Public Employee Retirement: A Time for Change

PAR Recommendations

Policymaking Process

1. An independent, outside actuary should be added back as a voting member of the public retirement systems' actuarial committee (PRSAC). Actions should require approval by a super-majority vote (six of the eight members).

2. All retirement bills should be vetted by a re-energized commission on public retirement and a joint committee on retirement prior to introduction in a legislative session.

3. Whenever a retirement bill is amended substantively on the floor, it should be recommitted to the retirement committee, and a definitive revaluation of the actuarial cost should be attached prior to reconsideration.

4. A retirement bill should be required to lie over at least 24 hours following its amendment.

5. Retirement bills with any projected cost to the state should have dual referral to the house appropriations and senate finance committees.

Administration

6. The state's long-run goal should be to create a single consolidated pension system for all state and local employees with separate plans for teachers, hazardous duty personnel and all other employees. The first step should be to merge the administration of the four state systems.

7. A majority of the members of the consolidated system board should represent the public at large.

Investment of Assets

8. Responsibility for investing all of the assets of the state and statewide systems should be consolidated in the office of the state treasurer.

9. An expert investment advisory board should be created to advise the state treasurer.

10. The reliance on outside investment managers and advisors should be reduced, and the capacity for in-house management strengthened.

11. The investment policy should emphasize passive management and indexed investments.

12. The "prudent man rule" should be the sole investment guideline without additional statutory restrictions or limits. Legislative micro-managing of investment strategies should be avoided.

13. The public retirement systems' actuarial committee should lower the 8.25% assumed rates of return for the major state systems in light of current projections of long-run investment returns.

Funding and the Unfunded Accrued Liability (UAL)

14. The state should increase its up-front payments on the UAL. While this is the preferred course of action, at a minimum, the state must avoid further backloading the payment schedule.

15. The legislature should avoid issuing pension obligation bonds, granting additional benefits or taking any other actions that might increase the UAL in the future.

Cost-of-Living Adjustments (COLAs)

16. The state should develop a realistic, affordable, predictable and carefully defined COLA policy for its state retirement systems. COLAs should be provided only to retirees who have reached age 65.

17. The existing experience accounts should be eliminated, and planned COLAs for existing retirees should be funded through employer contributions, while planned COLAs for active employees should be funded by both employer and employee contributions.

Benefit Plan Redesign

18. A new defined benefit plan should be carefully designed, with the assistance of a national pension consulting firm, to cover future state employees and education personnel. This plan should include:

- Sub-plan for hazardous duty personnel
- Normal retirement age of at least 60, with 10 years service, for full benefits
- Average compensation based on 60 highest consecutive months
- Automatic COLAs beginning at age 65 pre-funded through employer and employee contributions
- Making new plan members ineligible to participate in drop or to be rehired after retiring

19. All new hires should have the option of joining a defined contribution plan with the same normal contribution rates as the basic defined benefit plan. They should be allowed a one-time opportunity to make an actuarially neutral switch to the defined benefit plan after five years of service.

20. The state should continue to strenuously avoid losing its exemption from participation in the old-age portion of social security.