



NIRS: A Look at the Outcomes of Closing a Public Pension Plan

Montana State Administration and Veterans' Affairs (SAVA) Interim Committee

May 23, 2024



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Key Findings

- Employer costs have increased significantly since closing or making major changes to a pension plan.
- The importance of properly funding a pension plan stands out. Often, poor funding either led to the decision to close the plan or continued after the plan was closed.
- Plan cash flows have become more negative over time as demographics shift within the plan.

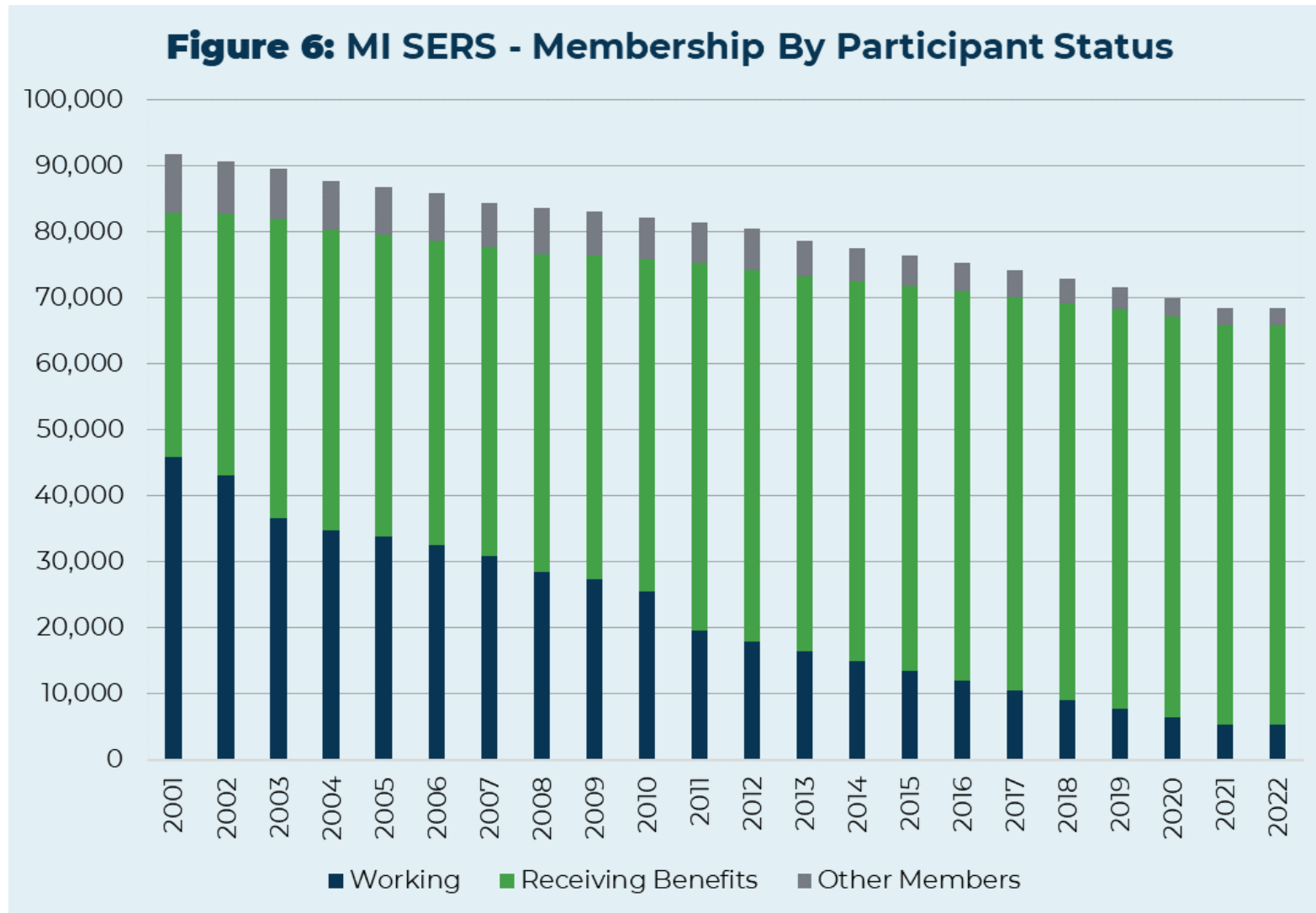
Key Findings, Continued

- Retention of public employees has become more difficult without a DB pension plan.
- Many workers are cashing out their DC plan account balances when they leave their public sector job rather than rolling over that money to allow it to continue to grow for retirement.
- WV TRS shows that reopening a closed pension plan is a viable option.

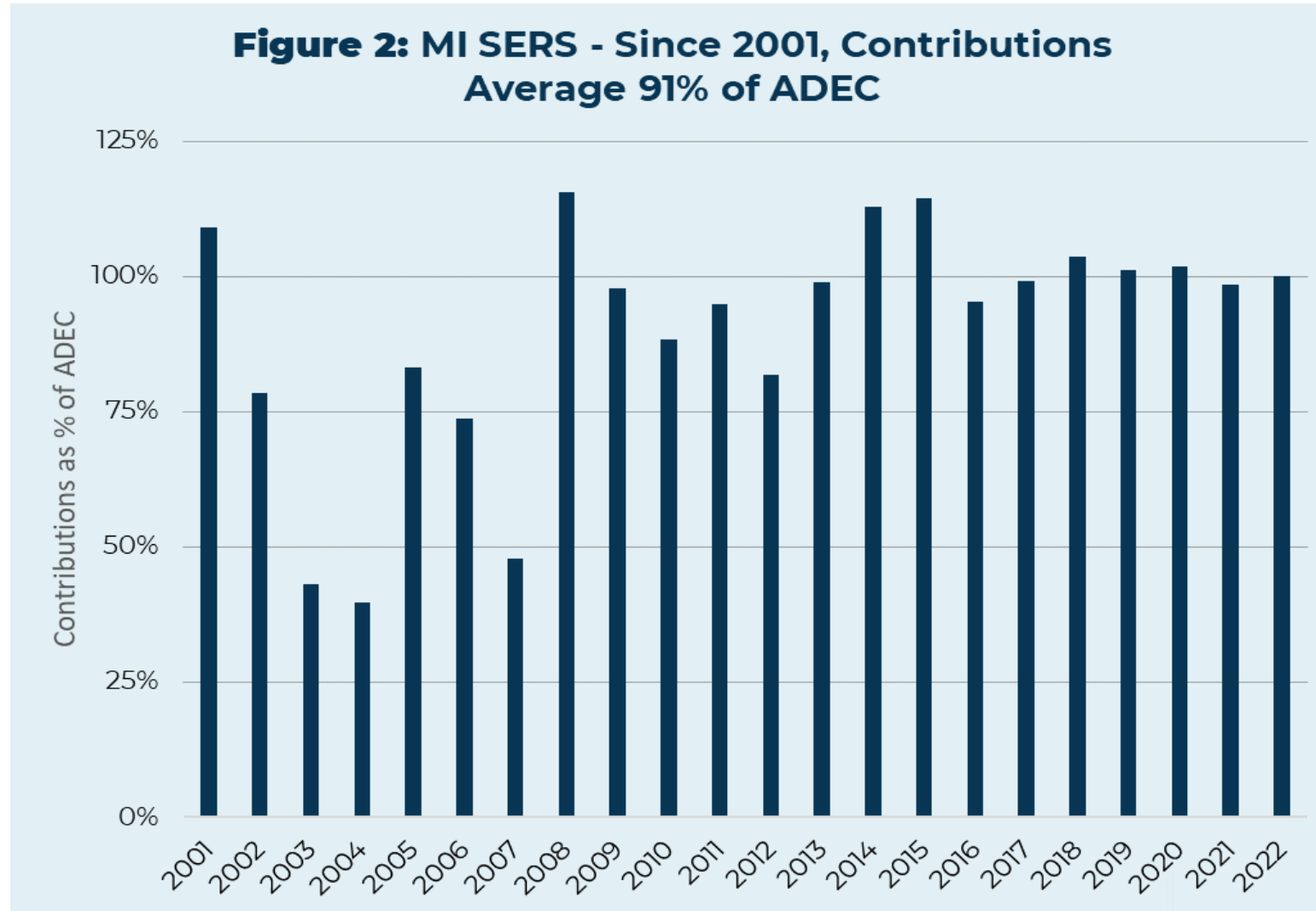
Michigan State Employees' Retirement System (SERS)

- Public Act 487 closed the Plan to new hires after March 31, 1997
- Was presented as a way to provide “advantages some people feel DC plans offer to both employers and employees”
- SERS was 109% funded at the time

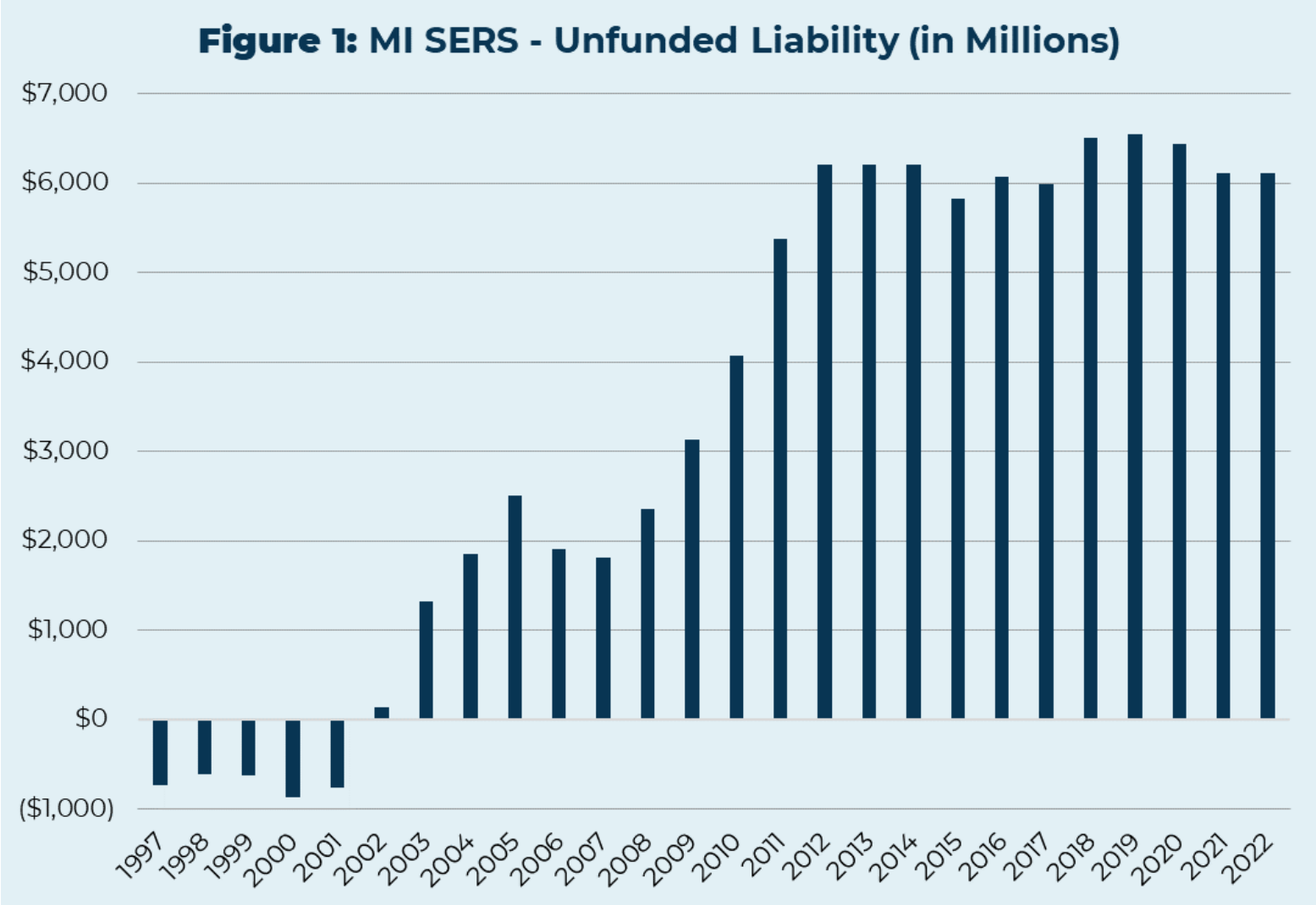
MI SERS: Active Members Are Declining



MI SERS: Uneven Contribution History

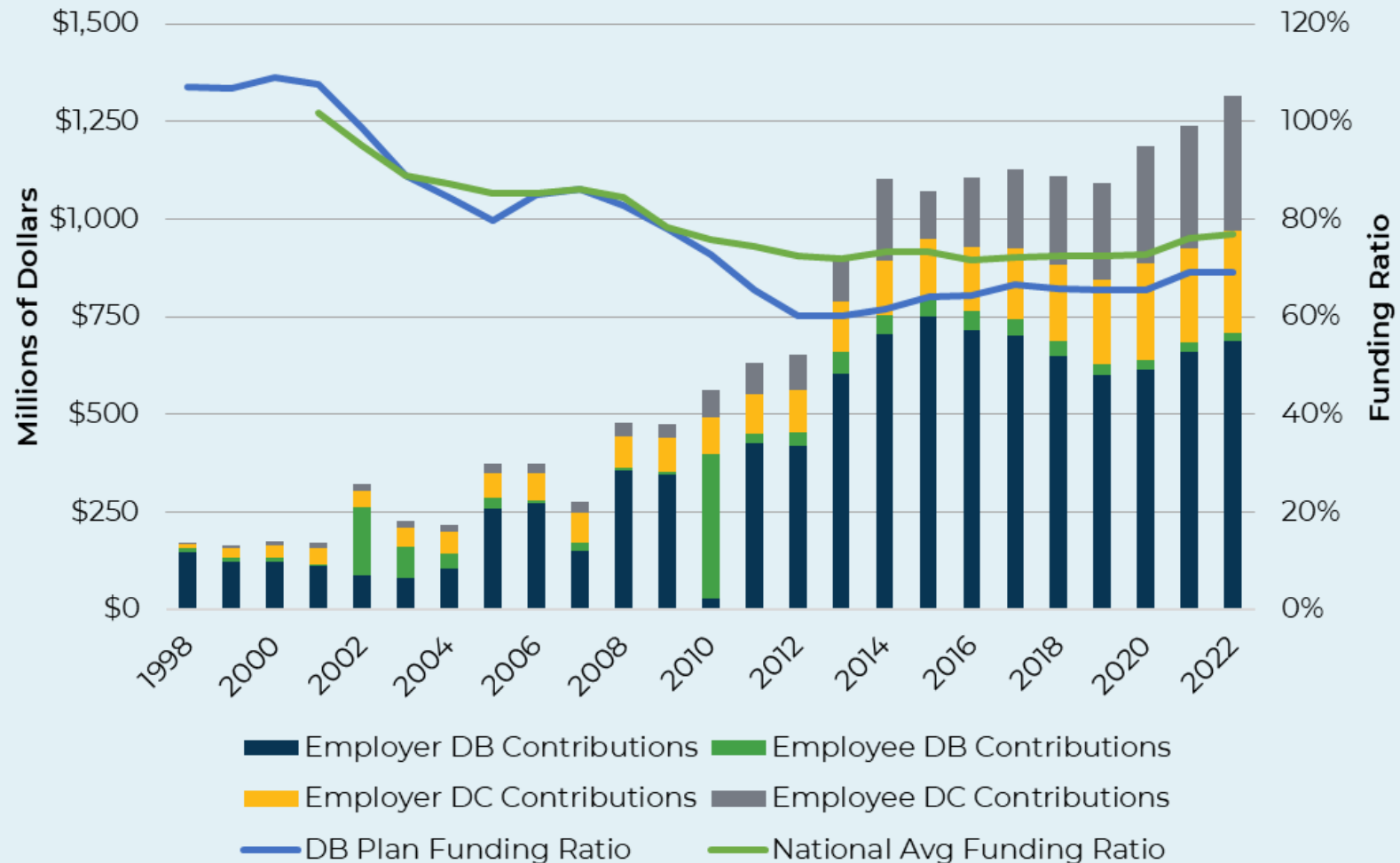


MI SERS: UAL Up Significantly Since Closure

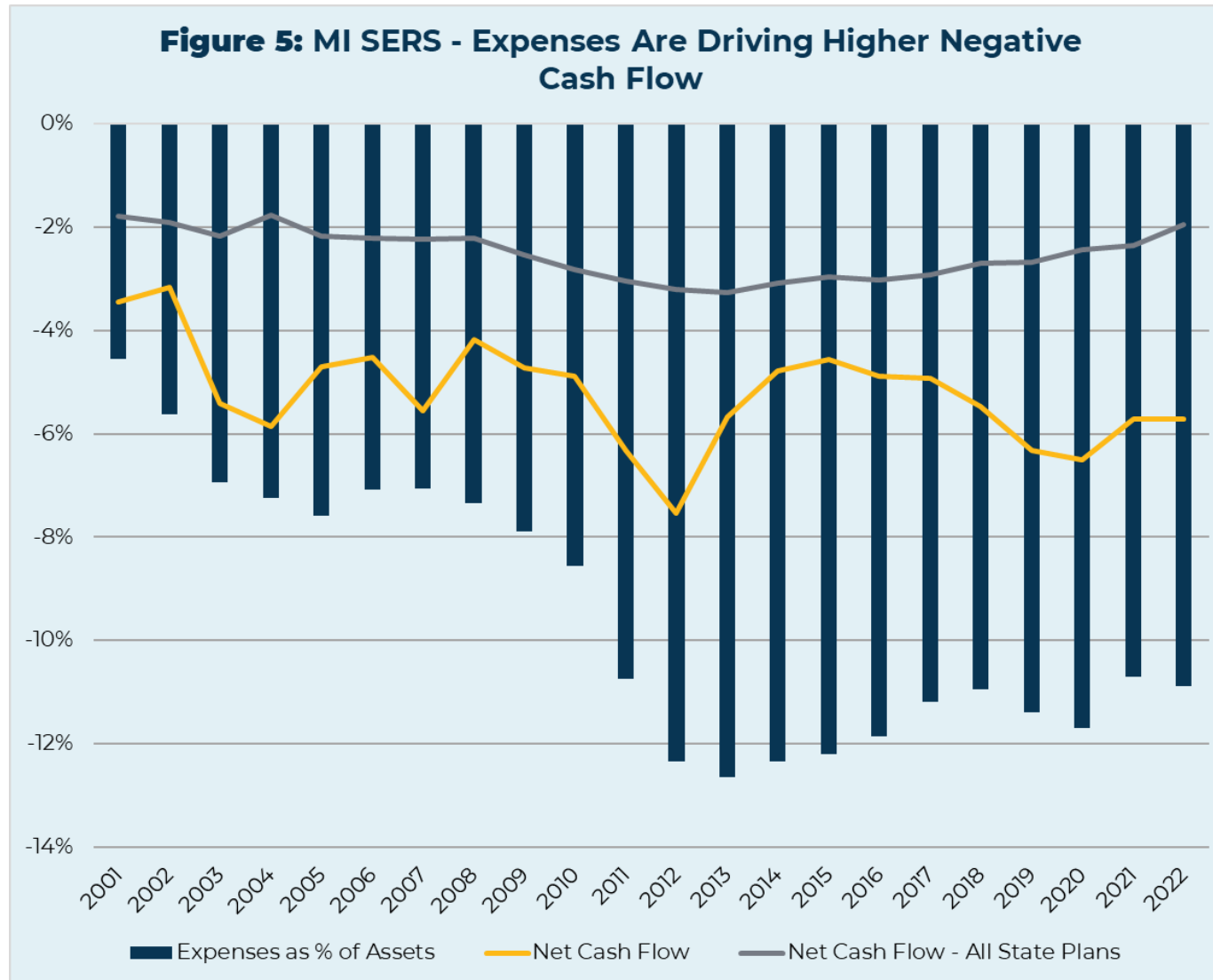


MI SERS: Costs Up; Funding Ratio Down

Figure 4: MI SERS - Total Retirement Costs for DB & DC Plans



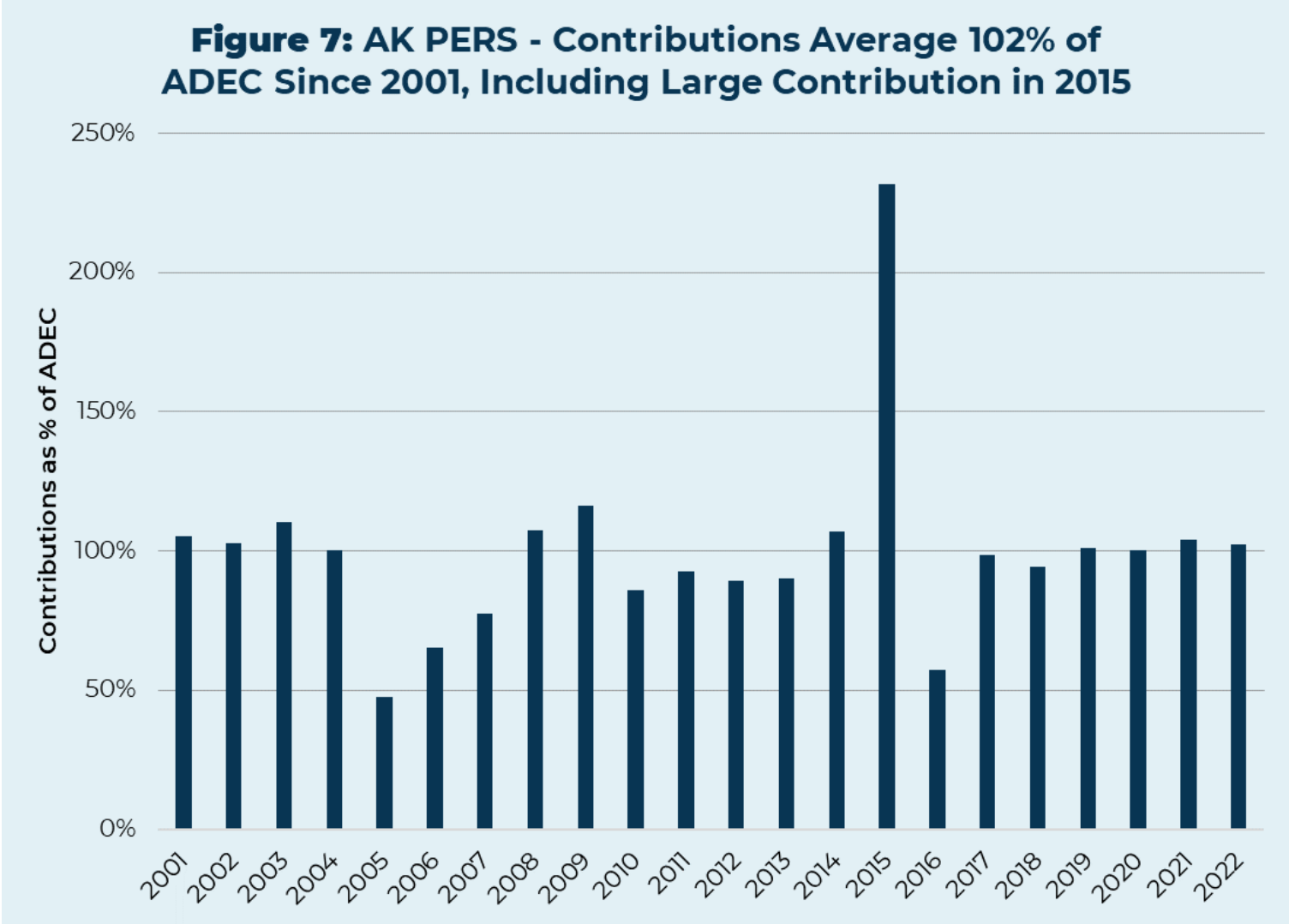
MI SERS: Growing Negative Cash Flow



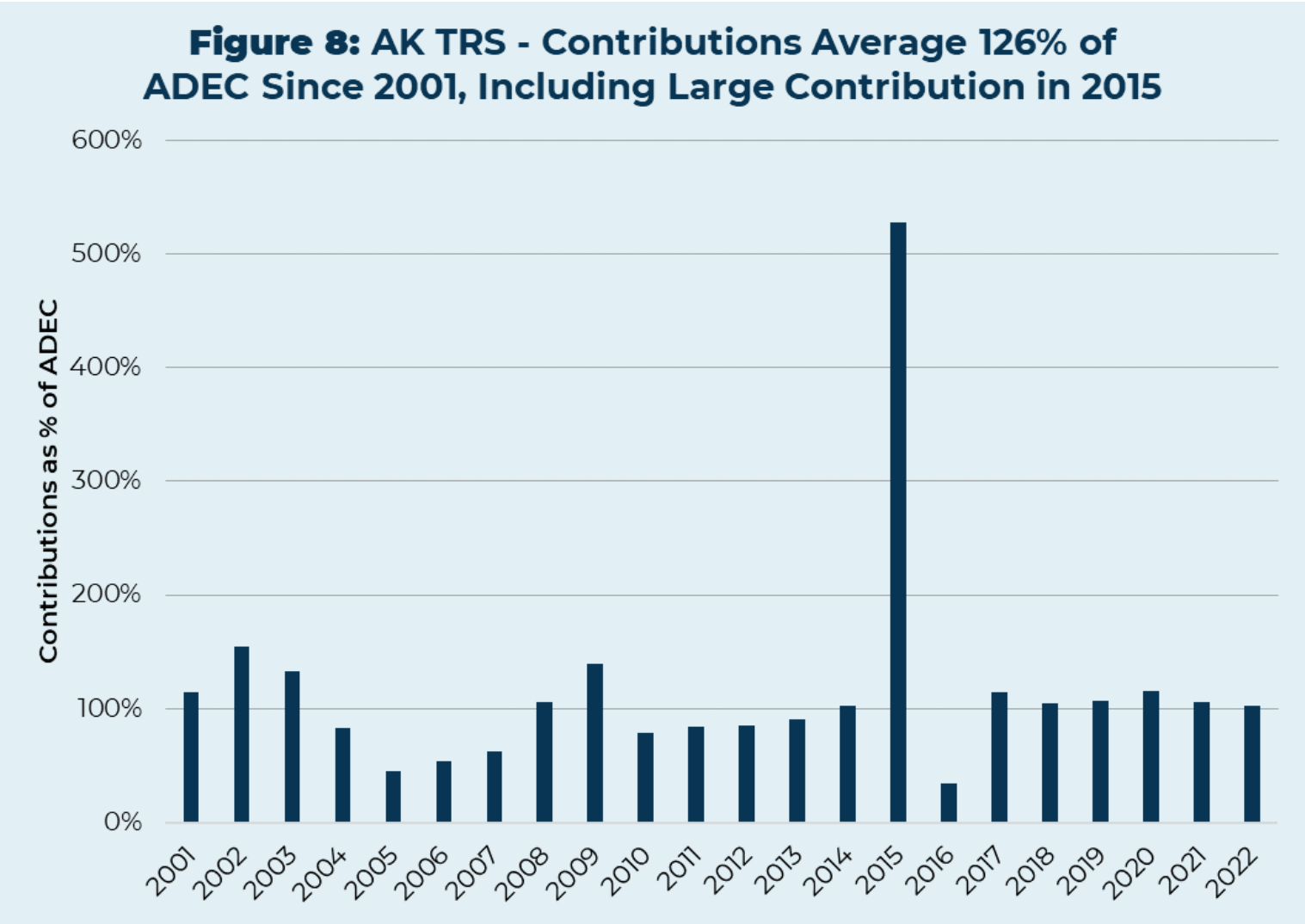
Alaska PERS and TRS

- Plans closed effective June 30, 2006
- Some workers have a DC and Social Security, others have DC and Supplemental Savings, while many (including teachers) have a DC and no Social Security.
- Unlike Michigan SERS: The political momentum behind closing the pension plans was driven by the state's unfunded liability.

AK PERS: Highly Uneven Contributions

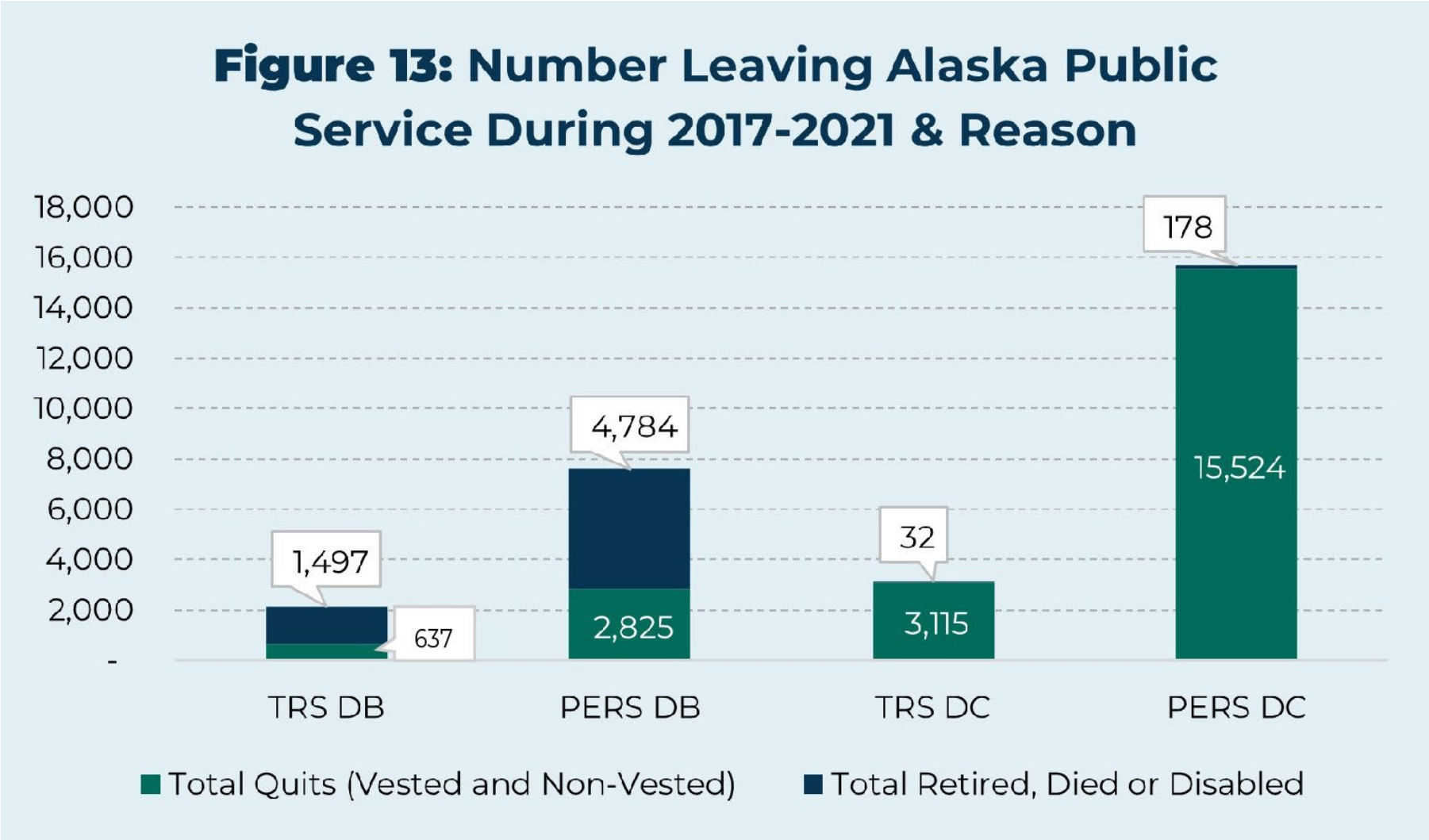


AK TRS: Impactful 2015 Contribution

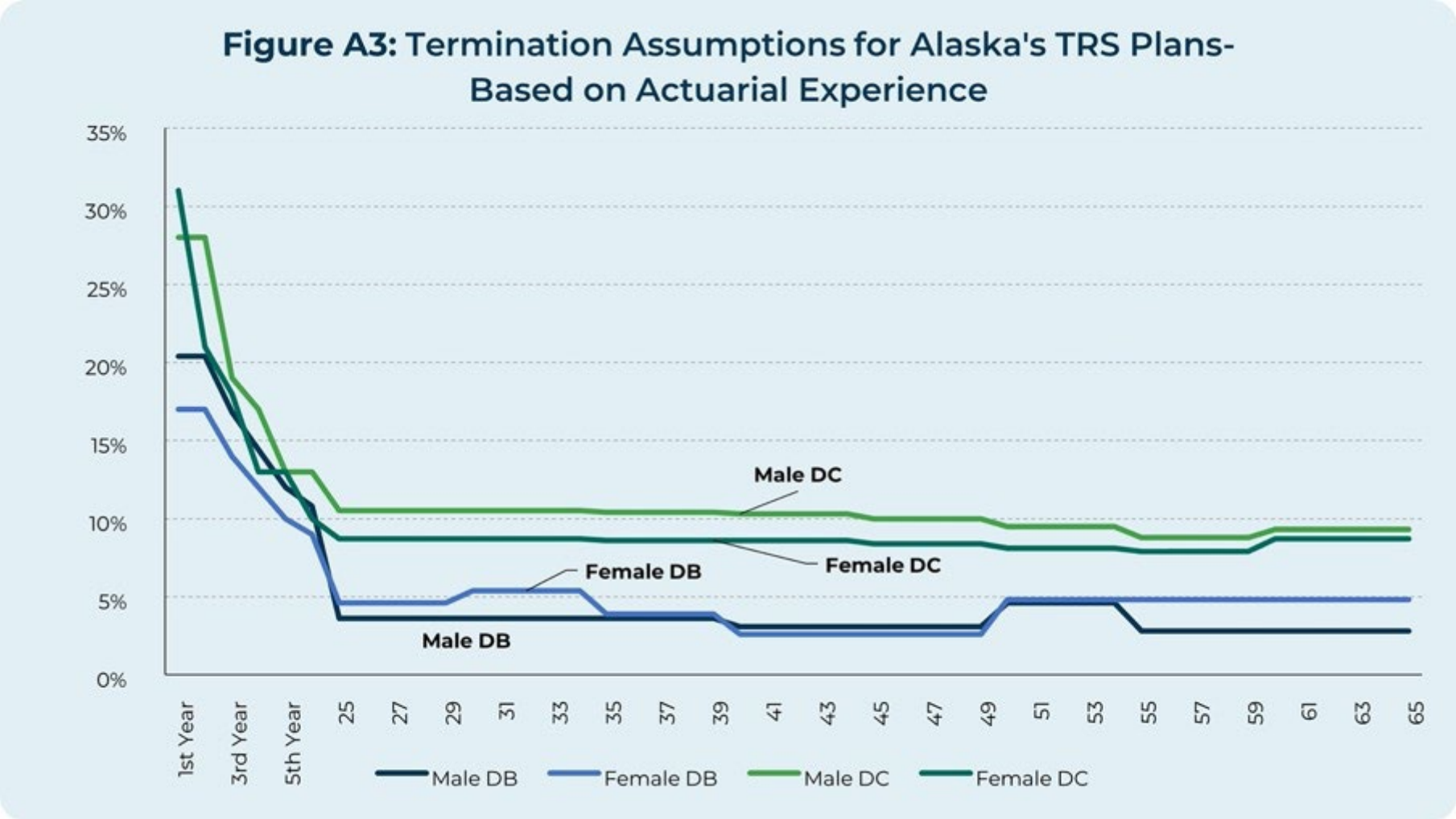


AK: More Quits Than Retirements in DC Plans

Figure 13: Number Leaving Alaska Public Service During 2017-2021 & Reason



AK: Quits Rates Are Much Higher in DC Plans

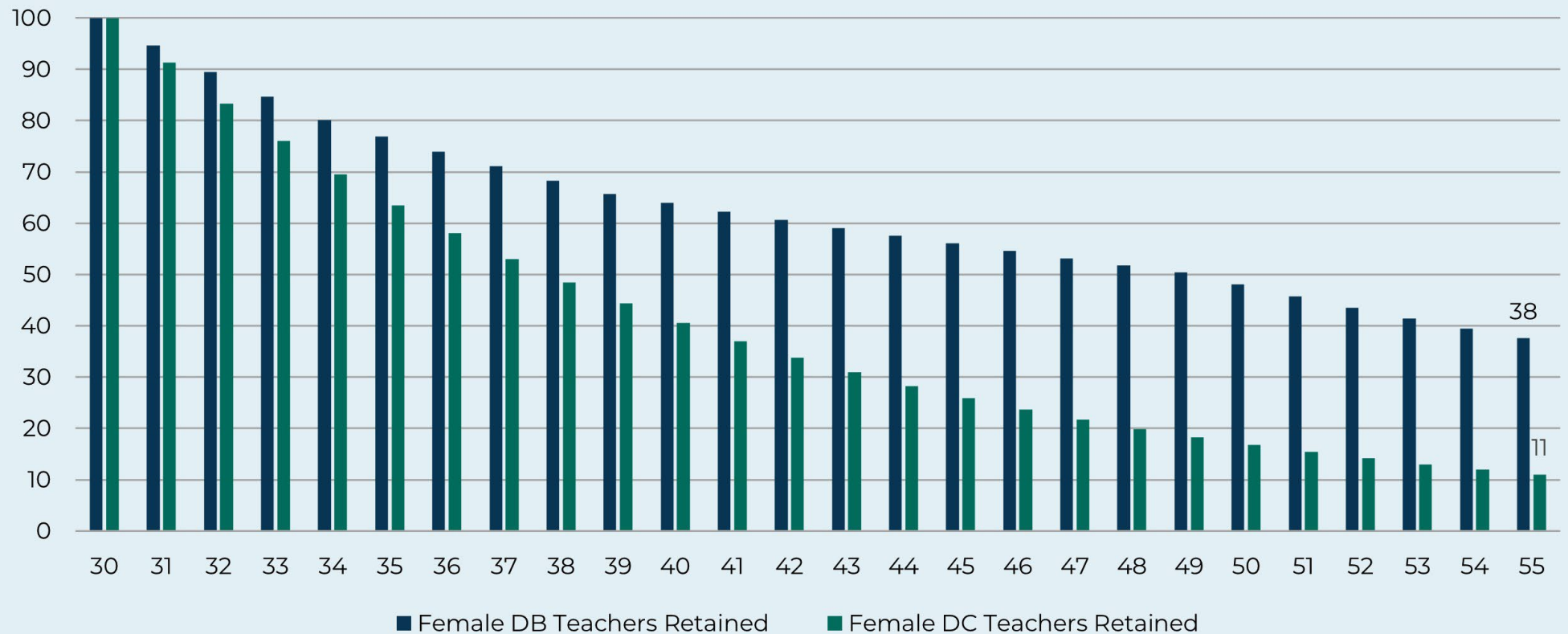


AK TRS: DC Plan Retention Challenges

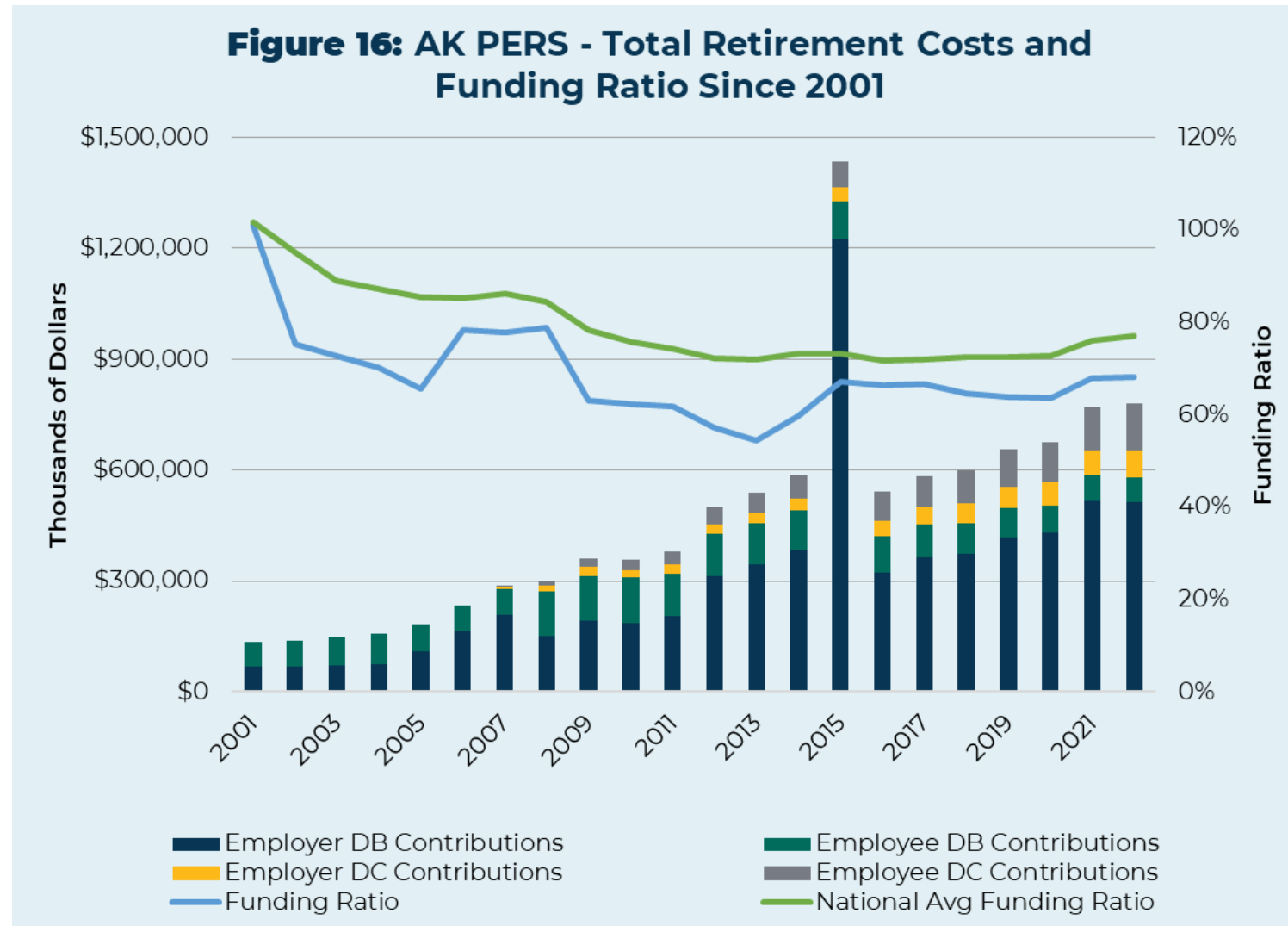
What this means:

- 100 teachers in DB plan expected to provide 1,792 years of teaching
- 100 teachers in DC plan: 1,093 years of teaching
- *All groups show 50-100% more service among DB covered EE's*

Figure 11: Retention of Female Teachers (TRS): DB & DC Plans Based on Ultimate Termination Rates

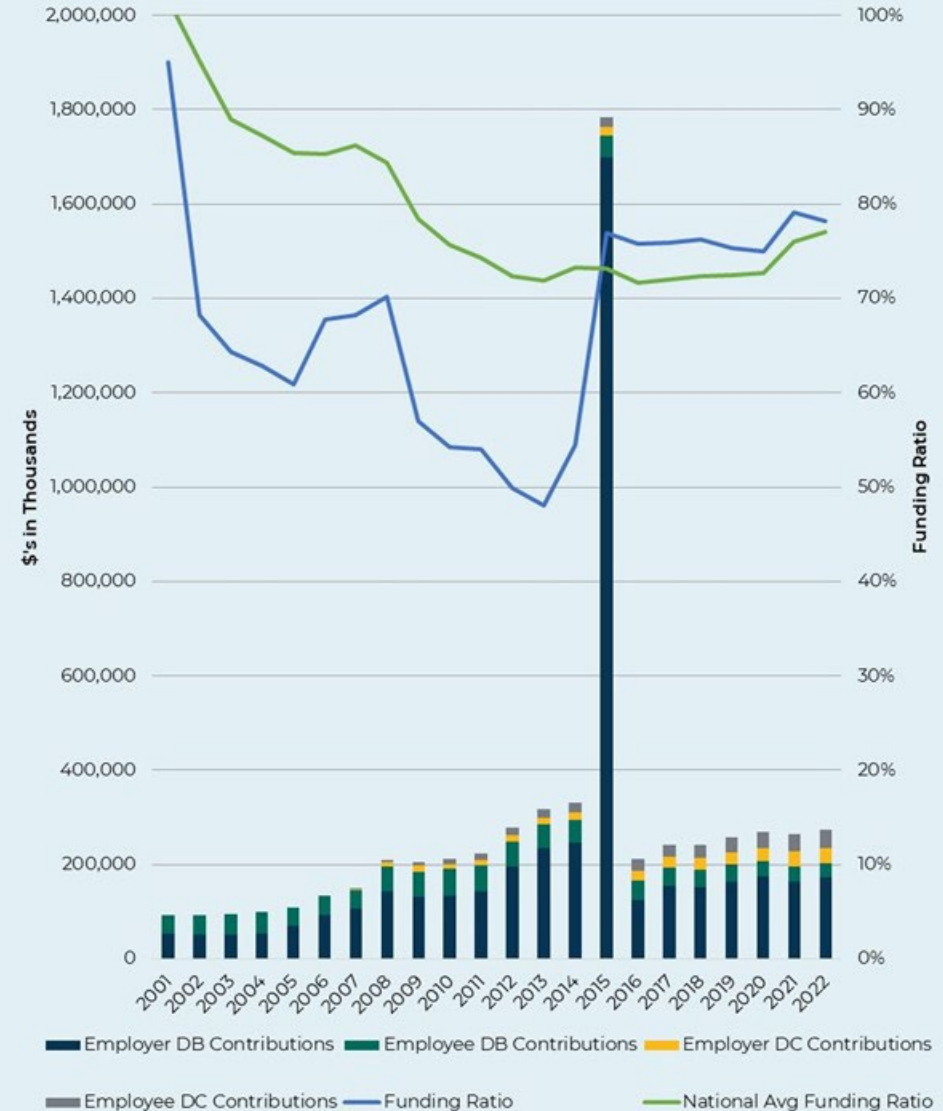


AK PERS: Costs Up; Funding Ratio Down



AK TRS: Massive One-Time Contribution Pulled Up Funding Ratio Significantly, but Costs Are Rising Again

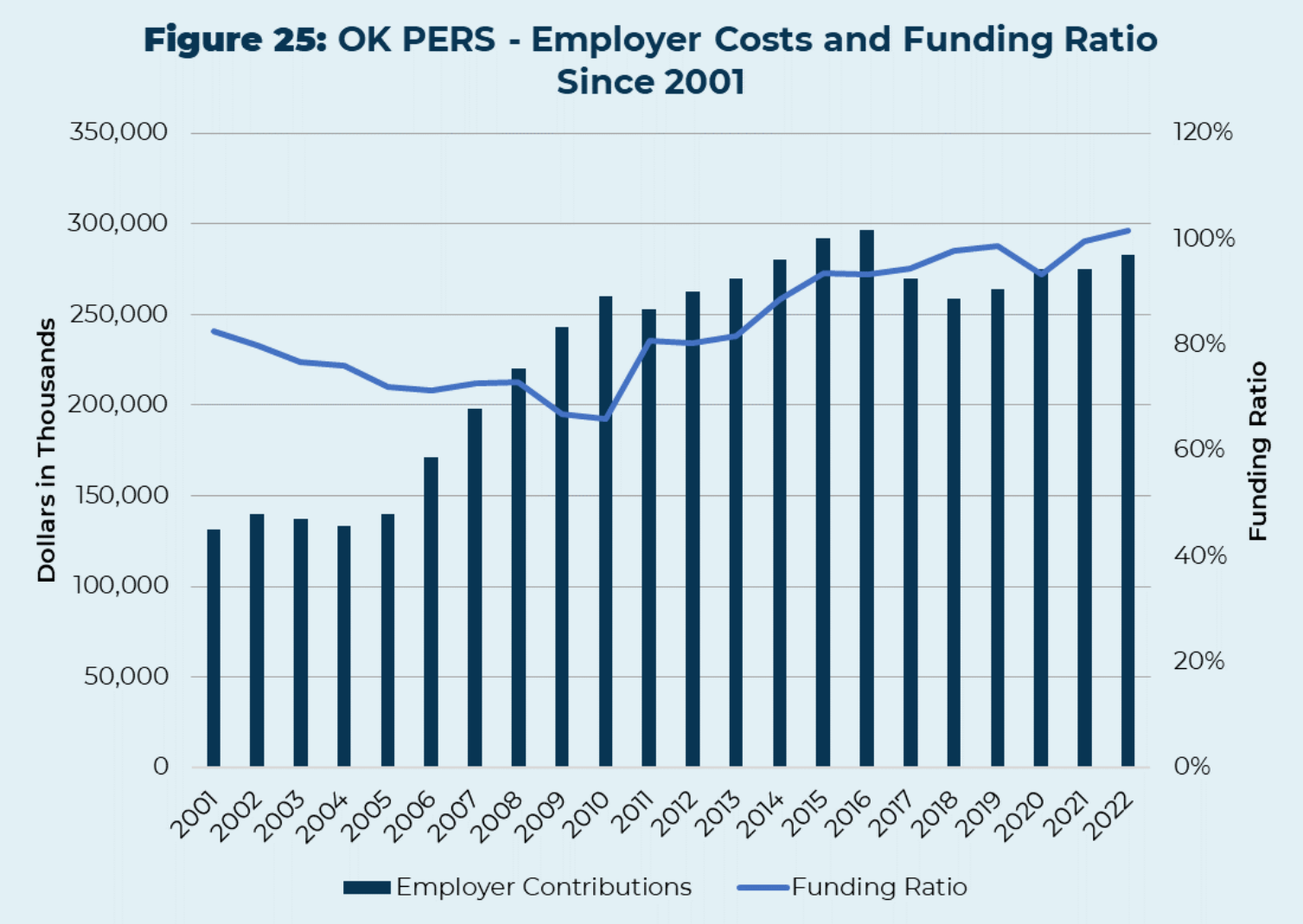
Figure 17: AK TRS - Total Retirement Costs and Funding Ratio Since 2001



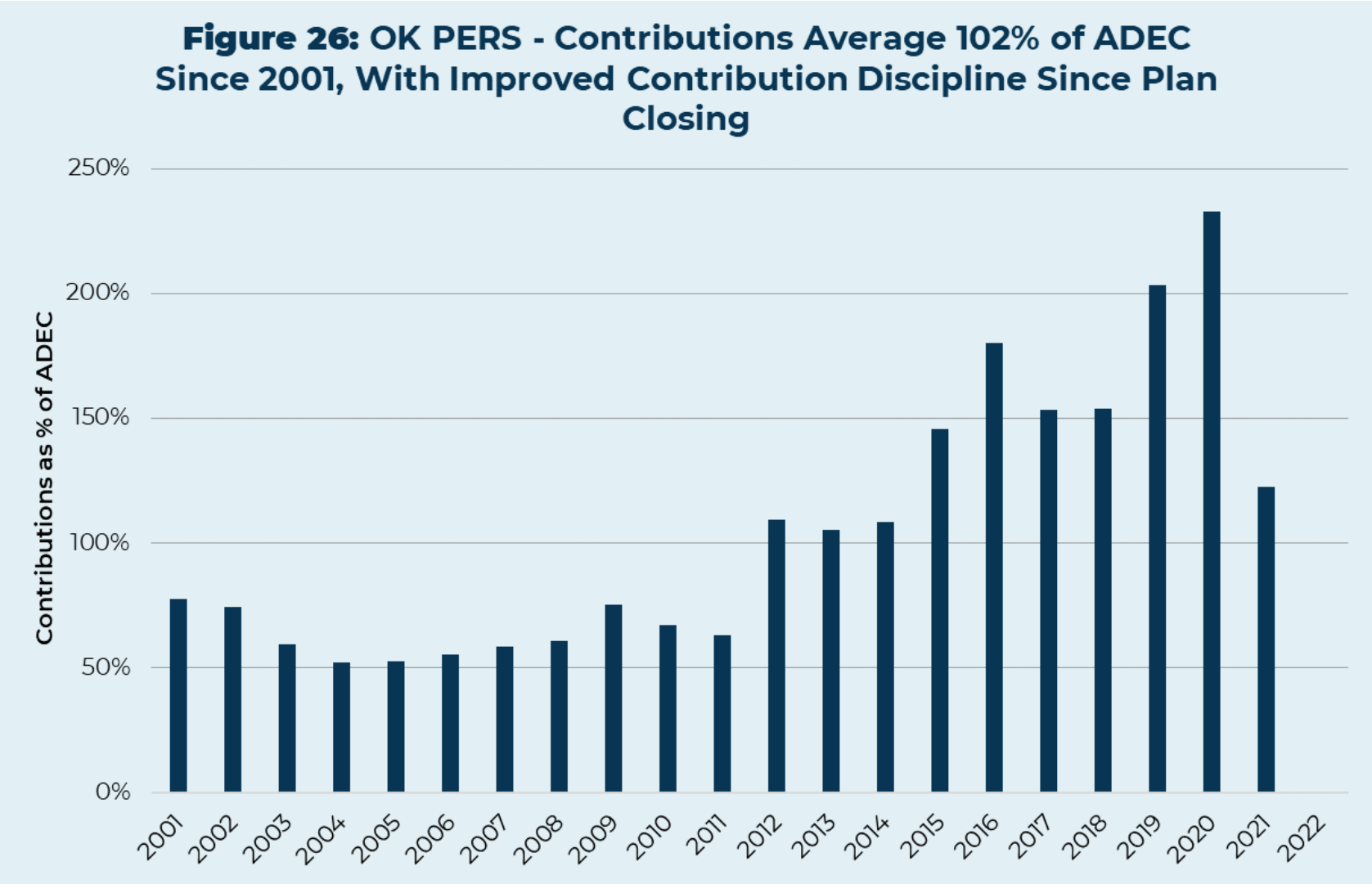
Oklahoma PERS

- OPERS was partially closed to new hires on November 1, 2015.
- New hires in certain employee classifications are still able to join the DB plan.
- All other new hires join a DC plan called Pathfinder.
- OPERS faces many of the same challenges as MI SERS and AK PERS and TRS, despite still being partially open.

OPERS: Funding Higher as Contributions Rise



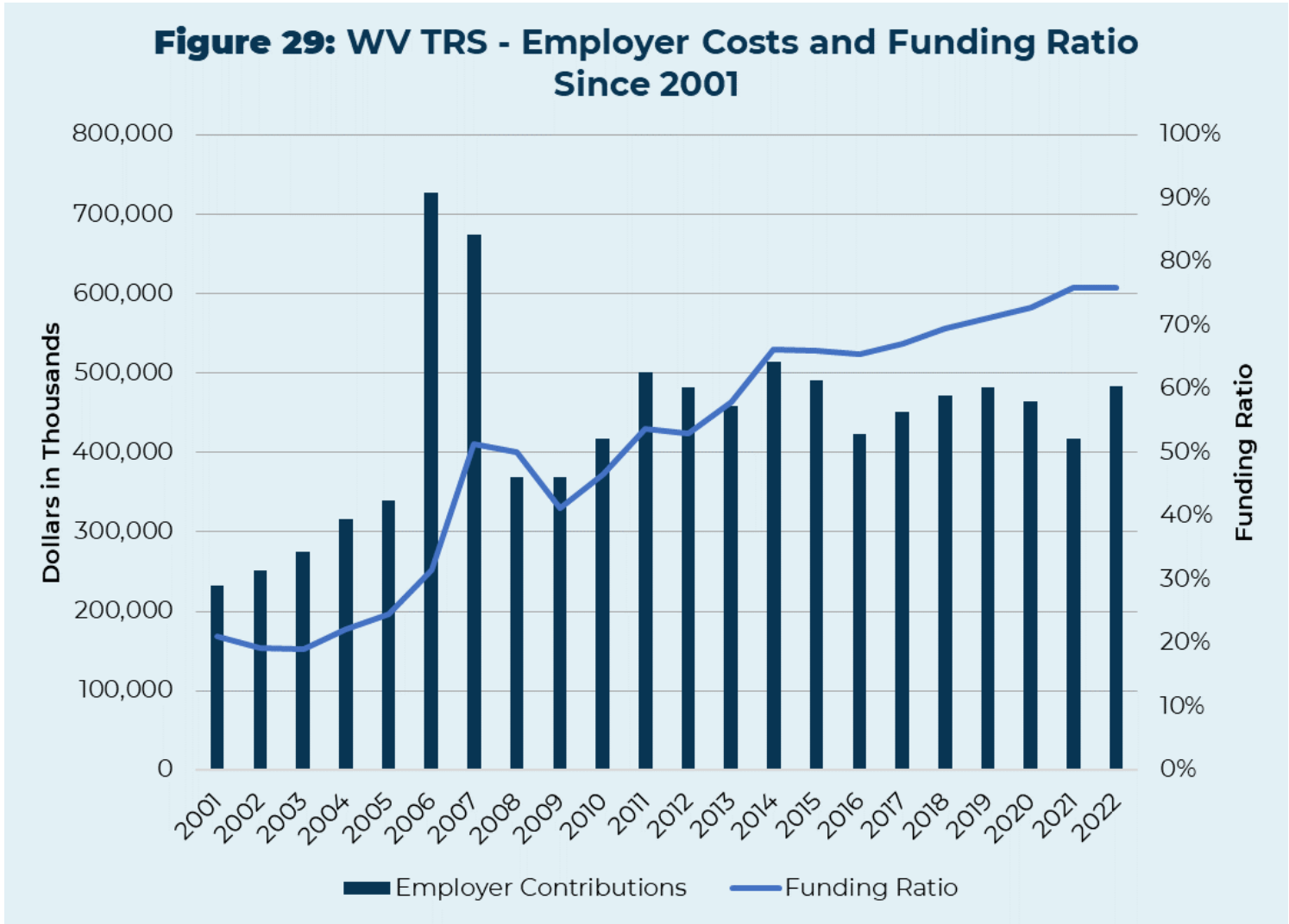
OPERS: Higher Contributions After Closure



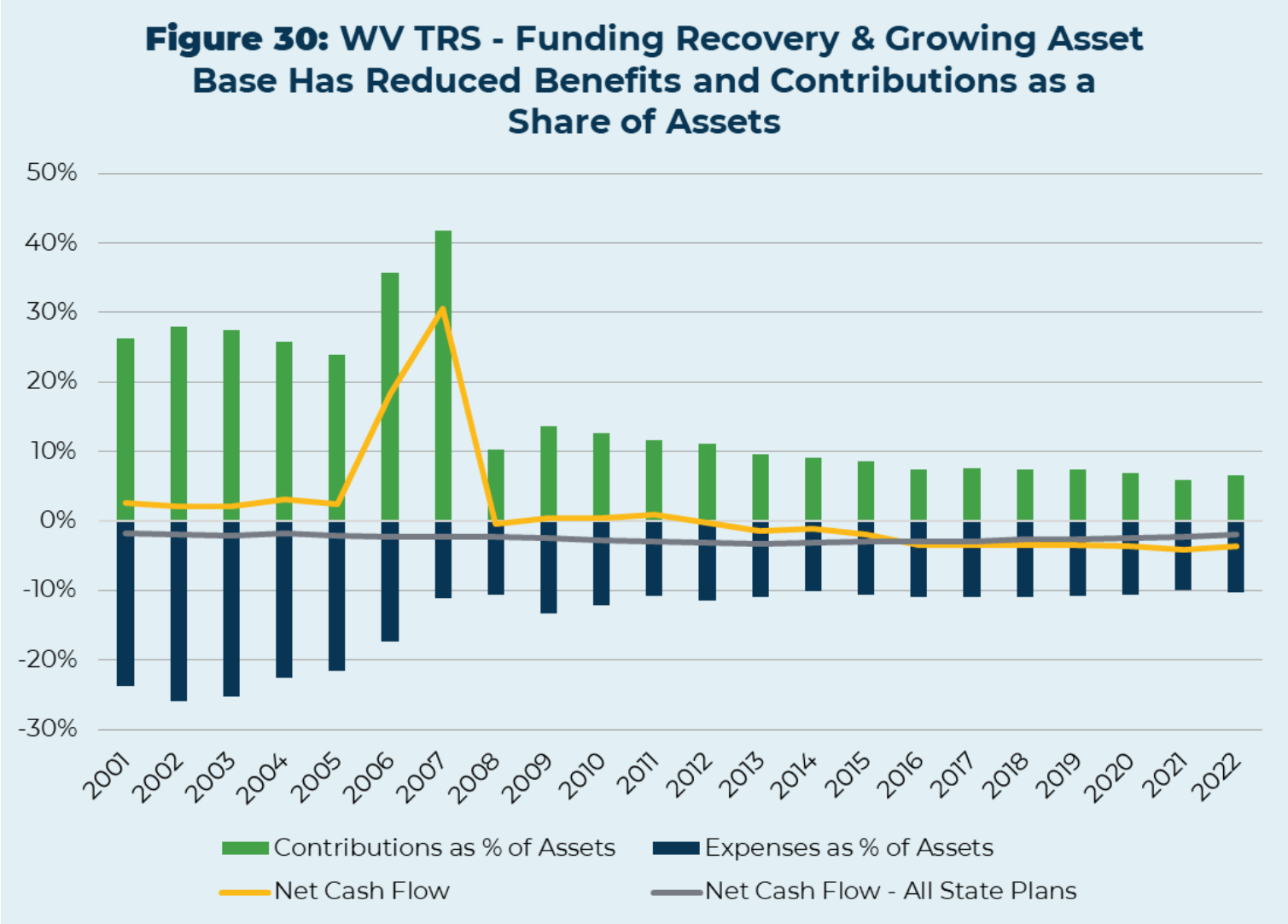
West Virginia TRS

- WV TRS was closed to new hires in 1991, but reopened to new hires in 2005 following study by the state.
- Teachers in the DC plan were given the option to switch to DB plan in 2008; more than 78% did.
- WV securitized money from the tobacco settlement to boost funding following reopening of the plan.

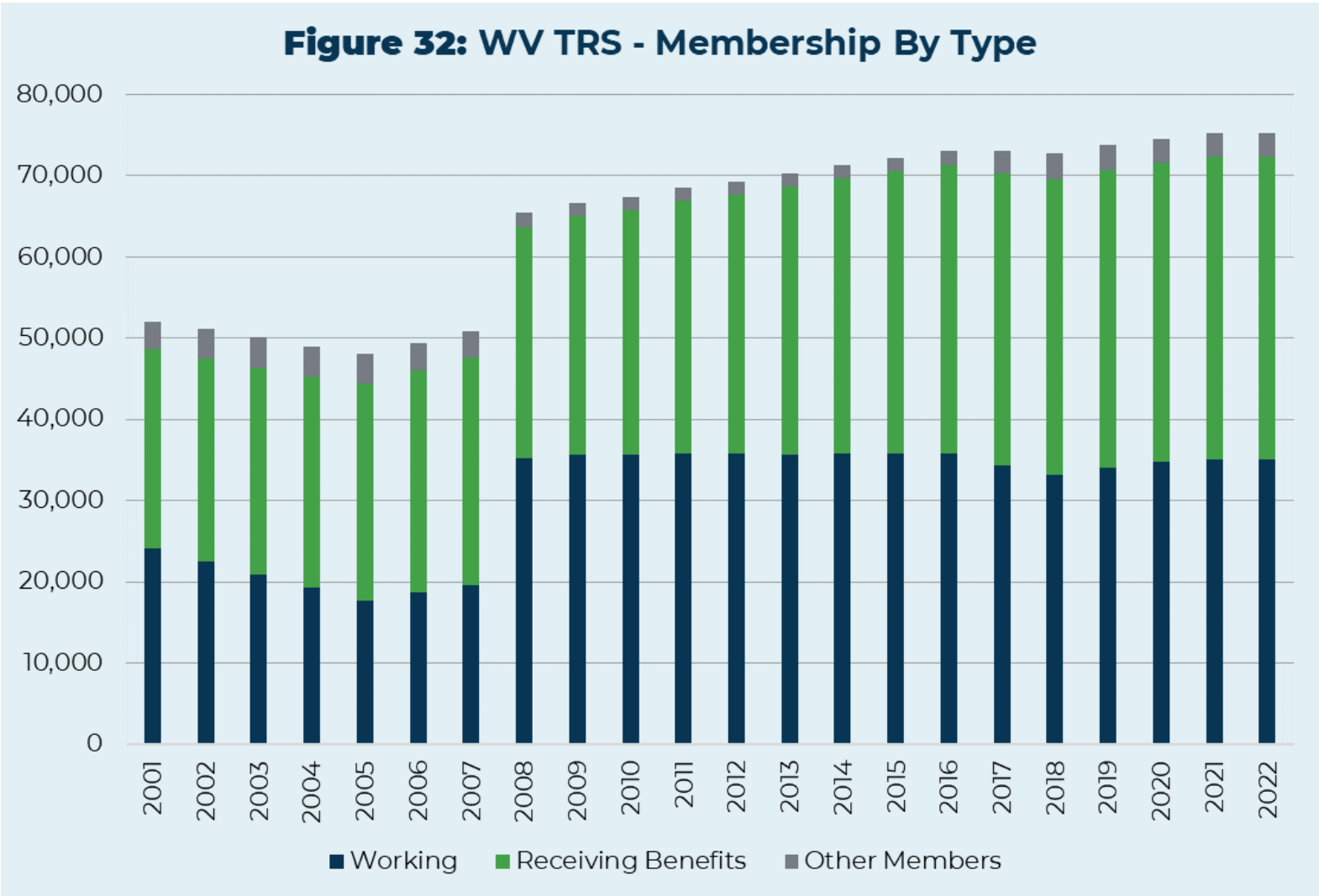
WV TRS: Funding Improves After Reopening



WV TRS: Reopening Has Grown Asset Base



WV TRS: Active Membership Has Increased

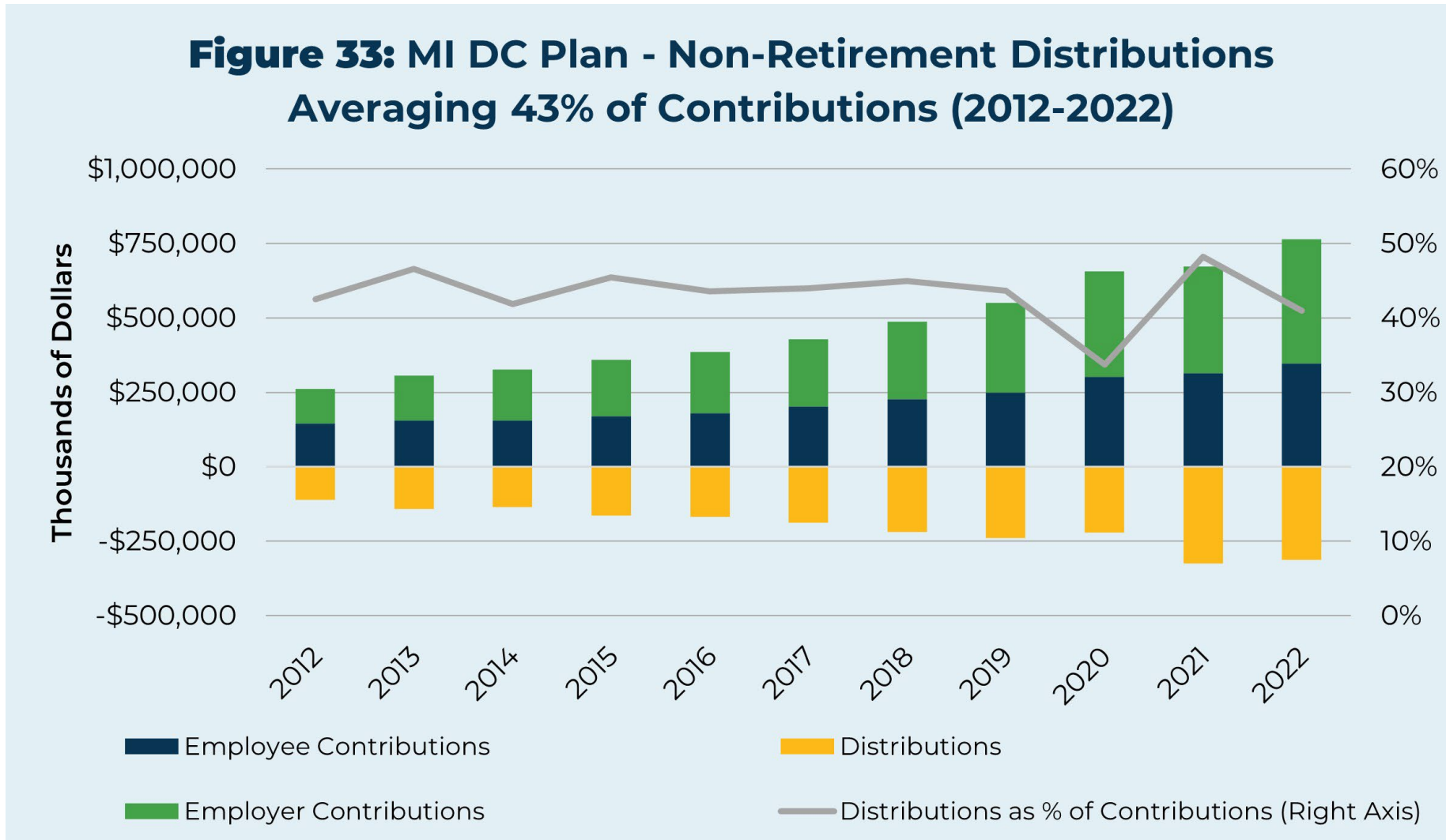


DC Cashouts: What We Know

- DC plan cashouts are significant relative to contributions into the plans.
 - In DB plans, cashouts are far lower.
- In Oklahoma, the dollars rolled into IRA's a fraction of the dollars cashed out.
- Nationally, 41% of people leaving a job cashout.

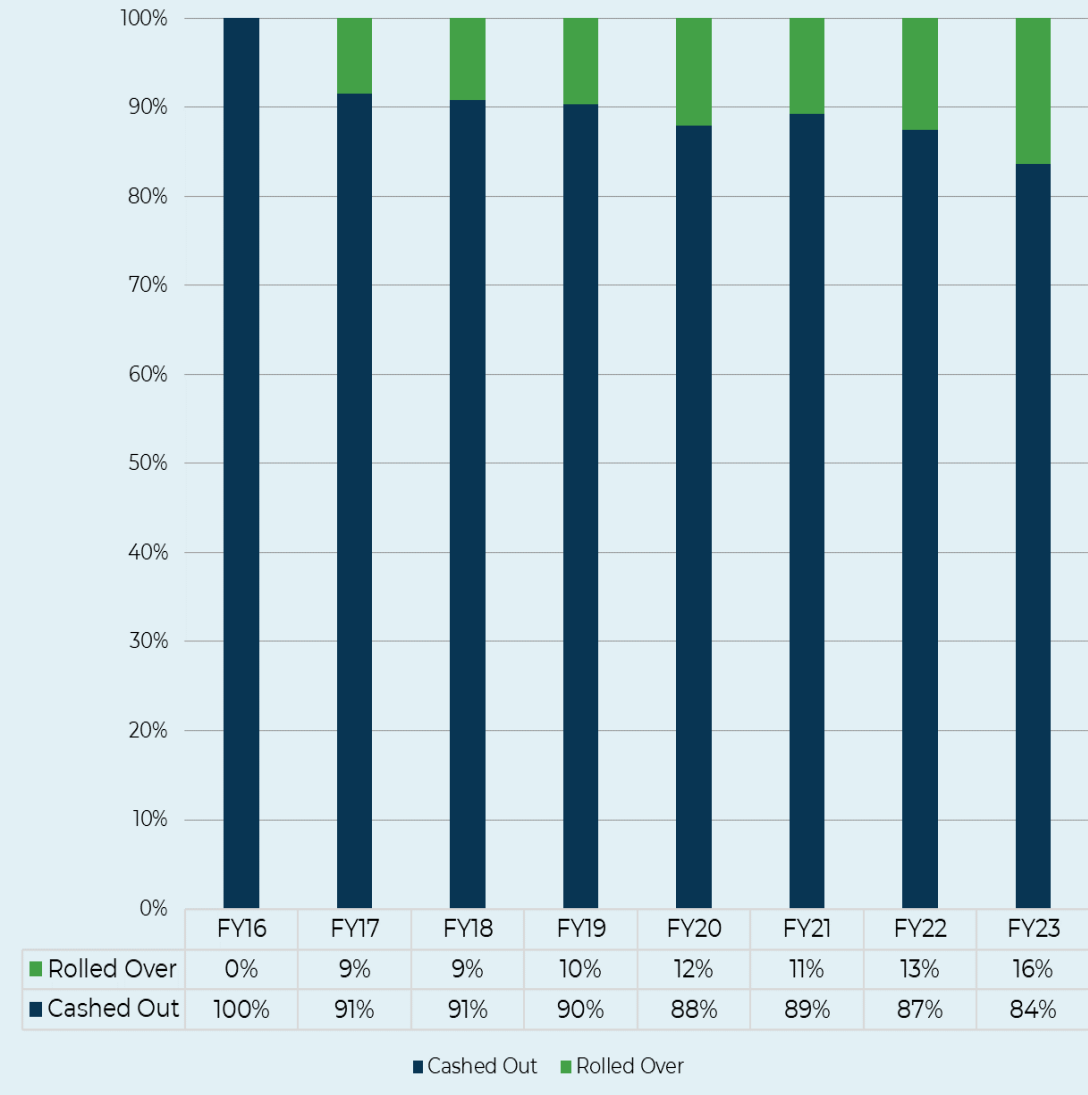
Distributions Above 40% in MI SERS DC Plan

Figure 33: MI DC Plan - Non-Retirement Distributions Averaging 43% of Contributions (2012-2022)



OPERS: Cashouts Are High in OPERS DC Plan... And Few Dollars Are Rollovers

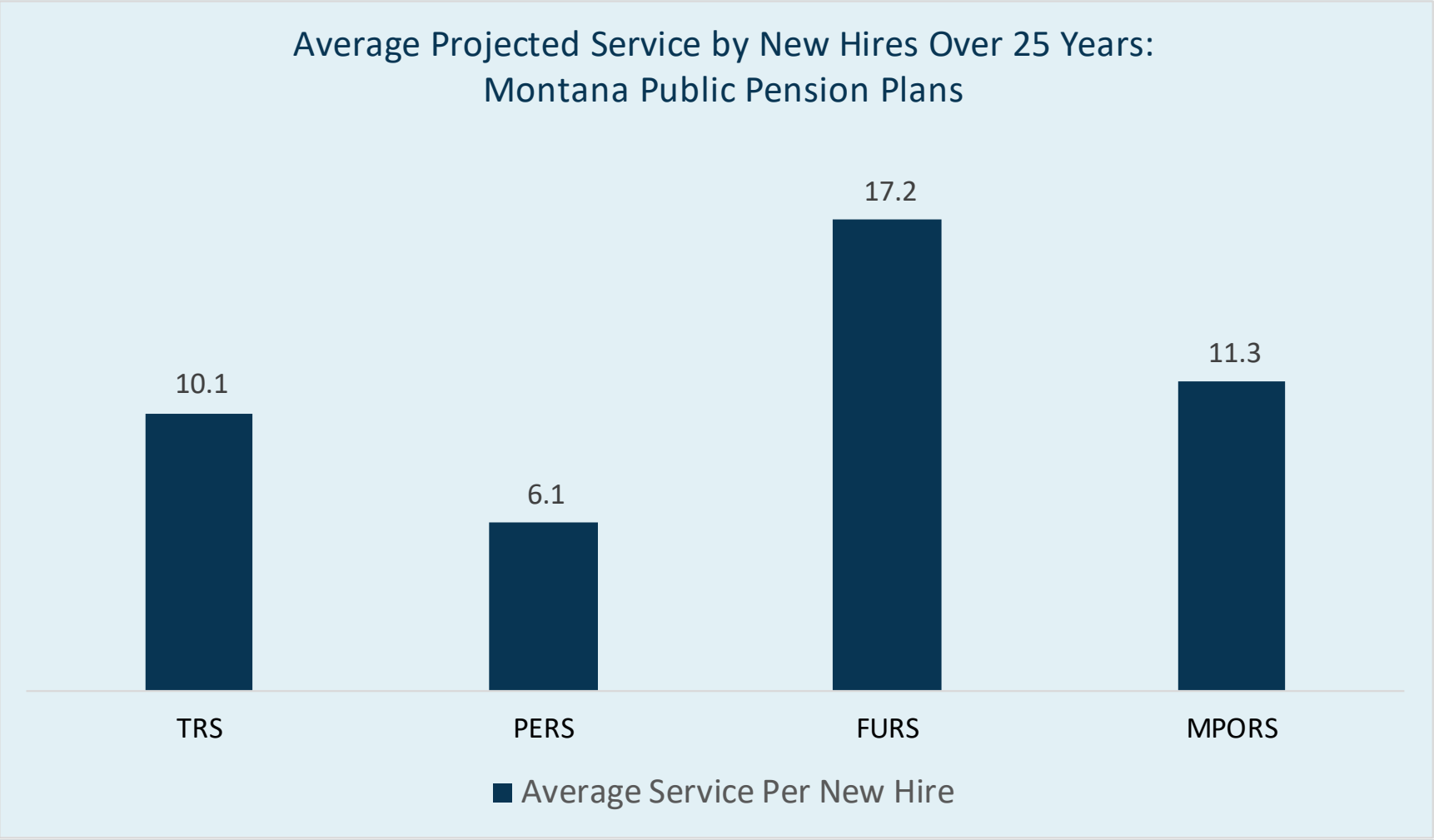
Figure 34: OK PERS - DC Plan Cashouts and Rollovers



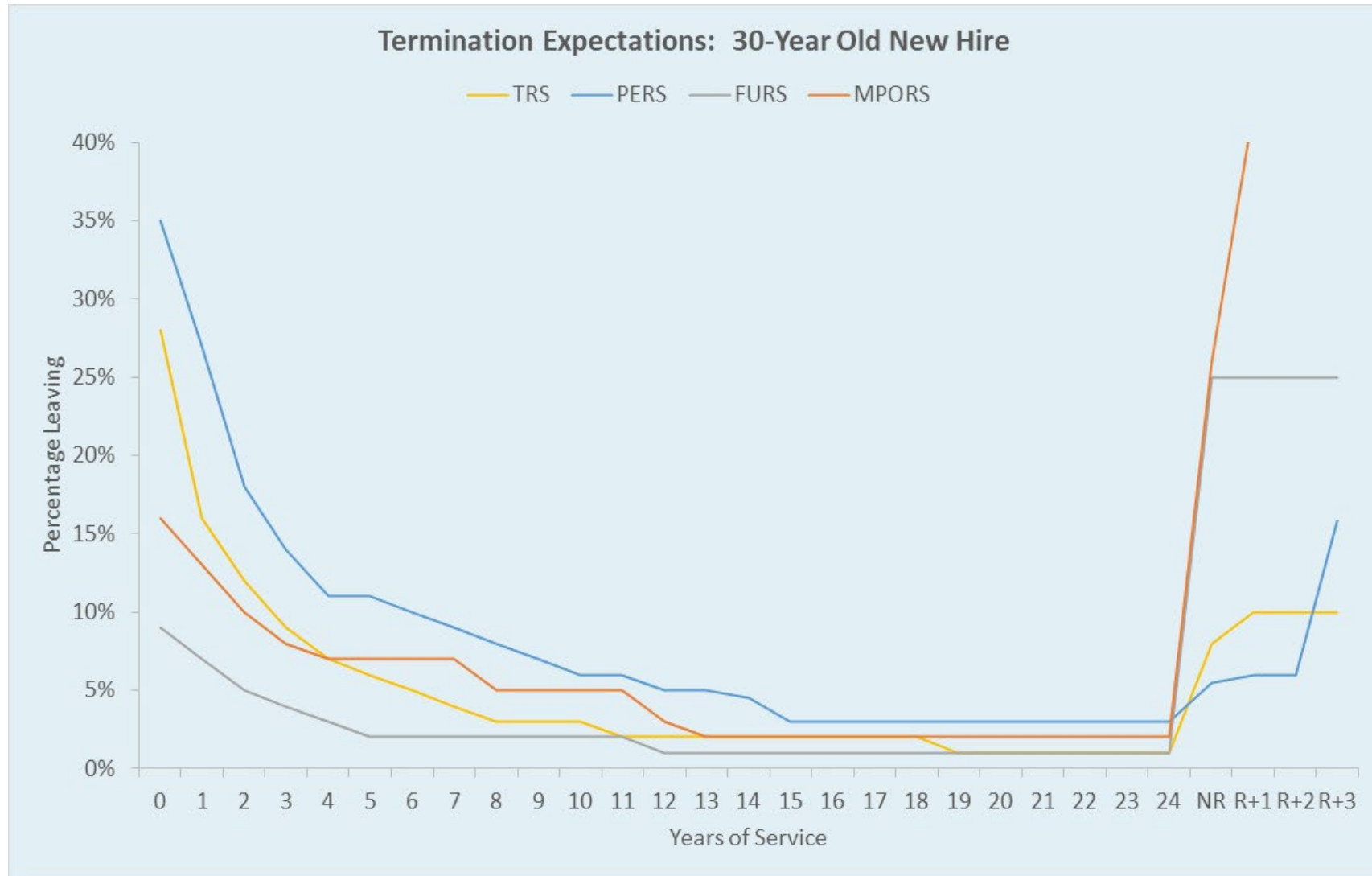
Section 2:

A Look at Retention Among Montana Public Servants

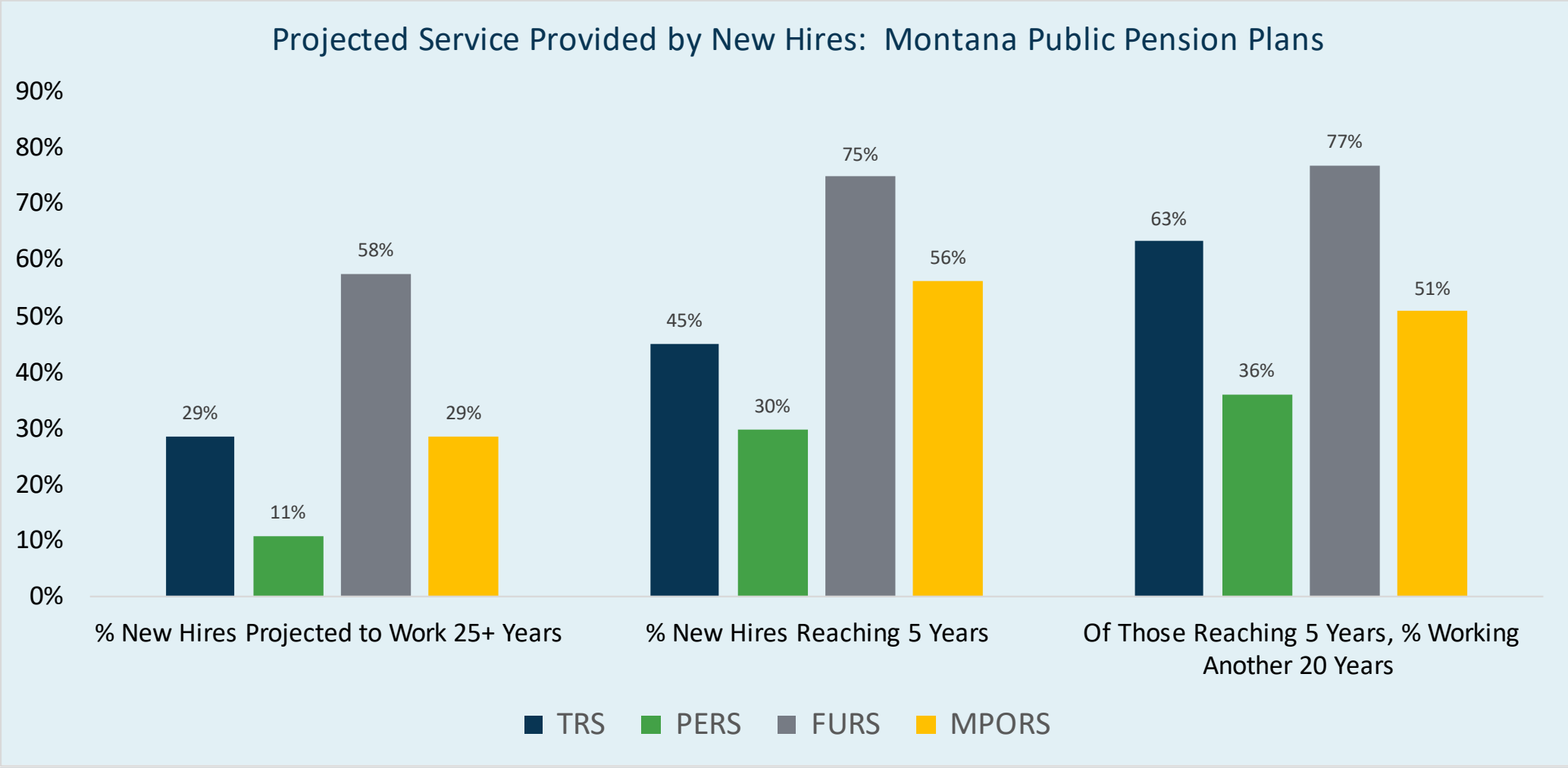
Hiring ROI: Expected Service Per New Hire



Turnover in MT Public Services



Early Turnover High, Low Among Those Remaining



Questions

