The Pension Crisis & Utah’s Response

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Public Sector Pension Reform: Addressing Pressing Fiscal Realities from a Long-Term Perspective
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Utah’s pension funds lost 22.3% of their value in 2008

Unanswered questions...

- What impact would the losses have on Utah’s budget now and in the future?
- How would the losses impact employer contribution rates?
- How long would it take for the pension system to recover?
- Would the market recover the losses?
- What would happen if Utah had another year like 2008?
Unanswered questions...

- Forty year actuarial projections, with market returns of 6%, 7%, 7.75%, and 8.5%

- Modeled scenarios included:
  - Standard option (increase contribution rates)
  - Do-Nothing option (freeze contribution rates at existing levels)
  - Delay options (freeze contribution rates for 3 or 5 years and then increase contribution rates)
Utah’s pension system still appeared to be in excellent shape, however…

Utah’s Projected Funded Ratio

Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009
The 2008 losses blew a 30% hole in Utah’s pension system

Utah’s Projected Funded Ratio

- 2007: 100.8%
- 2008: 96.5%
- 2009: 87.8%
- 2010: 85.8%
- 2011: 80.6%
- 2012: 75.1%
- 2013: 70.5%

Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009
Required employer contribution increases in 2008 were manageable, however…

Utah’s Projected Employer Contribution Rates

Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009
Required contribution rates will increase by 75% over the coming years

Utah’s Projected Actuarial Required Contribution Rates

FY 2010: 13.3%
FY 2011: 15.4%
FY 2012: 16.2%
FY 2013: 18.2%
FY 2014: 20.6%
FY 2015: 22.8%
FY 2016: 23.1%

Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009
Brutal reality of the 2008 crash

*Utah will have to commit ~10% of its General Fund for 25 years to pay for the 2008 Market Crash*
Message #1 - Doing nothing leads to bankruptcy

Utah’s Projected Funded Ratio with Employer Contributions Frozen at 2010 Rates

Source: Utah Retirement Systems Comprehensive Annual Financial Reports - 2000-2009 - for year ending Dec. 31; and Memo to the Honorable Daniel R. Liljenquist, Senate Chair, from Gabriel Roeder Smith & Company, November 10, 2009
Message #2 - 2008 crash is like a “Chemical Spill”

- First, you have to contain the situation
- Second, you have to work over time to clean things up
Message #3 - 2008 crash will devastate public education

- Approximately 8,000 teachers kept out of classrooms for 25 years
- 100% of public education growth for the next five years, increasing class sizes by up to 8 children per class
- Increased contributions will equate to 19% of current state public education funding
Message #4 – We cannot afford another year like 2008
Message #5 – Pension reform is the “Wage Liberation Act”
Thousands of Utah public employees protested the reforms
Utah’s New Retirement System

1. Existing defined benefit programs closed to new enrollees on June 30, 2011

2. Employer contributions to new retirement program capped by statute at 10% of base salary

3. New employees can choose between:
   (1) a straight 401(k) plan, or
   (2) a hybrid pension / 401(k) plan