Pension Fund Sustainability

A History of Benefit Changes

March 19, 2021

The March sustainability Board meeting began with an overview of the data collected by staff as requested by Board members in February.

A complete history of SERS' benefit changes was presented in a timeline format to show how the System has evolved since its inception in 1937. It included data on age and service pension eligibility, formula factor, final average salary (FAS), year of service calculations, employee and employer contribution rates, and cost-of-living adjustment changes.

A review of this information led to a discussion on alternative ways to administer the formula factor on years of service and ways to incentivize longer career length. Some other U.S. pension funds use a laddered design where the percentage of salary replacement increases as years of service increase. The application of a laddered design can be implemented in different ways. Some systems calculate service years 1-10, 11-20, 21-25, 26-30, 31-34, and 35+ at specific percentage rates, while others allow previous service to be calculated at the higher rate once a new level is reached. Board members discussed this as an option for a new tier of benefits for future new employees and generally agreed that it would be difficult to implement on existing members. The Board asked for data on how this would affect members and the system if implemented.

There was general consensus that demographic data collected since 1961 indicates that SERS' existing incentives of enhanced benefit formula for service over 30 years, the minimum retirement ages for collecting a pension, and enhanced subsidies for health care as service increases have worked.

Next, the discussion moved to the related topics of a definition of a year of service, pension benefit inflation, and living longer in retirement than a working career. The following items will be discussed further:

1. The effect of increasing the minimum for a year of service from 120 days to 180 days on members and SERS
2. Developing a SERS-specific anti-benefit inflation policy that keeps the three-year FAS
3. Defining the purpose of a SERS pension: is it a lifetime benefit that solely funds a member's retirement or is it a supplemental, end-of-life benefit?
4. What should be the entry point for someone to begin collecting a pension?
5. Negative cash flow projections and how that will impact SERS

The Board agreed to discuss the following topics at future sustainability meetings and come to consensus on decisions:

1. Formula factors and laddered plan design (value of a year of service)
2. Evaluate current day-of-service and year-of-service thresholds
3. Evaluate anti-benefit inflation methods
4. The definition of a "career employee"
5. The effect on SERS of retirees living longer in retirement than they contributed during their working career and ways to limit this

The Board agreed to focus on each of these topics, one at a time, at future sustainability meetings until consensus is reached for each decision.

In April, Board discussion will focus on years-of service and whether or not the current definition of 120 days is appropriate. Staff has been asked to refine the data provided on page 3 of the April materials to determine how many people with less than 120 days of service were new hires during the year. Staff will also provide data on the impact to individuals and SERS if the current 120-day standard is raised to 180 days. Any changes to this definition would require the approval of the state legislature.