P.M.P.K.

(promises made, promises kept)

By Representative **Samantha Lefebvre** and

Bill Huff, former Certified Financial Planner, former pilot of two major airlines that went bankrupt and terminated pension plans

A-No changes for those state pensioners that are already retired.

B-Implement a “soft freeze” for all current participants (not retired) in the State Defined Benefit Plan (DB).

1-The DB plan would be closed to new entrants while those participants already in the plan continue to accrue benefits (commonly called a soft freeze).

(The promised benefits to current plan participants would continue “as is”. No changes proposed from the “Initial Pension Proposal” would be enacted further solidifying the idea that “promises made are promises kept.”)

-OR-

1(a)-The DB Plan can stop benefit accruals for all active participants, but allow benefits to increase with the growth in participants' wages (also sometimes called a soft-freeze).

(This type of freeze would keep the promise to pay participants the plan benefit that has accrued <u>to date</u> and maintain the current AFC formulas to calculate larger monthly pension benefits at retirement. No changes proposed from the “Initial Pension Proposal” would be enacted further solidifying the idea that “promises made are promises kept.”)

2-In both cases, investment management would continue “as is” in order to provide the earned benefit at retirement. Since no new participants are allowed into the DB, the plan would cease to exist when the last beneficiary covered under the plan dies.

C-Implement a Concurrent Defined Contribution Plan (DC) with a 4 1/2% match contributed by the State.

1-Utilize any of the large mutual fund companies to facilitate implementation of the new DC plan. That same company would be responsible for all future recordkeeping and employee reporting producing significant savings to the State.

2-Current DB plan participants will be allowed to transfer the actuarially calculated “present value” of their DB into the new DC.

3-The DC plan will offer an annuity option. Any new plan participant, or an allowed exchange from the DB plan, can create in essence, a personal DB plan if desired with guaranteed lifetime payouts.

4-The DC plan will offer age-appropriate safe harbor investments such as target date funds, and a diversified selection of mutual funds. No individual brokerage accounts will be allowed.

Benefits for State Legislators and Taxpayers

Freezing the DB plan will lessen the ambiguity of actuarial assumptions when calculating ADEC as the number of participants will begin to decline and ages increase. Unfunded liabilities and ADEC are lowered with time and disappear as the plan eventually terminates.

Every time a DB plan participant transfers their actuarially calculated "present value" into the new DC Plan, a significantly higher value of unfunded liability disappears. The unfunded liability includes an actuarily determined future benefit that would no longer exist.

Legislators will have kept their promise to pay accrued benefits and would avoid implementing changes to plan rules. Annual budgetary needs are reduced with a sustainable and predictable DC Plan match rather than an actuarial calculated ADEC.

Taxpayers will benefit from the much lower administrative cost of the DC Plan, lower annual contributions, and lower borrowing costs are restored as State credit ratings improve.

Periodic contentious negotiations are drastically reduced or even eliminated with plan participants.

Benefits for Plan Participants

Plan participants feel as though promises made were kept by legislators.

Investment results and contributions are within the control of the participant. Therefore, eventual retirement benefits are determined by plan participants. The opportunity exists to fully fund a replacement retirement income rather than just 50% to 60% of AFC as DB Plan participants' current benefits allow.

Account balances at retirement are the sole property of the plan participant. Payout amounts and frequency are at the discretion of the retiree allowing for maximum flexibility.

Plan participants can tailor a portfolio to their own risk tolerance, age, and goals with a range of investment choices.

Having an annuity investment option provides payout options in retirement that are the same as the Defined Benefit Plan.

Plan participants can create a family financial legacy by listing beneficiaries <u>beyond</u> the plan participant and a spousal (or other) beneficiary. Under the current DB, payouts cease when the participant and a listed beneficiary die. (unless a period certain payout is selected but for a limited time only)

If plan participants contributed at a rate consistent with the new proposals, were able to earn as much as the State suggests is prudent now, and the State matched 4- and one-half percent, a participant is likely to earn enough money to prudently pay out a lifetime income that <u>matches</u> the current DB pension plan benefits.

Periodic contentious negotiations are drastically reduced or even eliminated with the plan sponsor.