Retirement News Highlights

Friday, July 28, 2023

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‘It's not your grandma's retirement plan’: Switching from pensions to 401(k) plans

While most states are beginning to offer hybrid DB/DC plans, Alaska has chosen to move future hires into defined benefit retirement plans.

By Kristen Beckman
ALM Benefits Pro
July 28, 2023

What started with a simple math error has become a cautionary tale for public employers, some Alaska officials say.

The state is grappling with the after-effects of switching to a defined contribution plan from a defined benefit plan several years ago for its first responders, public service employees, health care workers and teachers, according to legislators advocating for pension reform in Alaska. The switch to a DC program happened after an actuary’s mathematical mistake resulted in a recommendation to the state legislature not to contribute to the state’s pension fund for two years. This was followed by a plummeting funding ratio for the pension plan and a desperate attempt to right the ship by transitioning to a defined contribution plan in 2006.

The impacts of that decision have been far-reaching, according to panelists on a recent webinar hosted by the National Institute on Retirement Security detailing Alaska’s experience moving public employees from pensions to DC plans. Dan Doonan, executive director of NIRS, hosted the webinar, which included Alaska State Senator Cathy Giessel and State Representative Chuck Kopp, a retired police officer.

While all states are struggling with a tight labor market, Alaska’s workforce challenges are compounded by a decade-long recession and a rapid exodus of working-age Alaskans to jobs in the lower 48 states. Nearly 1 in 5 Alaska state jobs are vacant despite significant efforts to fill them, including offering above-average salaries, hiring bonuses of $20,000 or more and generous relocation packages to lure potential employees to Alaska for jobs, the panelists said.

The lack of public employees has resulted in unplowed roads during recent record snowfall as plows sit idle without heavy equipment operators to run them, schools starting their academic year without teachers in every classroom, and low-income residents unable to access resources like food stamps because the state doesn't have enough employees to manage eligibility services.

Giessel said the switch to a DC system is part of the problem, making it both difficult to recruit potential employees to jobs in Alaska as well as incentivizing Alaska's existing employees to leave, taking substantial value with them.

"When the law first passed to pull us out of a defined benefit to defined contribution system, we were concerned about the long term impact, but we did not fully understand how significant it was going to be," said Kopp. Exit interviews with employees leaving jobs prior to retirement revealed mounting concerns about financial security over the long term and fiscal stability for employees and their families. This was especially significant because most of Alaska's public employees are not eligible for Social Security retirement benefits.

"We don't have the traditional three-legged retirement stool," said Kopp. "We have kind of a teetering stool we place our employees on."

That means many people who come to Alaska for high-incentive jobs are only staying between two and five years.

"They're getting certified, trained and developed to where they're an ideal candidate for another state who didn't make our mistake," said Kopp. "We went from a career focus to a job focus."

Giessel said recent audits indicate 90% of the state's DC plan investments – about $12 million a month – are leaving the plan by five years. Data the state has collected indicates employees who are leaving Alaska are going to Washington, Oregon, California, Arizona and Colorado – all of which have DB plans, she said.

"Washington loves getting our trained firefighters and police officers and teachers and we don't love sending them those experienced people," said Giessel. "We want to go back to a defined benefit where we can keep these great public employees in place."

Giessel is among a group of legislators working to return Alaska to a DB retirement system that provides fair and reasonable benefits to employees while sharing costs and risks among the state, employees and retirees.

She sponsored Senate Bill 88, which would have paid retirees based on their highest five consecutive years of salary. Benefits would not have been available for anyone who works less than five years in an effort to foster longevity. The system would likely have been more expensive for public employees than under the previous plan.

The bill would have allowed current state employees to switch to the new system from the current 401(k) system but all new employees would have been required to use the new system. The retirement age outlined in the plan was age 50 for police, firefighters and other public safety employees with 25 years of service, and age 60 or 30 years of service for teachers and other public employees.

"It's not your grandma's retirement plan," said Giessel. "But it's far better than what we have now."

The bill did not pass out of the finance committee before it adjourned last month, but supporters hope to renew efforts to pass the pension reform during the next session.

Kristen Beckman is a freelance writer based in Colorado. She previously was a writer and editor for ALM's Retirement Advisor magazine and LifeHealthPro online channel.

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CalSTRS posts 6.3% fiscal-year return as public equity storms back

By Arleen Jacobius
Pensions & Investments
July 27, 2023

CalSTRS earned a 6.3% net return for fiscal year 2023, which is expected to be equal to its benchmark, said Christopher Ailman, chief investment officer for the $315.6 billion pension plan, in an interview.

The California State Teachers' Retirement System, West Sacramento, earned an annualized net return of 10.1% for the three years, 8.2% for the five years, 8.7% for the 10 years, 8% for the 20 years and 7.8% for the 30 years ended June 30. Each of the longer-term periods exceeded CalSTRS' 7% assumed rate of return.

A year ago, the Federal Reserve started raising rates and most economists were predicting a recession, Mr. Ailman said.

"We thought fiscal year 2022-2023 would be a challenging year," he said.

It turned out that it was a bullish 12-month period, with stocks up 19%, Mr. Ailman said.

This year the differences in pension funds returns will be driven by their public stock allocation, he said.

"We should have been really aggressive, go figure," Mr. Ailman said.

But, when every quarter economists are predicting a recession two quarters out, it's hard to be aggressive, he said.

CalSTRS' actual asset mix as of June 30 was 40.3% public equity, 16.1% real estate, 15.5% private equity, 10.1% fixed income, 8.8% risk mitigating strategies, 6.1% inflation sensitive, 1.4% innovative strategies, 1.5% liquidity and 0.1% strategic overlay.

Separately, the board on Wednesday revised its asset allocation one step closer to the new long-term strategic allocation it adopted in May. The board increased private equity target to 14% from 13% and decreased public equity by 1 percentage point to 41%. In May, the board adopted a long-term target allocation that reduced public equity by 4 percentage points to 38% and increased fixed income by 2 percentage points to 14%. The long-term asset allocation also increased private equity and inflation-sensitive allocations by 1 percentage point each to 14% and 7%, respectively and kept the rest of the asset class targets the same: real estate at 15%, risk mitigating strategies at 10% and cash at 2%.

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Public pension-fund investment returns back in the black

By John Reitmeyer
NJ Spotlight News
July 27, 2023

New Jersey's public-worker pension fund saw its investment returns rebound during the fiscal year that ended last month, but just how much remains to be seen.

The latest preliminary figures for the nearly $90 billion pension fund indicate net investment returns were running slightly above 5% through the end of May, according to performance data reviewed Wednesday during a State Investment Council meeting.

Performance data for important private-market investments is still pending, but the preliminary figures show the pension fund was on course to easily surpass the annual returns recorded during the 2022 fiscal year.

That year saw returns sag into negative territory as financial markets were roiled by inflation, an overseas war and other factors.

While the final figures for the latest full fiscal year remain pending, June 2023 was a good month overall for public financial markets, suggesting there could be additional room for improvement when it comes to public-worker pension-fund returns.

However, whether the annual returns for the full 2023 fiscal year end up getting closer to the pension fund's 7% assumed rate of return remains to be seen.

"As soon as we can, we will be reporting the June 30th numbers," Shoaib Khan, director of the state Division of Investment, told members of the investment council during Wednesday's meeting.

Controversy over fossil fuels

Meanwhile, the state pension fund's investments in the fossil-fuel industry continued to draw criticism from climate-change activists who spoke during a public comment portion of the meeting. They suggested the fund's returns would be better if the state were to divest altogether from fossil fuels, which is something climate activists in New Jersey have been demanding for the past several years.

"I'm looking forward, at some point, to retiring, but I'm concerned that my pension is not growing at a rate to afford me, and my colleagues, a reliable income into our older years," said Pranita Bijlani, a longtime public-school teacher and member of the DivestNJ advocacy group.

The preliminary figures show the pension fund was on course to easily surpass the annual returns recorded during the 2022 fiscal year.

"I'm just very concerned that fossil fuels present too much risk, for too little return," Bijlani told members of the investment council.

New Jersey's public-worker pension fund covers the retirement benefits for an estimated 815,000 current and retired government workers. It operates separate from the state budget and is funded with regular contributions from both government workers and taxpayer-funded employers.

The Lottery angle

The state's annual pension contributions are also supported by dedicated revenues from the New Jersey Lottery, which topped $1.1 billion during the 2023 fiscal year, according to new figures discussed during Wednesday's meeting.

According to law, the state's pension contributions are made on a quarterly basis, while the dedicated revenue from the Lottery is paid monthly. State pension-fund assets are also managed on a day-to-day basis by the Division of Investment and outside fund managers hired by the state under the supervision of the investment council.

The latest preliminary performance figures indicate investment returns topped 8.6% over the past three years, and 6.2% over the past five.

The preliminary performance figures for those investments covering the first 11 months of the 2023 fiscal year indicate investment returns hit 5.3% through the end of May.

During the 2022 fiscal year, which ended on June 30, 2022, pension-fund investments generated net negative returns of 7.9%, according to the investment council's latest annual report. Total pension fund value also dropped below $85 billion as of the end of that fiscal year, according to the report.

Not set in stone

Khan discussed during Wednesday's meeting some of the recent bright spots as the outlook for investment returns has rebounded, including the tech sector. But he also stressed that some private-market asset classes report returns with as much as a quarter lag, so the final numbers for the overall pension fund are expected to change, although by how much is not yet clear.

"I want to emphasize that this is preliminary performance data," he told investment council members.

And while investment-return figures for a single fiscal year are important to track, the pension fund's long-range performance provides a more comprehensive view. To that end, the latest preliminary performance figures indicate investment returns topped 8.6% over the past three years, and 6.2% over the past five.

Looking back even further, investment returns were running 7% over the past 10 years, and 7.24% over the past 20, according to the latest preliminary performance data.

The fiscal 2024 spending plan is the third consecutive state budget to include a full actuarial pension contribution.

The potential for a return to net-positive returns during fiscal 2023 comes as the state in recent years has resumed making full employer pension contributions as calculated by actuaries, after years of shorting those annual payments or, in some years, making no payment at all.

Gov. Phil Murphy and lawmakers earmarked $7.1 billion in pension contributions, counting the Lottery revenues, in an overall $54.3 billion budget enacted late last month for the 2024 fiscal year, which started July 1.

The fiscal 2024 spending plan is the third consecutive state budget to include a full actuarial pension contribution.

But to undo all of the damage caused by prior underfunding, state pension contributions need to remain at or near the current level through the 2040s, according to the latest long-range projections.

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