

Pension Contribution Change Options
Updated 1/18/2005

Current Practice

Funding requirements for state pension systems currently are based on the aggregate cost method (one of a variety of accepted actuarial methods.) Left unadjusted, this drives \$413 million in new General Fund State (GF-S) costs in 2005-07 in the Public Employees' Retirement System (PERS), the Teachers' Retirement System (SERS) and the School Employees' Retirement System (SERS). In addition, pre-funding gain sharing benefits would cost \$176 million GF-S in 2005-07.

Cost Estimates - General Fund State - Dollars in Millions
(PERS, TRS and SERS only)

	2003-05	2005-07	Increase
Current	\$119	\$532	\$413
Potential	\$119	\$170	\$51

Change Options

- **Technical Change** – Original cost estimates were based on actuarial estimates applicable to all plan employers. Using these rates, but applying them to state employee data, reduces the projected cost.
\$73 million GFS savings

Several changes to the funding plan for the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) and the School Employees' Retirement System (SERS) are possible to make the pension cost increase more affordable.

- **Use Projected Unit Credit Method** – The actuarial method could be changed from the aggregate to the projected unit credit method, another actuarially accepted method that is used by other state and local governments and in the private sector.
\$102 million GF-S savings
- **Phase in Rate Increase over Four Years** – As in a Select Committee on Pension Policy proposal, rate increases could be phased in annually rather than biennially. In this option, all the cost reduction from the phase in would be paid for within the four years.
\$34 million GF-S savings
- **Defer Contributions to Plan 1 Unfunded Liabilities** – The approach taken by the House Appropriations Committee in the 2003-05 biennial budget could be continued, and contributions to the unfunded liabilities of PERS and TRS Plan 1 deferred.
\$153 million GF-S saving
- **Gain Sharing** – The gain sharing benefit for PERS and TRS Plan 1 and 3 members could be continued. It could change it, however, from an automatic program to one that requires legislative approval when a gain-sharing event is triggered. The current funding policy of paying for the gain sharing benefit at the time the benefit is paid could be retained.
\$176 million GF-S savings (OSA estimate; preliminary OFM estimate, \$146 million GF-S)

Pension Contribution Options
PERS, TRS and SERS only
Cost Increase Over 2005-07 CFL (without gain sharing)
GF-S Only, Dollars in Millions

Aggregate Method (current method)

Biennium	State	K-12	Total
2005-07	\$114.9	\$225.1	\$340.0
2007-09	\$156.7	\$456.6	\$613.3

Projected Unit Credit Method

Biennium	State	K-12	Total
<i>Change to PUC method</i>			
2005-07	\$85.2	\$153.1	\$238.3
2007-09	\$132.8	\$391.6	\$524.4
<i>Change to PUC + phase in rates</i>			
2005-07	\$63.7	\$140.3	\$204.0
2007-09	\$155.8	\$399.8	\$555.6
<i>Change to PUC + phase in rates + defer contribution to unfunded liabilities</i>			
2005-07	\$24.7	\$26.6	\$51.3
2007-09	\$148.3	\$388.8	\$537.1

Phasing in rate increases with the current actuarial method would save local governments \$113.9 million in 2005-07 (made up in later years.) Switching to PUC, phasing in increases and delaying contributions to unfunded liabilities save local governments \$295 million in 2005-07. (OSA estimate)

Fiscal Year	Rates		
	PERS	TRS	SERS
2006	5.08%	4.73%	5.21%
2007	5.08%	4.73%	5.21%
2008	6.53%	7.90%	6.95%
2009	6.53%	7.90%	6.95%
2010	7.69%	10.48%	8.19%
2011	7.69%	10.48%	8.19%

Fiscal Year	Rates		
	PERS	TRS	SERS
<i>Change to PUC method</i>			
2006	4.12%	3.48%	4.40%
2007	4.12%	3.48%	4.40%
2008	5.72%	7.02%	6.12%
2009	5.72%	7.02%	6.12%
2010	7.00%	9.87%	7.39%
2011	7.00%	9.87%	7.39%
<i>Change to PUC + phase in rates</i>			
2006	2.50%	2.76%	2.75%
2007	4.25%	4.25%	4.50%
2008	6.00%	6.00%	6.25%
2009	7.02%	8.04%	7.64%
2010	7.00%	9.87%	7.39%
2011	7.00%	9.87%	7.39%
<i>Change to PUC + phase in rates + defer contribution to unfunded liabilities</i>			
2006	1.75%	1.30%	2.00%
2007	2.50%	1.58%	2.75%
2008	5.23%	5.54%	5.18%
2009	7.26%	9.10%	7.88%
2010	7.23%	10.16%	7.62%
2011	7.23%	10.16%	7.62%