



Pension Fund Sustainability

Striking the Right Balance

September 17, 2021

SERS staff presented an analysis of the effect the Contribution Based Benefit Cap model would have had on SERS members who retired between May 2020 and June 2021.

The CBBC model is designed to ensure that all members' pension benefits are aligned with their career contribution history. The CBBC benefit calculation uses three components to determine the CBBC benefit:

- Accumulated contributions (the amount members paid into the system plus interest);
- Annuity factor (age-based number that converts the accumulated contributions to an annuity payable over the retiree's expected remaining life); and
- CBBC factor (a figure that reflects the size of the gap between the Formula Benefit and the annuity payable based on the accumulated contributions).

The higher a member's CBBC factor, the less likely the member's contributions and the System's investment returns will adequately fund their benefit. In such a case, under a CBBC-based analysis, the member's retirement benefit would be reduced to bring it into alignment with the contribution history.

Figures obtained from SERS' actuary, Cavanaugh Macdonald, reflect that most SERS retirees with benefit effective dates between May 2020 and June 2021 had contribution histories that would have resulted in a CBBC factor of 2. As noted above, a low CBBC factor indicates that the pension benefit and the contribution history are properly aligned and no adjustment would be warranted. The results are shown below.

CBBC factor	All Age and Service Including Conversion Disability Retirements 5/2020- 6/2021	Age and Service Excluding Conversion Disability Retirements 5/2020- 6/2021
<2	330	
≥2 but <3	1,380	
≥3 but < 4	1,179	
≥ 4 but <4.50	309	
≥ 4.50 but < 5	141	123
≥ 5 but < 5.50	66	55
≥ 5.50 but <6	28	17
≥ 6.0	47	11

Board discussion noted that a CBBC factor that is too low may impact too many members while a CBBC factor that is too high may unfairly reward members whose contributions have not adequately funded their benefit. The Board invited and considered comments from stakeholders in attendance regarding the appropriate CBBC factor that strikes the right balance between those considerations.

The Board gave SERS staff authorization to move forward with drafting legislative language for a statute authorizing the Board to establish a CBBC-based review model. The CBBC factor to be used in that model would be determined by the Board at a later date.