Areas for Tentative Recommendations from Meeting 2

Meeting Topic

Setting the Goal. The Commission discusses the basic requirement of any retirement system to provide adequate retirement income after the employee has worked a reasonable career, only part of which might be worked in the state/local government. This step helps the Commission define adequate and reasonable from the employee’s perspective.

Background

Keep in mind that in this meeting, we are focused entirely on employee preferences and are assuming all other factors remain constant. In particular, we assume that total compensation (the value of all cash compensation and benefits) remains constant, that risk remains constant, and that the employer does not wish to encourage any particular behavior beyond what it encourages through higher pay.

Note that an employee will have certain retirement goals regardless of whether he works for the state or local government for 5 years or 50 years. If he only works here for 5 years, he presumably will only expect to earn a fraction of his eventual retirement benefit during those 5 years, but will still want to accumulate an adequate total retirement benefit from all sources.

Proposed Areas of Recommendation

The following proposed areas for tentative recommendations are only suggestions to help guide your reading and discussion. The Commission can choose to make tentative recommendations in any other areas that arise during the discussion.

1. What percent of pre-retirement income do career employees need to replace in retirement (the length of a career will be defined in one of the later questions below)? Is the answer uniform across the employee population or is it different for some employees?
2. In both nominal and real (adjusted for inflation) terms, is the pattern of income needs in retirement increasing, decreasing, or level?
3. What lifetime allocation of total compensation between take-home pay and pensions would employees prefer? In other words, would employees prefer to have more take-home pay now and retire later or have less take-home pay now and retire earlier?
4. How long is a full career? Is the answer uniform or is it different for some employees?
5. How would employees prefer to earn benefits or save through the employer’s mandatory pension system?
   a. More in the early years to minimize the total amount that has to be contributed.
   b. Evenly throughout the career to minimize the amount contributed in any single year.
   c. More in the later years when retirement seems more important.