



Retirement News Highlights

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Keith Brainard: Hybrid pension plans had little impact on funding conditions

By Commentary

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This commentary is by Keith Brainard, research director for the National Association of State Retirement Administrators.

David Flemming's commentary (["Stopping the bleeding with pension reform,"](#) Jan. 3) erroneously credits the creation of hybrid retirement plans for improving the funding condition of pension plans in other states.

Although hybrid plans may be conducive to accomplishing important policy objectives, in the states Mr. Flemming cites, the factors that improved pension funding conditions were unrelated to the creation of a hybrid plan.

For example, Mr. Flemming is correct that Virginia created a new hybrid retirement plan for newly hired public employees starting in 2013. But the improvement in the pension plan's funding condition was a result of a decision by the Virginia General Assembly to begin contributing the full amount recommended by the retirement plan's actuary, which the state had failed to do for many years, along with higher employee contributions and a reduction in the plan's cost-of-living adjustment.

Mr. Flemming also correctly observes that Tennessee's pension plan is well funded, but this has been the case for many years and has little to do with the state's creation of a new hybrid plan in 2013. Tennessee's new hybrid plan lowered the state's overall risk, but the switch to a hybrid plan was not related to the plan's strong funding condition.

Oklahoma has worked aggressively in recent years to eliminate its unfunded pension liabilities, by making contributions well in excess of the amount recommended by its actuarial consultants. The state's decision to switch newly hired state employees since 2015 to a defined contribution plan was not a meaningful factor contributing to the state's improved funding level. In fact, switching from a defined benefit to a defined contribution plan does not, by itself, do anything to reduce unfunded pension liabilities.

West Virginia has experienced dramatic improvements in the pension funding level while retaining its traditional pension plan for teachers, without switching to a hybrid plan. That state has accomplished this by aggressively paying off its unfunded pension liabilities combined with fairly modest benefit reductions and higher employee contributions.

Many states have established new hybrid retirement plans in recent years, and such a plan design may be helpful for Vermont. But neither a hybrid plan nor a defined contribution plan is a panacea and will not, by itself, lead to an improved funding level in the Green Mountain State.

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