

May 2010

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SLGE Issues Report on Funding of State and Local Government Pension Plans

On April 8, 2010, the Center for State and Local Government Excellence (SLGE) released its issue brief: *The Funding of State and Local Pensions: 2009-2013*. The report was written by Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby from the Center for Retirement Research at Boston College. The issue brief finds that, due to the financial crisis, the value of equities in state and local defined benefit plans has dropped significantly, causing a decline in their aggregate funding ratio from 84% in 2008 to 78% in 2009. Moreover, the authors suggest that future state and local pension funding will be largely dependent on stock market performance. The brief presents three alternative stock market scenarios for the period 2010-2013. According to the authors, under the most likely scenario, funding levels will likely continue to decline to 72% by 2013.

The issue brief also cautions that reversing the decline in the funding ratio will be challenging since governmental plans face constraints on increasing revenues from either taxes or employee contributions. The authors state, “The current and future funding status of state and local pensions is crucially important, as state and local governments are facing a perfect storm: the decline in funding has occurred just as the recession has cut into state and local tax revenues and increased the demand for government services. Finding additional funds to make up for market losses will be extremely difficult.”

The issue brief is available at: http://crr.bc.edu/images/stories/Briefs/slp_10.pdf

Study Finds Public Sector Workers Earn Less than Comparable Private Sector Workers

On April 28, 2010, the Center for State and Local Government Excellence (SLGE) and the National Institute on Retirement Security (NIRS) released their report: *Out of Balance? Comparing Public and Private Sector Compensation Over 20 Years*. The report was coauthored by two economists from the University of Wisconsin-Milwaukee, Keith Bender and John Heywood. Based on their analysis of data from the U.S. Bureau of Labor Statistics, the authors conclude that public-sector employees earn less than private-sector employees when earnings are adjusted for their level of education, training, experience and other known determinants of earnings.

Key findings of the study include:

- Public-sector positions are typically different from private-sector positions and usually require more education, training, and experience. Moreover, some positions (such as firefighters and police officers) are unique to the public sector.
- When adjusted for known earnings determinants, the wages and salaries of public employees are typically lower than those in the private sector. As adjusted, wages and salaries of state employees are estimated to be 11% lower than for private-sector employees. Wages and salaries of local government employees are 12% lower.
- Employee benefits comprise a slightly greater share of compensation in the public sector than in the private sector. However, even after accounting for benefits such as retirement and health care, total compensation for public-sector employees is less than for comparable private-sector employees. On average, total compensation is 6.8% lower for state employees and 7.4% lower for local government employees relative to private-sector employees.

The report is available at:

http://www.nirsonline.org/storage/nirs/documents/final_out_of_balance_report_april_2010.pdf

CEPR Reports Public Employees Pay a Wage Penalty Compared to Private-Sector Employees

In May 2010, the Center for Economic and Policy Research (CEPR) released its report: *The Wage Penalty for State and Local Government Employees*. The report was prepared by John Schmitt, a senior economist at the Center. It finds that, on average, state and local government workers earn 4% less than private-sector workers with similar characteristics, including age and education. Other findings include:

- On average, public-sector employees are four years older than private-sector employees. The median age for private-sector employees is 40, compared to 43 for state employees and 44 for local government employees;
- Fifty-one percent of public-sector employees have at least a four-year college degree and 24% percent have an advanced degree, compared to 30% and 9% respectively in the private sector; and
- Sixty percent of public-sector employees are female compared to 46% in the private sector.

The report also indicates that the pay penalty for state and local employees tends to increase with wage levels. In general, the highest paid public-sector employees tend to be older, more educated, and paid about 11% less than comparable private-sector employees.

The report is available at: <http://www.cepr.net/documents/publications/wage-penalty-2010-05.pdf>

NAGDCA Releases 2010 Report on Governmental Defined Contribution Plans

On March 17, 2010, the National Association of Government Defined Contribution Administrators (NAGDCA) released its *2010 Defined Contribution Plan Survey Report*. The report is based on responses from 80 state and local government defined contribution plans, which represents a 40% response rate. The majority of the responses (66%) were from governmental 457(b) plans, 20% from 401(a) plans, 11% from 401(k) plans, and 3% from 403(b) plans. As of December 31, 2009, the plans held \$82 billion in combined total assets, including \$61 billion held by the 457(b) plans; \$14 billion by the 401(k) plans; and \$7 billion by the 401(a) plans. Other findings include:

- Nearly 5.2 million state and local employees were eligible to participate in a defined contribution (DC) plan; however, only 1.5 million (29%) elected to make salary deferrals in 2009.

- Of the 80 plans combined, over half (55%) reported that contributions were made as employee deferrals only. In addition, 13% reported contributions were made as employer contributions only, with the remaining 32% reporting contributions were made as a combination of employee deferrals and employer matching (or non-matching) contributions.
- With regard to the investment options offered to DC plan participants, 85% of the plans provided stable value funds; 85% provided mutual funds; 76% provided target date funds; and 59% provided self-directed brokerage accounts. Overall, a wide variety of investment options were offered.

Almost all responding DC plans did not offer either automatic enrollment or automatic escalation features. The survey also indicated that the majority of plans (57%) paid administrative expenses from asset-based fees charged to participants.

A summary of the survey results is available at:

http://www.nagdca.org/documents/2010_NATIONAL_SUMMARY.pdf

State and Local Governments Implement Wellness Programs to Help Control Health Costs

On March 31, 2010, the International Foundation of Employee Benefit Plans (IFEBC) and the State and Local Government Benefits Association (SALGBA) released their survey on *Trends in Public Employee Plans*. The report indicates that state and local governments are increasingly implementing wellness and disease management programs to help control health care costs. The survey is based on responses from over 450 governmental employers and plans that offer health care benefits.

According to the survey results, 72% of the responding governments offer wellness incentives and 65% offer disease management programs to help limit rising health care costs. Currently, the cost effectiveness of the wellness and disease management programs is difficult to objectively determine since there is no commonly accepted methodology for measuring return on investment (ROI). While only 15% of the surveyed plans have attempted to measure the ROI for their wellness programs, over 77% of those programs have reported a positive ROI.

As present in the survey, wellness incentives offered by plans included:

- **Screening and Treatment** – 84% of the respondents offered flu shot programs, 78% offered health screenings, and 75% offered health risk assessments.
- **Fitness and Nutrition** – 51% offered wellness competitions, 46% offered weight management programs, and 37% offered nutrition programs.
- **Participant Education** – 72% used e-mail communications, 70% conducted health fairs, 44% sponsored seminars and speakers, and 20% offered personal health records.

The report is available at no cost for IFEBC members or \$50 for non-members at: <http://www.ifebc.org>

Minnesota State Retirees File Lawsuit Challenging New Legislation to Reduce Pension COLAs

On May 17, 2010, two retired Minnesota state employees filed a class action lawsuit on behalf of nearly 130,000 Minnesota state retirees. The plaintiffs are challenging legislation enacted in 2009 and 2010 which reduced the postretirement cost-of-living adjustments (COLAs) for Minnesota public-sector retirees receiving pension benefits (*Swanson v. Minnesota*, Minn. Dist. Ct., Docket No. unavailable, filed 5/17/10). The suit alleges that the reductions in the postretirement COLAs are unconstitutional because they violate the retirees' contractual rights to receive pension benefits at the levels promised upon retirement. The plaintiffs seek to represent pension recipients under the Public Employees' Retirement Association (PERA) of Minnesota, Minnesota State Retirement System (MSRS), and Teacher Retirement Association (TRA) of Minnesota.

As described in the complaint, from 1981 through 1992, postretirement COLAs were based on plan investment earnings and averaged about 6.74% over the period. In 1992, the state legislature approved a dual-component formula that used an inflation-adjustment component and an investment-based component to determine retirees' COLA benefits. In 2009, the legislature eliminated the dual-component formula and replaced it with a guaranteed 2.5% annual increase.

On May 15, 2010, Minnesota Governor Tim Pawlenty signed legislation that changed the state's retirement plans under the Omnibus Retirement Bill (S.F. 2918). The new law is intended to stabilize and improve the funding conditions in the statewide pension plans by increasing employer and employee contributions, reducing benefit growth, and decreasing postretirement COLAs. It replaces the 2.5% COLA with a COLA that ranges between 1.0% and 2.0% depending on the retirement plan. For TRA retirees, COLAs will be suspended in calendar years 2011 and 2012 and then set at 2.0% until the plan becomes at least 90% funded. For all of the statewide pension plans, the lower COLA rates will remain in effect until the plans achieve a market value funding ratio of 90%.

The plaintiffs claim that as a result of the 2009 and 2010 pension changes, retirees will lose millions of dollars in promised benefits. They argue that postretirement COLA benefits are vested at retirement and, therefore, retired state workers are contractually entitled to the benefits they receive. Consequently, they argue that reducing postretirement COLAs violates the Contract Clause of both the U.S. and Minnesota Constitutions.

The complaint is available at: [http://op.bna.com/pen.nsf/id/jmer-85nekj/\\$File/Minnesota.pdf](http://op.bna.com/pen.nsf/id/jmer-85nekj/$File/Minnesota.pdf)