

CYPEN & CYPEN NEWSLETTER for December 19, 2019

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Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. MYSTERY FOR THE AGES SOLVED! IS INTEREST ON PLAN LOANS DOUBLE-TAXED?:

We have the answer! It ranks right up there with “what’s out there beyond our solar system”? and “Who am I? Why am I here?”

Mechanics of Taking a Loan, Making Loan Payments

All monies in an individual account retirement savings plan are tracked at least two ways – by the source of the monies and by the investment allocation. So, whenever money is added to a plan, it gets credited to a specific “source bucket” and monies are concurrently allocated into one of the available investments based on the participant’s election (or per the QDIA). Typical “source buckets” are:

- Pre-tax 401(k) or 403(b) deferrals
- Roth 401(k) or 403(b) deferrals
- Employer matching 401(a) contributions
- Employer non-elective 401(a) contributions
- After-tax 401(a) employee contributions, and
- Monies rolled over into the plan.

There are an equal number of “earnings buckets”, one for each of the “source buckets” – because plan provisions sometimes restrict earnings (such as earnings on 401(k) contributions and hardship withdrawal provisions). Loan principal never leaves the plan. A plan loan does change the investment allocation – the loan principal is typically allocated to a “loan account” – where the monies are not invested in debt securities of a bank, financial institution, etc. but become a fixed-income investment for the participant. So, there is no tax effect on the principal when the loan is

initiated nor when the loan is repaid. Each loan payment includes loan principal and interest. When repaid, the loan principal is moved from the “loan account” to the investments selected by the participant. Unlike the principal, each payment of loan interest has the same qualities as any other positive return on investments – increasing plan assets. It too is allocated to the investments selected by the participant. So, for example, if a plan only has 401(k) pre-tax deferrals, the plan loan principal never leaves the 401(k) pre-tax deferral “source bucket” and loan interest is allocated to the 401(k) pre-tax deferral earnings bucket.

One Exception

Under almost all 401(k) plans, the plan loan interest a participant pays is credited directly to the participant’s account. However, there are loan structures where a loan is treated as just another interest-bearing security within a fund (a bond fund, a money market fund, or sometimes the general account of an annuity provider). You might see this in 403(b) plans and/or in defined benefit /defined contribution pension plans. In such designs, loan principal is moved to the designated investment option and the interest a participant pays is commingled with the interest or earnings on other securities in that investment option.

Taxation of Plan Loan Interest

All loan interest, whether paid on a commercial loan or on a plan loan is always paid with after-tax dollars. We are left with two questions:

- Is there a tax deduction on the interest component of the loan payment, and
- Is the interest taxable when distributed from the plan?

Under current tax code provisions, interest on a loan secured with a mortgage that otherwise meets tax code requirements may be tax deductible – whether the loan was sourced from a tax qualified plan or a commercial source. So, yes, if you have a plan loan that was used to finance the acquisition of your main home or second home (buy, build, or substantially improve), the interest you pay to your own 401(k) account may be tax-deductible. (Hint: I have done this myself in the past when interest on home equity loans was tax-deductible). A distribution of earnings, including the interest you paid on a plan loan, is taxable on the same basis as would apply to interest on any other fixed income investment. So, whether the interest is paid based on a bond investment or the interest was paid by you as part of a plan loan, it is taxable income when distributed from the plan – with one exception. The exception is if the principal used to secure the loan was Roth 401(k) contributions, but only if the Roth monies remained in the plan long enough to meet the 5-year, age 59½ requirements. In that situation, the interest you paid on your plan loan may be distributed tax free.

Conclusion

Yes, the interest on a loan is always paid with after-tax dollars that did not qualify for a tax deduction (except where the plan loan was properly secured with a mortgage). And, yes, a participant must pay taxes on interest received from the plan whether it was interest from an investment or interest

the participant paid on a plan loan (unless the principal was Roth 401(k) monies and the interest ultimately qualifies for tax free treatment upon distribution). But, are the same dollars “double taxed”? No. Simply, these are different amounts – loan interest the participant paid and earnings the participant received from investments. For comparison, had a participant borrowed from a commercial source, she would have paid interest with after-tax dollars but would not have received the interest she paid on that loan. And, say a participant contributed Roth 401(k) dollars in 2007, took a \$1,000 loan with 5% interest to be repaid in a year, suspended her contributions, paid the loan back, but then suffered substantial investment losses due to the market decline of the Great Recession. Her investment earnings would be negative, and she would only receive a portion of the Roth contributions she had made - no taxes would be due. Bottom line, other than the exceptions detailed immediately above, there is no option to make loan interest payments with pre-tax contributions (whether the loan was sourced from the plan or from a commercial source) and there is no option to receive earnings from the plan tax free. You can call it double-taxation if you like. Me, I say these are not the same dollars. Jack Towarnicky, Plan Sponsor Council of America, December 16, 2019.

2. EMPLOYER COSTS FOR EMPLOYEE COMPENSATION – SEPTEMBER 2019:

State and local government compensation averaged \$51.66 per hour worked in September 2019, the U.S. Bureau of Labor Statistics reported today. Wages and salaries averaged \$32.19 per hour worked and represented 62.3 percent of total compensation costs, while benefit costs averaged \$19.47 and accounted for the remaining 37.7 percent. Among state and local government occupational groups, total compensation costs ranged from \$35.85 per hour worked for sales and office to \$62.08 for management, professional, and related occupations. Among industry groups, total compensation costs were \$54.10 per hour worked in the education and health services industry and \$49.71 in public administration. State and local government wages and salaries ranged from \$20.68 per hour worked for sales and office to \$40.06 for management, professional, and related occupations. Wages and salaries accounted for 57.7 percent of total compensation for sales and office and 64.5 percent in management, professional, and related occupations. Total benefit costs (\$19.47) include paid leave (\$3.87), supplemental pay (\$0.51), insurance (\$6.07), retirement and savings (\$6.17), and legally required benefit (\$2.85) costs. The average total benefit costs in the public administration industry were \$20.95 or 42.1 percent of total compensation.

Paid leave consists of vacation (\$1.47), holiday (\$1.10), sick (\$1.00), and personal (\$0.31) costs. The average cost for paid leave was \$3.87 per hour worked or 7.5 percent of total compensation. The largest paid leave cost among occupational groups was \$4.37 per hour worked or 7.0 percent of total compensation for management, professional, and related occupations. The average cost in the junior colleges, colleges and universities industry was \$5.22 or 8.7 percent of total compensation.

Supplemental pay costs for state and local government workers averaged \$0.51 per hour worked or 1.0 percent of total compensation. These costs include shift differentials, \$0.05 (0.1 percent of total compensation), overtime and premium pay, \$0.22 (0.4 percent), and nonproduction bonuses1

\$0.24 (0.5 percent).

Insurance costs were \$6.07 per employee hour worked, or 11.7 percent of total compensation. The largest component was health insurance at \$5.92 or 11.5 percent of total compensation. Insurance was the largest benefit cost for sales and office occupations at \$5.69 (15.9 percent of total compensation).

Retirement and savings benefit costs averaged \$6.17 per hour worked (11.9 percent of total compensation). These costs include defined benefit plans (\$5.74), and defined contribution plans (\$0.43).

Legally required benefit costs averaged \$2.85 per hour worked (5.5 percent of total compensation), including Social Security and Medicare (\$2.22), state and federal unemployment insurance (\$0.06), and workers' compensation (\$0.56).

For 2020 ECEC release dates, see [here](#). [USDL-19-2195](#), Bureau of Labor Statistics, U.S. Department of Labor, December 18, 2019.

3. WHAT'S NEW FOR EMPLOYERS & PRACTITIONERS?:

Expected Retirement Age Annual Update

On December 9, 2019, PBGC published a [final rule](#) amending its valuation regulation (29 CFR 4044) by substituting a new table for selecting the "retirement rate category." The new table is used to determine the applicable expected retirement age ("XRA") for participants in single-employer plans with 2020 valuation dates. XRA is one of the assumptions used to determine liabilities under ERISA section 4044 (per 29 CFR 4044). A copy of the table is available on PBGC's [ERISA Section 4044 Retirement Assumptions](#) web page. Additional information for practitioners is available on our [Employers & Practitioners page](#). Pension Benefit Guaranty Corporation, December 9, 2019.

4. ILLINOIS'S UNDERFUNDED PENSION LIABILITIES \$500 MILLION MORE THAN EXPECTED:

Illinois' unfunded liabilities rose to \$137.3 billion during the 2019 fiscal year, \$500 million more than the state's Commission on Government Forecasting and Accounting (COGFA) predicted it would be in April. The Commission attributed the increase primarily to "the continued actuarially insufficient state contributions and lower-than-expected investment returns." The losses could have been even bigger, but actuarial gains from SERS members who elected to participate in pension buyout plans, as well as net actuarial gains reported by State Employees' Retirement System (SERS) and General Assembly Retirement System (GARS), helped offset the cumulative actuarial loss of the systems. The funded ratio for the combined systems edged up to 40.3% in fiscal year 2019 from 40.2% in fiscal year 2018. The total unfunded liabilities of the state systems were led by the Teachers' Retirement System (TRS), which has unfunded liabilities of \$78.1 billion and assets of \$53.4 billion. As the largest of the state's five retirement systems, TRS accounts for approximately 56.9% of the

total assets and liabilities of the systems combined. The SERS had unfunded liabilities of \$30.3 billion and assets worth \$18.4 billion, and accounts for approximately 22.1% of the total unfunded liabilities of the systems. And the State Universities Retirement System (SURS), which had unfunded liabilities of \$26.8 billion and assets of \$19.7 billion, representing 19.5% of the total. Although the main reason for the increase in unfunded liabilities was insufficient state contributions, the COGFA cited two other factors that worsened the unfunded liability. One was an actuarial loss that resulted from lower-than-assumed investment returns by all of the systems. The other factor was the “unfavorable experience” from demographic and other factors, mainly by TRS and SURS, such as earlier retirements than assumed, which increased the unfunded liability. COGFA also said that from fiscal year 2004 through fiscal year 2018, the combined unfunded liabilities of the systems increased \$98.4 billion based on the market value of assets. It said the main factors for the increase were actuarially insufficient employer contributions, changes in actuarial assumptions and demographics, and other miscellaneous actuarial factors, along with lower-than-assumed investment returns. The Commission also said that if Illinois continues funding its state pensions according to Public Act 88-0593 the projected accrued liabilities of the state retirement systems will increase to \$331 billion at the end of fiscal year 2045 from \$229.3 billion at the end of fiscal year 2019. At the same time, the projected actuarial value of assets is projected to increase to \$297.9 billion from \$92.5 billion. Public Act 88-0593 requires the state to make contributions to the systems so that their total assets will equal 90% of their total actuarial liabilities by fiscal year 2045. The [contributions](#) are required to be a level percent of payroll in fiscal years 2011 through 2045. Michael Katz, *Chief Investment Officer*, December 9, 2019.

5. IRS PUBLISHES REQUIRED AMENDMENTS LIST FOR DC PLANS:

This year’s required amendments list touches on the new hardship withdrawal standards and a new regulation impacting certain hybrid defined benefit plans. The IRS has published [Notice 2019-64](#), which details the 2019 required amendments list for qualified retirement plans. As the IRS notes, beginning with the 2019 required amendments list, all required amendments lists will apply to both individually designed plans qualified under Section 401(a) and individually designed plans that satisfy the requirements of Section 403(b). Part A of the Notice details “changes in requirements that generally would require an amendment to most plans or to most plans of the type affected by the change.” First, the Notice states that final regulations relating to [hardship distributions](#) must be addressed. “Plans (including § 403(b) individually designed plans) that (1) provide for a suspension of an employee’s elective deferrals or employee contributions as a condition for obtaining a hardship distribution of elective deferrals or (2) do not require a representation from an employee who requests a hardship distribution that he or she has insufficient cash or other liquid assets reasonably available to satisfy the need, must be amended as necessary to eliminate the suspension and provide for the representation, for hardship distributions made on or after January 1, 2020,” the Notice states. The IRS notes that the prohibition on a qualified plan’s or 403(b) plan’s suspension of elective deferrals and employee contributions as a condition for obtaining a hardship distribution of elective deferrals applies not only to the plan making the hardship distribution but also to all of the employer’s other qualified plans, Section 403(b) plans, and, if the employer is an eligible employer

described in Section 457(e)(1)(A), eligible deferred compensation plans, as described in Section 457(b). The second required change is detailed by the IRS as follows: “Collectively bargained cash balance/hybrid defined benefit plans maintained pursuant to one or more collective bargaining agreements ratified on or before November 13, 2015, and which constitute collectively bargained plans under Section 1.436-1(a)(5)(ii)(B), must be amended to the extent necessary to comply with those portions of the regulations regarding market rate of return and other requirements that first became applicable to the plan for the plan year beginning on or after the later of (1) January 1, 2017, and (2) the earlier of (a) January 1, 2019, and (b) the date on which the last of those collective bargaining agreements terminates.” The IRS notes that the relief from the anti-cutback requirements of Section 411(d)(6) provided in Section 1.411(b)(5)-1(e)(3)(vi) applies only to plan amendments that are adopted before the effective date of those regulations. Part B of the IRS Notice details “other changes in requirements that may require an amendment,” of which this year there are actually none. Generally, December 31, 2021, is the last day of the remedial amendment period with respect to a disqualifying provision arising as a result of a change in qualification requirements that appears on the 2019 required amendment list and a form defect arising as a result of a change in Section 403(b) requirements that appears on the 2019 required amendment list. In addition, under section 8.01 of Revenue Procedure 2016-37 and section 6.01 of Revenue Procedure 2019-39, December 31, 2021, generally is also the plan amendment deadline for a disqualifying provision arising as a result of a change in qualification requirements that appears on the list and for a form defect arising as a result of a change in Section 403(b) requirements that appears on the 2019 list. Later dates may apply to a governmental plan. John Manganaro, *Planadviser*, December 5, 2019.

6. LEGAL DEPARTMENT OPERATION -- A GUIDE FOR GENERAL COUNSEL:

Legal department operations have shifted over the last decade to reflect a broader, global drive toward more efficiency. Every market around the world has felt the effects of the last 10 years of soaring technological change, and the legal operations field is no exception. But legal departments are taking a multi-pronged approach to accomplish this goal of becoming more efficient to contribute to overall organizational profitability: they are onboarding specific people as well as technology solutions. The 2018 Chief Legal Officer Survey found that 73 percent of organizations cite hiring an administrator or legal operations manager as the most significant factor in driving legal department efficiency. The value of the legal department manager is becoming more clear as that cross-functional role not only helps to streamline the legal department’s operation but aids in creating efficiencies across the entire organization. The Corporate Legal Operations Consortium (CLOC) has cited the benefits of legal ops professionals specifically in establishing operational strategy and overseeing the department’s technology roadmap. Emerging technologies are the second major force impacting legal departments, with artificial intelligence, machine learning, and natural language processing at the core of many solutions-creating efficiencies. The Spring 2019 Corporate Legal Operations survey conducted by Consero found that legal technology management is the highest priority for legal operations executives over the next year, and 58% of respondents expect their technology spend to increase as a result. This blend of bringing on both humans and technology to make legal departments more efficient may come as a surprise to those who have listened to the

rumors surrounding AI's supposed replacement of human legal professionals. While technology won't be replacing humans in the legal department any time soon – it will increasingly aid departments' humans to be more productive. This paper explores the relationship of technology to the growing legal operations field, how certain solutions help streamline legal ops to solve common problems, and the role of general counsel in the expanding The balance of this document can be found [here](#). Consero, Spring 2019 Corporate Legal Operations survey, Contractworks, Spring 2019.

7. PROGRAM CUTS FIREFIGHTERS' CANCER RISK:

Studies about a decade ago began showing that firefighters have higher rates of many cancers, including multiple myeloma, non-Hodgkin's lymphoma, and prostate and testicular cancer, than the general population. Through continued research, the reasons began to emerge: Every time firefighters respond to a fire, whether in a house, a dumpster, a car, or in wild lands, they can be exposed to an ever-increasing array of known cancer-causing agents. And due to the ingrained, tough-guy culture found in fire stations everywhere, they often don't wear breathing masks at the site or clean up afterward, bringing the contaminants back to their station or home with them. Sylvester responded to the challenge in 2015 by launching the Firefighter Cancer Initiative through a state of Florida appropriation. Its primary goals are to better document and understand cancer among Florida firefighters, and identify novel, evidence-based methods for reducing risk. In June, the program's success attracted more than 325 firefighters, scientists, researchers, and other stakeholders from seven countries to the inaugural State of the Science National Firefighter Cancer Symposium, hosted by Sylvester. Their mission was to begin developing a scientific road map for controlling and preventing cancer among firefighters. "I haven't seen the depth of this kind of science in one place," said symposium co-chair Erin Kobetz, Ph.D., M.P.H., the director and principal investigator of the Firefighter Cancer Initiative. "We have leadership from across the globe, scientists and firefighters alike, here to help us think through the most challenging research questions about how we address the excess burden of cancer in the fire service." -- Maya Bell
Richard Westlund, *University of Miami Medicine*, Fall 2019.

8. NASRA ISSUE BRIEF – STATE AND LOCAL GOVERNMENT SPENDING ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS:

State and local government pension benefits are paid not from general operating revenues, but from trust funds to which state and local government retirees and their employers contributed during retirees' working years. These trusts pay over \$300 billion annually to retirees and their beneficiaries, benefits that reach virtually every city and town in the nation. On a nationwide basis, contributions made by state and local governments to pension trust funds account for 4.7 percent of direct general spending. Pension spending levels, however, vary widely among states, depending on various factors, and are actuarially sufficient for some pension plans and insufficient for others. In the wake of the 2008-09 market decline, nearly every state and many cities have taken steps to improve the financial condition of their retirement plans and to reduce costs. States and cities changed their pension plans by adjusting employee and employer contribution levels, restructuring benefits, or both. This update provides figures for public pension contributions as a percentage of

state and local government direct general spending for FY 2017, and projects a rate of spending on pensions on an aggregate basis for FY 2018.

Nationwide Spending on Public Pensions

Based on the most recent information provided by the U.S. Census Bureau, 4.7 percent of all state and local government spending is used to fund pension benefits for employees of state and local government. Pension costs rose sharply following FY 02 after falling equally sharply in the preceding years. These costs declined from 4.1 percent, in FY 89, to a low point of 2.3 percent in FY 02, and reached 4.7 percent in FY 17. The rate of spending in FY 17 was essentially unchanged from the prior year, dropping from 4.72 percent to 4.71 percent. Although slight, this decline marked the first decrease in the rate of pension spending since 2009. This reduction is notable especially in light of the improved effort among state and local governments in recent years to adequately fund their pension plans (see NASRA Issue Brief: State and Local Government Contributions to Statewide Pension Plans: FY 17). State and local governments contributed, in aggregate, approximately \$160 billion to pension funds in FY 18, an amount that represents the largest annual increase in employer pension contributions since FY 14. This change is projected to increase the percentage of state and local direct general spending on public pensions, from 4.71 percent to 5.02 percent. Although pensions in most states do not comprise a significant portion of aggregate state and local spending, spending on pensions by states and political subdivisions varies widely among states, from less than 2.0 percent to nearly 10.0 percent. Some municipalities have reported higher pension costs as a percentage of their budget.

Differences in Pension Cost Levels

The variation in pension spending levels among states is attributable to such factors as differences in benefit levels; variations in the size of unfunded pension liabilities; the level of commitment by the state and its local government plan sponsors to make required pension contributions; the portion of the state's population that lives in an urban area; and the fiscal condition of government plan sponsors. Most employees of state and local government participate in statewide retirement systems. In FY 18, state and local government contributions to statewide retirement systems accounted for 77 percent of total pension contributions, with the remaining 23 percent belonging to locally administered systems. As a percentage of total spending, cities spent approximately 31 percent more than states on pensions over the 30-year period spanning 1988- 2017. This higher level of spending is largely attributable to the types of services delivered at the local level (*i.e.*, more labor-intensive, such as public safety personnel) and the resulting larger portion of local government spending that goes toward salaries and related benefits compared to spending by states.

Differences in Benefit Levels

Pension benefit levels, and therefore required costs, vary among public pension plans. As described below, this difference is particularly pronounced for the 25 percent to 30 percent of state and local government employees who do not participate in Social Security, as their pension benefit levels--and costs--generally are higher to compensate for all or part of the absence of Social Security benefits.

In addition to pension benefit accrual rates, variations in benefit levels may manifest themselves also via differences in required employee contribution rates and other features of the plan design, such as vesting periods, age of retirement benefit eligibility, etc.

Size of Unfunded Liabilities

An unfunded pension liability is the projected difference between the pension benefits that have been accrued and the assets that have been set aside to pay for them. For a plan with a relatively large unfunded liability, the annual cost of paying down that liability can exceed the cost of benefits accrued each year. By contrast, the cost for a plan with no unfunded liability is simply the cost of benefits accrued each year, *i.e.*, the normal cost. States with pension plans that have a relatively large unfunded liability will have higher pension plan spending levels, assuming the employer is making a good faith effort to pay its required contributions.

Social Security Coverage

Twenty-five to thirty percent of state and local governments and their employees make contributions to their retirement plan instead of to Social Security. This is the case for most to substantially all of the state and local government workforce in seven states, 40 percent of the nation's public school teachers, and a majority of firefighters and police officers. Pension benefits--and costs--or those who do not participate in Social Security are usually higher than for those who do participate, in order to compensate for the absence of Social Security benefits. This higher cost should be considered in the context of the 12.4 percent of payroll, or an estimated \$29 billion annually, these employers and employees would otherwise be paying into Social Security.

Level of Commitment to Pay Required Contributions

State and local government efforts to pay required contributions vary widely: some employers consistently pay the full Actuarially Determined Contribution, and others pay less. Whatever the cost of the pension plan, actual spending on pensions as a percentage of all spending is affected by employers' effort to actuarially fund the plan.

Urbanization

Another factor that appears to contribute to differences among states in pension costs is the extent to which the state's population resides in urban areas, or cities. An analysis of state and local spending on pensions and the percentage of population residing in metropolitan areas within each state, suggests that, although not true in every case, states characterized by greater urban populations are more likely to experience higher costs for public pension benefits than states with lower urban populations. Tighter labor markets and higher cost of living – factors that may characterize densely populated cities – may lead employers to offer higher retirement benefits in order to meet their workforce management objectives. Pension benefits are just one component of total compensation, and other factors, such as salaries and health benefits for active and/or retired workers, may also be correlated with a state's degree of urbanization, and may also affect the difference in pension costs. Further research into the relationship of these factors may clarify these

differences.

Fiscal Condition of the Plan Sponsor

The fiscal status of governments that sponsor public pension plans is an important factor to consider when measuring the percentage of state spending dedicated to pensions in each state. The national aggregate rate of increase in state expenditures from FY 16 to FY 17 was 4.3 percent, which outpaced growth in employer pension contributions and is representative of a trend of increases in government fiscal capacity, as indicated by growth in major sources of state and local tax revenue observed in recent years. However, the individual state experience is mixed: compared to FY 16, FY 17 individual state expenditures ranged from an increase of nearly 12 percent to a nearly commensurate rate of decline. States with stronger economic growth – as measured by increased spending – are better able to absorb higher pension contributions than states with weaker or negative growth. In addition to these causes of variation in pension costs among states, consistent comparisons of pension spending by local governments can be difficult to make because the fiscal relationship between each state and its political subdivisions is unique with respect to revenue, spending structure and taxing authority, and varies widely. For example, funding responsibility for K-12 education budgets ranges from primarily a state duty to one that is primarily a local responsibility. Likewise, revenue-sharing arrangements and the authority of local governments to tax and raise revenue also run a wide range. As with states, pension costs for municipalities also can vary widely.

Cost and Financing Factors

Public pensions are financed through a combination of contributions from public employers (state and local agencies) and public employees, and the investment earnings on those contributions. Since 1989, investment earnings have accounted for 63 percent of all public pension revenue; employer contributions, 26 percent; and employee contributions, 11 percent.

Employee Contributions

Because nearly all public employees are required both to participate in their employer-sponsored retirement plan and to contribute toward the cost of their pension benefit--typically four to eight percent of pay--most state and local government retirement plans are, in fact, mandatory savings programs. In recent years, many states increased rates of required employee contributions. On a national basis, in fiscal year 2018, employee contributions accounted for nearly 26 percent of all public pension plan contributions, with employer contributions making up the remaining 74 percent.

Employer Contributions

A variety of state and local laws and policies guide governmental pension funding practices. Most require employers to contribute what is known as the Actuarially Determined Employer Contribution (ADEC), which is the amount needed to finance benefits accrued each year, plus the annual cost to amortize unfunded liabilities from past years, less required employee contributions. On a weighted basis, the average ADEC paid in recent years has been over 90 percent. Beneath this average contribution experience lies diversity: approximately 75 percent of plans in the Public Fund Survey

consistently receive 90 percent or more of their ADC. This means that although a majority of plans have been receiving their actuarial required funding, some plans have not been adequately funded, which will result in higher future costs. Leading national public sector associations established a Pension Funding Task Force, which in 2013 released its report Pension Funding: A Guide for Elected Officials urging policymakers to follow recommended guidelines for an actuarially determined contribution to government retirement systems.

Investments and Other Parts of the Financing Equation

The largest portion of public pension funding – over 60 percent for the 30-year period 1989-2018 – comes from investment earnings, which illustrates the major role this revenue source plays in determining pension costs (see NASRA Issue Brief: Public Pension Plan Investment Return Assumptions, February 2019). In addition to the performance of pension fund investments, actuarial expectations regarding macro-economic and demographic events also affect the cost of the plan. These events include the rate of inflation, retirement rates, attrition and rates of hiring, and wage growth, which can be affected by salary cuts and layoffs. Additionally, legislatures in nearly every state made changes to pension benefits and/or financing structures, in some cases reducing plan costs and long-term obligations.

Conclusion

Pension costs paid by state and local government employers vary widely and reflect multiple factors, including differing levels of public services, benefits, pension funding levels, employer effort to pay required contributions, and the fiscal condition of states and their political subdivisions, among others. Employers in FY 18 contributed a total of \$160 billion to pension benefits for employees, an amount that, in total, is a relatively small--but growing--part of state and local government spending. Keith Brainard, Research Director, Alex Brown, Research Manager, NASRA Issue Brief, December 2019.

9. DID YOU KNOW WILL ROGERS SAID THIS?:

"All I know is just what I read in the papers."

10. INSPIRATIONAL QUOTES:

"I learned that courage was not the absence of fear, but the triumph over it. The brave man is not he who does not feel afraid, but he who conquers that fear." -- Nelson Mandela

11. TODAY IN HISTORY:

On this day in 1776, Thomas Paine publishes his 1st "American Crisis" essay beginning "These are the times that try men's souls" (date disputed).

12. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.