

Week of Action

Washington State Retirement Issues

Presented by
Kelly S. Coffing, FSA, EA, MAAA
Consulting Actuary

April 8, 2014



Three sources of retirement income, sometimes called the three legged stool of retirement:

- Social Security
- Employer sponsored defined benefit (DB) plan
- Personal savings

Some abbreviations:

- DB is defined benefit pension plan (traditional pension plan)
- DC is defined contribution plan (like 401(k) or 403(b))

According to EBRI (Employee Benefits Research Institute) retirement plans have completely missed over half of the private-sector workforce, nationally.

Year	DB Only	DB and DC	DC Only	With retirement plan (DB and/or DC)
1980	28%	11%	8%	47%
1990	13%	17%	15%	45%
2000	7%	13%	30%	50%
2010	3%	11%	31%	45%

According to NIRS (National Institute on Retirement Security), Washington State does a bit better than average. In 2012, 48% of private sector employees participated in employer-sponsored retirement plans.

This means 52% of private sector workers either did not have a plan available to them or did not participate in the plan they did have.

	Public Sector	Private Sector		
Sector	State Sponsored / Civil Service Retirement / Military Retirement	Corporate	Multiemployer	No Plan 52% of private sector workforce
Covers	State government employees Federal government employees, Post Office, military, etc.	Private companies	Union Workers: construction, sheet metal, mechanical, hotel/restaurant, transportation, etc.	N/A
Plan Types	Mostly DB Some DC	DB prevalent among large employers in older industries (wood, industrial, manufacturing, utilities, hospitals) DC prevalent in newer industries (software, on-line retailers)	Almost all DB Some supplemental DC	N/A
Discount Rate/ Interest Rate Assumption	Set by Board Median is 7.5%	Bond yield curve, varies from year to year, sometimes substantially	Set by actuary Median is 7.5%	N/A

Corporate DB

- Characteristics
 - IRS Funding Requirements
 - Asset values volatile, some smoothing
 - Liability values volatile
 - Contributions typically ER only
 - Accounting under FASB
 - Asset values volatile
 - Liability values volatile
 - Benefit typically paid as lifetime annuity or lump sum

Corporate DB (continued)

▪ Difficulties

- Cash contribution volatility
 - Contributions difficult to predict/plan for from year to year
 - Contribution requirements can change significantly from year to year
 - Onerous on employers, especially in mature plans (where plan is large compared to company)
- Income Statement / Balance Sheet Volatility
 - Change in yield curve can move company from profit to loss position, without any change in asset values
 - Can disrupt ability to get loans and fund projects
- PBGC variable rate premiums
 - Flat rate paid by all
 - Variable rate onerous if underfunded
- If lump sum is taken, participant runs real risk of outliving retirement asset

Multiemployer DB

■ Characteristics

- IRS Funding Requirements
 - Asset values smoothed
 - Liability values stable, at 7.0% or 7.5% typically
- Contributions typically ER only
- Accounting under FASB
 - Contributing employers expense their actual contributions
 - More complicated if employer is withdrawing and the plan is underfunded
- Benefit paid as lifetime annuity (lump sums very rare)

Multiemployer DB (continued)

■ Difficulties

- Cash contributions set by collective bargaining, funding requirements are more volatile due to asset gains and losses
- Plan's slow to respond to market changes
- Union membership is down, so plans are mature
 - Contribution requirements onerous on current employers, funding liability for past employers as well
- Many plans have not yet recovered from 2008

DC

■ Characteristics

- Employer makes a set contribution and/or a match of employee contribution
- Employer obligation ends
- Accounting under FASB
 - Contributing employers expense their actual contributions
- Benefit is account balance at retirement

■ Difficulties

- Participants have to manage money throughout working years
- DC participants typically get 1% less return than professionally managed assets, resulting in 10% fewer assets at retirement
- Participant runs real risk of outliving retirement asset

How does WA State stack up?

NIRS Financial Security Scorecard:

- WA is doing better than many states. WA in the top 10 of all states according to 2012 Financial Security Scorecard.

Some statistics:

- 48% of private sector employees participating in retirement Plan (ranked 22nd among states), states range from 35% to 55%.
- The average DC balance: \$35,000 (ranked 10th among states), states range from \$20K to \$40K.
- If a 65 year old were to annuitize this balance to provide monthly income for life, it would produce \$233 a month of income for life. If we experience 3% inflation per year, the purchasing power will be \$173 a month 10 years from now.
- Average Washington worker made \$56K in 2012. Need \$45K to maintain standard of living in retirement. That is \$3,700 per month.

How easy is it to live in WA as a retiree?

Pros	Cons
No income tax	Housing costs higher than average
Hourly wages for older works higher than average	Unemployment among older workers higher than average
Lower than average Medicare costs	

Washington Plan Specifics

- Boeing's transition to DC
 - 2009: Closed nonunion salaried plan to new hires
 - 2013: Closed SPEEA engineers plan to new hires
 - 2014: Machinists to move to DC
 - 2014: Nonunion salaried to move to DC
 - Many other union workers also to DC

Possible Solutions for Retirement Security

- Two major hurdles:
 - More workers need access to retirement plans.
 - DB Plans should be brought back into favor. Retirees do best when they have employer sponsored DB plans and personal savings (through DC plans) in addition to Social Security.
- U.S. Senator, Tom Harkin, of Iowa, Chairman of the HELP Committee in “The Retirement Crisis and a Plan to Solve it,” outlines his USA Retirement Funds.
 - Professional asset management
 - Lifetime income benefit
 - Eliminates employer risk
 - Benefit amounts could change
 - Available to workers without other plan options

Possible Solutions for Retirement Security

- Variable Annuity Pension Plans (modified defined benefit plan)
 - Predictable contributions like DC
 - Life long income like DB
 - Professional asset management
 - Expected inflation protection
 - Balance sheet stability