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The following news summaries were developed by Gabriel, Roeder, Smith & Company to inform clients and other benefit professionals of news in the benefits industry. Our thanks to Mary Ann Vitale for her diligent work on this issue. To receive this publication electronically, send an email to web.admin@gabrielroeder.com with “SUBSCRIBE NEWS SCAN” in the subject line. To stop receiving this publication electronically, send “UNSUBSCRIBE NEWS SCAN” in the same manner. Copies of this and other benefit-related publications are available on the GRS web site at www.gabrielroeder.com.

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GRS Presents Papers at Society of Actuaries’ Public Pension Finance Symposium

On May 18, 2009, Gabriel, Roeder, Smith & Company (GRS) presented two papers at the Society of Actuaries’ Public Pension Finance Symposium in Chicago. The symposium was held to discuss different perspectives among actuaries regarding the application of the “market value of liabilities” (MVL) approach to public pension plans.

One paper, titled: *Actuarial Methods and Public Pension Funding Objectives: An Empirical Examination* was presented by Brian Murphy, Senior Consulting Actuary and President of GRS. The paper was authored by Brian Murphy along with Norm Jones, GRS’s Chief Actuary, and Paul Zorn, GRS’s Director of Governmental Research. This paper examines the degree to which certain actuarial methods satisfy public pension plan funding objectives by comparing the funding patterns that result from a conventional approach used by most public plans with patterns that result from the MVL approach.

The comparison was made by applying the two approaches to a modeled public plan based on historical demographic, economic, and investment data over the period from 1978 to 2008. The paper found that funding under the MVL approach would likely result in rapid and erratic changes to a public plan’s normal costs, accrued liabilities, funded levels, and contributions due to changes in the MVL discount rate. By contrast, the conventional approach resulted in measures that were more stable and predictable over time.

Consequently, the authors concluded that the conventional approach is more effective in meeting the funding objectives of public pension plans. The serious instabilities in the MVL measures would most likely lead to erratic demands on government resources, possibly resulting in plan terminations or else the abandonment of the MVL approach as too unstable for state and local governments.

This paper is available at: <http://www.soa.org/files/pdf/2009-chicago-ppf-paper-jones-zorn-murphy.pdf>

The other paper, titled *Revisiting Pension Actuarial Science* was presented by Krzysztof Ostaszewski, Actuarial Program Director and Professor of Mathematics at Illinois State University. The paper was coauthored with GRS’s Jim Rizzo, Senior Consultant and Actuary, and Piotr Krekora, Senior Actuarial Analyst. This paper, which is presented as a five-part series, evaluates the MVL model for pensions under current financial economics

theory, proposes an alternate fair value model, and explores the best measures of pension liability for the purposes at hand. The first three parts of the paper find that the current MVL model fails to determine the fair value of currently accrued public pension benefits in three ways:

1. MVL's use of cash flows based on the accumulated benefit obligation fails to accurately represent the terms of the employment contract and, therefore, violates principles of labor economics.
2. MVL's use of cash flows as if they were fixed and certain fails to recognize the various risks associated with future benefit payments, including longevity risks, retirement rates, and inflation. Such risks would be included in a fair value price to protect against adverse experience; therefore their exclusion violates principles of actuarial finance and pricing.
3. MVL's use of risk-free discount rates fails to adequately reflect the observable and not-so observable inputs from market participants' behavior, and therefore violates principles of financial engineering.

Part 4 of the series presents an alternate approach to obtaining the "fair value" of the public sector employer's pension benefit liability. This was done by modeling a public plan's operation over time in order to determine an employer's "residual benefit liability." However, even with the improvements and alternative approach, Part 5 of the series finds that the concept of a fair or market value of public pension liabilities has little or no usefulness in most venues. Moreover, for purposes of advance funding and financial reporting, such measures may be misleading.

An introduction to the series is at: <http://www.soa.org/files/pdf/2009-chicago-ppf-paper-krekora-intro.pdf>.
The entire series is at: <http://www.soa.org/files/pdf/2009-chicago-ppf-paper-krekora.pdf>.

The papers served as the basis for testimony by Paul Zorn and Jim Rizzo, respectively, to the Governmental Accounting Standards Board on August 26, 2009, in response to the GASB's Invitation to Comment on possible changes in public pension accounting and financial reporting standards.

NCSL Releases Report on State Pension Legislation Enacted in 2009

On August 11, 2009, the National Conference of State Legislatures (NCSL) published its report on the major state pension and retirement plan legislation enacted in 2009. The report provides a comprehensive and detailed summary of selected state pension and retirement legislation enacted from January 1, 2009, through July 31, 2009.

Consistent with recent economic events, cost containment and long-term sustainability of defined benefit plans were significant concerns for state legislatures. Several states established committees to study the future of their retirement systems. Many states enacted legislation in efforts to manage future pension costs through measures to reduce benefit packages of newly hired employees, increase employee contributions, enforce mandatory furloughs without pay, establish early retirement incentives, authorize issuance of pension obligation bonds, and other benefit changes.

Other policy issues addressed by legislation included: benefit eligibility, contribution rates, funding issues, cost-of-living adjustments, governance and investment policy, health coverage, re-employment after retirement, and purchase of service credit. The report is organized by topics and summarizes the legislation enacted by state.

The report is on the NCSL website at: <http://www.ncsl.org/?tabid=17594>

Medicare Trustees Release Report on Financial Status of Medicare Funds in 2009

On May 12, 2009, the Medicare Trustees released their annual report on the financial status of the Medicare funds, which finds the overall status of the funds worsening. According to the trustees, Medicare's long-term liability, based on a 75-year actuarial projection, is estimated to be \$36.4 trillion. Total annual Medicare

expenditures, which were \$468 billion in 2008 or 3.2% of Gross Domestic Product (GDP), are expected to grow to 7.3% of GDP in 2035, and 11.4% in 2083. The report also warns that, after 2007, projections of Medicare expenditures are understated due to projections of substantial reductions in physician payments currently scheduled under current law, but which are unlikely to occur.

The Medicare program consists of two component programs for the elderly and disabled: Hospital Insurance (HI) and Supplementary Medical Insurance (SMI). The HI program (Medicare Part A) pays primarily for inpatient hospital care and is financed by a payroll tax of 1.45% of taxable earnings. The SMI program consists of Medicare Parts B and D. Part B is a voluntary program that pays for physician, outpatient hospital, home health, and other services. Part D is a voluntary program providing access to outpatient prescription drug benefits. Approximately one-quarter of the SMI program is financed by beneficiary premiums, with the remainder financed by transfers from the U.S. Treasury's general fund.

According to the Trustee's report, the financial status of the HI Trust Fund has deteriorated and is projected to be insolvent in 2017, two years earlier than reported last year. After the HI Trust Fund is exhausted, payroll tax revenues would cover only 81% of projected HI expenses in 2017, declining to 29% by 2083. The drop in solvency is due to:

- Much lower projected payroll tax income as a result of the recession due to higher unemployment and slower growth in wages; and
- Significantly higher HI expenditures than previously estimated due to increased utilization of services.

The financial outlook for the SMI program is better than the HI program, although rapid expenditure growth remains a serious issue. For both Parts B and D, revenues are projected to equal expenditures for all future years, but only because beneficiary premiums and general revenue transfers must, by statute, be increased to meet expected costs for each year. However, the rapid growth of health care costs is expected to greatly accelerate the need to finance these benefits.

In an effort to address Medicare's long-term financial challenges, the Medicare Modernization Act created tools to warn decision-makers about financial pressures on the program, including the "Medicare funding warning." Under this provision, the annual trustees report is required to include an estimate of the year in which general revenues will account for more than 45% of Medicare funding. If this is projected to occur within the first seven years, a determination of "excess general revenue Medicare funding" is required. If this determination is made over two consecutive years, a "Medicare funding warning" is triggered, requiring the President to respond with proposed legislation. The 2009 Trustees' Report is the fourth consecutive report that projects that the 45-percent threshold will be reached within the next seven years, (i.e., 2014.) This triggered a Medicare funding warning for the third consecutive year.

The report is available on the CMS web site at:

<http://www.cms.hhs.gov/ReportsTrustFunds/downloads/tr2009.pdf>

Social Security Trustees Issue Report on Status of Social Security Funds in 2009

On May 12, 2009, the Social Security Board of Trustees released its annual report on the program's financial and actuarial status. Benefit payments and administrative expenses are expected to exceed Social Security's tax revenues starting in 2016, one year earlier than estimated last year. This will be mostly due to the aging and retirement of the baby boomers combined with increasing life expectancy.

The report indicates that the interest earned on trust fund assets will initially be sufficient to cover the shortfall, but beginning in 2024 (three years earlier than estimated last year), government securities held by the trust funds would need to be redeemed to generate sufficient cash to pay benefits. The report projects that Social Security's trust fund reserves will be exhausted by 2037, which is four years earlier than estimated last year. Should this

occur, Social Security would be able to pay only 76% of scheduled annual benefits after 2037, declining to 74% by 2083. The long-range status over the next 75 years has worsened from last year's projection principally due to revised economic data, significant near-term effects of the current economic recession, and the longer-term effects of lower mortality rates.

The report presents Social Security's financing shortfall in dollar terms, as well as in percents of taxable payroll and gross domestic product (GDP). The projected actuarial deficit in Social Security's trust funds is \$5.3 trillion (\$1.0 trillion more than estimated last year) when measured over the next 75 years and \$15.1 trillion when measured on a perpetual basis. Expressed in relation to the GDP, the annual cost of Social Security benefits is projected to increase from 4.8% of GDP in 2009 to 6.1% in 2030, and decline to 5.8% in 2083. In the 2009 report, changes were made to several assumptions reflecting near-term economic growth and ultimate mortality in addition to other changes affecting Social Security's financial condition. The net result of these changes was to increase the 75-year actuarial deficit from 1.70% of taxable payroll in 2008 to 2.00% in 2009.

Under current law, Social Security's annual cost will likely grow faster than the program's income due to the aging of the baby-boom generation, continuing low fertility, and increasing life expectancy. However, the report indicates that the program could remain solvent throughout the 75-year projection period, if one or more of the following changes were made:

- Immediately raising the combined employee-employer payroll tax rate by 2.0 percentage points from the current 12.4% to 14.4%;
- Immediately reducing benefits for all current and future recipients by 13.0% on a permanent basis; or
- Adopting some combination of these approaches.

If no action is taken until the trust funds are exhausted in 2037, the following changes would keep the program solvent for the 75-year period:

- Raising the combined employee-employer payroll tax rate from the current 12.40% to 16.26% in 2037 and to 16.74% by 2083; or
- Reducing benefits for recipients by 24% in 2037, and by 26% in 2083.

The report also indicated that Social Security's solvency beyond 2083 would likely require further changes due to the increasing average age of the population. The trustees urged that the trust fund deficits be addressed soon in order to gradually phase-in the necessary changes and protect future generations.

The report is available at: <http://www.ssa.gov/OACT/TR/2009/tr09.pdf>

EBRI Examines Public Pension Plan Asset Allocations

In April 2009, the Employee Benefit Research Institute (EBRI) published its monthly newsletter, *EBRI Notes*, featuring an article titled "Public Pension Plan Asset Allocations." The article examines:

- Public pension plan funding sources from 1997 to 2007;
- Public pension plan asset allocations from 2003 to 2007; and
- The effects of public plan investment performance on employer contributions.

As discussed in the article, public pension funding comes from three sources: employer (taxpayer) contributions, employee contributions, and investment earnings. Over the period from 1997 to 2007, annual investment earnings made up over 70% of all funding sources. As a result of this reliance on investment earnings, the 2008 investment losses have lowered the funding status of many public plans. However, most plans smooth annual investment gains and losses into the actuarial value of assets over several years to help control the volatility of contributions.

The article also discusses whether public plan sponsors are likely to change their investment policies in order to reduce investment volatility, for example by matching the duration of their liabilities with fixed-income securities. However, the article finds this is unlikely, mainly because:

1. Duration-matching with fixed-income securities would likely lead to lower investment returns, since fixed-income investments generally have lower returns than equity investments;
2. Asset allocations containing securities with higher risks (e.g., equities) are expected to earn investment income that would not be earned under more conservative approaches;
3. A high expected rate of return can be used as a discount rate to evaluate pension liabilities; and
4. Pension plan investment professionals tend to adhere to peer group investment policies that abide by the “prudent person” fiduciary standards.

The article concludes that if the current economic challenges indicate permanent changes in future expected returns, then public plans may adjust their investment policies to either raise or lower expected return. This, in turn, could result in changes in actuarial discount rates and possibly require higher or lower contributions.

The article is available at: http://ebri.com/pdf/notespdf/EBRI_Notes_04-Apr09.PblcPnsPlns1.pdf

EBRI Finds Social Security Payments Provided Nearly 40% of Elderly Income in 2007

In May 2009, the Employee Benefit Research Institute (EBRI) published an article in *EBRI Notes* that examines the sources of income for individuals age 65 and over in 2007. Based on data from the U.S. Census Bureau’s March 2008 Current Population Survey, the analysis shows that Social Security was the largest source of income for the older population in 2007, accounting for almost 40% of their income on average. The remaining sources included pension and annuity income (19% of average income), asset income (16%) and work-related earnings income (25%). Almost 90% of all individuals age 65 and over received income from Social Security, while 53% received income from assets, 34% received income from pensions and annuities, and 20% received income from work-related earnings.

EBRI also reported that median income of persons age 65 and over increased from \$13,311 in 1974 to \$17,898 in 2007. Over the same period, average (mean) income for this group increased from \$18,782 to \$29,214.

Additionally, EBRI studied income composition based on income group, age, marital status and gender. In 2007, the lowest-income group (with annual income of less than \$8,339) derived 89% of its income from Social Security. By comparison, the highest-income group (with annual income of greater than \$37,062) derived 17% from Social Security.

The oldest age group (age 85 and over) received a greater share of total income from Social Security than the younger age group (ages 65-69). In 2007, individuals age 85 and over received 54% of income from Social Security compared to 28% for those ages 65-69. The younger age group received a larger amount of total income from work-related earnings. In 2007, those ages 65-69 derived 40% of income from work-related earnings compared to 7% of those age 85 and over.

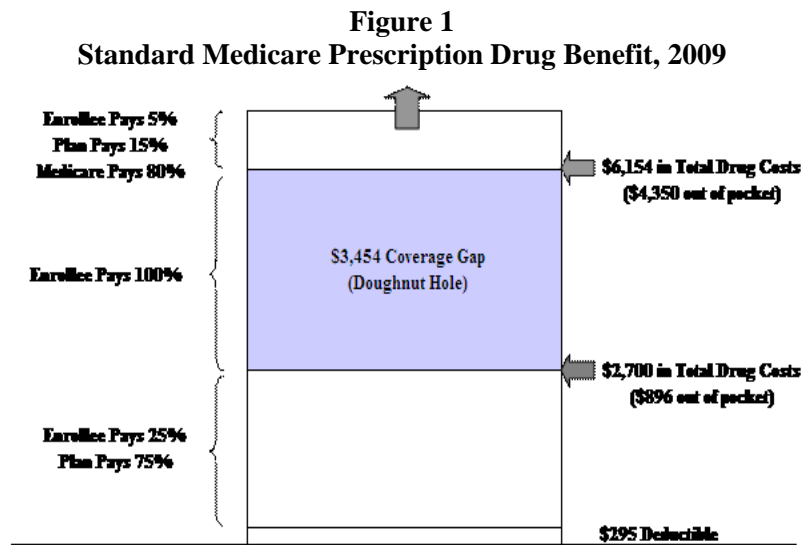
In 2007, nonmarried individuals derived a greater share of income from Social Security (46%) than married individuals (34%) and a significantly smaller amount from work-related earnings (18% for nonmarried compared to 30% for married). Also, 46% of elderly women received income from Social Security, compared with 33% of elderly men.

The article is accessible at: http://www.ebri.org/pdf/notespdf/EBRI_Notes_05-May09.CstShrg-IncEld.pdf

AARP Urges Congress to Close Medicare Part D Coverage Gap

On May 21, 2009, AARP Legislative Policy Director David Certner indicated during a policy briefing that the organization will continue to urge Congress to pass legislation to close the Medicare Part D coverage gap, known as the “doughnut hole.” The coverage gap requires many beneficiaries to pay 100% of their prescription drug costs as well as premiums between the end of the initial coverage period (where beneficiaries pay 25% of their drug costs) and the catastrophic threshold (limiting beneficiaries’ spending to about 5% of their drug costs). However, since closing the coverage gap would cost nearly \$134 billion over 10 years, AARP would support either narrowing or phasing out the gap over time.

The coverage gap is triggered when annual prescription drug spending for an individual covered by Medicare Part D reaches a certain level, which changes each year. As illustrated in Figure 1 below, the standard Part D benefit in 2009 has a \$295 deductible and 25% coinsurance up to an initial coverage limit of \$2,700 in total drug costs. Then after reaching the coverage gap, enrollees pay 100% of their drug costs between \$2,700 and \$6,154. After reaching the out-of-pocket limit, catastrophic coverage will cover 95% of all additional drug costs and enrollees pay a 5% copay and Part D plan premiums.



Over 26 million Medicare beneficiaries obtain prescription drug coverage through Medicare Part D. Each year, about 3 million beneficiaries fall into the coverage gap. Since the Medicare prescription drug bill became effective in 2006, the doughnut hole has risen from \$2,850 to \$3,454 in 2009, an increase of 21%. By 2016, AARP projects that the coverage gap will almost double, increasing to more than \$6,000.

Certner warned that the coverage gap is widening very quickly due to rising annual drug spending based on increasing drug costs, drug utilization, and therapy mix. Furthermore, a 2009 AARP Public Policy Institute report found that this trend is problematic since the overall average price increase in prescription drugs commonly used by Medicare Part D beneficiaries outpaced inflation in 2008.

AARP suggested other options for closing the coverage gap which include: 1) basing the increase on CPI rather than beneficiary drug spending or 2) capping the gap rather than allowing annual increases. AARP has also noted that closing the gap could reduce preventable hospitalizations, thereby easing the financial burden on both Medicare and many beneficiaries.

Additional information is available from AARP at:

http://www.aarp.org/research/ppi/health-care/medicare/articles/fs_medicare_gap.html

CalPERS Reports Average Health Premiums to Rise 2.9% in 2010, Lowest in 14 Years

On June 17, 2009, the California Public Employees' Retirement System (CalPERS) announced an overall increase of 2.9% in health care premiums in 2010, down from 4.3% in 2009. The projected premium rate increase would be the lowest in 14 years. Typically, changes in premium rates negotiated by CalPERS serve as indicators of future health insurance cost trends.

For fiscal year 2010, the CalPERS' Board of Administration approved individual plan increases of 3.4% for basic health maintenance organization (HMO) plans and 3.3% for basic preferred provider organization (PPO) plans. Premiums for correctional and peace officers are projected to grow by only 1% from 2009 while members covered by Medicare plans will have an average increase of 1.1%. In 2009, CalPERS raised its HMO rates by 6.6%, which was the lowest increase in six consecutive years, while PPO premiums remained unchanged.

CalPERS reported that their cost management efforts resulted in over \$600 million in premium savings and helped to avoid rate increases projected at nearly 9.0%. Their efforts included:

- New plan options with lower premiums but higher copayments for office visits, prescriptions and deductibles;
- Lower utilization of health care services, but higher consumption of generic drugs by members and their families;
- Effective negotiations by CalPERS staff with proactive health care management by health plans; and
- Strategic cost reductions that resulted in better health outcomes, such as promoting health and disease management programs and eliminating high-cost hospitals from its networks.

CalPERS is the third largest purchaser of health care in the U.S. and covers over 1.3 million public employees, retirees, and dependents. In fiscal year 2010, CalPERS expects its health care spending to total between \$5.7 billion and \$6.0 billion.

More information is available on CalPERS' web site at:

<http://www.calpers.ca.gov/index.jsp?bc=/about/press/pr-2009/june/lowest-health-rates.xml>

Survey Finds Financial Crisis Causing Plan Sponsors to Change Plan Design and Retirement Coverage

In May 2009, the International Foundation of Employee Benefit Plans (IFEBC) conducted a survey on the impact of the financial crisis on pension plans, with responses received from over 1,300 members of the International Foundation and Certified Employee Benefit Specialist (CEBS) Program. The survey report, *Pension Plans: Impact of the Financial Crisis*, is the second in a series designed to gather information at six-month intervals about the short-term and ongoing impacts of the economic recession. According to the survey, sponsors of both defined benefit (DB) and defined contribution (DC) plans have been compelled to make changes in plan design and retirement coverage.

The survey found that some DB plan sponsors (mainly corporate sponsors) have implemented major changes, with 27% discontinuing pension benefits for some or all employees and 21% closing their plan to new participants. The survey also found that 42% of DB plan sponsors have made changes to their strategic asset allocation, up from only 20% six months earlier. In addition, 36% of public employers reported making asset allocation changes compared to only 13% in the earlier survey. Overall, the most common changes included:

- 37% increased fixed income assets;
- 17% reduced U.S. equity allocations; and
- 13% increased alternative fund investments.

Of the DC plan sponsors, 13% have changed their investment product offerings due to the financial crisis, up from only 7% six months earlier. Of those making such changes, 21% added low-risk investment options, 18% increased diversification, 16% added target-date or money market funds, and 15% added government-backed options. Moreover, 16% have reduced or eliminated employer matches for DC plans. Of those who changed their match (mostly corporations), 44% reduced the match and 52% suspended it.

Due to the financial crisis, many DC plan sponsors (44%) reported a decrease in employee contributions. About 40% reported their employees have completely stopped making contributions. Additionally, 42% reported an increase in hardship withdrawals compared to 29% in the previous survey. DC plan loans have also increased with 40% of respondents reporting an increase compared to 28% six months earlier.

As the economic downturn continues, plan sponsors indicated their employees are primarily concerned about:

- Decreased job security (48%);
- Delayed retirement (38%);
- Reduced employer-sponsored retirement benefits (26%);
- Underfunded retirement plans, mostly in multiemployer and public plans (22%); and
- Reduced health care benefits (16% and even higher for public employees at 28%).

Importantly, the respondents indicated that employees' views about the severity of the financial crisis were directly correlated with the plan type. Specifically, 47% of DC plan sponsors reported their employees viewed the ongoing downturn as severe compared with 23% of DB plan sponsors. In the previous survey, 31% of DC plan sponsors and 19% of DB plan sponsors reported their employees viewed the long-term financial impact as severe.

The survey respondents mainly serve as managers, directors, administrative executives, trustees, and professional advisors. Various employee benefit sectors were represented including corporate plans (52%), multiemployer plans (30%), public and governmental plans (17%), and other types of plans (1%). Of the public sector respondents, 33% represented municipalities while 27% represented states and 24% represented counties.

Further information is available at: http://www.ifebp.org/AboutUs/PressRoom/Releases/pr_051309.htm

Retiree Health Care Survey Finds States' Unfunded OPEB Liabilities Total Nearly \$558 Billion

On July 15, 2009, the Center for State and Local Government Excellence released its report, *At a Crossroads: The Financing and Future of Health Benefits for State and Local Government Retirees*. The report contains a broad assessment of the other postemployment benefit (OPEB) liabilities in all 50 U.S. states and over 2,100 local governments. Key highlights include:

- The estimated aggregate unfunded liabilities for states' retiree health care are about \$558 billion.
- Nearly all states (92%) provide some type of retiree health benefit plan, but differ greatly based on plan design, coverage, and unfunded liabilities.
- A majority of states have created a health care purchasing pool to provide uniform benefit levels for active and retired members. Some have also included city and county governments to offer the financial benefits of a large purchasing pool to negotiate lower prices.
- In many governmental plans, OPEB unfunded actuarial accrued liabilities are large, both in absolute value and relative to total state expenditures, debt, and state personal income.
- Total unfunded retiree health care liabilities differ substantially based on size of workforce, plan design, and portion of employer-paid health care costs.

- Most governmental plans have implemented cost containment and cost sharing policies which include retiree contributions for health care premiums, higher deductibles, higher copayments, and lower benefits for future retirees.
- Many governmental plans are considering changing age and service eligibility requirements for retiree health care.
- Although preventive medicine and wellness programs have become more popular, their use remains limited.

Traditionally, state and local governments have financed retiree health care on a pay-as-you-go basis. Currently, GASB Statement No. 45 requires state and local governments to report their OPEB liabilities. About 28% of states anticipate adopting a governmental trust (established under Internal Revenue Code § 115) to fund retiree health care obligations in the future.

In addition to approaches for funding retiree health care liabilities, the survey examines cost containment and cost reduction strategies. Some of the different strategies used by states and localities to address their liabilities are shown in the following table:

Strategy	State	Localities
Partially or Fully Funding Retiree Health Care	32%	16%
Implementing Cost Containment Strategies	64% (avg.)	27% (avg.)
Auditing Health Care Costs	53% (avg.)	18% (avg.)
Increasing Cost Sharing with Members	52% (avg.)	27% (avg.)
Providing Wellness Programs	42% (avg.)	16% (avg.)

The report concludes that, as a general principle, a multi-pronged approach to managing OPEB liabilities is the most effective course of action. The report also provides a short description of each state’s retiree health plan. Additional information is included on a state-by-state basis regarding eligibility requirements, actuarial report summaries, and estimates of OPEB unfunded liabilities as well as detailed comparisons of premiums, dependent coverage and Medicare enrollment.

The report is accessible at: <http://tinyurl.com/atacrossroads>

Survey Shows Public Employees Delaying Retirement Due to Economic Downturn

On May 13, 2009, the Center for State and Local Government Excellence released its survey report, *A Tidal Wave Postponed: The Economy and Public Sector Retirements*. Based on responses from human resource and state personnel executives, the survey indicates that state and local government employees are delaying retirement due to the economic downturn. Approximately 80% of the respondents reported that the economy is affecting the timing of retirements, with the vast majority indicating their employees are delaying retirement. A smaller proportion reported their employees are accelerating retirement to avoid benefit changes or are taking early retirement.

On the bright side, as a result of the delayed retirements, 62% of the respondents indicated they will have more time to transfer knowledge from departing employees, 51% will have more time to find replacements, and 49% will have more time to mentor younger employees. However, 38% reported they cannot make the changes as quickly as desired, 36% cannot hire new workers with necessary skills, and 21% may have to institute early retirement incentives. Furthermore, 60% of the respondents indicated their state governments are instituting layoffs, with almost 40% based entirely on seniority. By comparison, over 40% in local governments are instituting layoffs, with 43% based solely on seniority.

The Center for Excellence also reported that data from the U.S. Census Bureau indicate more than 33% of public employees are age 50 and over. Workforce planning now may help governments prepare for when employees

retire. However, only 39% of the total respondents have a formal workforce development plan. Of those with a plan in place, about 30% have made workforce changes based on their plan, while about 50% have not made any changes.

The survey results were based on 460 respondents from among over 5,100 members of the International Public Management Association for Human Resources (IPMA-HR) and the National Association of State Personnel Executives (NASPE).

The survey is available at:

<http://www.slge.org/vertical/Sites/%7BA260E1DF-5AEE-459D-84C4-876EFE1E4032%7D/uploads/%7B06A0B8DA-1B4A-47B2-A4AC-5ADA42B4612F%7D.PDF>

Citizens Research Council Reports on Michigan Government Retirement Systems

On July 13, 2009, the Citizens Research Council of Michigan (CRC) released its report, *Michigan State and Local Government Retirement Systems*. The report includes 138 state and local pension systems in Michigan covering about 450,000 active members and 300,000 beneficiaries. It provides detailed information for several major pension systems, compares key measurements to national averages, and explores possible effects of the economic recession on public defined benefit plans and state and local governments.

In 2007, over 2,500 U.S. state and local government pension plans distributed nearly \$163 billion in benefits to 7.5 million retirees, disabled members and beneficiaries. The national average annual benefit was \$20,800 for state and local retired members. According to data from the U.S. Bureau of Labor Statistics, 84% of state and local government workers had access to a defined benefit (DB) plan compared to only 22% of private sector workers. The CRC reported that over the last 10 years, 12 states have offered defined contribution (DC) plans. Of these states, only Michigan and Alaska require all new hires to participate in the DC plan.

As discussed in the CRC report, Michigan is one of only five states with more than 100 state and local government retirement systems. It is one of nine states with a constitution that guarantees pension benefits earned by state and local government employees cannot be eliminated or diminished. Also, Michigan is one of 14 states in which the constitution provides funding standards for retirement systems.

As of April 2009, there were over 640,700 public-sector employees in Michigan's workforce. In fiscal year 2006-2007, Michigan's state and local government retirement systems had assets totaling \$105 billion. However, initial financial reports for some of the state's largest retirement plans have estimated investment losses of 20-25% in asset values for fiscal year 2008. The immediate impact of the investment losses on contribution rates may be mitigated by using smoothing methods to recognize gains and losses over a period of years and amortization of unfunded accrued liabilities over up to 30 years. Although public pension plans are focused on long-term investment returns, recent losses due to the economic downturn will likely change the policies and practices of federal, state and local governments.

The report is accessible at: <http://www.crcmich.org/PUBLICAT/2000s/2009/rpt356.pdf>