

Pension Crisis – The Utah Response

Utah State Retirement Systems
Background and 2010 Reforms
State Senator Dan Liljenquist

September 27, 2011
Phoenix, Arizona

Utah Retirement Systems

- Background on Utah's Retirement System
- Impact of the 2008 market crash
- Reform objectives, principles & process
- Reform details
- Lessons learned

Background on Utah Retirement System

Utah has never borrowed money from its pension trust fund

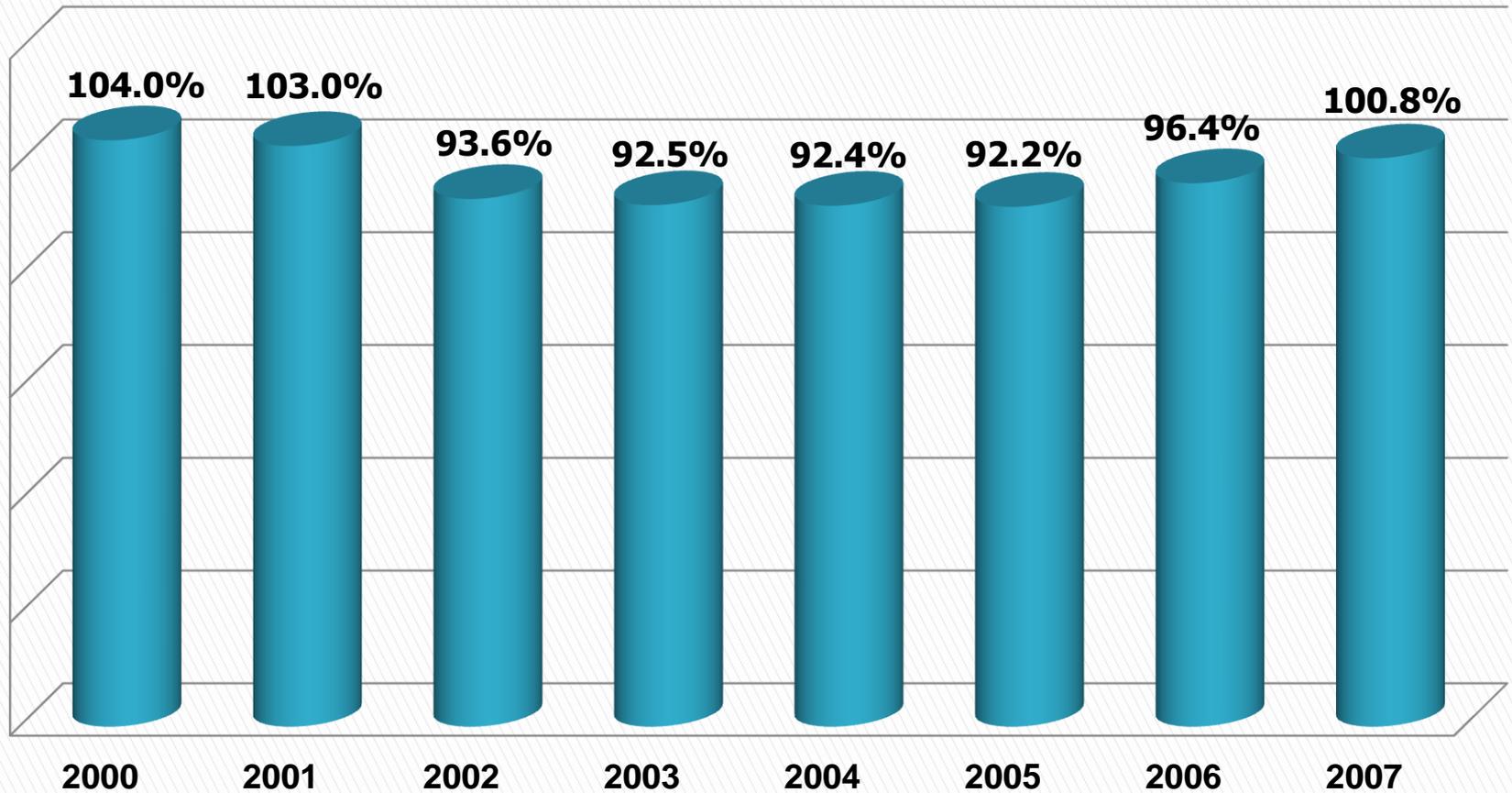
Utah has always paid the full actuary recommended contribution rates

Utah has not increased retirement benefits in over 20 years

Utah's funded ratio averaged 95.1% between 1997 and 2007

Utah's Retirement System was 100% funded in 2007

Utah's Actual Funded Ratio – 2000 to 2007

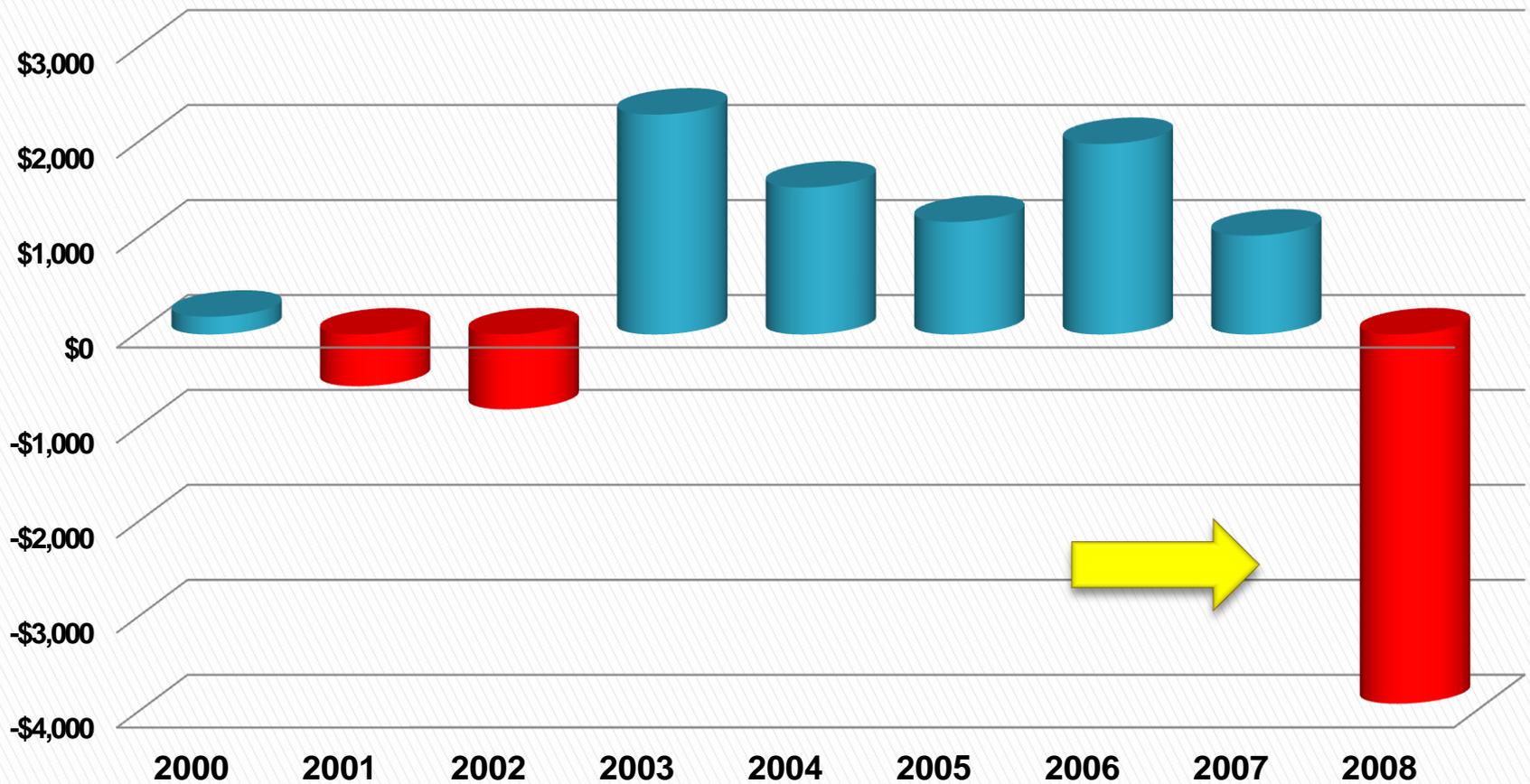


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Utah's pension fund lost 22.3% of its value in 2008

Investment Income (in Millions)



Unanswered questions...

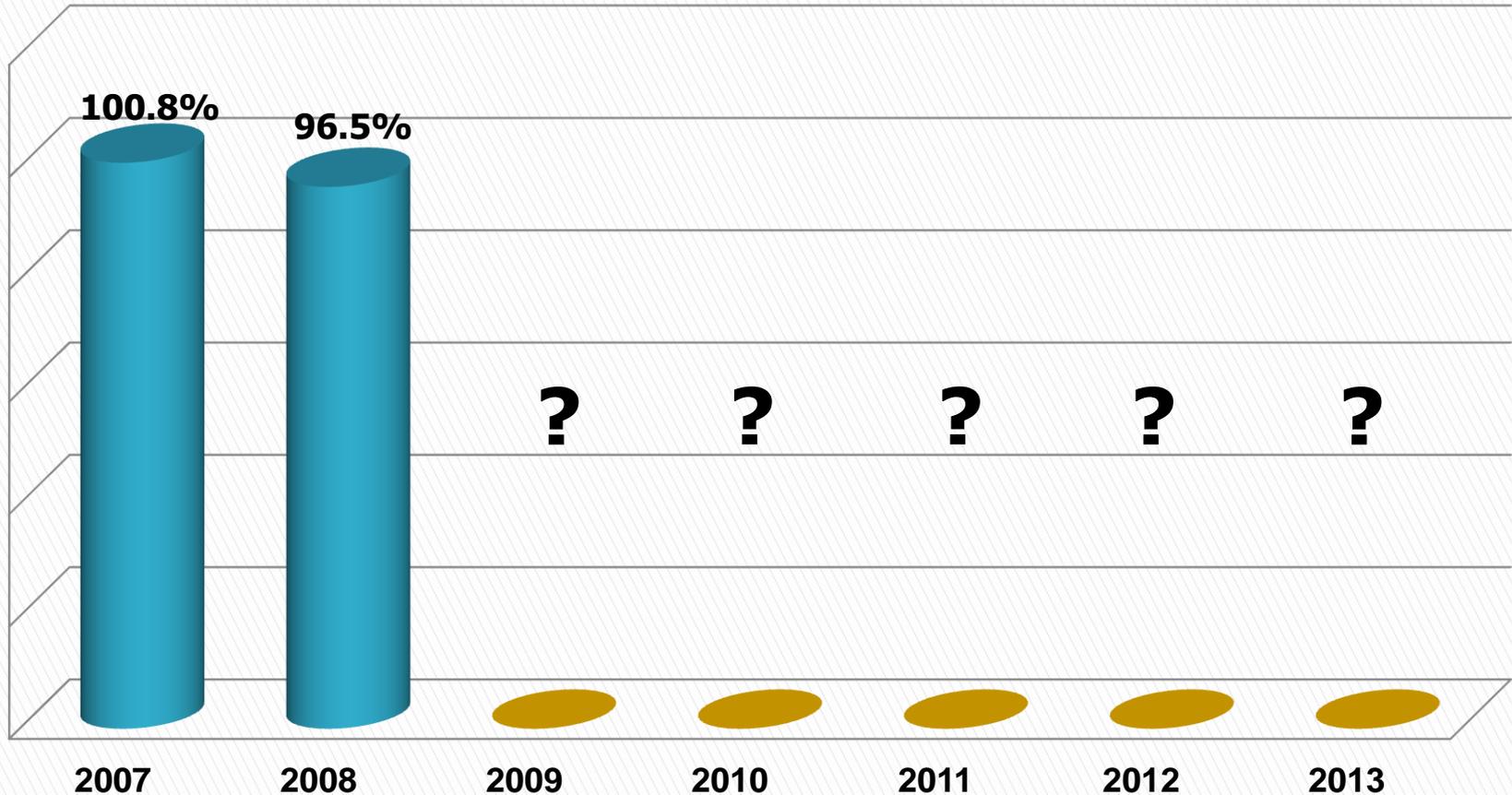
- What impact would the losses have on Utah's budget now and in the future?
- How would the losses impact employer contribution rates?
- How long would it take for the pension system to recover?
- Would the market recover the losses?
- What would happen if Utah had another year like 2008?

The Utah Legislature requested a complete data set from its actuaries

- Forty year actuarial projections, with market returns of 6%, 7%, 7.75%, and 8.5%
- Modeled scenarios included:
 - Standard option (increase contribution rates)
 - Do-Nothing option (freeze contribution rates at existing levels)
 - Delay options (freeze contribution rates for 3 or 5 years and then increase contribution rates)

Utah's pension system still appeared to be in excellent shape, however...

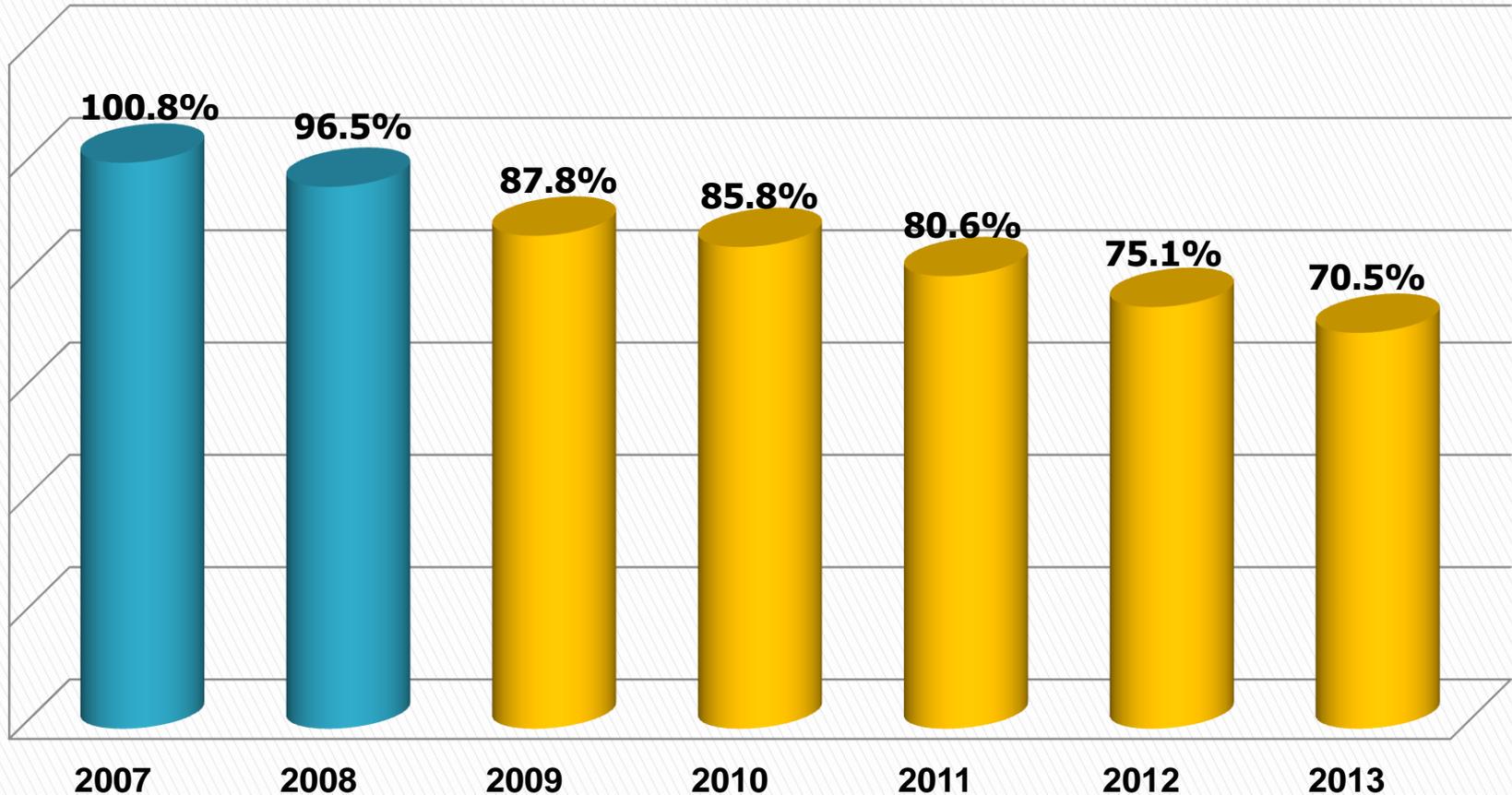
Utah's Projected Funded Ratio



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₉

The 2008 losses blew a 30% hole in Utah's pension system

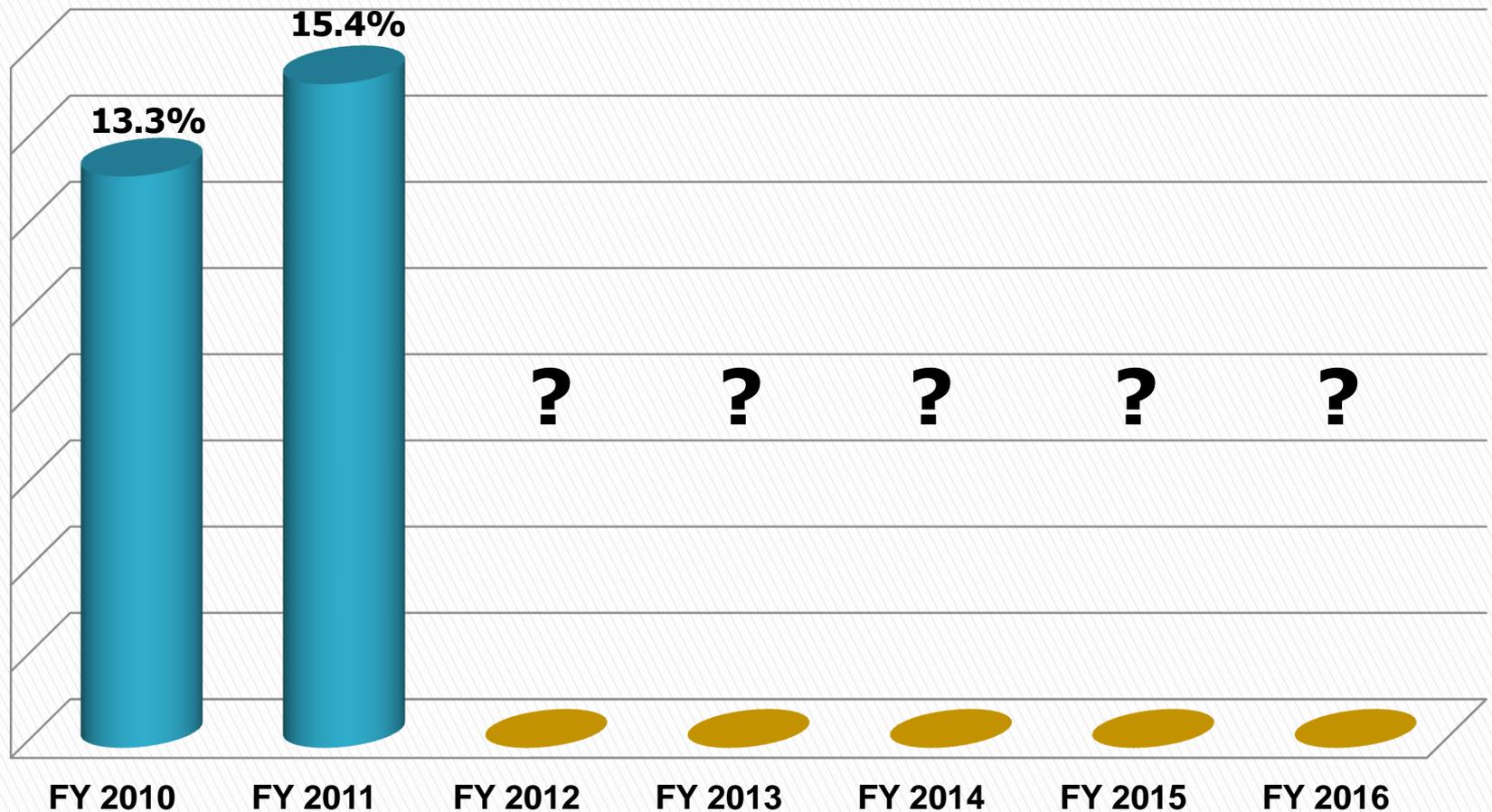
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Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₁₀

Required employer contribution increases in 2008 were manageable, however...

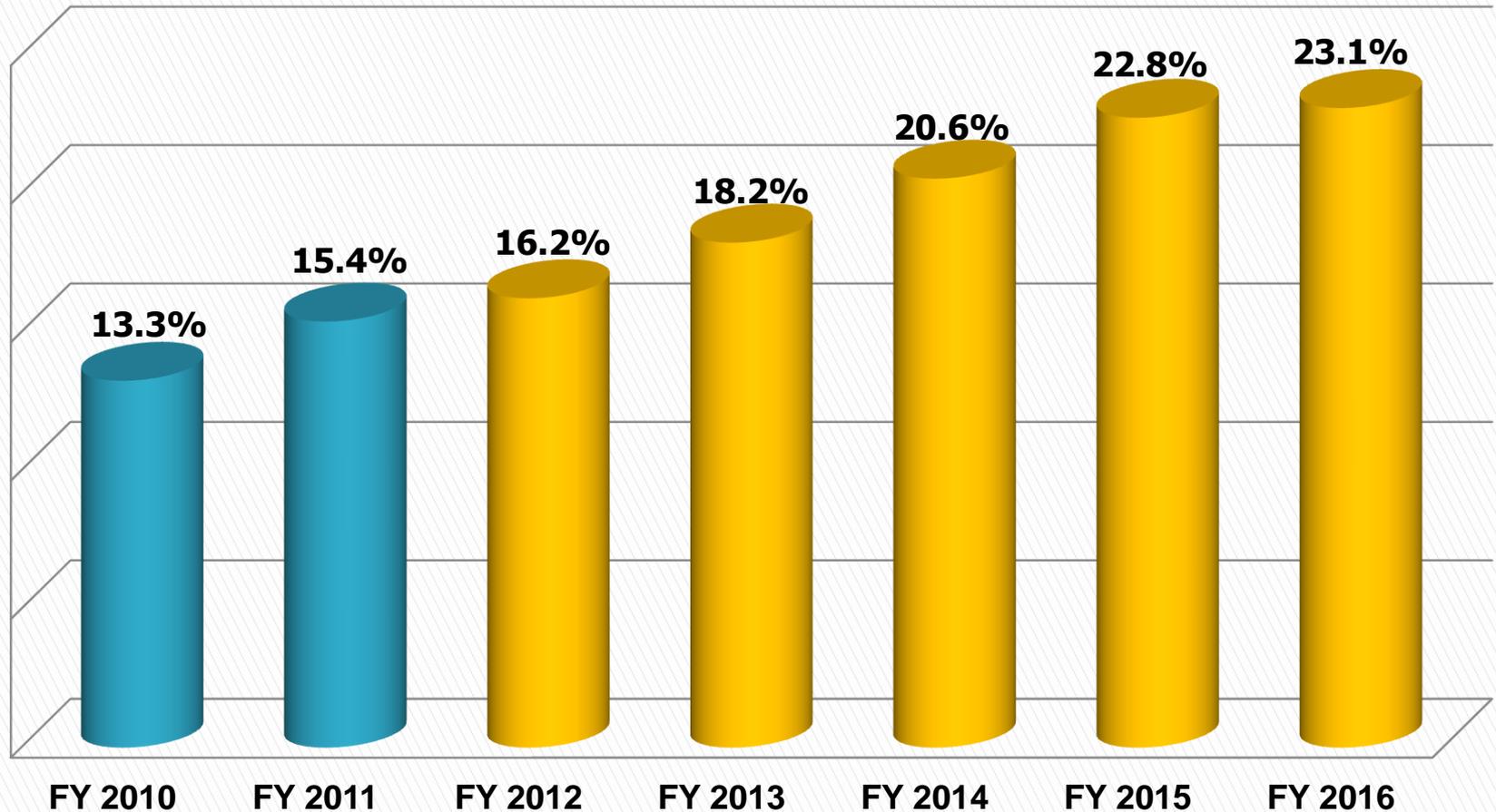
Utah's Projected Employer Contribution Rates



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₁₁

Required employer contribution rates will increase by 75%

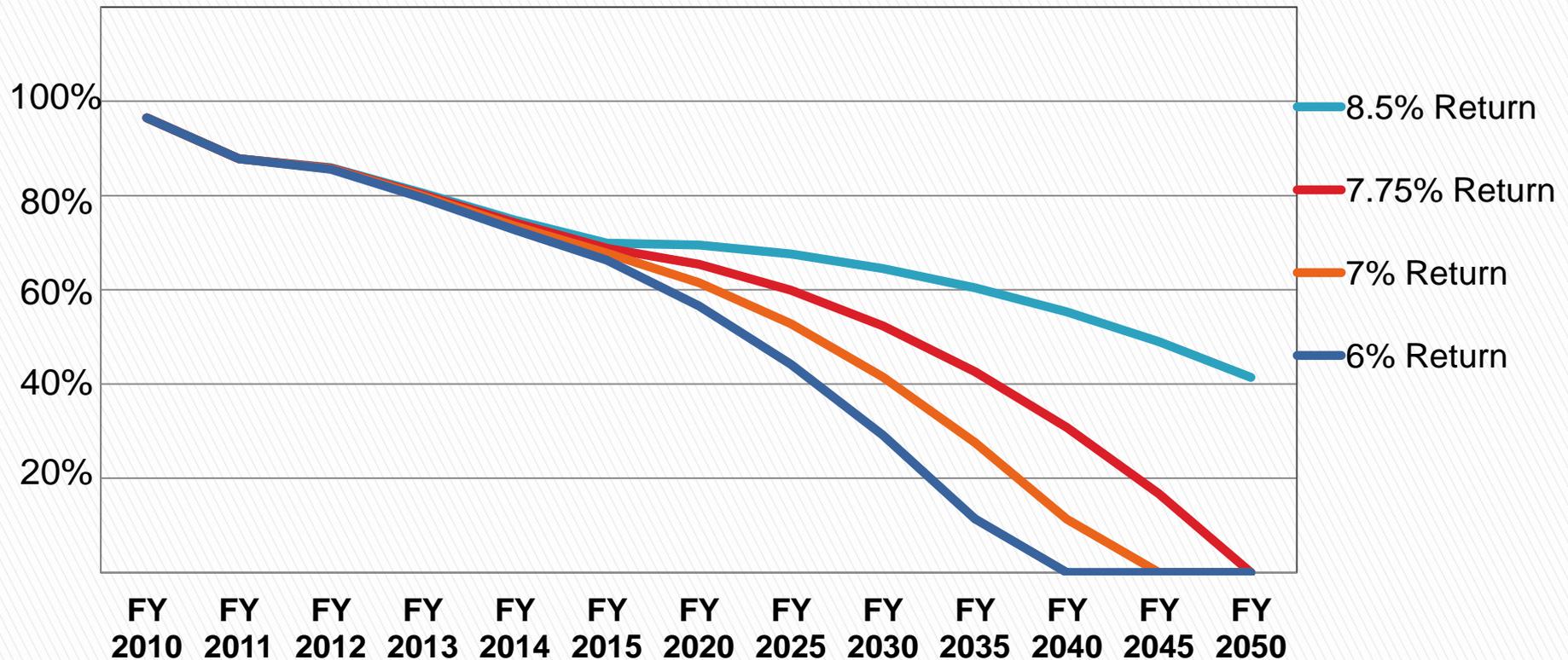
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Doing nothing leads to bankruptcy

Utah's Projected Funded Ratio with Employer Contributions Frozen at 2010 Rates



Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009₁₃

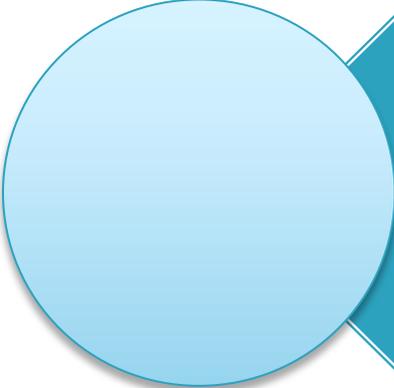
Brutal reality of the 2008 crash

***Utah will have to commit
~10% of its General Fund
for 25 years to pay for the
2008 Market Crash***

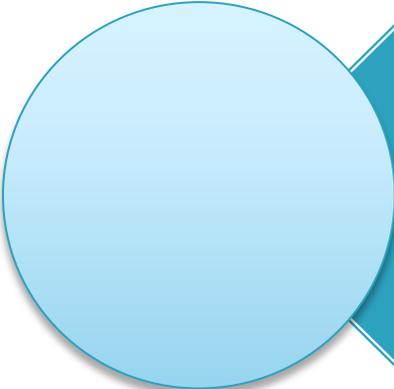
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Pension reform objectives



Meet 100% of Utah's pension obligations to its current and retired employees



Eliminate Utah's pension related bankruptcy risk

Pension reform principles

Meet Current Pension Obligations

- Pay full actuary recommended contribution rates
- Shore-up the current retirement system by closing incentives for post-retirement reemployment

Eliminate Pension Related Bankruptcy Risk

- Pay off the unfunded liability as quickly as possible
- Create a new system for new employees with:
 - Lower costs, and
 - Predictable employer contributions

Thousands of Utah Public Employees protested the proposed reforms



Pension reform process

Ask the hard questions / demand data

Be hypothesis driven / avoid ideology

Involve ALL parties / build partnerships

Circulate reform proposals broadly

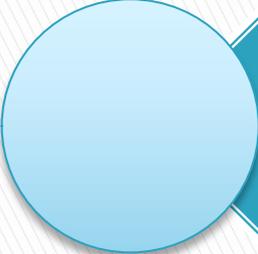
Be kind, polite and responsive

Keep moving forward

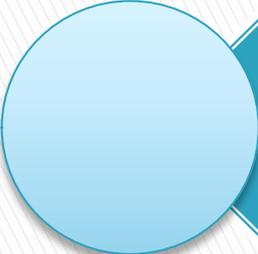
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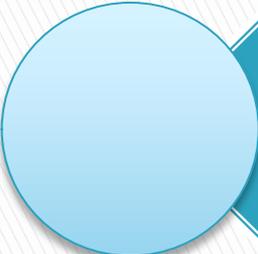
Utah's New Retirement System



Existing defined benefit programs closed to new enrollees on June 30, 2011



Employer contributions to new retirement program capped by statute at 10% of base salary



New employees can choose between:
(1) a straight 401(k) plan, or
(2) a hybrid pension / 401(k) plan

Utah's New Retirement System

Defined Contribution 401(k) Plan

- Employer contribution: • 10% of salary
- Employee contribution: • N/A
- Vesting period: • 4 years
- Restrictions: • No borrowing from plan
• 401(k) plan self-directed with URS investment options

Hybrid Pension / 401(a) Plan

- 10% of salary
- Employee pays all pension related contributions:
 - If > 10%, then automatic payroll deduction
 - If < 10%, then balance goes into 401(k) plan
- 4 years
- No borrowing from plan
- URS manages pension investing; 401(k) portion self-directed with URS investment options

Pension benefit comparison between old and new systems

Tier I Public Employees' Non-Contributory Retirement System (current employees)

- Employer Contribution = determined by actuary with no cap (currently 16%+)
- Multiplier = 2% per year of service
- Eligible for full retirement benefits at any age = 30 years of service credit
- Final Average Salary = average of highest 3 years
- Cost of living Adjustment = up to 4% annually (CPI) (simple)

Tier II New Public Employees' Contributory Hybrid System (new employees)

- Employer Contribution = 10% of salary set rate
- Multiplier = 1.5% per year of service (Hybrid system)
- Eligible for full retirement benefits at any age = 35 years of service credit
- Final Average Salary = average of highest 5 years
- Cost of living Adjustment = up to 2.5% annually (CPI) (simple)

Expected results of Utah's pension reforms

- Combined retirement contribution rates for public employees will peak in 7 years and gradually decline
- Combined retirement systems and statutory restrictions will help prevent “pension creep”
- Each new employee costs will be less than half the cost of old employees (10% vs. 23.1%), freeing up resources to fund the “tail” of the current programs
- Utah will gradually reduce pension related bankruptcy risk until the risk is eliminated

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Lessons learned

- Demand comprehensive, long-term financial modeling from pension actuaries
- Reality is NOT negotiable – let the data do the work
- Stick to your established objectives and negotiate around the details
- Future employees are not an effective lobbying force
- Know the details and you will own the issue