



RESOLUTION 2016-01 - Guiding Principles for Public Retirement System Plan Design and Sustainability

WHEREAS:

- State and local government retirement systems must balance multiple stakeholder objectives:
 - For employees, competitive compensation that includes income security in retirement
 - For employers, a management tool to maximize the training and experience invested in their employees and an orderly progression of personnel
 - For taxpayers, public services performed in the most effective and cost-efficient manner
- The resilience of public retirement systems is sustained through long-term investment and financing strategies; statutory, contractual, and in some cases constitutional benefit protections; as well as the ability to adjust plan designs, financing structures, and governing statutes to accommodate changing workforce needs and fiscal realities; and
- Needed periodic modifications, which have a history in state and local government retirement plans, require an open public legislative and regulatory process involving all stakeholders - governments, their plans, their employees (who typically share in the financing of their pension), and other taxpayers; and
- This open public process requires honest, unbiased and relevant information on public financing and long-term retirement policy objectives that should not be unduly influenced by projections that include unrelated healthcare liabilities or irrelevant corporate sector metrics, or that exclude relevant data regarding the inefficiencies and steep transition costs of closing, rather than adjusting existing plans; and
- Differing plan designs, financial conditions, and legal frameworks across the country do not lend themselves to one-size-fits all solutions, but rather, require a range of tailored approaches, agreed to by the relevant stakeholders, in order to best secure the viability of each sponsor and its state and local retirement system for the very long-term; and
- Despite this variability, most state and local governments have retained the core elements of public pension plan design proven to best balance retirement security, workforce management, and economic efficiencies, namely:
 - **Mandatory participation.** Nearly all state and local governments require participation in the retirement program as a condition of employment.
 - **Cost sharing between employers and employees.** Public employees typically are required to contribute a portion of their wages to their state or local pension.
 - **Pooled and professionally managed assets.** Public pension trusts can earn higher returns with lower fees through pooled investments that are professionally managed, have greater portfolio diversity and large economies of scale.

- **Targeted income replacement.** Most public pension policies aim to replace a certain percentage of pre-retirement wages at a specified age and/or years of public service, to promote orderly progression of personnel and retirement security.
 - **Lifetime benefit payouts.** The vast majority of state and local governments do not allow for lump sum distribution of benefits; rather, they require retirees to take most or all of their pensions in installments over their retired lifetimes. Many also make periodic cost-of-living adjustments to curb the effects of inflation.
 - **Survivor and disability benefits.** Many state and local pensions integrate survivor and disability protections into their retirement programs, a particularly critical feature for positions involved in hazardous duty, or a public safety plan.
 - **Supplemental savings.** Governments often sponsor a supplemental savings plan in addition to the general retirement plan to allow participants to defer an additional portion of their salary in anticipation of retirement needs, and some governments provide matching contributions and automatic enrollment/escalation features to encourage participation.
- These core components of public pension plan design are indispensable to sound retirement policy and not only should be retained in current and future benefit designs in the public sector, but also should be cultivated in the design of retirement plans for employees outside the public sector; and
 - Federal policy should be supportive of these central features of public pension design and the flexibility of state and local governments to meet local needs and concerns, and should also encourage the development of similar design characteristics in retirement plans beyond the public sector;

NOW, THEREFORE, BE IT RESOLVED that the National Association of State Retirement Administrators supports the following guiding principles to retirement security and public plan sustainability:

- Participation of all relevant stakeholders, including government employers, their plans, their employees, plan beneficiaries and retirees, and other taxpayers in discussions and processes pertaining to the design and financing arrangements of public retirement plans
- Policy-driven decision making that recognizes the retirement security and workforce management purposes of public employee retirement systems, and which is based on objective and pertinent information that fairly reflects the long-term time horizon and economic effects of public plan financing, benefit adequacy, and benefit distributions
- Tailored solutions, achieved by affected stakeholders working through the state and local legislative and regulatory processes
- Retention of core, indispensable elements of public plan design, namely, mandatory participation, shared financing, targeted income replacement, pooled investment and longevity risks, and lifetime benefit payouts
- Removal of federal policy barriers to the preservation of these central retirement plan design features in the public sector and adoption of federal policies that encourage their inclusion in the private sector.

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