AN EVIDENCE-BASED APPROACH TO PENSION FUNDING REFORM

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THE PROBLEM

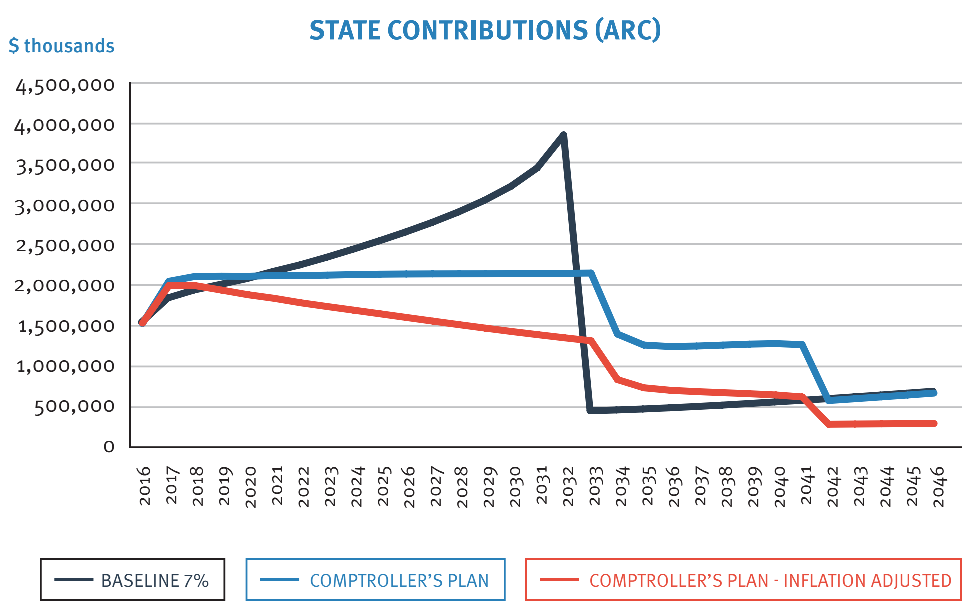
The state's annual pension costs – the Annual Actuarial Required Contributions (ARC) – are rising rapidly, consuming a larger and larger share of the state budget. Under the current funding formula, ARC payments for the State Employees' Retirement System (SERS) will more than double by the late 2020's, straining the state's ability to both meet its pension payment obligations and fund other budget priorities. By reforming our pension funding formula now we can limit the rise in ARC payments and make them more stable and predictable over time while responsibly paying off our unfunded liabilities within a reasonable time frame.

The Comptroller's plan will improve cost stability and predictability, ensure adequate payments to the plan and retain all members in the prefunded SERS plan, while responsibly paying down the state's unfunded liability.

The plan calls for:

- Retaining all participants in a single prefunded State Employees' Retirement System.
- Lowering the assumed rate of return from 8% to 7% to reflect current market conditions.
- Changing the amortization method from level percent of payroll (annual payments grow as payroll increases) to level dollar (flat equal payments throughout the amortization period, similar to a fixed-rate mortgage).
- Extending the amortization period for the experience losses incurred since January 1, 1984 over a 25-year period, while retaining the current amortization period for the unfunded liability accrued before that date.
- Instituting a layered amortization approach for future actuarial losses – this provision smooths the impact of future actuarial gains and losses by amortizing them over a 15 or 20-year period. Doing so limits the impact of actuarial gains and losses on the ARC payment, creating greater cost stability and predictability overtime.

THE RESULT



UNDER THE COMPTROLLER'S PLAN

- Increased ARC payments in the near term will increase investment returns in the State Employees' Retirement Fund, reducing the total costs of paying off our current unfunded liabilities after adjusting for inflation.
- The balloon payments of the late 2020s are eliminated, replaced by a predictable and stable payment schedule that is flat over time.
- Over $1 Billion saved in real dollars over the course of the amortization period.