



# Pension Fund Sustainability

Assuring Fairness

June 18, 2021

Following discussions of benefit inflation controls at its May meeting, the Board directed SERS staff to draft a legislative proposal for a Contribution Based Benefit Calculation (CBBC) model.

The June 2021 sustainability session began with an overview of the legislative proposal.

The Board and staff discussed key provisions of the proposed legislation, including:

- The formula for calculating the benefit cap
- Whether conversion retirees (recipients of a new disability benefit who convert to service retirement) will be affected
- Whether members who received a SERS disability benefit under the old plan and later applied for age and service retirement will be affected
- What will be included in the member's total contributions (i.e., purchased, restored, or transferred service)
- A possible phased implementation, such as a delayed effective date or percentage cap on how much a benefit can be reduced for the first few years

Substantial discussion centered on assuring fairness in a CBBC model, particularly finding the right balance between alignment of the benefit paid and the contributions made to support that benefit. The Board also discussed how to assure fairness in the implementation of a CBBC model.

The Board also reviewed information regarding a possible reduction in the formula factors for future members. Cavanaugh Macdonald, SERS' actuary, indicated that noticeable funding impacts would be a decrease in liabilities and amortization period, and an increase in the funding level. However, these impacts would not be realized until a sufficient number of new members enter the System. The possible formula factor changes reviewed include reductions from the current 2.2% to 2.1%, 2.0%, or 1.9% with a variety of "ladders" based on service time that rewards members who stay in SERS covered positions longer.

Following extensive discussions on both topics, the Board members in attendance indicated their preference to not take action on the CBBC proposal until the full Board is present. In addition, the Board requested more actuarial data on how the CBBC model and formula factor changes would financially impact the System. The Board also requested that engagement with SERS' stakeholders continue on these topics.