

Retirement Stakeholder Solutions Working Group

Lump Sum Buyout

February 10, 2020

What is a lump sum buyout?

- An exchange of a monthly benefit payment in the future for a one-time lump sum payment.
 - The amount can be received by the individual or placed into a tax-qualified retirement savings plan
- Common in private sector, less common in public sector
- Very often only applies to retired or deferred vested members
 - Deferred vested – Separated from agency, without taking return of contributions, and not yet retirement eligible
- Open for an election period or continuous

Current Pension Plans with Buyouts

- Missouri State Employees' Retirement System
- Illinois State Employees' Retirement System

Missouri Pension Buyout Program

- MOSERS faced a downward funding trend
 - 79.2% funded in 2011 vs 69.6% in 2017
 - \$4B UAL
- Passed legislation (SB62) for a window program to allow specific former employees to make a one-time election to receive a lump sum payment equal to a percentage of present value of deferred annuity.

Vested-Former Member Buyout Program

- Employee had to be deferred vested
- Buyout payment equal to sixty percent (60%) of the present value of the member's deferred normal retirement annuity
 - Average annual retirement payment = \$15,533
 - Average lump sum buyout = \$14,000

Vested-Former Member Buyout Result

Results

- 17,005 eligible vested former state employees
- 4,374 (25.7%) elected buyout
- \$41 million net liability eliminated
- Funding mechanism: Pension Trust Funds

Illinois Pension Buyout Program

- Illinois State Employees Retirement System
 - \$30B UAL – 34% Funded
 - Average annual retirement payment = \$38,220
- Illinois authorized two voluntary buyout plans:
 - **Automatic annual increase buyout:** Upon retirement, Tier 1 members can trade 3% compounded COLAs for 1.5% increases on base pension amount and lump sum payment equal to 70% of the difference between the value of their COLAs.
 - **Inactive member buyout:** Inactive Tier 1 and Tier 2 deferred vested members can elect 60% of current value of pensions as a lump sum payout
 - Cost reduction target: Reduce contributions by \$423M in FY 2019

Illinois Pension Buyout Program - Results

- Actual general fund savings of \$13.1M
 - Delivered 3% of projected savings
 - Buyouts extended through FY 2024 in effort to meet targets
- \$11M of savings were due to the COLA buyout
 - 23.6% of retiring members chose the lump sum
- Funding mechanism: Pension Obligation Bonds

Overall Opportunities

- Potential to reduce the costs of retirement contribution to pension plans
- Funding buyout produce savings if less than 100% of the of the actuarial value is offered
- Can reduce 415 issues

Overall Considerations

- Need funding mechanism
- Possibility of lower than expected opt-ins
- Would require negotiations with bargaining unions
- Depending on structure would need to discern if vested rights issues (CA Rule) exist
 - Not aware of a California plan that has used buyout program
 - If offered to active employees, may need IRS approval
- Federated: Average annual retirement benefit= \$50k
- Police & Fire: Average annual retirement benefit= \$110K
 - Compared to Missouri \$16k and Illinois \$38k

San Jose Retiree Healthcare Buy Out

- City offered a one-time election to opt-out of the defined benefit retiree healthcare plan and receive 100% of employee contributions
 - Required IRS Private Letter Ruling
- Election to join VEBA eliminated current retiree healthcare contribution rate
 - 7.5% Federated
 - 8% Police and Fire

San Jose Retiree Healthcare Buy Out

VEBA Opt-Out Information	
Total Employees Eligible	~3,000
Number of Employees Who Made the Election	296
Average Payout Received	\$61,500
Federated UAL Reduction	\$1.9M
Police and Fire UAL Reduction	\$2.9M

Questions and Discussion