PERSI

September 27, 2016

Dear Idaho Lawmaker:

I recently mailed you a letter outlining a number of potential proposals which groups have informed me they intend to move forward in the legislative process. I anticipate you will see benefit enhancement legislation in the upcoming session. This summer, I was able to meet face-to-face with approximately 365 of PERSI's 780+ employers, through a series of 36 meetings around the state. During those meetings, we discussed the potential benefit enhancement proposals as well as the likelihood of a contribution rate increase. During every single meeting, employers raised concerns and debated the impact of potential changes to PERSI. Clearly PERSI employers want to protect and sustain the plan and worry about the impact of proposed changes to the plan and to political perception of the plan benefits. At every meeting employers were curious to know if I was aware of any proposals which would change PERSI from a defined benefit (DB) pension plan to a defined contribution (DC) 401(k)-style plan. I explained that only the Legislature has the power to make changes to PERSI, and that the Legislature has not expressed a plan to change PERSI. I encouraged employers concerned about changes to PERSI to contact their legislators. You'll recall I mentioned in my last letter that PERSI's employers do not want to switch to a DC plan. PERSI is not advocating making changes to the plan; most pension reform we have seen nationally has actually brought those systems closer to where PERSI is now, and has always been – modest, conservative, and sustainable. Most proposals I am aware of would enhance benefits and I believe the past letter outlined my understanding of the proposals. I write today, to shine light on pension reform in other places, and to provide additional information you may find helpful.

Pension reform has been enacted in virtually every state. Many assume that pension reform implies systems changing from a DB to DC format. In fact very few public systems have made such a change. DB plans and DC plans each come with pros and cons, depending upon your point of view. Proponents of switching from DB to DC generally point to four things; reducing employer liability by shifting more risk to the employee, greater employee control over investments, portability for transient employees, and the question of fairness that DB plans are less often available to non-government workers. Proponents of keeping the DB plan point to lower administration cost, better investment returns due to professional management, retirement security of a guaranteed lifetime benefit, and additional protection in case of disability.

While the Legislature has already enacted pension reform in Idaho by adjusting contribution rates, you may feel pressured to do more. Since the Great Recession, many reports and studies have been produced by proponents of DB plans; likewise many reports and studies have been produced by those who would favor switching from DB to DC. No two systems are designed exactly alike, and many of our peer systems have made changes, so rather than pointing out additional reports supporting one side or the other, I want to draw your attention to the details of pension reform already enacted in other states. Last month, The American Association of Retired Persons (AARP) offered a presentation[1] to the National Conference of State Legislatures. In it, they state that from 2009-2015 nearly every state passed meaningful modifications to one or more of its pension plans, and rather than closing their DB plans, the vast majority of states chose instead to modify financing and/or benefits. AARP also presented a companion piece from the National Association of State Retirement Administrators called *Spotlight on Significant Reforms to State Retirement Systems*[2], which comprehensively details the most recent pension reforms for every state.

The primary fiscal concerns with switching from a DB to a DC plan, according to a briefing paper[3] from the Economic Policy Institute (EPI), are the potential long-term impact on the DB plan funding, and cost of setting up, administering, and maintaining the new plan in parallel with the old plan. The EPI briefing paper also points out that converting from DB to DC creates more workforce management problems than they solve, and increases retirement insecurity. According to three case studies[4] released by the National Institute on Retirement Security last year, “As states and municipalities have considered switching from the DB pension to a DC plan, those that have conducted a cost analysis have found that the move would save little to no money in the long term, and could actually substantially increase retirement plan costs in the near term. Not surprisingly, virtually no state that has conducted such a study has made the switch.” Most recently, the Colorado State auditor commissioned an independent actuary to study[5] the potential cost of switching to a DC plan. The study concluded it would cost the state $15.9 billion over the forty years following the switch. Recognizing the associated cost, the Colorado Legislature declined changing the system.

I want to thank you for reading my letters. If you would like more information, or would like to meet with me to discuss pension reform or any other PERSI-related topics, please contact my assistant, Jess Simonds at 287-9307.

Best regards,

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[1] https://comm.ncsl.org/productfiles/83050596/AARP_Presentation_Pension_Funding.pdf

[2] http://www.nasra.org/content.asp?admin=Y&contentid=219

[3] http://epi.org/80935

[4] http://www.rsa-al.gov/uploads/files/Case_Studies_State_Pension_Plans_that_switched_to_DC_Plans.pdf

[5] http://www.gabrielroeder.com/wp-content/uploads/2015/10/ColoradoPERAStudyFINAL.pdf