Beyond the ARC:

Innovative Funding Strategies from the Public Sector

Florida Public Pension Trustees Association

CEU Program - Spring Trustee School

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Key Features and Accomplishments

Table 1: Key Features and Accomplishments of Various Reforms

Funding Policies & Reforms	Increase Stability/ Predictability of Costs	Delink Legacy Costs from Contribution Rate	Utilize Partial Paygo Funding	Helps Prevent Employer Exits	Prevents Cost-Shifting Among Employers	Participating Employers Have More Control Over Costs	Contribution Rate Better Reflects Value of Benefits	Improves Contribution Discipline
Liability Partition (INPRS TRF)	●	●	●				●	●
Liability Partition (KY KRS NH)	●	●		●	●	◐	●	●
Side Accounts	●			◐		●		◐
Pension Bonds	●	●		◐			●	
Contribution Collars and Withdrawal Liability (Maine PERS)	●			●	●	●	●	
Withdrawal Liability	●			●	●			●
Dedicated Revenues	●	●					●	◐

Oregon Employer Side Accounts

- The Oregon legislature authorized the use of side accounts in 2002 for the Public Employees Retirement System (PERS) system.
- In this version of side accounts, the excess contributions are typically used to reduce contributions by amortizing those funds over 20 years. However, legislation passed in 2018 (SB 1566) and 2019 (SB 1049) have added more flexibility, whereby the side account can now be used to reduce minimums for the next six, 10, 16 or 20 years.
- In 2018 the legislature established an Employer Incentive Fund (EIF) that "provides a 25 percent match (up to the greater of five percent of an employer's UAL or $300,000) on qualifying employer lump-sum payments made after June 2, 2018."
- Thus far, the state has made $64.7 million in matching contributions for PERS employers, and the EIF program has brought $541.7 million into PERS—bringing the total to $5.2 billion.

Side Accounts in California, New York and Pennsylvania

- CalPERS’ **California Employers' Pension Prefunding Trust**:
  - Employers can submit pre-payments to CalPERS, with those funds being deposited into a Section 115 trust that is administered by CalPERS.
  - Employers have flexibility regarding when to use these funds to reduce their pension contributions.
  - CalPERS will offer this service to all jurisdictions in California.
- **New York** jurisdictions participating in the Employees’ Retirement System (ERS) and the Teachers’ Retirement System (TRS) can establish reserve funds on their own to help stabilize their pension costs over time.
  - These funds are not managed by ERS or TRS, but by employers who establish and fund accounts themselves.
  - Employers can contribute up to two percent of an employees’ salary into the reserve fund in a given year. In addition, the total amount cannot exceed ten percent of payroll.
- **Pennsylvania SERS** allows prepayment of unfunded liabilities

Maine PERS Reforms

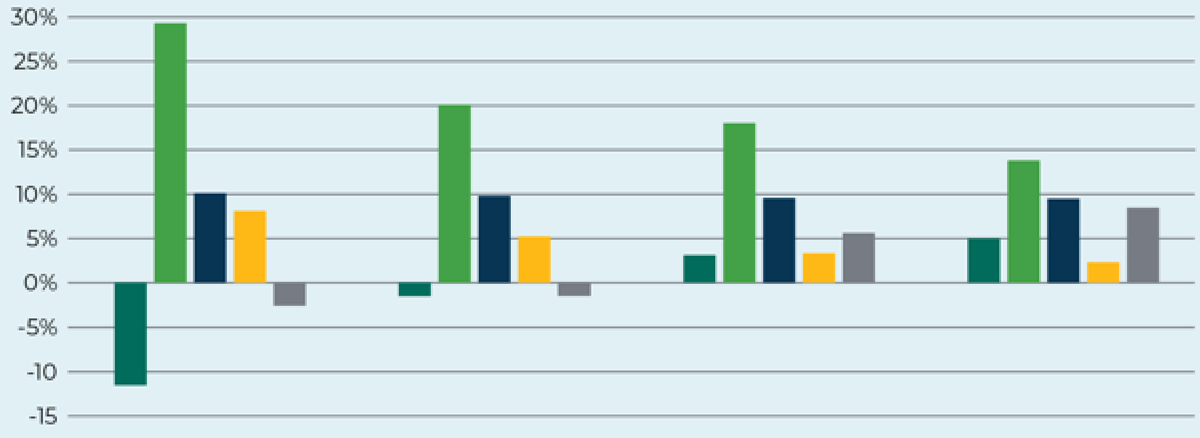
- In 2018, Maine passed reforms to the Participating Local District (PLD) plan within Maine PERS.
- While the plan was well-funded, it is an optional plan for most local governments and there was concern that employers could leave the plan if rates increased.
- A set of reforms adopted which included:
  - Standardized how employee and employer contribution rates would be set
  - Imposing minimum and maximum contribution rates for both employees (42% of NC, 9%) and employers (58% of NC, 12.5%)
  - Added a withdraw liability that protects the plan from financial harm if employers cease participation
  - Benefit changes included: establish a process for determining Cost of Living Adjustments (COLAs) & reduced early retirement subsidies and various other non-core benefits

Pension Obligation Bonds

- Pension Obligation Bonds (POBs) are an important part of the discussion around pension funding.
- **Repayment Terms**: longer periods of time correspond with less volatility (Figure 2 on the next slide)
- **Diversification of Timing**: this strategy can be used to reduce timing risk somewhat
  - Issue a series of smaller POBs over time (years, not months), instead of a large one-time issuance
  - Invest the proceeds into the equities markets over several years to buy in throughout the business cycle.
  - The first idea above was being considered after House Bill 1388 passed the Colorado House in 2015, but the effort eventually died in the Senate.

Equity Returns More Stable Over Longer Periods

Figure 2: Compound Annual Growth Rate Over Different Time Periods (1900-2019)



	5-year	10-year	20-year	30-year
Min	-11.5%	-1.5%	3.1%	5.0%
Max	29.3%	20.1%	18.0%	13.8%
Average	10.11%	9.78%	9.55%	9.47%
Standard Deviation	8.1%	5.2%	3.3%	2.3%
Min Since 1950	-2.58%	-1.47%	5.59%	8.46%

10-Year Returns More Volatile Than 30-Year Returns

Figure 3: Compound Annual Growth Rate, 10-Year Compared to 30-Year

Dedicated Revenues

- **Sports Betting and Gambling**:
  - Kentucky – legislation introduced in 2020
  - Oregon – SB 1049 dedicated sports betting revenue to PERS
  - Illinois – Chicago casino will fund police and fire pensions
  - Kansas – casino revenue
  - Oklahoma – state lottery proceeds
  - New Jersey – transfer of state lottery
- **Stabilization Funds**: Louisiana, North Carolina, Oklahoma
- **Coal Severance Tax**: Montana
- **Tobacco Settlement Securitization**: West Virginia’s Teacher Retirement System

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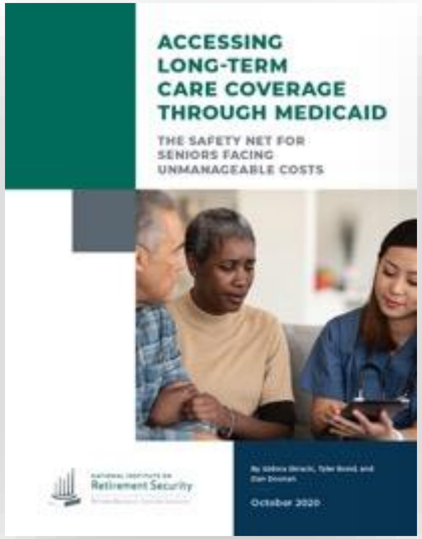

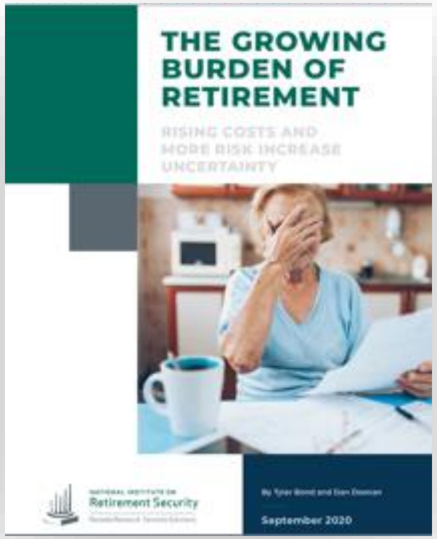

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