

How DB Plan Pressures Affect DC Plans

Moderator, Wendy Carter

Vice President and DC Director, Public Sector
Segal Consulting



NAGDCA
ANNUAL
2019



1

Mike Welker, CFA

President/CEO
AndCo



NAGDCA
ANNUAL
2019



2

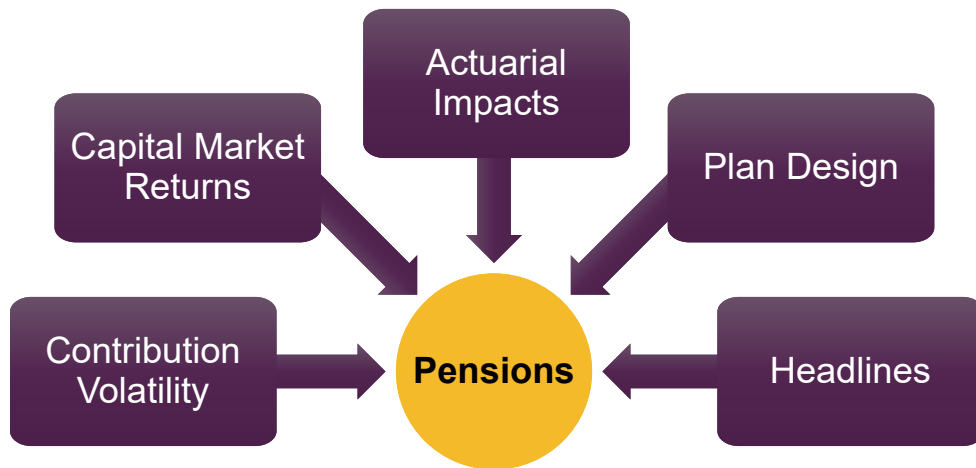
Retirement Landscape

	Pension ¹	DC ¹	Labor ²
Private Sector	\$3.02T	\$6.25T	126M
State/Local	\$4.20T	\$0.49T	20M
Federal	\$1.67T	\$0.57T	3M
Total	\$8.89T	\$7.31T	149M

¹ Financial Accounts of the United States, U.S. Federal Reserve, June 2018
² Department of Labor; Bureau of Labor Statistics

3

Pension Pressures



4

Sample GASB 68 Analysis

The table below contains the projection of long-term real returns for the Trust's Target Policy Allocation as required by GASB 67 & 68.

Asset Group	Long-Term Real Return ¹	Target Policy	Asset Group Contribution
Domestic Equity	7.50%	42.5%	3.19%
International Equity	8.50%	14.0%	1.19%
Domestic Bonds	2.50%	22%	0.55%
International Bonds	3.50%	2%	0.07%
Real Estate	4.50%	5%	0.23%
Alternative Assets ²	6.11%	14.5%	0.88%
Total Real Return			6.11%

For illustrative purposes only.

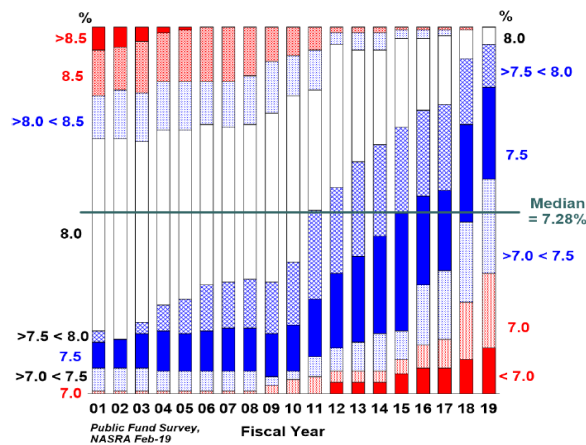
¹ The long-term real return expectations remove the 2.5% inflation rate embedded in each nominal return assumptions.

² The 14.5% Alternative Assets long-term real return assumption represents a relational combination of the remaining 85.5% of the policy target.

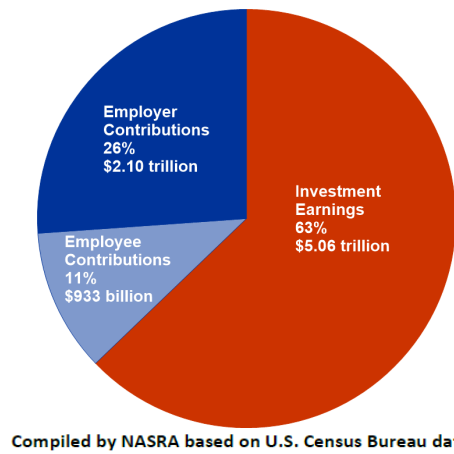
NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

5

Change in Distribution of Public Pension Invest Return Assumptions FY 01 to FY 19



Public Pension Sources of Revenue 1989 – 2018



Compiled by NASRA based on U.S. Census Bureau data

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

6

Case Study: Municipal Plan

Plan	Coverage	EE Cont	ER Cont	Vesting	ERA/ NRA	Multiplier	Penalties
A	Hired pre 2003	11.13%	19.75%	10 yrs.	50 / 60	Y1-25: 3% Y25+: 1%	Age 50 – 55 1.7% Age 55 – 60 0.25%
B	Hired after 2003	11.13%	19.75%	10 yrs.	52 / 62	Y1-10: 2% Y10-30: 3% Y30+: 1%	5% per year
C	Hired after 2012	6.39%	19.75% + 5% Match	5 yrs.	52 / 62	2.41%	5% per year

For illustrative purposes only. There is no guarantee that other clients will experience similar results as various factors can cause actual outcomes to differ materially.

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

7

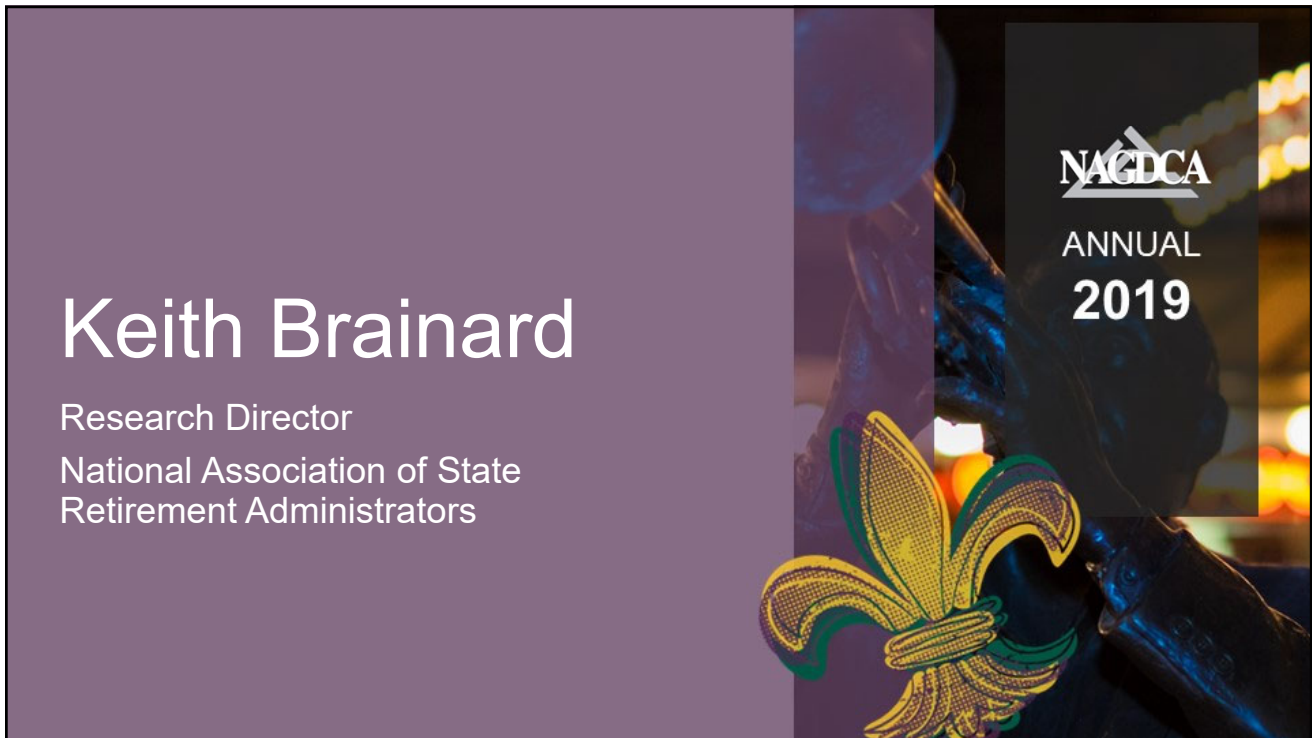
Success Factors

- Employer & Employee both contributing to retirement outcomes – sharing risk
- The new structure has increased 457 contributions by employer and employees to supplement define benefit retirement. Analysis was done that with increasing 457 balances and moderate returns benefit from hybrid plan were similar to previous DB plan only.
- Increased funding level of the pension by 2.5% per year. Now close to 85% with sustained, constant contributions from the City.
- Portability of DC plan to meet the needs of today's workforce
- Employee group representation throughout process to ensure transparency, communication and overall involvement

For illustrative purposes only. There is no guarantee that other clients will experience similar results as various factors can cause actual outcomes to differ materially.

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

8



9

Future for DC Plans

- Holistic approach: DB **and** DC
- DC Plans need to be considered and utilized for sustainable retirements with Public plans
- Embrace automatic plan design features to overcome inertia
- Utilize education and tools to foster engagement and combat financial illiteracy
- Further leverage technology to provide participants a comprehensive retirement perspective

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

10

Retirement Plan Objectives: Public Employers

Public employers use retirement benefits to promote important human resources objectives:

- To attract and retain qualified employees who are needed to perform essential public services
- To promote an orderly turnover of workers

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

11

Retirement Plan Objectives: Public Employers

- Most public sector jobs are long-term in nature, or career-oriented
- Educators, public safety personnel, and other professional roles require a college degree and/or significant training
- Orderly turnover means employees are able to retire at an appropriate age and juncture in their career, which is an essential human resources objective

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

12

Retirement Plan Objectives: Public Employees

Public employees seek a competitive compensation package, including a decent retirement benefit

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

13

Retirement Plan Objectives: Taxpayers and Recipients of Public Services

Those who help fund the cost of retirement benefits for public employees, and those who rely on their services, expect those services to be provided in a cost-effective manner and at an annual cost that is reasonably stable and predictable.

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

14

Retirement Plan Designs for Employees of State and Local Government

- A defined benefit plan traditionally has been the centerpiece of retirement benefits for employees of state and local government
- DB plans historically placed most or all risk on employers
- DB plans are changing
- More hybrid plans and more risk-sharing

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

15

Retirement Plan Designs for Employees of State and Local Government

- With some exceptions, defined contribution plans traditionally have served as supplemental retirement savings plans for public employees
- Such as through 403(b) and 457 plans
- DC plans serve as the primary retirement benefit for around 15 percent of public employees

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

16

Retirement Plan Designs for Employees of State and Local Government

- Hybrid plans traditionally have accounted for a very small portion of retirement benefits for public employees
- DB-DC and cash balance plans
- The use of hybrid plans has risen sharply in recent years

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

17

Examples of Risk-Sharing

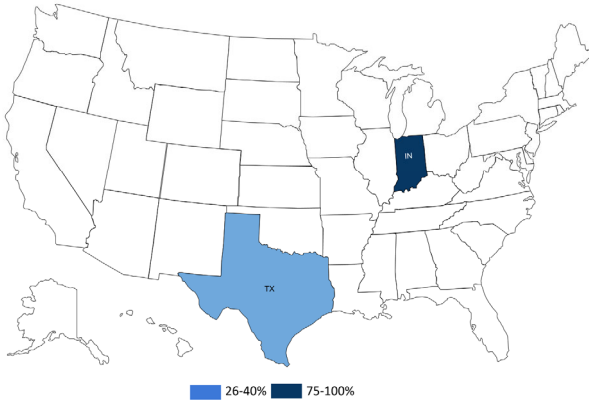
- Hybrid retirement plans
 - DB-DC
 - Cash balance
- Contingent or limited cost-of-living adjustments
- Flexible employee contribution rates
- Adjustable benefit levels

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

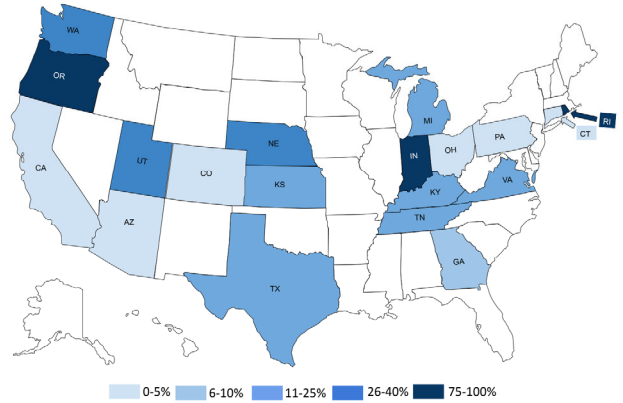
18

Statewide Hybrid Plans

1995



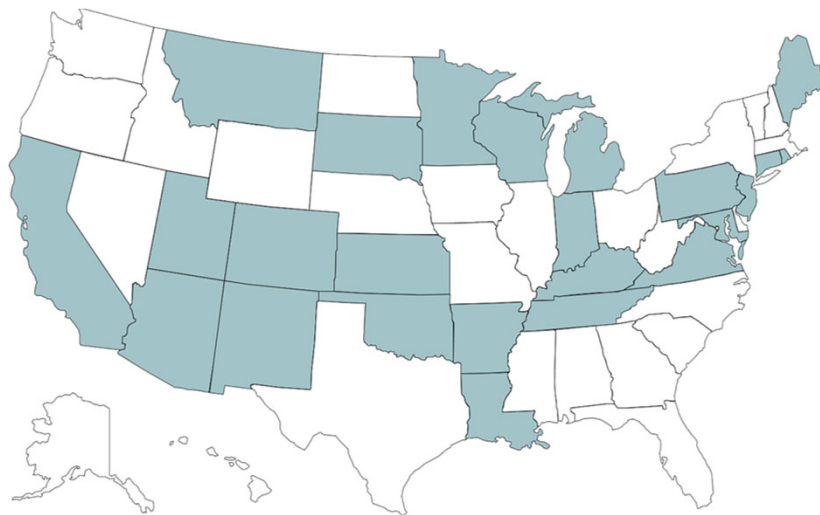
2019



NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

19

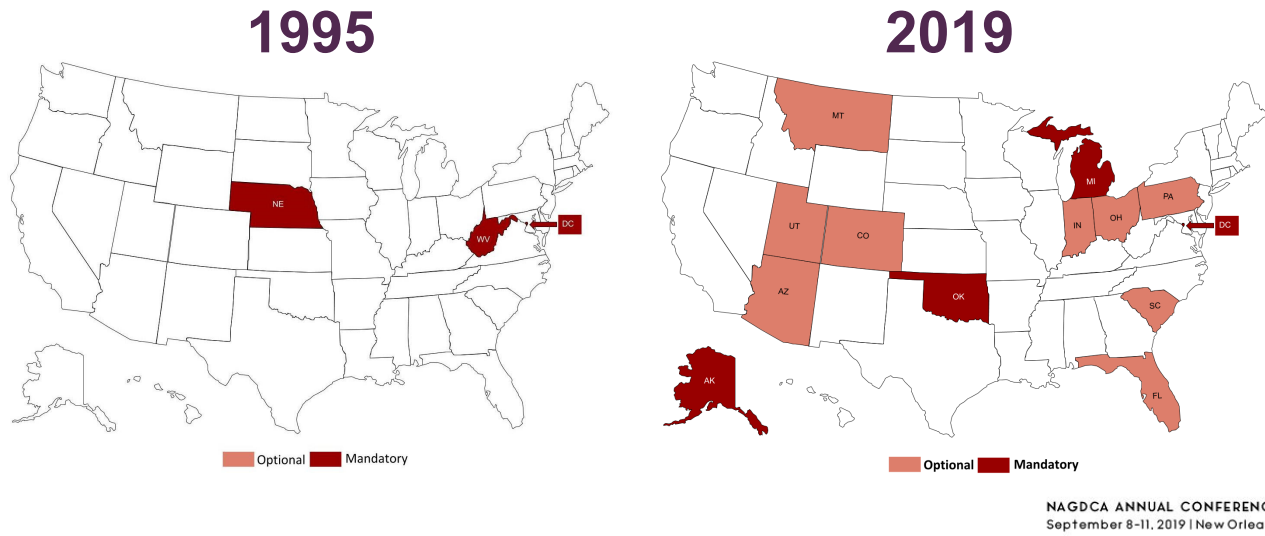
States That Implemented Automatic Risk-sharing Plan Design, 2009–2018



NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

20

Statewide Defined Contribution Plans as the Primary Retirement Benefit



21

Concluding Thoughts

- The public employee retirement benefit discussion has migrated from defined benefit vs. defined contribution, to one that seeks the optimal blend of both plan types to accommodate stakeholder interests.
- Risk-sharing has become a central theme in retirement plan design.

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

22



23

The University of California Retirement Choice Program

Partnering a defined benefit plan and a defined contribution plan can provide an attractive employee recruiting and retention tool, and reduce retirement benefit costs.

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

24

UCRS Before Retirement Choice

- DB Plan (UCRP)
 - primary retirement benefit
 - participation mandatory
- DC plans: 403(b), 457(b), 401(a)
 - participation generally voluntary

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

25

PEPRA Cap

- **2013:** CA Public Employees' Pension Reform Act (PEPRA)
 - mandates cap on pensionable earnings
 - adjusted annually: \$124,480 as of July 1, 2019
- **2015:** UC voluntarily adopted PEPRA cap, effective 7/1/16 for new employees

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

26

Retirement Options Task Force

Appointed to address:

- impact of the PEPRA cap on competitiveness of UCRP and total remuneration
- recruiting and retention issues, especially for faculty
- retirement plan costs and long-term financial stability

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

27

Consultation and Approval Process

- **January 2016:** Task Force submitted recommendations to the President
- Input solicited from UC community
- **March 2016:** Regents approved the Retirement Choice Program

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

28

Retirement Choice Program

New and rehired employees choose either:

- **Pension Choice:** DB plan plus a DC plan
Supplemental Savings Benefit if new employee
subject to cap

OR

- **Savings Choice:** a DC Plan only

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

29

Pension Choice: DB Plan

- UCRP 2016 Tier benefit formula
- Covered pay subject to cap if new employee
- UC contribution = 8% + 6% to fund UCRP UAAL
- Employee contribution = 7%
- Benefits vested after 5 years; payable as early as age 55

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

30

Pension Choice: Supplemental Savings Benefit

- UC contribution
 - for designated faculty = 5% of all pay
 - for staff / other academics = 3% of pay over cap
- Employee contribution = 7% of pay over cap
- Benefits vested after 5 years; payable at separation

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

31

Savings Choice

- UC contribution = 8% to employee accounts
+ 6% to fund UCRP UAAL
- Employee contribution = 7% of pay
- Benefits vested after 1 year; payable upon separation
- Second Choice Window

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

32

Pension Choice vs. Savings Choice

- Pension Choice for employees who
 - plan to stay at UC long-term
 - want predictable retirement income
- Savings Choice for employees who
 - plan to stay at UC short-term and want faster vesting and portability
 - want to manage their retirement investments

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

33

Employee Elections

- Election window: 90 days following hire
- Default: Pension Choice
- Election results:
 - Elected Pension Choice: 35%
 - Defaulted to Pension Choice: 28%
 - Elected Savings Choice: 37%

NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

34



35

Appendix Retirement Choice Program Illustration

New hires on/after 7/1/16 - Subject to PEPR cap ¹				EEs NOT subject to PEPR cap ²			
Choice window - 90 days	Option 1		OR	Option 2			
	UCRP	+ DC Supplement		DC Choice		UCRP	DC Choice
Benefit type	Guaranteed lifetime monthly income			Individual account		Individual account	
Investments	Pooled, managed by UC OCIO			Participant-directed (Fidelity Fund Menu)		Participant-directed (Fidelity Fund Menu)	
Vesting	5 years UCRP Service Credit (SC)			ER : 5 years UCRP SC EE : immediate		ER : 100% after 1 year EE: immediate	
Employee Contributions	7% EE	7% EE		7% EE		7% EE	7% EE
Eligible Pay <small>2019 amounts, subject to cost of living indexing</small>	\$0-\$124K	\$124K-\$280K	\$0-\$280K	\$0-\$280K		\$0-\$280K	\$0-\$280K
Employer (UC) Contributions*	8% UC	3% UC for Staff	5% UC for Faculty ³	8% UC		8% UC	8% UC
<small>*UC Ctb to UCRP UAAL; LBNL Ctb to UAAL = 4.2%; Total UC Ctb Rate</small>	6% UC	6% UC	6% UC	6% UC		6% UC	6% UC
	14% UC			14% UC		14% UC	14% UC

¹ Subject to PEPR cap:

- Hired as Eligible Employee on/after 7/1/16;
- Former Safe Harbor EE hired on/after 7/1/16 who becomes an Eligible Employee on/after 7/1/16
- Former student EE hired before 7/1/16 who becomes an Eligible Employee on/after 7/1/16

³ Per Attachment 2 of Regents Item

² **Not** subject to PEPR cap:

- Rehired Eligible Employee with original UCRP entry date prior to 7/1/16;
- Former Safe Harbor hired before 7/1/16 who becomes Eligible Employee on/after 7/1/16;
- New hires on/after 7/1/16 who are eligible for CalPERS reciprocity (several criteria apply)



NAGDCA ANNUAL CONFERENCE
September 8-11, 2019 | New Orleans

36