Pension Fund Sustainability

Drilling Down on Data

September 17, 2020

To begin the September sustainability session, Board Chair Hugh Garside reiterated the Board's objectives for the sustainability analysis: The sustainability discussions are intended to be an exercise that will help Board members learn more about SERS' benefit structure; understand the risks to the sustainability of that structure and ways those risks might be mitigated; and identify any operational deficiencies that may need to be addressed.

Mr. Garside reaffirmed that there is no urgent need to make any changes now, however, the Board has the fiduciary responsibility to keep the System financially sustainable for current members and retirees, as well as future members who have not been hired to their SERS-covered positions yet. To fulfill this fiduciary duty, the Board is examining all aspects of the System's operations to get a clear understanding of the purpose of SERS, where the System is now, how it got here, whether or not the benefit structure is appropriate for the current needs of membership and SERS, and to identify any trends that could warrant changes in the future.

The session began with a brief discussion of the final average salary (FAS) calculation, which currently determines pension benefits using a FAS of the highest three years of salary during a member's working career. The September data package included statistics about the effect of a three-consecutive-year FAS on benefits and a five-year FAS that most other pension systems use. The consensus among the Board members was that because SERS salaries are generally low, the current three-year FAS still seems appropriate.

Next, discussions reviewed the practice of determining what constitutes a year of service.

Currently, a member earns one year of SERS service credit if they work 120 days or more from July 1 through June 30. A school year is determined to be 180 days long. There are some concerns that the 120-day threshold is too low as the majority of SERS members work close to 180 days a year already and 120 days is closer to part-time work than full-time work. Staff has been asked to provide more information on this topic for future meetings.

This led into a discussion between Board members, staff, and SERS' actuary about people living longer in retirement than they paid into the System. According to Todd Green, president and consulting actuary with Cavanaugh Macdonald, having more people living in retirement for longer than they paid into the System has not created an unfunded liability.

He explained that how long a person lives is already factored into SERS' funding calculations. Actuarial results from the last 10 years showed that members are not living as long as projected, leaving SERS with an actuarial gain over those years.

The next topic addressed during the session was end-of-career salary spiking. In the data packet, SERS staff presented several ways to deter spiking that are used by other pension systems.

Staff will prepare more information on this topic for October, which will include examples of how each method would affect different types of SERS members based on salary and service.

The Board also reviewed plan design data that could be used to reward members for longer service, disability statistics and how they compare to service retirees, and alternate ways of determining a cost-of-living adjustment that is tied to investment performance.

Staff will continue to supply data that will aid in future discussions of these topics.