Senate File 45

Close DB Plans to New Members; Enroll New Hires in DC Plans

Senate File 45 proposes closing state public pension plans, like IPERS, to new members, hired after July 1, 2019, and enrolling new hires in a defined contribution plan (similar to a 401(k) plan). Some believe this change will “fix” funding shortfalls in defined benefit plans. While that may sound appealing at first, the 2012 BAC study revealed several significant challenges:

- Closing IPERS to new hires will not eliminate the $5.6 billion unfunded actuarial liability (UAL). It remains the responsibility of the plan sponsors.
- The fund’s investment horizon would shorten and require a more conservative strategy, creating lower returns. The investment strategy would gradually change from accumulating assets to spending down assets.
- The UAL will need to be revalued based on stepping down the investment return assumption (currently 7.5 percent), to 5.5 percent or lower.
- Once revalued, the UAL may grow two to three times in size.
- The revalued UAL will be financed over 10 to 30 years, causing contribution rates to increase dramatically, making it extremely burdensome for employers to pay equitable contributions to both plans.
- This is not a “quick fix.” Closing a defined benefit plan requires a great deal of time – up to 100 years.

Only strict adherence to a responsible funding policy that requires making the full actuarially-required contribution rate, and adjusting actuarial assumptions as needed over time, will eliminate pension underfunding.

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