



# PENSION SUSTAINABILITY

March 2021

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# FORMULA FACTOR

- **Different Benefit Levels Tied to Years of Service (Better Benefit for Career Employee)**
  - **Some systems start with a lower benefit formula and increase it as the employee reaches certain years of service thresholds.**

Year(s) Earned	Formula Factor
Years 1-10	1.6%
Years 11-19	1.8%
Years 21-25	2.0%
Years 26-30	2.25%
Years 31-34	2.5%
Year 35+	2.5%

- **How does the cost for such a plan compare to the cost of a single formula plan?**
  - If the net effect is to reduce the average benefit expected to be provided, savings would be in relation to the decrease in the expected benefit. This could represent a 10% reduction to the average active member (hired at nearly age 40). Consideration should be given of the member contribution requirement if active member benefits reductions are also considered otherwise effected members would be contributing toward the amortization of the unfunded liability derived from liabilities or losses established prior to their service.

- **Ways to incentivize desired career length (career employee)**

- **Benefit formula was enhanced for Years of Service past 30 years.**
- **Raise minimum age for retirement (August 1, 2017: 67/10 and 57/30)**
  - FY2018 ave. new retiree: 63.9 years of age with 21.2 YOS
  - FY2019 ave. new retiree: 65.1 years of age with 25.8 YOS
  - FY2020 ave. new retiree: 65.0 years of age with 24.8 YOS

- **Health care subsidy.**

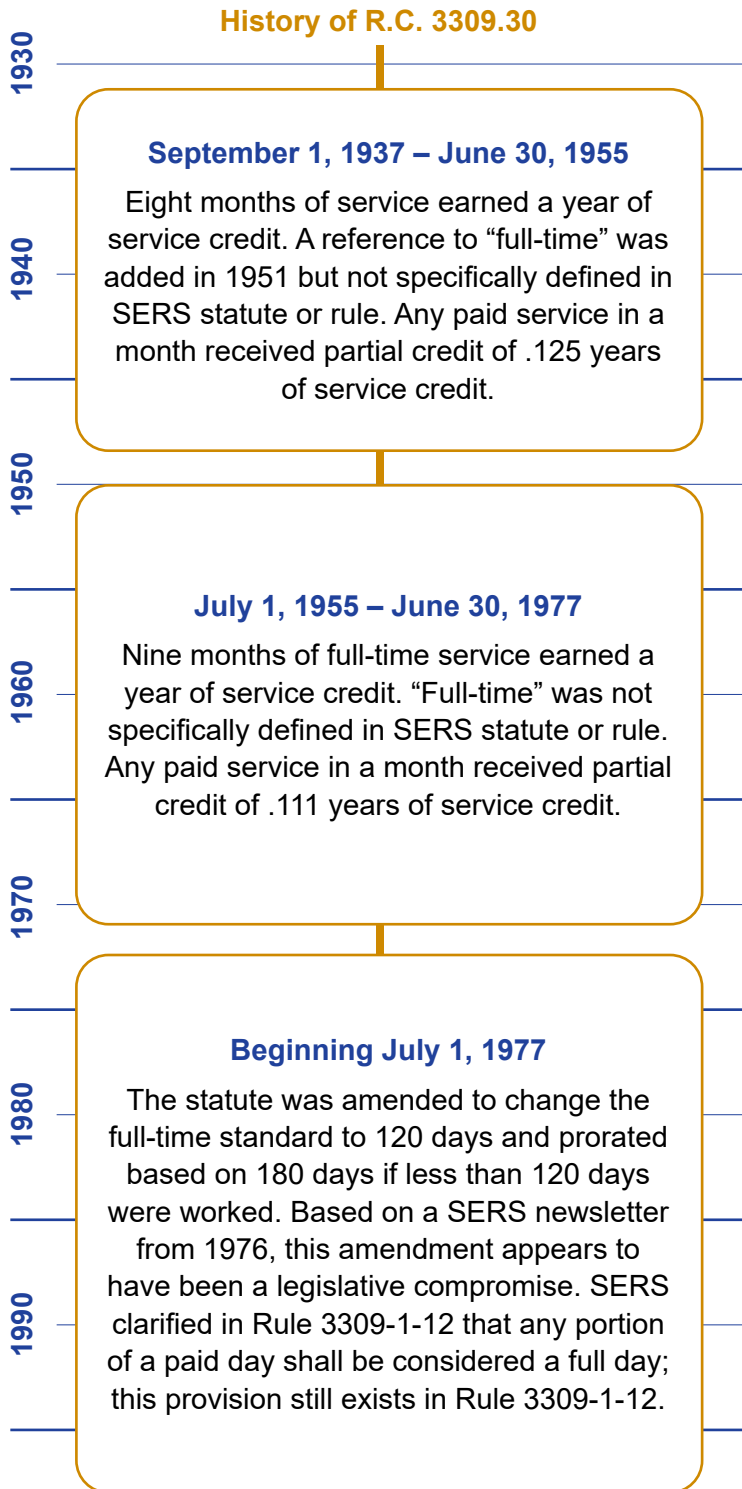
- **Review: Subsidized Member Premiums:**

Service Years	Retirement on or after August 1, 2008	Disability Recipients
5-9.999	Not eligible	50%
10-14.999	100%	33%
15-19.999	100%	33%
20-24.999	50%	33%
25-29.999	30%	17.5%
30-34.999	20%	17.5%

# HISTORY OF THE DAY/YEAR DEFINITION

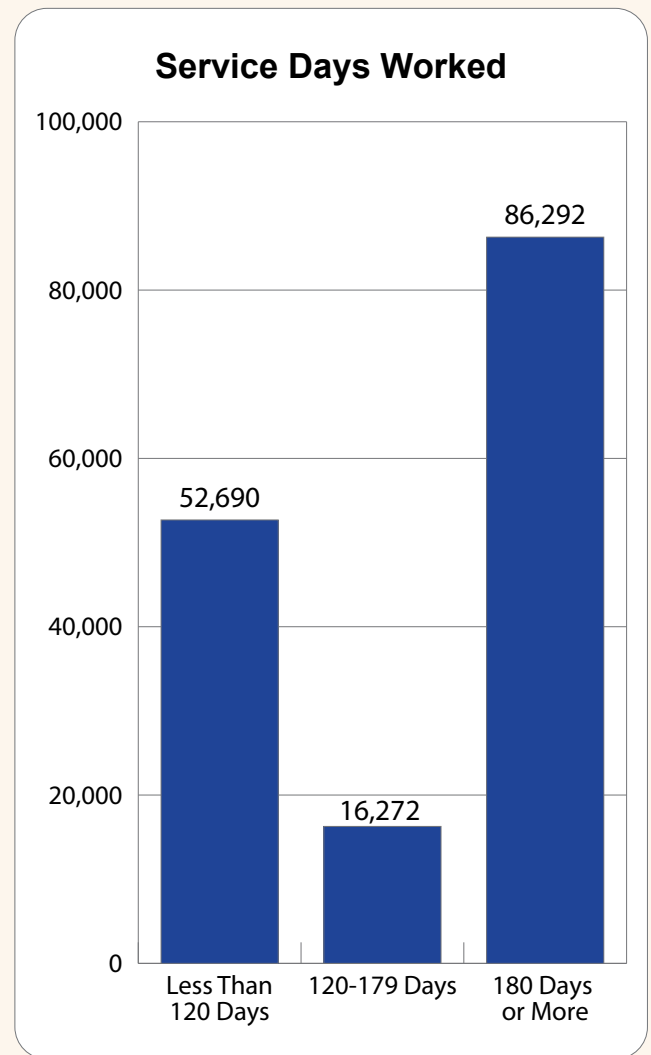
## History of 120-Day Service Year

**How was the 120-Day Service Year established?**



**What is the impact of changing to a 180-Day Service Year?**

As of November 2019, SERS has 155,254 active members. Of this group, 16,272 members (10.4%) had between 120 days and 179 days of service for the year. Using the 180-day proration, the average service credit for this group would be .867 rather than a full year. The least amount of service credit change is -.006 for members who worked 179 days, and the greatest amount of service credit change is -.333 for members who worked 120 days.



## History of “Full-Time” Service

### How was the definition of a day of “Full-Time Service” established?

1974

- In 1974, SERS asked the Attorney General’s office whether the Board could apportion service credit based on hours worked. At that time, service credit was granted for any paid service in a month; 9 months of full-time service earned a year of service credit. “Full-time service” was not specifically defined in SERS statute or rule.

1975

- The Attorney General’s office advised that creating a minimum number of hours for full-time employment would conflict with Attorney General Opinion 1950 O.A.G. 1605, which provided that: employees of a board of education work full-time if they work all of the hours available for the particular occupation, and are employed on an annual basis or are otherwise continuously employed.

1976

1977

In 1977, R.C. 3309.30 was amended to implement the 120-day standard of full-time employment for receiving one year of service credit. At that time, SERS clarified in Rule 3309-1-12 that any portion of a paid day shall be considered a full day; this provision still exists in Rule 3309-1-12.

1978

### What is the impact of changing the definition of a day of “Full-Time Service” to 8 Hours?

Currently, employers report “days” worked through payroll reporting, not “hours” worked. This would require a reporting change for employers. Also, employers and SERS could encounter problems with members who work in multiple districts concurrently, and reporting for coaches and other members with supplemental positions would be challenging.

- **A late career switch from Part-Time to Full-Time can impact FAS. Can that be mitigated to prevent pension spiking?**
  - Pension spiking provisions may partially mitigate late career transitions by limiting the rate of increase in salary during the averaging period.

# PENSION SPIKING CONTROLS

## ▪ Pension spiking controls

### ▪ SERS Pension calculation

- Single-life benefit formula = Service Credit x 2.2% x FAS
  - Multiplier increases to 2.5% for every year beyond 30 years
- Based on fundamental assumption that contributions plus investment earnings should fund an individual's pension benefit

### ▪ Spiking is an increase in pension benefits by substantially increasing the FAS beyond what is expected from normal salary increases. Results in a pension that is underfunded; the pension is then subsidized by all other members.

- Common Anti-spiking tools:
  - Increase number of years used to calculate FAS
  - Limit types of remuneration included in pensionable compensation
  - Limit percent of pensionable compensation growth in FAS years

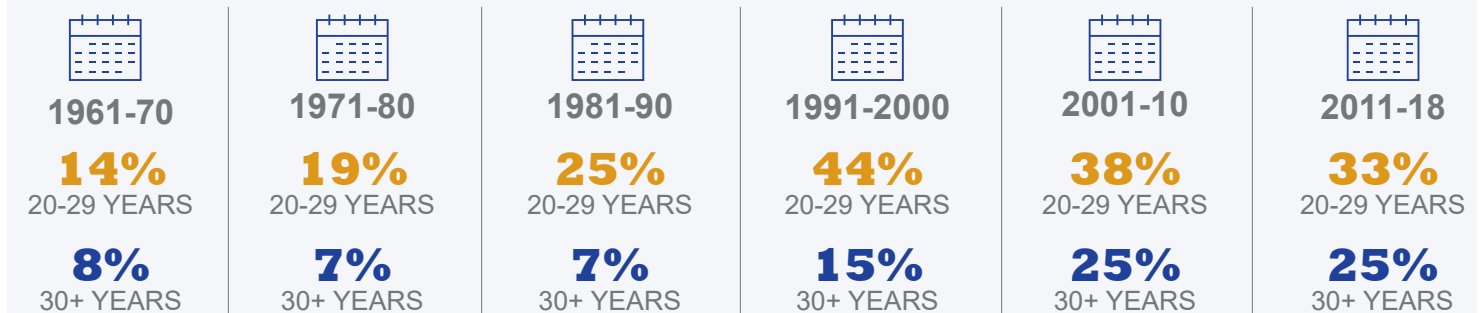
## ▪ Comparison of Anti-Spiking Tools

System	FAS	CAP	Mitigation
<b>Ohio</b> <b>State Teachers Retirement System (STRS)</b>	5 highest years	Excludes amount of contributions that cause the percent increases in the highest two years to be greater than the highest percent increase during any of the three years immediately preceding the earlier of the two highest years.	Contributions are not excluded if the percent increase was paid to all of the district's other teaching employees. Excluded contributions are used to calculate a monthly annuity in addition to the pension. The member may request a hearing regarding the excluded amounts.
<b>Ohio</b> <b>Public Employees Retirement System (OPERS)</b>	3 or 5 highest years	Contribution Based Benefit Cap (CBBC): Pension is capped at the CBBC amount. Designed to impact only members whose formula benefit is out of proportion with their career contributions.  CBBC = single-life annuity based on member's accumulated contributions and age, multiplied by a CBBC factor  CBBC factor is set by the Board (in consultation with actuary). OPERS currently uses a CBBC factor of 6.	Pension cannot be reduced more than 5% for retirees in Group A.
<b>Louisiana</b> <b>School Employees Retirement System (LSERS)</b>	60 highest successive months (or joined months when interruption of service occurred)	For members on or after 7/1/10, 12 month increase caps of 15% beginning with months 13-24.	The caps do not apply when compensation increased by more than 15% solely because of an increase in compensation by legislative act or city/parish system-wide salary increase.
<b>Missouri</b> <b>Public Education Employee Retirement System (PEERS)</b>	3 highest consecutive years	Annual increase caps of 20% during the FAS period.	Exception for increases that are due to a genuine change in position or employer

# CAREER EMPLOYEE

- The percentage of SERS' retirees with 20+ years of service and 30+ years of service.

## AVERAGE OF NEW SERS RETIREES WITH 20 YEARS AND 30 YEARS OF SERVICE



- The percentage of retirees at OPERS and STRS with 20+ and 30+ years of service.

STRS	5-9	10-14	15-19	20-24	25-29	30+	Average/ Total
Average Monthly benefit	\$584	\$1,088	\$1,778	\$2,480	\$3,300	\$4,764	\$3,637
FAS	\$45,300	\$57,695	\$66,023	\$72,714	\$80,278	\$86,760	\$79,278
Number of recipients	75	127	279	380	447	1,475	2,783
	2.69%	4.56%	10.03%	13.65%	16.06%	53.00%	

OPERS	0-4	5-9	10-14	15-19	20-24	25-29	30+	Average/ Total
Average Monthly benefit	\$678	\$629	\$996	\$1,437	\$1,949	\$2,679	\$3,826	\$2,406
FAS	\$21,882	\$38,395	\$46,178	\$50,300	\$55,634	\$61,597	\$69,902	\$57,847
Number of recipients	74	751	974	945	1,271	1,267	2,806	8,088
	0.91%	9.29%	12.04%	11.68%	15.71%	15.67%	34.69%	

SERS	5-9	10-14	15-19	20-24	25-29	30+	Average/ Total
Average monthly benefit	\$414	\$478	\$747	\$1,040	\$1,519	\$2,551	\$1,125
FAS	\$40,212	\$26,880	\$28,824	\$30,528	\$35,580	\$45,240	\$34,544
Number of recipients	2	279	265	216	444	863	2,069
	0.10%	13.48%	12.81%	10.44%	21.46%	41.71%	

- Are we already serving career employees?

- Age and Service Retirees

- New Age and Service Retirees During FY2020 Valuation Year

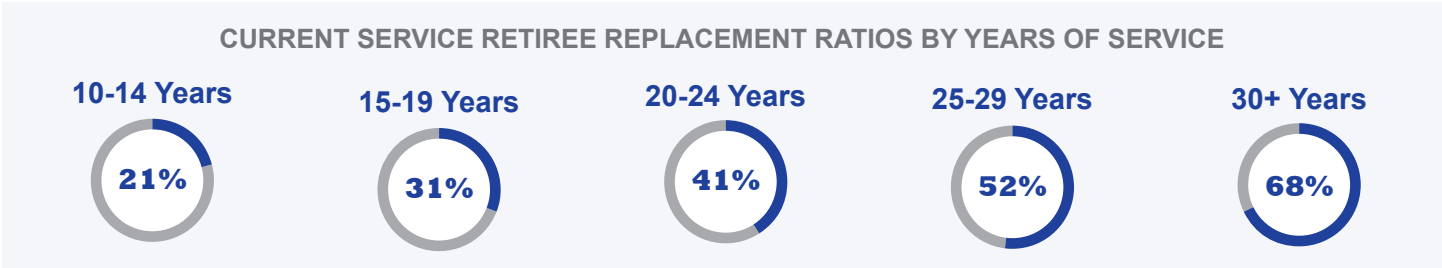
	Years of Service to Valuation Date					Totals
	10-14	15-19	20-24	25-29	30 plus	
<b>Avg. Monthly Benefit</b>	\$485	\$712	\$997	\$1,532	\$2,627	\$1,575
<b>Avg. FAS</b>	\$26,892	\$28,248	\$29,808	\$31,716	\$36,408	\$31,914
<b>Number of Retirees</b>	386	345	388	442	914	2,475

Age	Years of Service to Valuation Date					Totals
	10-14	15-19	20-24	25-29	30+	
Under 50	0	0	0	0	14	14
50	0	0	0	0	5	5
51	0	0	0	0	10	10
52	0	0	0	0	11	11
53	0	0	0	0	22	22
54	0	0	0	0	12	12
55	0	0	0	15	30	45
56	0	0	0	7	25	32
57	0	0	0	4	26	30
58	0	0	0	13	32	45
59	0	0	0	10	39	49
60	0	1	4	49	61	115
61	0	1	1	37	53	92
62	18	20	11	25	53	127
63	9	12	7	22	57	107
64	13	11	5	21	52	102
65	26	37	35	60	99	257
66	29	33	17	32	46	157
67	22	19	26	16	35	118
68	22	6	19	26	23	96
69	15	18	4	10	26	73
70 and Over	68	46	33	56	107	310
Totals	222	204	162	403	838	1,829



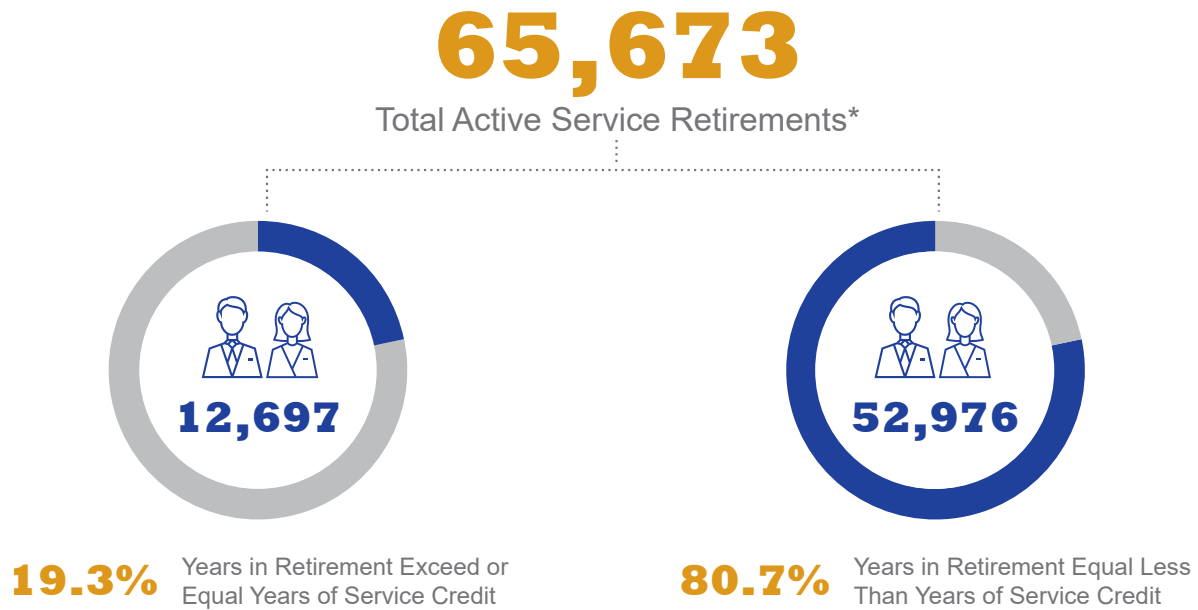
▪ **Is there a target replacement ratio for a career employee?**

- For a non-Social Security covered workforce, the target replacement ratio for a career employee is usually between 70% and 85% depending on the source of the information. That would typically be for a 30 to 35 year career with a portion of the replacement ratio attributable to personal savings.



# CAREER

- How Many SERS Retirees Have Been Drawing a Benefit for Longer Than They Worked?



*\*Using Active Service Retirements with Member receiving*

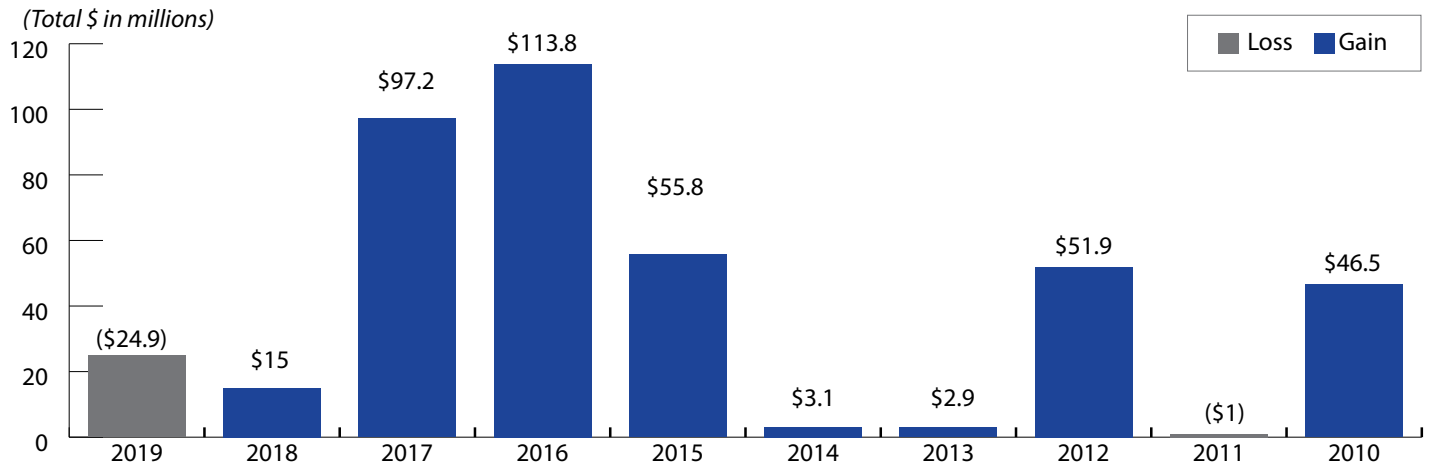
- Does it matter if a person is in retirement longer than she/he worked?
  - Duration of Benefit Payments**
    - Are we fully factoring in longer life expectancy? What is the current life expectancy for SERS members (male and female)?
      - We are utilizing a modern mortality table with future improvements projected generationally. The plan has experienced post-retirement mortality gains averaging approximately \$50 million per year over the past 5 years. The life expectancy of a male age 62 in 2019 is 22.0 years and increases to 23.1 years for a 62 year male in 2039. The life expectancy of a female age 62 in 2019 is 25.1 years and increases to 26.1 years for a 62 year female in 2039.
  - Does receiving a benefit payment for longer than you worked mean that unfunded liability is created? What are the factors that impact this?**
    - No, the UAAL (the excess of liability over assets) is not directly impacted by the occurrence of a retiree being paid longer than they worked.

## Analysis of Financial Experience

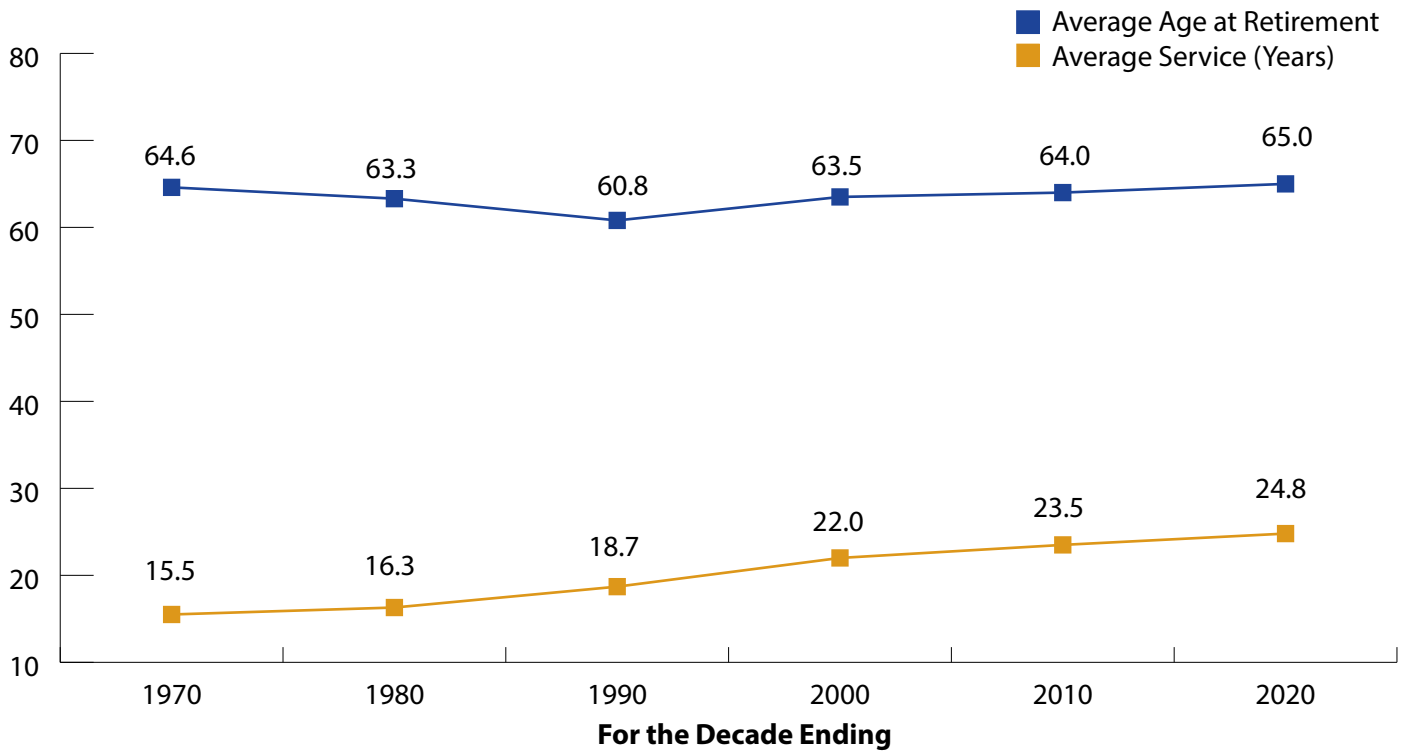
Gains and Losses in Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience in the Basic Benefits

### Type of Risk Area: Death after Retirement

If retirees live longer than assumed, there is a (loss). If not as long, a gain.



# ANNUAL DATA ON RETIREMENT – AVERAGE AGE AND SERVICE



For the Decade Ending	Average Age at Retirement	Average Service (Years)
1970	64.6	15.5
1980	63.3	16.3
1990	60.8	18.7
2000	63.5	22.0
2010	64.0	23.5
2020	65.0	24.8