

# Week of Action

## Washington State Retirement Issues

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# 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		
<b>Sector</b>	State Sponsored / Civil Service Retirement / Military Retirement	Corporate	Multiemployer	No Plan 52% of private sector workforce
<b>Covers</b>	State government employees Federal government employees, Post Office, military, etc.	Private companies	Union Workers: construction, sheet metal, mechanical, hotel/restaurant, transportation, etc.	N/A
<b>Plan Types</b>	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
<b>Discount Rate/ Interest Rate Assumption</b>	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 22<sup>nd</sup> among states), states range from 35% to 55%.
- The average DC balance: \$35,000 (ranked 10<sup>th</sup> 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