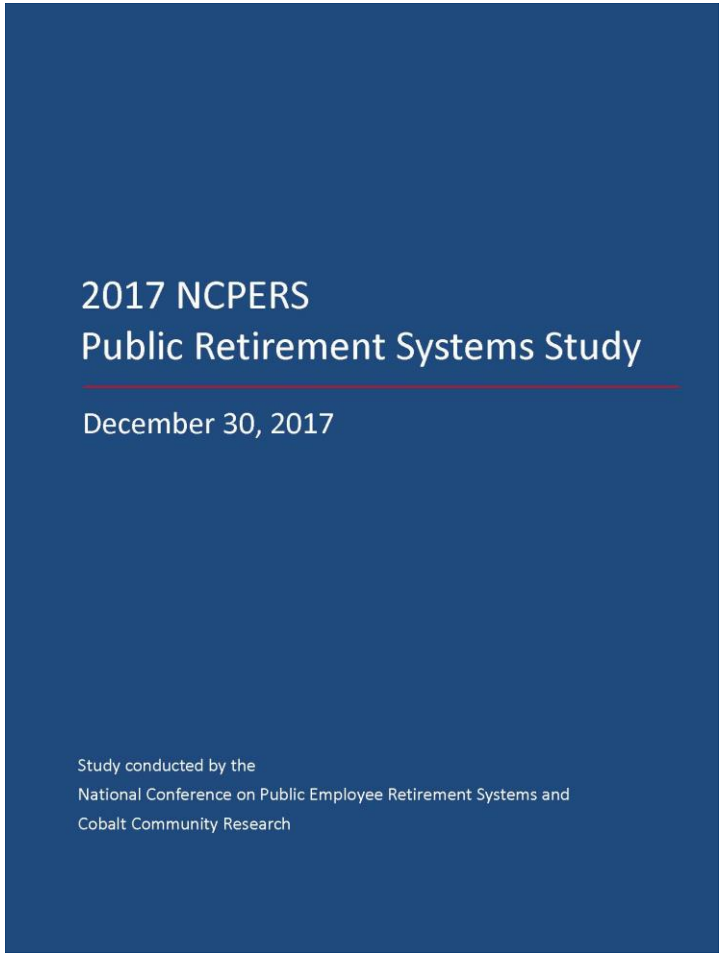
National Conference on
Public Employee Retirement Systems

National Conference on Public Employee Retirement Systems

- **NCPERS is the largest nonprofit trade association representing approximately 500 public sector DB plans that have more than $3 trillion in assets.**
- **Who we *ARE*:**
  - ***A*dvocacy**
  - ***R*esearch**
  - ***E*ducation**
- **www.NCPERS.org**

2017 NCPERS Public Retirement Systems Study

- www.ncpers.org/surveys
- 7th year comprehensive study
- Explore public sector retirement practices
- Analyze the most current data available on retirement funds’ current fiscal condition and steps they are taking to ensure fiscal and operational integrity
- Identify best practices and strategies for lowering unfunded actuarial accrued liability



2017 NCPERS
Public Retirement Systems Study

December 30, 2017

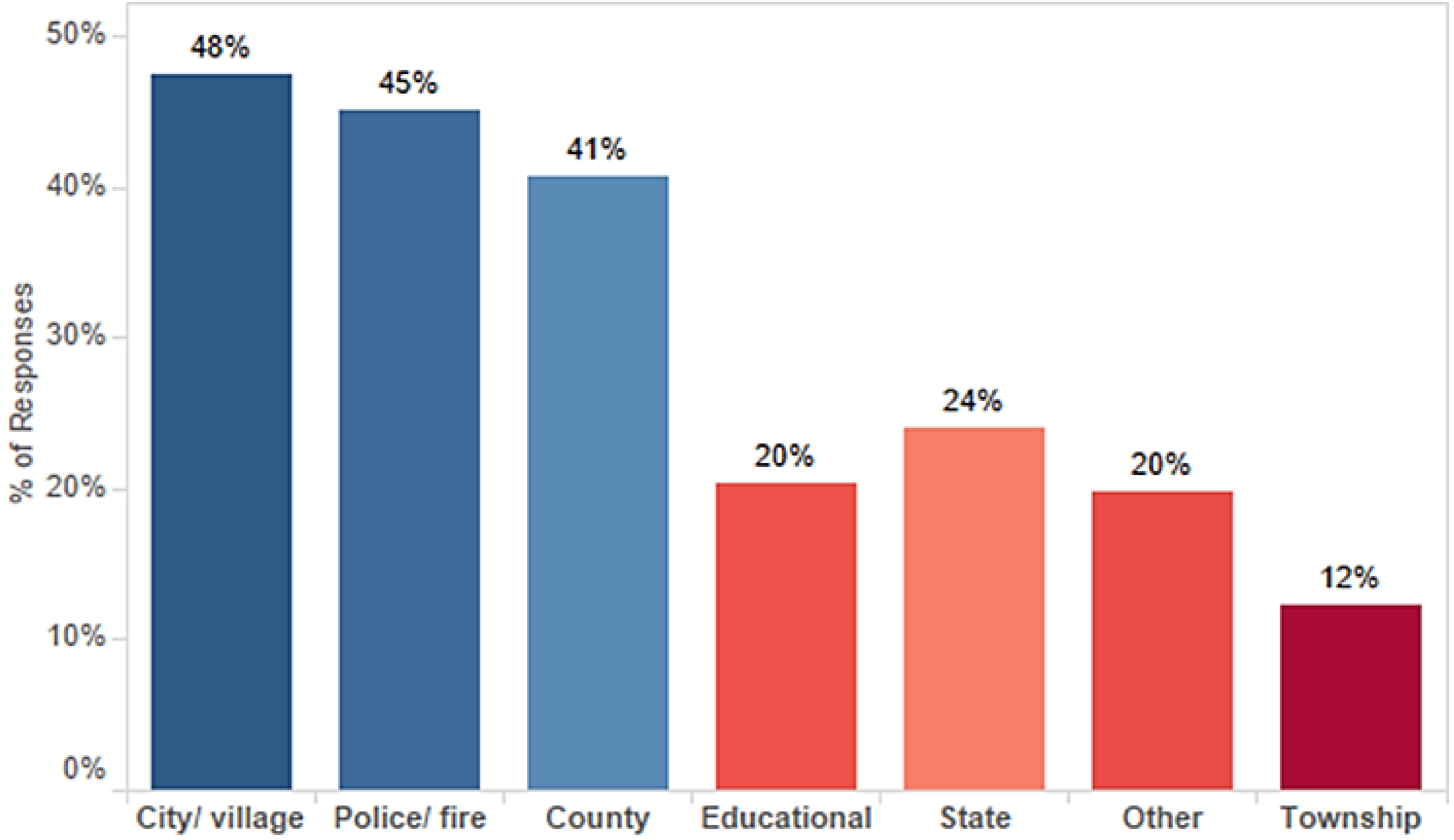
Study conducted by the
National Conference on Public Employee Retirement Systems and
Cobalt Community Research

Methodology

- Conducted between September and December 2017 (same timeframe as prior studies)
- Conducted via email with a mailed reminder
- Two pools of respondents:
  1. NCPERS members
  2. Largest non-NCPERS member funds by assets and participants
- Valid response from 164 funds, of which 86 also responded to the 2016 study
  - This group provides direct comparisons on several key dimensions in the survey, such as: funded status, contribution rates, and actuarial assumptions

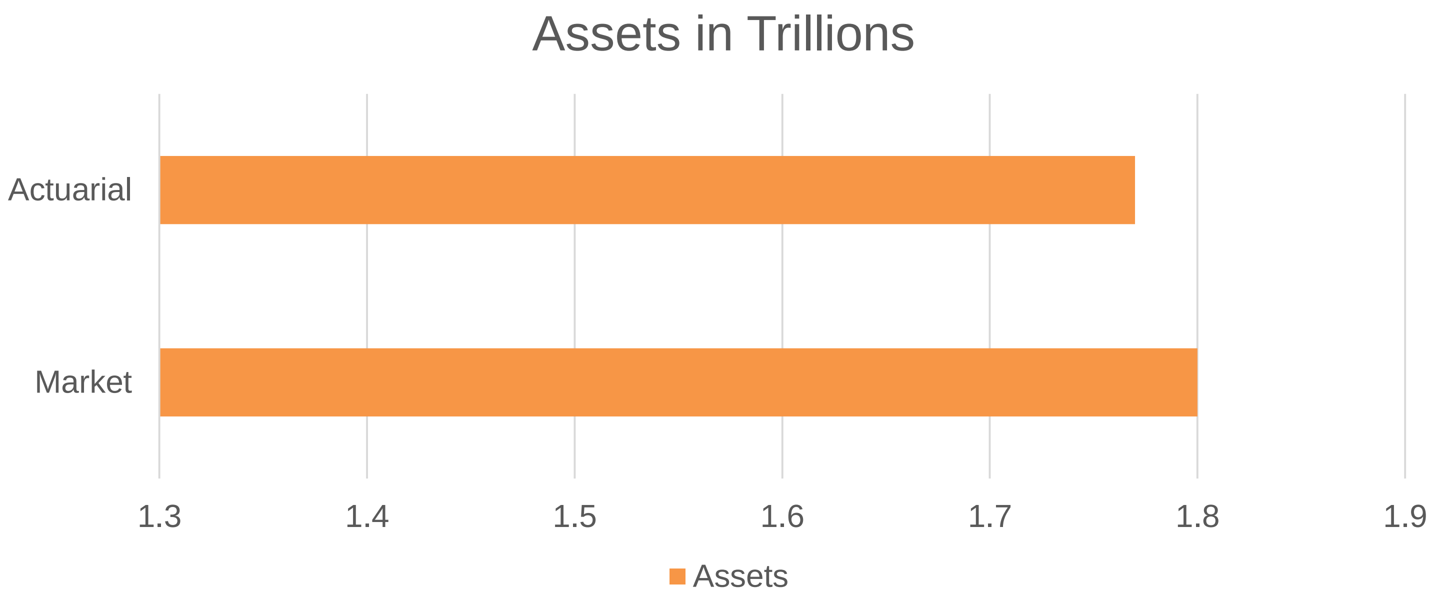
Methodology

Overall distribution of responding funds is similar to prior studies



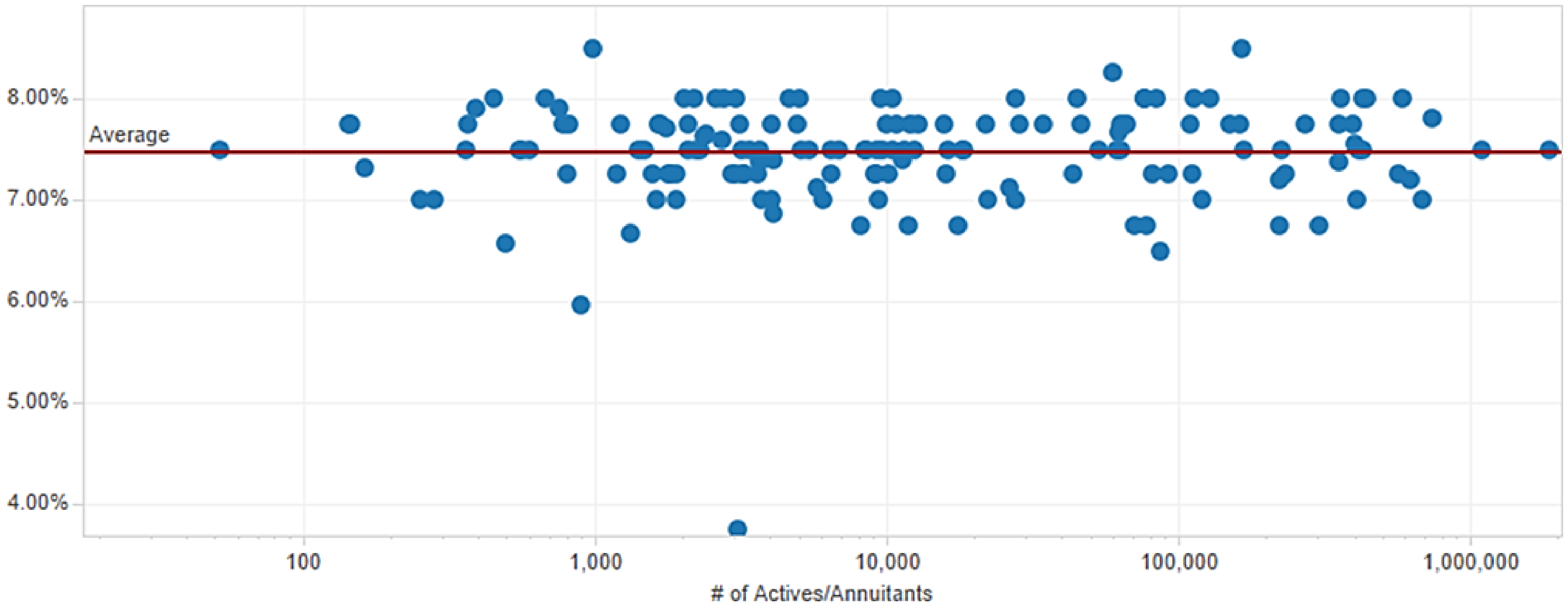
Key Findings

The market value of fund assets now exceed the actuarial value of assets for the 2017 respondents



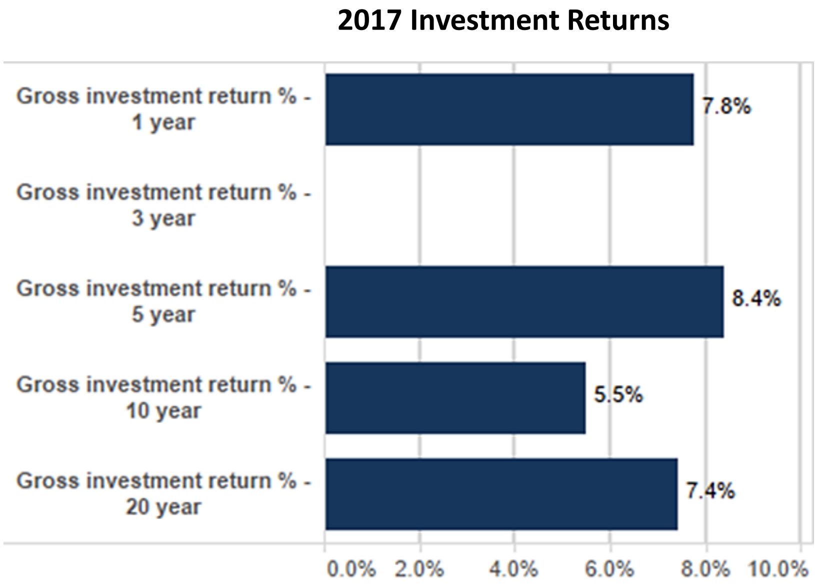
Key Findings

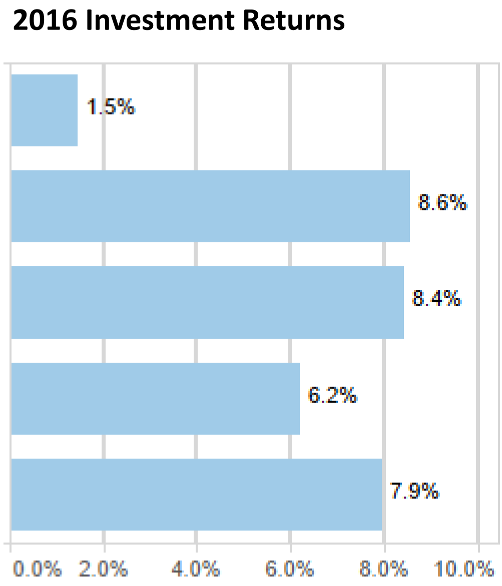
The average investment assumption is 7.5%. This is the same as 2016.



Key Findings

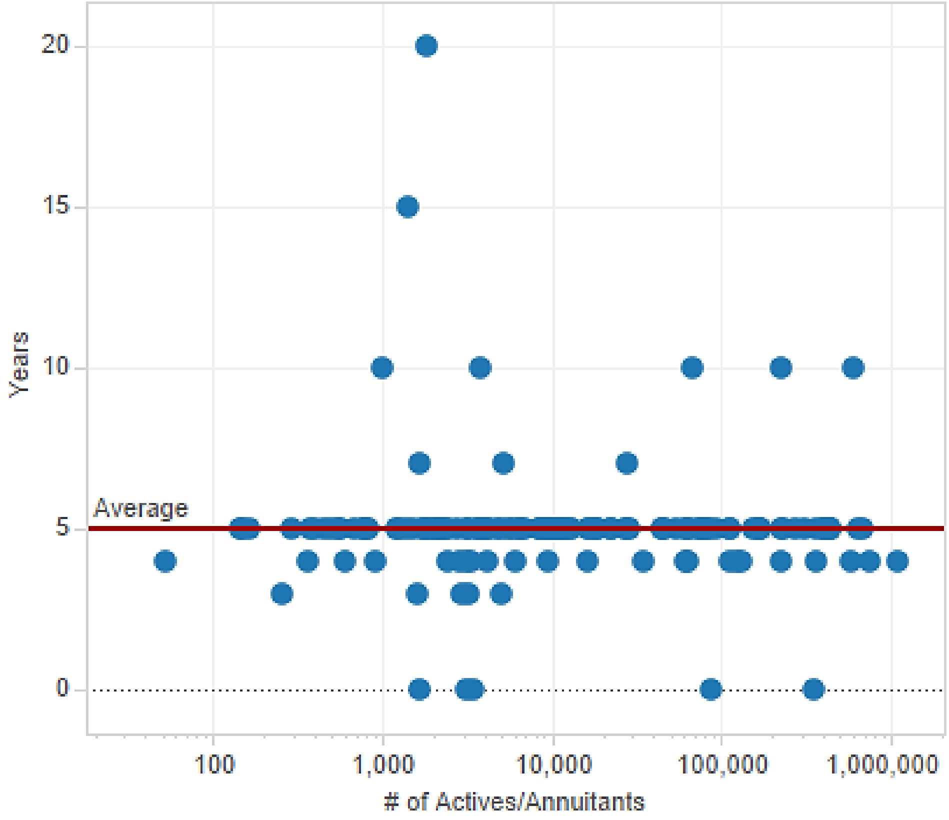
The 1-year, 5-year and 20-year investment returns are near or above investment assumptions.





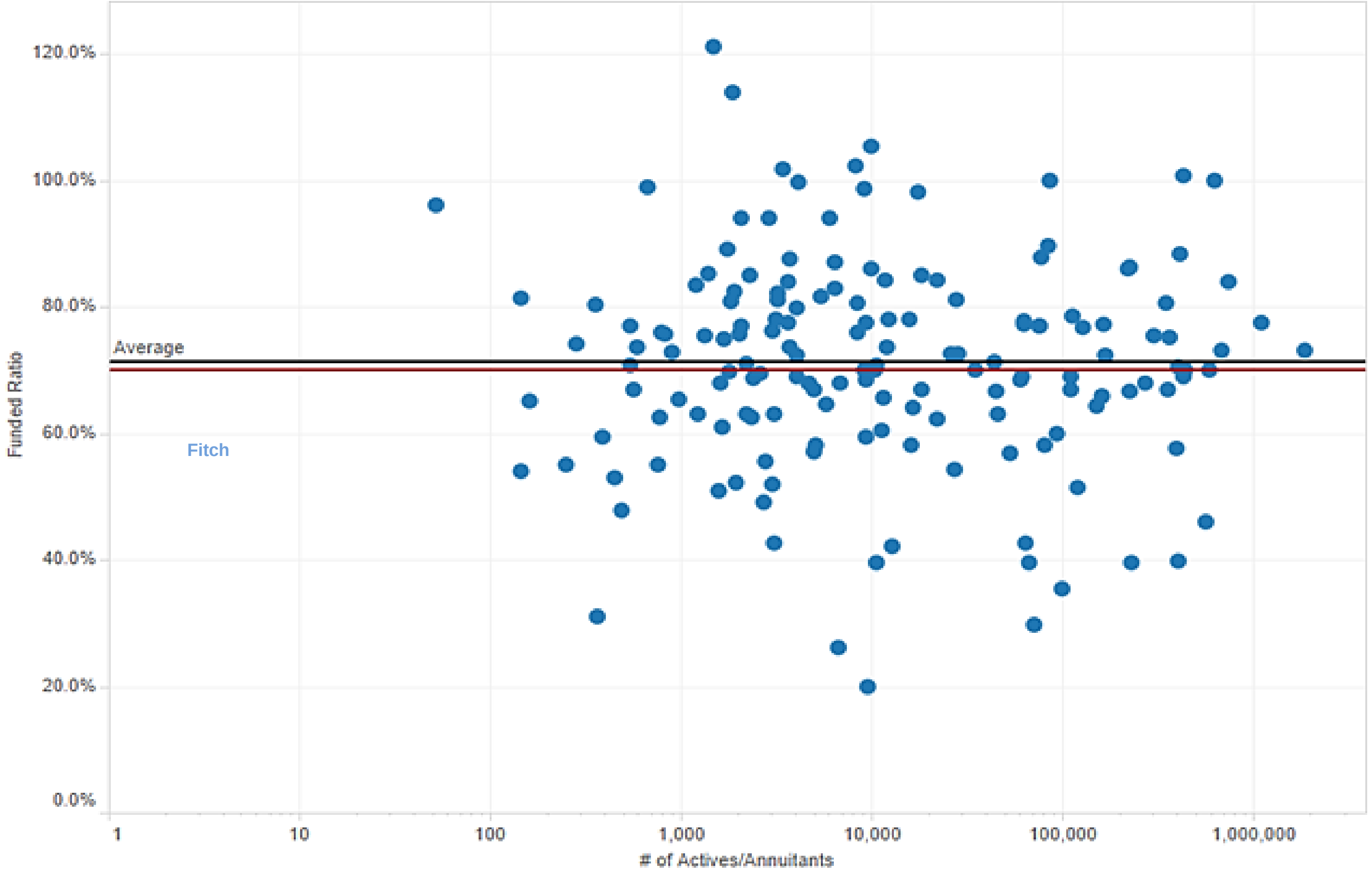
Key Findings

Despite strong returns, funds continue to become more conservative in their assumptions. About 85 percent of funds in the 2017 study have either reduced their investment return assumptions already or plan to do so. In addition, the smoothing period for investment returns continues to be shortened – down from 5.7 years to 5.0 years.



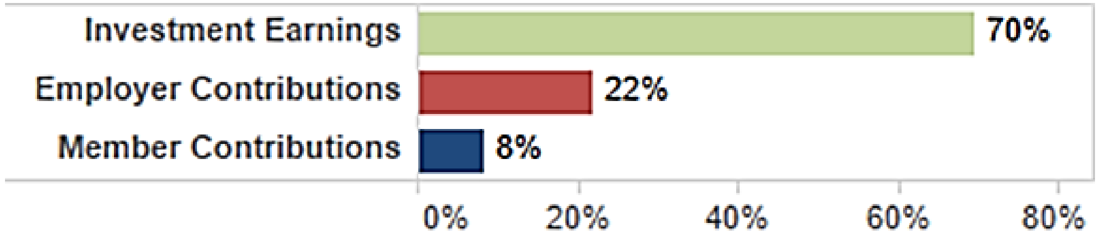
Key Findings

These changes have moved funded levels, which dipped to 71.3 percent. Funds who replied in both 2016 and 2017 have an average funded level of 72.9 percent, down from 74.7 percent in 2016.



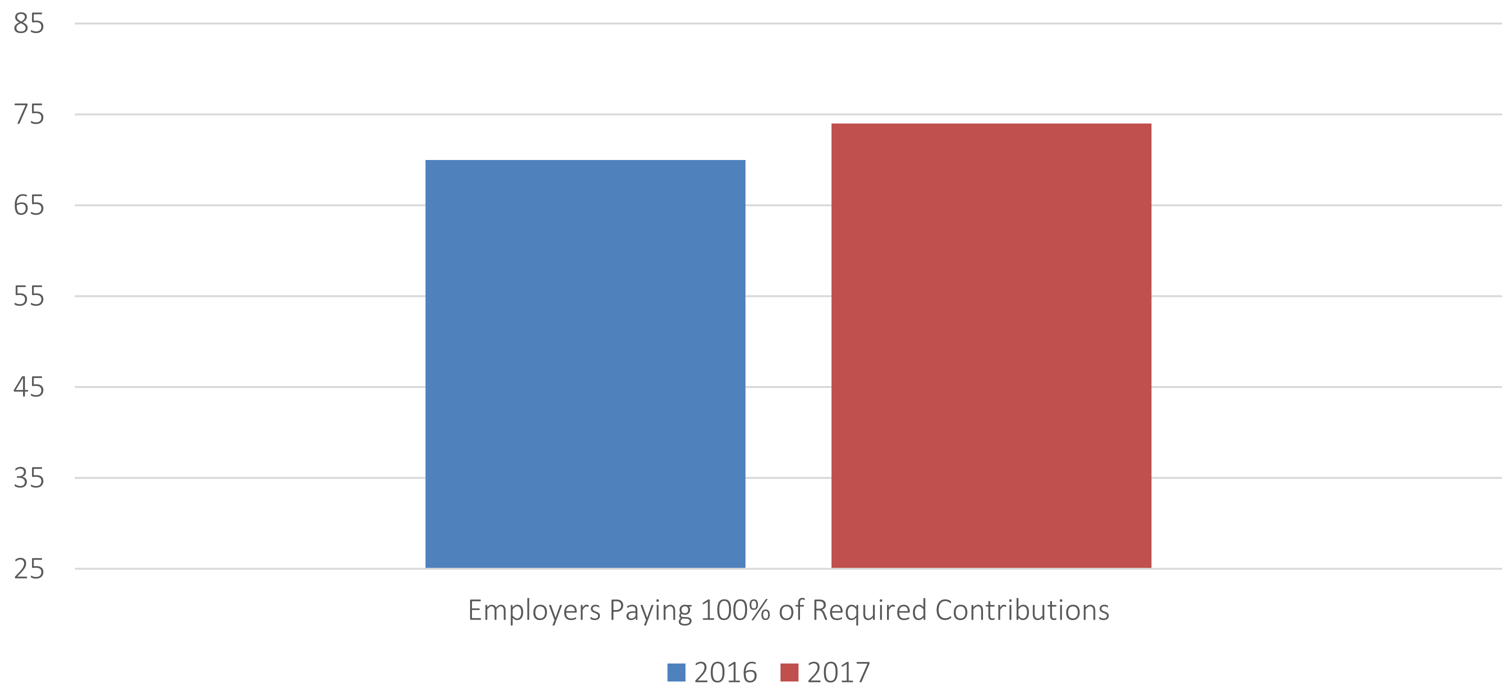
Key Findings

With more conservative assumptions, employer contribution rates rose from 18 percent of fund income in 2016 to 22 percent.



Key Findings

Plan sponsors are becoming more diligent in making required contributions. The percentage of funds receiving full contributions increased from 70 percent to 74 percent.



Bottom Line

2017 Key Findings

1. The trend of public funds becoming more cost effective continues
2. Funds continue to tighten assumptions
3. Funds are currently experiencing healthy 1-year, 5-year and 20-year returns
4. For the 3rd consecutive year, responding funds experienced an increase in average funded level
5. Income used to fund pension programs generally comes from three sources: investment returns, member contributions, and employer contributions.

2017 NCPERS Research Series

National Conference on Public Employee Retirement Systems

NCPERS Research Series

August 2017

Public Pensions Are a Good Deal for Taxpayers

Public pensions are beneficial to taxpayers in a variety of ways that are both under-reported and poorly understood by many observers. In the quest for simple answers to complex questions about public pensions, facile observers routinely overlook salient facts. For example, taxpayers get public services from dedicated nurses, firefighters, teachers, and police officers and pay only 20 cents on the dollar for their retirement benefits. The rest of the money comes from investment earnings and employee contributions. Taxpayers benefit from $3.7 trillion of pension fund assets invested in our economy, providing capital for established businesses and start-ups. Additionally, taxpayers benefit because retirees typically spend their pension checks locally, creating new jobs. Above all, tax revenues created through retiree spending and pension investments may exceed what taxpayers pay into public pensions.

In the following sections, we expand on these observations using empirical data. We also focus on the resilience of public pension funds through economic ups and downs. This Research Series article is organized as follows:

- Pension funds are resilient.
- Pension funds pose little burden, if any, on taxpayers.
- Taxpayers' contributions are fully or partially offset by the tax revenues generated by public pension investments in the community and by the local spending of retirees who receive pension checks.

Dismantling pensions, which is often advocated on the grounds of ideology or misleading information, harms taxpayers economically. Our earlier analysis of empirical data for the last 30 years shows that dismantling pensions contributes to income inequality, a sluggish economy, and economic volatility. We found that if governments continue to dismantle public pensions they will inflict $3 trillion in economic damage by 2025.[1] In other words, the prevailing practice of dismantling pensions is a bad deal for taxpayers..

[1] NCPERS, Economic Loss: The Hidden Cost of Prevailing Pension Reforms. Washington DC: NCPERS, 2017. http://www.ncpers.org/files/NCPERS_2017%20Economic%20Loss.pdf

Contents

National Conference on Public Employee Retirement Systems
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- Published August 2017
- To help understand the true benefits and costs of public pensions.

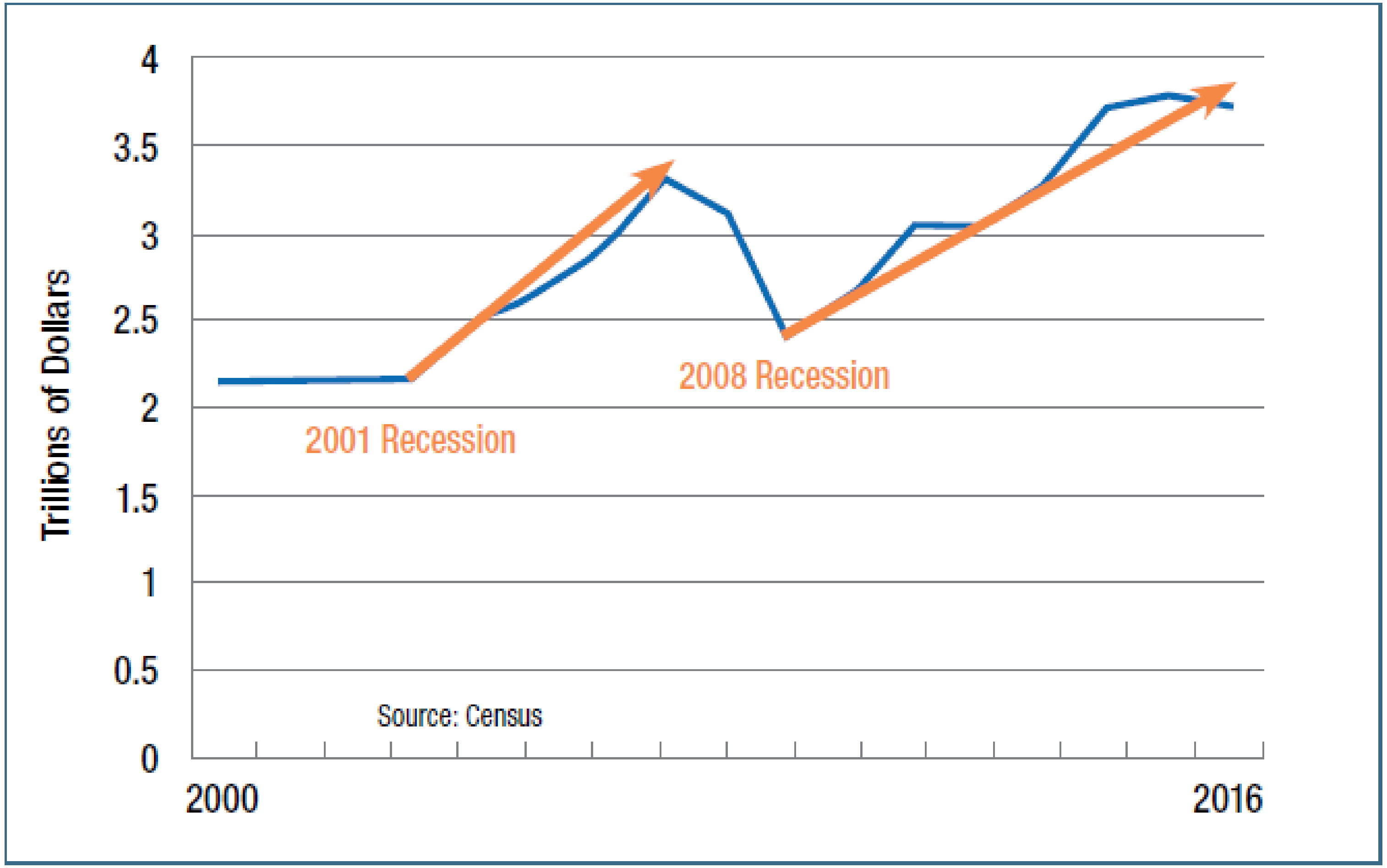
Why Public Pensions Are A Good Deal for Taxpayers

- Public pensions are advance funded.
- Compared to pay-as-you-go system in which taxpayers pay dollar for dollar, public pensions reduce the burden on taxpayers due to the investment income.
- In fact, as we shall see in the following slides, taxpayers pay only 20 cents on a dollar.
- And, even that 20 cents is wiped out if we take into account revenues generated through spending of retiree checks and investments by pension funds.

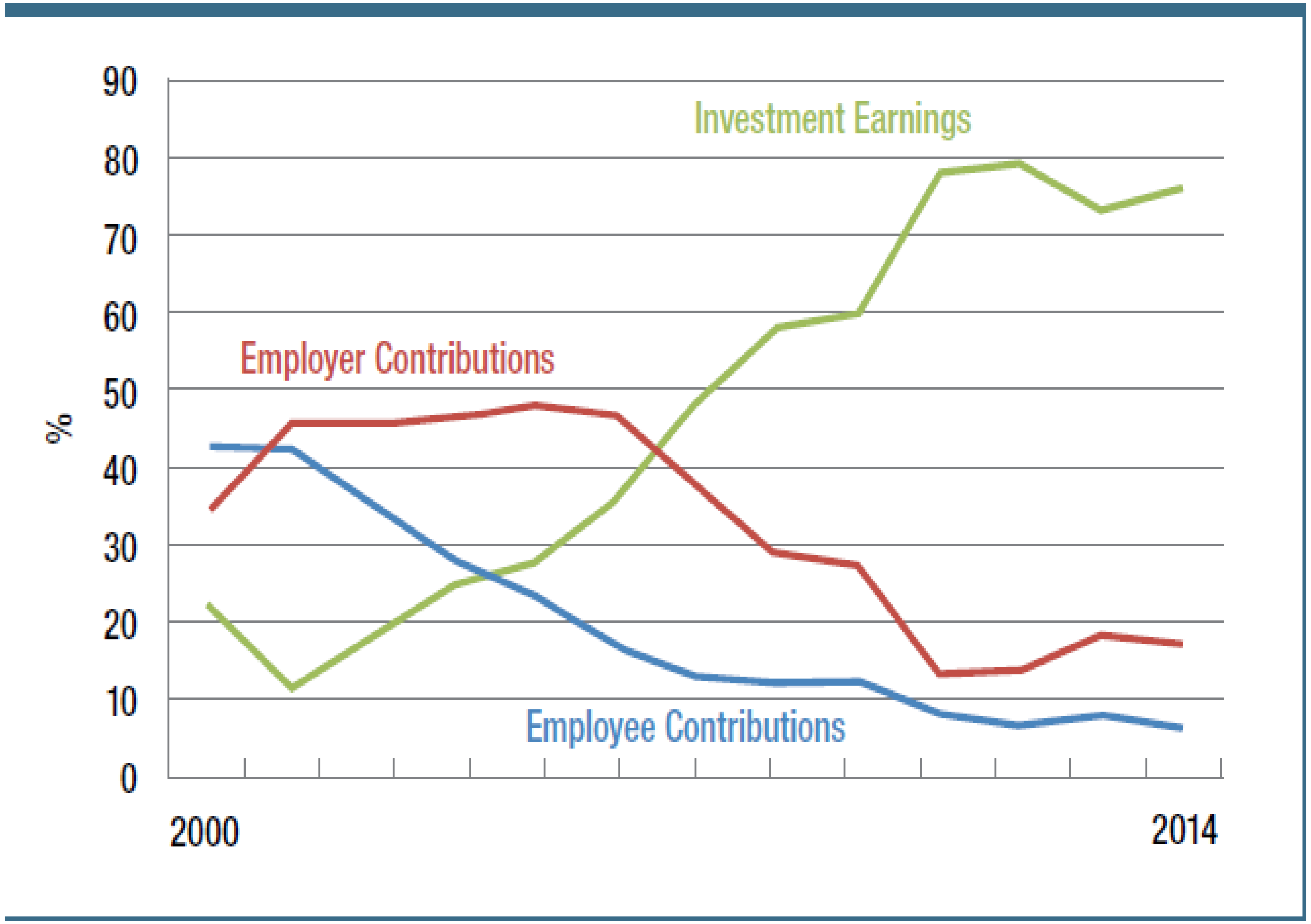
What's Should People Know?

- Public pensions are resilient
- Taxpayer contributions to public pensions are offset by the revenues generated by retiree spending and pension fund investments.

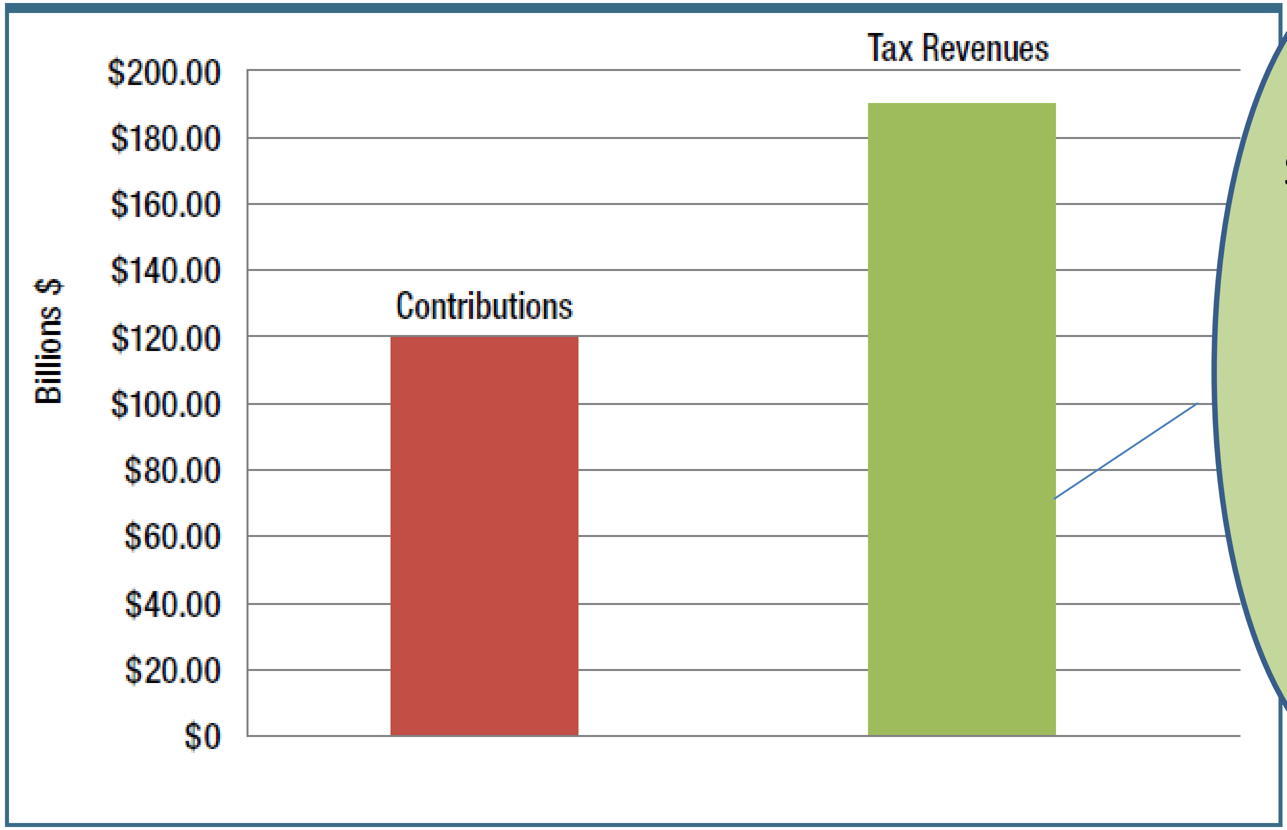
Pension Funds Are Resilient: They have bounced back after each recession.



Public Pensions Pose Little Burden on Taxpayers, If Any. About 80% of the Funding for Public Pensions Comes from Investment Earnings and Employee Contributions.



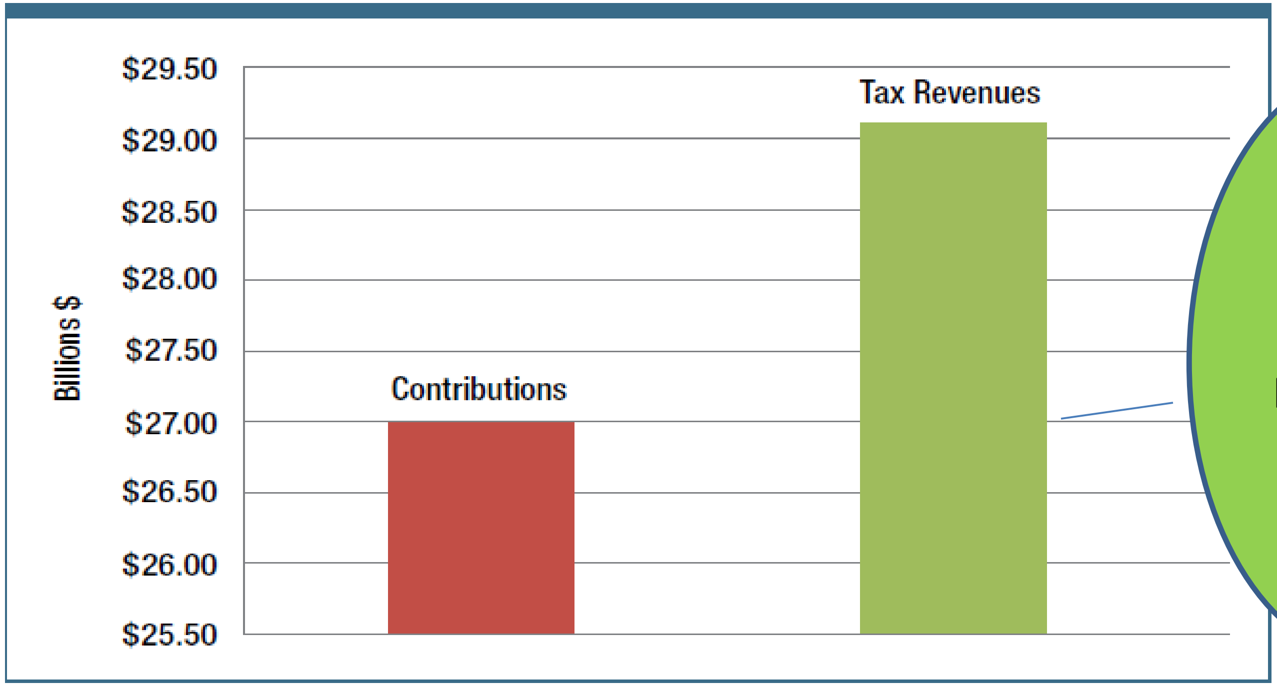
State and Local Government Pension Contributions vs. Tax Revenues Generated by Economic Impact of Spending by Retirees in the U.S., 2014



Includes Spending by Public and Private DB plan Retirees and Federal taxes

[3] Jennifer Erin Brown, Pensionomics 2016. Washington, DC: National Institute on Retirement Security, 2016 - http://www.nirsonline.org/storage/nirs/documents/Pensionomics%202016/pensionomics2016_final.pdf

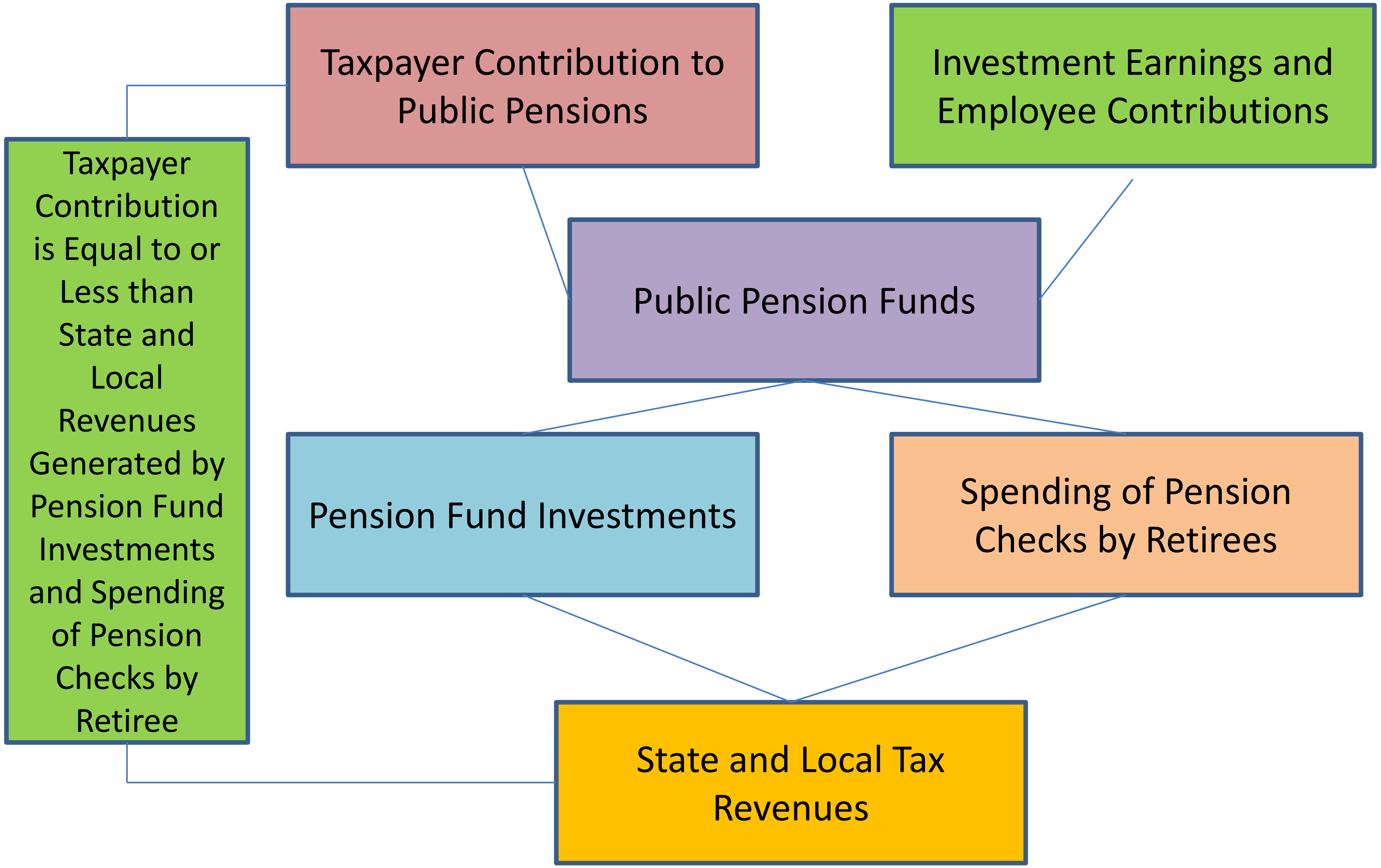
State and Local Government Pension Contributions vs. Tax Revenues Generated by Economic Impact of Spending by Retirees and pension fund investments in California, 2016



Does not include Federal taxes and Private DB Plan retiree spending

- https://www.calpers.ca.gov/docs/forms-publications/calpers-for-ca-2016.pdf
- Bardhan, Ashok, Impact of CalSTRS' Investments on California's Economy, Paper presented at CalSTRS Board Meeting, Nov 6, 2014.
- http://www.averagesalarysurvey.com/search/states
- https://itep.org/tag/california/

Public Pensions: A Good Deal For Taxpayers



We Are Currently Conducting A Study of 50 States

Our Hypothesis is that Pensions Funds Are Revenue Neutral or Revenue Positive

Thank You

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