PROBLEMS FACING PUBLICLY FUNDED PENSION PLANS

NY/NJ AND MID-ATLANTIC IGAF FORUM

SEPTEMBER 28, 2005

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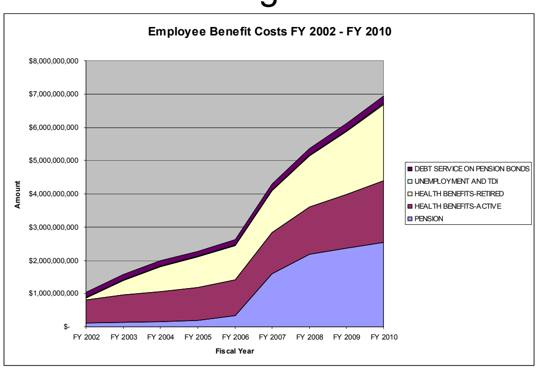
TOPICS

- **WHAT IS THE PROBLEM?**
- **WHAT CAUSED THE PROBLEM**
- **NJ AS A CASE STUDY**
- **WHAT CAN BE DONE TO FIX THE PROBLEM**
- **CONCLUSIONS**
- **QUESTIONS**

WHAT IS THE PROBLEM?

- COSTS OF PENSIONS AND OTHER EMPLOYEE BENEFIT PROGRAMS
- SEE CHART OF NEW JERSEY'S COSTS-ACTUAL AND PROJECTED

Benefit Program Costs



Benefit Program Costs

- FY 2005 Costs were $2.1 billion which is approximately 8% of the state budget
- By 2010 costs are projected to rise to $6.7 billion which will represent 21% of the state budget

WHAT IS THE PROBLEM

- RATE OF GROWTH IN COST OF DEFINED BENEFIT PENSION PLAN

1. Liabilities of public pension systems are growing faster than the assets of the systems

WHAT IS THE PROBLEM?

- Per the Public Fund Survey conducted by NASRA (National Association of State Retirement Administrators) and NCTR (National Council on Teacher Retirement) which included 127 plans

	FY 2001	FY 2004
Total Assets	$1.995t	$2.106t
Total Liabilities	1.980t	2.399t
Surplus/(Unfunded Liab)	$ 15b	$(293b)
Funded Ratio	100.8%	87.8%

What does this mean?

- On an actuarial basis systems funded position changed from surplus to deficit
- On a market value basis funded ratio is probably worse

Why are liabilities growing faster than assets?

- Experience/Demographics
1. Living longer/collecting longer
2. Higher salaries
- Benefit Enhancements
- Investment Returns

What caused the problem?

- Positive investment returns of the mid to late 90's
- Pension systems become over funded
- Surpluses used to offset/avoid pension contributions
- Surpluses also used as a basis to justify benefit enhancements
- Deviation from conservative actuarial methods to more quickly recognize asset gains
- Liabilities continue to grow impacted by enhancements

What caused the problem?

- Bad times arrive-Internet bubble
- Downturn in the economy
- Negative investment returns of the late 90's and early 00's
- System surpluses depleted
- Employer pension contributions required again
- Governments can't afford to make payments-budget shortfalls

What caused the problem?

- Perfect storm
1. Negative Investment Returns
2. Reduced employer contributions
3. Growth in liabilities

What happened in New Jersey

TOTAL

Valuation Date	Valuation Assets	Accrued Liability	Unfunded Liability	GASB Funded Ratio	Market Value of Assets
6/30/1995	42,288.6	45,173.3	2,884.7	93.6%	40,581.0
6/30/1996	49,888.0	48,653.8	(1,234.2)	102.5%	50,399.6
6/30/1997	53,324.7	52,063.0	(1,261.7)	102.4%	55,216.2
6/30/1998	60,042.6	56,936.3	(3,106.3)	105.5%	68,973.1
6/30/1999	67,570.5	61,732.7	(5,837.8)	109.5%	78,855.8
6/30/2000	74,047.7	66,465.6	(7,582.1)	111.4%	85,863.1
6/30/2001	83,440.8	76,427.3	(7,013.5)	109.2%	74,905.3
6/30/2002	83,426.3	82,240.3	1,186.0	101.4%	65,813.9
6/30/2003	82,527.9	88,265.3	5,737.4	93.5%	64,227.5
6/30/2004	82,750.5	94,864.5	12,114.0	87.2%	69,699.3

What happened in New Jersey

- Chapter 115, PL 1997
1. Authorized use of Pension Obligation Bonds-$2.8 billion
2. Authorized temporary change in actuarial method (Mark to Market)
3. Authorized use of surplus assets to offset employer contributions-State and local employers get pension holiday
4. Reduced employee contributions for PERS and TPAF

What happened in New Jersey

- Surpluses grow leading to benefit enhancements
- Benefits enhanced for PERS, TPAF & PFRS adding over $5 billion in liabilities to the systems
- Limited or no employer contributions for seven years
- Investment returns go south
- By 2004 employer contributions are due again
- Budget problems make payment difficult
- All benefit costs impacting budget-Pension and Health
- Phase-in adopted

What happened in New Jersey

- State contribution due in FY06 $224 m, FY07 $1.1 billion, by 2010 projected to be $2.566 billion
- Other benefit costs-health benefits active and retired, $2 billion in FY06 almost $4 billion

What can be done to fix the problem?

- Make the payment! (good times and bad)
- Don't use changes in actuarial methods to fund enhancements
- Don't have to be a 100% funded
- Require additional disclosure

1. Market value as well as actuarial value
2. Additional funded ratios
3. Changes in method

What can be done to fix the problem?

- More auditor scrutiny?

Conclusions

- Benefit Costs significant cost driver of state and local budgets
- Important to understand the short and long term implications of decisions/changes
- Pension payments should always be made

Questions

Questions

- http://www.state.nj.us/treasury/pensions/
- http://www.state.nj.us/treasury/doinvest/