A SURVEY OF STATE PENSION OVERSIGHT BODIES

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Foreword

The issue of public employee retirement benefits and their attendant costs confronts legislative bodies, state and local, nearly every year. Frequently, members of those legislative bodies find that they have either inadequate information, uncertain understanding, or both, when they are called upon to make decisions about public pension plans. These decisions, if not made carefully and with foresight, can seriously threaten the budgetary stability of a governmental unit years, even decades, later.

In order to improve both the quality of information and the level of understanding regarding public retirement plans, many states have turned to the creation of pension oversight bodies. These units, most of them relatively new, have been credited by their supporters with paying for themselves many times over by providing timely analysis of the long-term effects of proposed pension legislation thereby enabling the legislature to avoid an uninformed, costly decisions on pension benefits or funding.

The Michigan legislature has had under consideration, the creation of a pension oversight unit for some time. In 1976, a special subcommittee of the Michigan House of Representatives Committee on Retirement issued a survey of pension oversight commissions which at that time numbered ten. In 1979, the legislature is again considering the creation of a pension oversight unit.

In view of the continuing interest in pension oversight, the Citizens Research Council sent a questionnaire to each of the twenty states that currently have pension oversight units. These questionnaires were followed by personal communications with oversight commission members, staff, actuaries, and others in a position to comment upon the structure, powers, functions, and performance of these units. This report is a digest and analysis of the information so gathered. It is hoped that it will be useful both to those in Michigan who are considering this issue and to those in other states.

Although many organizations and individuals were contacted in the preparation of this report, special thanks go to the staff of the National Conference of State Legislatures who supplied the Research Council with the names of many well-informed and helpful persons in the several states without whose help the study could not have been completed and with other useful material. While acknowledging their help, the Research Council takes responsibility for the information included in the report.

Introduction

In an era of tax limitation and general demand for governmental accountability, it is not surprising that a number of states have concluded that it would be prudent to devote more resources to the monitoring of state and local retirement benefits and financing. In most states, public employee retirement systems have grown rapidly in recent years, and the costs of financing present and future benefits under those systems have become significant budgetary items.

Table 1

Growth of State and Local Retirement Systems
1966-67 to 1976-77

Item	1966-67	1976-77	Pct. Increase
	- - - - (in millions) - - - -		
Membership	7.1	11.0	54.9%
Receipts	$6,580	$ 25,347	285.2
Employee Contributions	$1,960	$5,233	167.0
Government Contributions	$3,055	$12,369	304.9
Earnings on Investments	$1,565	$7,744	394.8
Payments	$2,684	$9,767	263.9
Financial Assets at End of Fiscal Year	$39,265	$123,481	214.5

SOURCE: U.S. Bureau of the Census, Employee-Retirement Systems of State and Local Governments, 1977 Census of Governments, GC77(6)-l September, 1978.

Tables 1 and 2 indicate that, for state and local governments, in the United States, in only ten years --

- Governmental (employer) contributions have quadrupled to 12.4 billion dollars.
- Payments to retirants have increased by 3-2/3 times.
- Financial assets have tripled to 123.5 billion dollars (about equal to the total of the four largest industrial corporations in the U.S.)
- Pension contributions are rising faster than other expenditures for personal services.

Table 2 indicates that government contributions to employee retirement systems are growing more rapidly than other personal services expenditures and now account for nearly one dollar in ten spent for personal services by state and local governments.

Not only have pension costs been rising faster than most other state and local government costs, but the nature of pension obligation is different in several important respects from most other public expenditure programs.

Table 2

Personal Services Expenditures and Contributions to Employee-Retirement Systems by State and Local Governments 1966-67 and 1976-77 (in millions)

Item	1966-67	1976-77	Pct. increase
Total personal services expenditures	$44,507	$125,525	182.0%
Contributions to employee-retirement systems	$ 3,055	$ 12,369	304.9%
Contributions as percent of total personal services expenditures	6.9%	9.9%	--

SOURCE: U.S. Bureau of the Census, Governmental Finances in 1966-67 and 1976-77, Series GF67, No. 3 and GF77, No. 5, U.S. Govt. Printing office, Washington, D.C. 1968 and 1978.

Retirement Distinguished From Other Public Expenditures

At least six characteristics of public employee retirement financing distinguish it from other forms of public expenditure. These characteristics have led many states to begin to rethink their policies regarding retirement benefits and financing.

1. Retirement programs must be considered in very long-range terms. An employee now aged 25 years may retire from a governmental unit well into the second decade of the twenty-first century. Only a few other governmental expenditures (capital outlay being an example) require such a long-term perspective. Annual changes in pension funding levels and benefit structures may appear insignificant. Yet, over a long period of time, a succession of such changes may culminate in a serious impact upon a state or local budget.

2. Retirement benefits represent contractual obligations. For many years, retirement benefits were viewed as “gratuities.” That is, pensions provided by the employer were considered rewards for loyalty, long service, and so on, but were not considered part of the compensation to which the employee had a right. Present court rulings, however, are advancing the proposition that a public employee has a contractual right to a particular pension benefit once it accrues to him (i.e., once he has rendered the service upon which the benefit is based). Many states, including Michigan, have had explicit legal provisions enforcing this concept for several years. Thus, one way or another, pension costs are assuming a status different from other kinds of governmental expenditure. They are becoming more like debt service in the lack of controllability that they present to budget makers.

3. It is possible to delay the financing of benefits. In most governmental programs, if financing is not provided, neither are the services. In retirement programs, on the other hand, it is possible to avoid paying for the retirement benefits as they are incurred. If benefits are not paid for (funded) as they arise, a liability is built up that must be financed from future revenues. This is often referred to as the time bomb effect and may occasion serious fiscal conse-

quences for the jurisdiction that elects to provide benefits that it does not pay for currently. But it is still possible to avoid funding the benefits and yet meet the contractual obligations imposed by the retirement plans.

4. The irrevocability of pension benefits necessitates a different form of oversight. Typically, in governmental "oversight" of program performance and effectiveness, the governmental unit will establish a program, wait a period of time, review it, and then expand, modify, or discontinue the program. Most programs can be reformulated or dropped altogether. A pension benefit, once embodied in the retirement plan, cannot, as a practical matter, be reduced or eliminated for current employees. In some instances, new employees have received different retirement benefit packages than those for employees already working, but this is generally deemed to be a remedy for past failures to consider the future costs of pension benefits. Pension "oversight" then, must be exercised at a point prior to the adoption of the benefit as well as after its adoption.

5. Retirement systems involve unfamiliar concepts and terminology. If an individual seeks to accumulate $100,000 in 40 years, it is a reasonably simple matter to calculate how much money he must set aside each month at a given rate of return on his investment in order to reach that objective. It is a somewhat different matter when the objective becomes a certain monthly income for life after 40 years, and it is very different when thousands of individuals are concerned, particularly when those thousands of individuals may enter and leave employment freely during those 40 years. When systems become this complex, it is necessary to secure the help of an actuary, whose job it is to provide advice concerning the amount of money that needs to be set aside each year in order to assure that the agreed-upon benefits can be paid to retirants without using current revenues to pay pension payrolls. Unfortunately for the client, the actuary works in a world of present values, normal costs, active member payrolls, and other terms and concepts that tend to be somewhat foreign to non-actuaries. Government officials, including legislators, ordinarily recognize the importance of the actuary's annual "valuation" in which his recommendations appear, but frequently there is little understanding of the concepts employed and retirement policy decisions may be delayed, avoided, or simply mishandled as a consequence.

6. Employer contributions to employee retirement systems are not subject to federal income tax. Unlike straight salary, the contributions an employer makes to a retirement system are not treated as taxable income to the employee in the year they are made. In effect, therefore, the total compensation received by the employee can be made greater on the same outlay for personal services through increasing the value of pension benefits, providing the employees agree to accept an increase in deferred compensation instead of current income.* For many employees, tax-sheltered income becomes increasingly attractive as their salaries rise into the higher marginal tax rates entailed by the graduated federal personal income tax.

* Employer-paid pension benefits are taxable when received by a retirant, but presumably will be taxed at a lower effective rate.

For these reasons, a number of state legislatures have chosen to view retirement costs as a special case deserving of more detailed attention than was allocated to them previously. Moreover, in 1974 Congress passed the Employee Retirement Income Security Act (ERISA)[1] which established certain reporting and funding standards for private pension plans. State and local governments were not included in ERISA, but in the years since ERISA was adopted, several studies and proposals have indicated continuing Congressional interest in establishing at least reporting requirements for governmental retirement systems. The reaction of many states appears to be that of taking steps to gain firmer control over benefits and financing in hopes of forestalling federal intervention.

I. Pension Oversight in General

The concerns about public employee retirement benefits noted in the introduction and the costs of providing them have generated the development of a new kind of governmental agency intended to "oversee" public retirement benefits, costs, organization, and administration. These agencies, variously titled "pension review boards," "pension oversight committees," "retirement laws commissions," and so on,[2] have multiplied rapidly in recent years:

Number of Pension Oversight Units
1949 - 1919

1949	1959	1969	1979
2	5	8[a]	20

[a] Includes State of Washington unit which was terminated in 1975.

The pension oversight unit has one basic characteristic. It stands outside of the normal legislative and administrative processes that determine retirement policies. It may or may not have legislators in its membership. It may or may not produce actuarial valuations of proposed benefit changes. It may or may not employ a permanent, separate staff. But all such agencies are intended to be sources of independent information and advice on public pensions that are not part of the typical legislative processes or the machinery that administers pension benefits and financing.

Reasons for Establishing Pension Oversight Units

There have been some fairly specific reasons for the rapid development of pension oversight units.

First, a widespread perception has developed that benefit levels in many instances have risen above those necessary to maintain retirants adequately after retirement. Examples are cited in many states in which certain public employees are able to retire on total incomes which exceed

[1] P.L. 93-406.

[2] The agencies are called commissions, boards, committees, or councils. The term pension oversight unit" will be employed in this report to cover all such agencies.

those earned while working. Moreover, some have argued that overall benefit levels are excessive, particularly when Social Security is available for many state and local employees.

Second, the conclusion of many analysts, including a large number of legislators, has been that in some respects the legislative process has inadequately dealt with retirement programs. It is argued that legislatures have not had independent sources of information on retirement costs and benefits and have instead been reliant upon the retirement systems, local units, and employee organizations for direction in retirement policy-making. It is also pointed out that a legislature is actually a succession of short-term bodies that find it difficult to maintain consistent retirement policy over a long period of time.

Third, a multiplicity of state and local systems has led to a process known as "leapfrogging." Leapfrogging occurs when one system receives a benefit formula improvement and the other systems are motivated to remain competitive by attempting to gain approval of a similar increase and perhaps an additional improvement as well. This places the first system in the position of seeking another improvement and can lead to a continual escalation of benefit levels not necessarily resulting in a system of retirement benefits that reflects sound retirement policy.

Fourth, many states have a large number of public employee retirement systems. According to the Pension Task Force Report on Public Employee Retirement Systems,[3] in 1975, twelve states, including Michigan, each had over 100 public retirement systems. The twelve are:

Pennsylvania	1,413	Texas[*]	398	*Michigan*	1,87
Minnesota[*]	638	Colorado	343	Connecticut	165
Illinois[*]	465	Florida	335	New York[*]	117
Oklahoma[*]	435	Indiana	249	Massachusetts[*]	103

[*]Has pension oversight unit.

Most of these systems are small, many with only two or three active members. Many states have concluded that such a proliferation of systems has made accountability very difficult and has prevented the attainment of efficiencies associated with larger systems.

Pension Oversight Activities

Pension oversight units typically engage in three main activities. First, they acquire data on public retirement plans in the state. This may include both plans for state employees and those for local employees. The information sought usually is that which describes the financial conditions of the various plans, but also frequently includes data concerning benefit levels and structures and investment performance and controls.

[3] Committee on Education and Labor, U.S. House of Representatives, Pension Task Force Report on Public Employee Retirement Systems, U.S. Government Printing Office, Washington, D.C. 1978, p.55.

Second, they review proposed retirement legislation. Generally, these reviews are aimed at providing two kinds of analysis: (a) the amount and fiscal effect of the annual contribution required to fund a proposed benefit increase (the so-called "actuarial or fiscal note") and (b) the effect on benefit levels that would be produced by a retirement law amendment especially as those levels relate to other public employee retirement systems in the state.

Third, they analyze public retirement systems in the state and recommend changes. To date, the recommendations have fallen into three broad categories: (a) methods to improve the actuarial condition of the public plans in the state; (b) methods to contain benefit increases within the ability of the state or local units to finance those increases; (c) methods to achieve a rational benefit structure. Often, the chosen method of achieving all of these goals is plan consolidation in which benefit packages for all public employees in a state are reduced in number to a half a dozen or fewer, administration (including investment of pension reserves) is centralized, "portability" of benefits among the governmental units in the state is assured, and benefit changes limited to those secured by amendment of state statutes.

As the remainder of this report will make clear, the actual mechanism chosen varies from one state to another. Some states have well-financed agencies with technical staff working year-round. Others have committees composed entirely of legislators which meet in the interim between legislative sessions to consider pension issues. Some produce special studies while others simply collect available data. Some hire their own actuaries, others contract with consulting actuaries, and still others rely on the actuaries of the retirement systems in question. The various units and their similarities and differences are the subject of the remaining portions of this report.

II. Characteristics of Pension Oversight Units

Pension Oversight Units

The Citizens Research Council survey included twenty states with agencies charged with continuing review of pension costs, benefits, and structure. This total is current as of June 1, 1979 and includes Texas which has authorized creation of an agency which is to be established in September 1979. It does not include Washington which had an agency but discontinued it in 1975.

The agencies surveyed are listed in the table on the following page.

Structure

Membership

Number. The number of members ranges from a high of 22 in Louisiana (all legislators), to a low of 5 in New York (no legislators). The average number of members is about 11.

Composition. Table 4 indicates generally the composition of the oversight units. Of the twenty units in the survey, all but three (New York, Alaska and Massachusetts) have legislative representation in the membership. Ten are composed exclusively of legislators.

Table 3

Pension Oversight Units

State (Agency)	Year Established/ Organizational Authority	Status
Alaska (Legislative Board of Retirement Benefits)	1977/ Statute	Legislative
Arkansas (Joint Committee on Public Retirement and Social Security Programs)	1975/ Statute	Legislative
Illinois (Pension Laws Commission)	1941/ Statute	Legislative
Kentucky (Special Legislative Research Commission Sub-committee on Pensions)	1978/ Resolution	Legislative
Louisiana (Joint Committee on Retirement)	1972/ Concurrent / Resolution	Legislative
Massachusetts (Retirement Law Commission)	1958/ Statute	Independent
Minnesota (Legislative Commission on Pensions &Retirement)	1957/ Statute	Legislative
Nebraska (Retirement Systems Committee)	1959/ Statute	Legislative
Nevada (Legislative Interim Retirement Committee)	1977/ Statute	Legislative
New York (Permanent Commission on Public Employee Pension and Retirement Systems)	1971/ Statute	Executive
North Dakota (Legislative Council Committee on Public Employees Retirement Programs)	1977/ Statute	Legislative
Ohio (Retirement Study Commission)	1968/ Statute	Independent
Oklahoma (Joint Retirement Laws Committee)	1978/ Statute	Legislative
Rhode Island (Joint Committee on Retirement)	1978/ Statute	Legislative
South Carolina (Legislative Retirement Committee)	1966/ Statute	Legislative
South Dakota (Legislative Retirement Laws Committee)	1974/ Statute	Legislative
Tennessee (Council on Pensions and Retirement)	1971/ Statute	Legislative
Texas (Pension Review Board)	1979/ Statute	Independent
W. Virginia (Legislative Commission on Pensions & Retirement)	1978/ Statute	Legislative
Wisconsin (Joint Survey Committee on Retirement Systems)	1947/ Statute	Legislative
(Retirement Research Committee)	1959/ Statute	Legislative

Eight of the units have public member, but only the New York commission is composed entirely of public members. Although public members might be a source of outside technical expertise on units of this kind, most of the units that have private citizens are not legally required to have actuaries, lawyers, accountants or members of other professions normally associated with retirement systems operations. The only states with such requirements are Alaska, Texas, and West Virginia, and the requirements in West Virginia are very broad (one labor member, one business member, and one from the general public). Many of the public members of the units are, in fact, experts even though there are often no specific requirements.

Very few of the states (Alaska, Texas, and Wisconsin) have members of retirement systems, either active or retired, on the board. It is widely assumed that the representation of employees on the boards of the retirement systems is sufficient to protect the interests of employees. In addition, many of the units were established at least in part to provide a source of information to the legislature independent of that customarily received from employee groups and the retirement systems. The placement of employee representatives on the oversight unit is frequently viewed as inconsistent with this role.

Similarly, fewer than one-third of the units have retirement system administrators or other state or local officials as members.

Organizational Status

As noted earlier, pension oversight units are predominantly legislative agencies. Of the twenty units surveyed, fully 80 percent (16) are located in the legislative branch and the remainder, with the exception of New York, view their functions in large part as legislative service rather than as service to the executive or to the retirement systems themselves. See Table 3 for the organizational location of the various units.

Purview

Most of the units cover both state and local plans and many cover all state and local plans in their general oversight activities (see Table 5). There is a significant distinction drawn between state and local plans, however, when actuarial review of proposed pension benefits changes is involved.

In no case does the pension oversight unit perform actuarial valuations of proposed benefit changes for independent local systems. The typical procedure involves an actuarial review of proposed changes for state employee systems and for state-administered systems for local employees. This is made automatic by the necessity for benefit changes in these systems to be accomplished by amendment of state statutes, and by the requirement that the pension oversight unit review all such bills.

The purview of the units may increase as a result of the achievement of a usual objective, namely consolidation of local systems. One of the most frequently cited reasons for establishing pension oversight units is the planning and execution of the consolidation of local plans into one or a very few statewide, state-administered plans. When this is done, benefit changes, which may formerly have been adopted by local units, ordinarily must be instituted by statutory change thereby bringing such changes within the scope of pension oversight unit review, comment, and actuarial valuation.

(Local system consolidation is discussed elsewhere in this report).

Functions

For the purposes of this study the functions of pension oversight agencies have been put in five categories: (1) planning; (2) budgeting; (3) legislation; (4) evaluation; and, (5) research.

Planning. This function may be subdivided into: (a) Definition of a model pension system (i.e., ideal structure, benefits, financing provisions, administrative arrangements); and (b) Determination of the steps required to achieve the model system noted in (a). The basic question here is whether the agency takes the point of view that retirement policy is best served by the development of a plan by which to judge proposed changes or whether such policy should be determined on a case-by-case basis as proposed benefit and financing changes are considered and either adopted or rejected.

Table 4

Membership of Pension Oversight Units

State	Public Legislators*	Members of Retirement Members	Administrators of Retirement Systems	Other State or Local Systems	Total Number of Officials	Members
Alaska	--	1[d]	4	1	1	7
Arkansas	12(7H, 5S)	--	--	--	--	12
Illinois	10(5H, 5S)	5	--	--	--	15
Kentucky	18	--	--	--	--	18
Louisiana	22(14H, 8S)	--	--	--	--	22
Massachusetts		4	--	2	1	7
Minnesota	10(5H, 5S)	--	--	--	--	10
Nebraska	6[c]	--	--	--	--	6
Nevada	6(3H, 3S)	--	--	--	--	6
New York	--	5	--	--	--	5
North Dakota	7	--	--	--	--	7
Ohio	6(3H, 3S)	3	--	5	--	14
Oklahoma	12(6H, 6S)	--	--	--	--	12
Rhode Island	9(5H, 4S)	--	--	--	--	9
South Carolina	6(3H, 3S)	--	--	1	--	7
South Dakota	10(5H, 5S)	--	--	--	--	10
Tennessee	14(7H, 7S)	--	--	1	3	18
Texas	2(1H, 1S)	5[d]	2	--	--	9
West Virginia	6(3H, 3S)	3[d]	--	--	--	9
Wisconsin - a	6(3H, 3S)	1	--	1	2	10
- b	6(3H, 3S)	4	1	3	4	18
Number of states in category	17	8	3	6	4	20

*H = House or Assembly; S = Senate.

a Joint Survey Committee on Retirement Systems. [c] unicameral legislature.

b Retirement Research Committee. [d] expertise required of public members.

Very few legal requirements exist in the various states for development of a model pension system. Most of the statutes call for analysis, study, and development of recommendations concerning pension provisions. But the development of a model system is a logical outgrowth of many of these provisions and in actual operation, most of the agencies have defined a model pension system to one degree or another. Ordinarily this definition consists of a reasonably broad statement of goals or principles that could not be directly translated into legal retirement provisions. The goal statements deal with such issues as the appropriate length of service re-

Table 5

Plan Review Coverage of Pension Oversight Units

State	Unit reviews -- (1) All State and Local Plans	(2) All State Plans Plus State-Controlled Local Plans	(3) State and Local Plans Except for Certain Local*	(4) State Plans Only
Alaska	x			
Arkansas	x			
Illinois		x		
Kentucky		x		
Louisiana	x			
Massachusetts		x		
Minnesota	x			
Nebraska			x	
Nevada	x			
New York	x			
North Dakota	x			
Ohio			x	
Oklahoma		x		
Rhode Island		x		
South Carolina			x	
South Dakota	x			
Tennessee				x[a]
Texas	x			
West Virginia	x			
Wisconsin	x			

* Exempted local plans are usually either certain police and fire plans or plans of certain large cities (e.g., Cincinnati, Ohio, Omaha, Nebraska).

[a] Consolidated state plan includes some local units.

quired to receive full benefits, retirement age, level of benefits both at retirement and in later years, funding methods, and disability criteria.

The second part (definition of steps to reach model system), however, is employed much less frequently. In most states, the model system is used only as a measuring stick by which to judge retirement law proposals rather than as a plan toward which specific initiatives should be directed.

It should not be surprising that there is a strong correlation between planning and initiation of legislation (see below) since most agencies that plan also prepare legislation on the basis of their proposals.

Budgeting. Most of the agencies comment on the proposed budget and appropriations for retirement system financing. In every case the analysis is directed at the adequacy of the proposed expenditure for retirement system contributions in a given fiscal year. That is, is the proposed appropriation adequate to provide an employer contribution that conforms to legal requirements, actuarial recommendations, or both?

None of the agencies actually prepares the budget for pension contributions.

Legislation. The review and analysis of proposed legislation is a key function and is ordinarily viewed as one of the two or three most significant reasons for establishing the agency in the first place. In particular, most of the agencies provide an analysis of the cost implications of proposed benefit changes. In at least one state (Louisiana) retirement legislation may not be enacted until it has been analyzed by the agency. In other states (e.g., Minnesota, Massachusetts, Wisconsin) there **is** a requirement, slightly less strong, that all legislation regarding pensions be reviewed by the agency, but there is no requirement that it cannot be passed without agency review. Other agencies (e.g., Ohio) review only that legislation referred to them. In practice, this may be every bill but need not be. Finally, there are agencies that function largely as study commissions and do not review specific pieces of legislation at all (e.g., Nevada).

A more extensive review is carried out by some agencies in which proposed benefit changes or modifications of funding are analyzed in light of either goals or principles for benefit levels or funding methods. (See "planning" above).

Some agencies are active in initiating legislation (e.g., New York, Minnesota) while others (e.g., Ohio) tend toward more passive review of the proposals of others. Many of the agencies are new and have come into existence largely to solve a particular problem or set of problems. In these cases a major part of their current activity is the development of legislation, which in some instances requires significant restructuring of the public retirement systems in the affected states. In the more "mature" agencies (e.g., Wisconsin, Minnesota), legislative initiatives tend to be confined to specific proposals that involve incremental change rather than dramatic moves such as system consolidation or the closing of major plans.

Evaluation. The assessment of benefit levels and funding adequacy goes hand in hand with the planning function noted earlier. Most of the evaluation consists of the review of benefit structures to determine their adequacy and their comparability with other retirement plans. Evaluation also includes as an important element the review of the level of funding to determine whether it is adequate both legally and actuarially (if there is a difference) and whether the contributions to the system over a long period of time fit a desired pattern.

Some agencies evaluate the administration of the plans as well as their structure and financing. This kind of review has tended to emphasize (1) the structure of the retirement boards and (2) the assurance that proper investment procedures are followed. Benefit Administration (e.g., determination of eligibility for disability pensions) is seldom reviewed.

Table 6

Functions of Pension Oversight Units

	PLANNING		BUDGETING		LEGISLATION			EVALUATION				RESEARCH			
	Definition of model benefits, financing and structure	Determination of steps needed to achieve model	Prepare budget for pension con-tributions	Comment on budget & appropriations for pensions	Initiate legislation	Review legislation	Fiscal or actuarial notes	Evaluate benefit level and structure	Evaluate financing	Evaluate administration	Financial audit	Collect data, studies, etc.	Prepare special reports	Review audits, actuaian valuation	Clearinghouse
Alaska						*	*	*	*				*		
Arkansas	*	*		*	*	*	*	*	*	*		*	*	*	*
Illinois	*				*	*	*	*	*	*			*		
Kentucky					*	*	*	*	*	*			*	*	
Louisiana				*	*	*	*	*	*	*		*	*	*	
Massachusetts				*[a]	*	*	*	*	*	*		*	*	*	*
Minnesota	*	*		*	*	*	*	*	*	*	*	*	*	*	*
Nebraska	*	*			*	*	*	*	*	*		*		*	
Nevada								*	*				*	*	
New York	*	*		*	*	*	*	*	*	*		*	*	*	*
North Dakota					*	*		*	*			*	*	*	
Ohio	*			*	*	*	*	*	*			*	*	*	*
Oklahoma				*[b]	*	*	*	*	*	*		*		*	
Rhode Island				*		*	*	*	*					*	
South Carolina	*			*		*		*	*	*		*	*	*	*
South Dakota	*			*	*	*	*	*	*			*	*	*	
Tennessee	*			*	*	*		*	*	*		*		*	
Texas				*	*	*	*	*	*	*		*	*	*	*
West Virginia	*	*			*	*	*	*	*	*		*	*	*	
Wisconsin	*	*		*	*	*	*	*	*	*		*	*	*	*

a Comments limited to funding levels, reserve contributions. b Systems financed from dedicated taxes.

Only one agency (Minnesota) actually audits the systems that it oversees. Most of the other agencies, however, maintain communication with state auditors in performing their reviews.

Research. Basic to the other functions listed above is the acquisition and maintenance of data regarding the retirement systems in the state. In some states (e.g., Louisiana, West Virginia), the acquisition of data was itself a major initial problem, sometimes complicated by the unwillingness of certain plans (usually local) to submit information. This difficulty gave rise to actions in a few states (e.g., Texas, Louisiana, New York, and Massachusetts) to provide the agency with legal authority, usually subpoena power to compel all state and local plans to submit information (see section on "Powers").

Most agencies use audit reports, actuarial valuations, annual financial statements, and other regularly produced reports to compile reference material.

Most of the agencies also, prepare special reports on particular issues of interest to legislators. Obviously, this is more frequently done in those states (e.g., Wisconsin) that maintain staff.

The permanent units also act as a "clearinghouse" for information on retirement plan developments both in their own states and nationwide.

Powers of Pension Oversight Units

The powers of the pension oversight units, that is, the grants of authority that permit them to go beyond simple gathering of information already available will be discussed in three parts: (1) staff appointing authority; (2) power to acquire information; (3) review of proposed benefit changes. Table 7 summarizes the powers of the various units.

Staffing Authority. The units are staffed in either of two ways. Eight of the units employ separate staff that report only to the pension oversight unit. The remaining units, to the extent that they use staff at all, borrow staff from central legislative service agencies or from appropriations committee staff agencies. The staffing of the agencies is covered elsewhere in this report.

Data Acquisition. Two powers that involve the acquisition of information are: (1) the authority to compel pension systems to submit information, and (2) the authority to employ consultants, usually actuaries, to supply the units with independent information regarding the condition of the systems.

The units are about evenly divided on the power to compel the submission of data. Eleven have the authority while nine do not. Discussions with unit officials indicate that although the power (usually in the form of subpoena power) is seldom used, the absence of this authority can be a detriment to the operation of the unit. Most of the units with the authority considered it to be a "club behind the door," rather than a tool that was used often. The chairman of the Louisiana Joint Committee on Retirement related great difficulty in acquiring data from local units until a threat to subpoena the desired information was made.

Table 7

Powers of Pension Oversight Units

State	Staffing Authority: Appoint Director	Staffing Authority: Appoint Other Staff	Data Acquisition: Compel Data Submission	Data Acquisition: Contract for Consultant Services	Benefit Change Review[1]: Review of State Statutory Changes	Benefit Change Review[1]: Review of Local Plan Changes
Alaska	Yes	No	No	Yes	Mandatory	No
Arkansas	No	No	No	Yes	Mandatory	No
Illinois	Yes	Yes	No	Yes	Mandatory	Mandatory
Kentucky	No	No	Yes	Yes	Mandatory	No
Louisiana	No	Yes	Yes	Yes	Mandatory	Mandatory
Massachusetts	Yes	Yes	Yes	Yes	Permissive	No
Minnesota	Yes	Yes	Yes	Yes	Mandatory	Mandatory
Nebraska	No	No	Yes	Yes	Mandatory	Permissive
Nevada	No	No	No	No	No	No
New York	Yes	Yes	Yes	Yes	Permissive	Permissive
North Dakota	No	No	No	Yes	Mandatory	Permissive
Ohio	Yes	Yes	Yes	Yes	Permissive	No
Oklahoma	No	No	Yes	Yes	Mandatory	No
Rhode Island	No	No	No	Yes	Mandatory	No
South Carolina	No	No	Yes	Yes	Permissive	No
South Dakota	No	No	No	Yes	Permissive	No
Tennessee	No	No	No	No	Mandatory	No
Texas	Yes	Yes	Yes	Yes	Mandatory	Mandatory[2]
West Virginia	No	No	No	Yes	Mandatory	No
Wisconsin	Yes	Yes	Yes	Yes	Mandatory	No

[1] Mandatory-legislation must be submitted to unit for review;   Permissive-legislation may be reviewed by unit.

[2] For cities of 200,000 or more population.

The authority to contract with outside consultants is routinely granted by the legislation creating pension oversight units. Only Tennessee and Nevada (which is a study committee) do not have the authority to contract for consulting work. The Tennessee Council obtains its technical advice from the consolidated state system. All of the others contract for actuarial service, except Louisiana which has hired a legislative actuary. Ohio has a staff actuary but also has used outside consultants.

Review of Proposed Benefit Modifications. Table 7 indicates that only Nevada does not review proposed legislation that would modify the benefits of state-level pension plans. Of the remaining nineteen units, thirteen are empowered to review all pension legislation by means of requirements that provide for mandatory submission of legislation to the oversight unit for its review. Five of the units may review all proposed changes and typically do, but the authority in those instances is either explicitly permissive or sufficiently vague to justify the conclusion that it is not mandatory.

Table 8

Staff of Pension Oversight Units
(separate staff units only)

State	Number of Staff -- Director	Other Profes-sional	Clerical	Staff Qualifications[1] (Professional Only) Director	Other	Staff Salaries (Professional Only) Director	Other
Alaska	1	--[a]	--[a]				
Illinois	1	3	1	--	2 actuaries 1 lawyer	$25-30,000	$25-32,000
Massachusetts	1	1	1	--	lawyer	$22,000	$20,000
Minnesota	1	1	1	lawyer	public finance	$25,500	$18,600
New York	1	3	3	lawyer/ Ph.D.	2 pension analysts 1 lawyer	$36,500	$23-25,000
Ohio	1	3	1	advanced degree in public adm. or social science		$30-35,000	$14-18,000
Texas	N.A.			N.A.		N.A.	
	(Will probably have three or four staff members.)						
Wisconsin	1	1	2	experience in retirement systems		$26,700	N.A.

[1] These are not necessarily requirements, but represent the backgrounds of current staff members.

[a] Other staff supplied by Legislative Affairs Agency.

N.A. = Not available.

As noted elsewhere in this report, the requirement that proposed changes be submitted to the unit for review does not mean that the unit can necessarily block passage of legislation. Typically, the statutes governing the units provide for submission of retirement bills to the unit for review and analysis, but if the review and analysis is not completed within a period of time the standing committee may take up the bill and the legislature may vote it up or down ‘ In Louisiana, however, the legislature may not consider pension legislation until it has been commented upon by the oversight unit.

The units are much less active with respect to local pension plans, except where those plans are governed by state law. In only two states, Louisiana and Minnesota, are all local benefit changes subject to mandatory review by the pension oversight unit. In Louisiana, this is the case because all local benefits are determined by state statute.

Most of the states surveyed, however, have a fairly large number of independent local plans and the review of each proposed benefit increase could result in a workload of a much greater magnitude. Moreover, state pension oversight of local plans has had at best a cool reception from local units. Thus, rather than oversee 300 uncooperative local plans, the preferred course usually has been to pursue consolidation of local systems into one or two state-level plans.

Staffing

Eight of the agencies have separate staffs that report only to the pension oversight unit. The characteristics of those staffs are noted in Table B. The remaining units either are assigned staff from central legislative service agencies or have no internal staff at all relying on consultants for staff work (See Table 9).

Table 9

Staff Arrangements for Pension Oversight Units
(only units with no separate staff)

State	Staff Supplied By --	Approximate Number
Arkansas	Legislative Council	2
Kentucky	Legislative Research Commission	2
Louisiana	Legislative Council/Legislative Auditor	3 (incl. lawyer & actuary)
Nebraska	Legislative Council	N.A.
Nevada	Legislative Council Bureau	0.5
North Dakota	Legislative Council	N.A.
Oklahoma	Legislative Council	1
Rhode Island	General Assembly Staff	2
South Carolina	Legislative Clerical Staff	0.5
South Dakota	Legislative Research Council	0.1
Tennessee	Consolidated Retirement System	2 (during session)
West Virginia	Legislative Services Office	1.5

Financing

Most of the units have no separate budget of their own. In these cases the expenditures are covered by appropriations to the legislative councils or legislative research agencies. The appropriations come from the state general fund. Table 10 shows the level of appropriation (or estimated expenditure) for fiscal year 1978-79 in those states with identifiable budgets. The only unit not financed by the state general fund is the Ohio Retirement Study Committee which is financed by the five state retirement systems "in the same ratio as the assets of each system . . . bear to the total assets of all five systems." Expenditure estimates are submitted annually to the boards of the Ohio systems for their approval.

Table 10

Appropriations* for Pension oversight Units
Fiscal Year 1978-79

State	Amount	Comments
Alaska	N.A.	
Illinois	$180,000	
Massachusetts	125,000	
Minnesota	107,000	First year of biennium
New York	269,000	
Ohio	171,000	From retirement systems (see text)
South Carolina	12,000	Costs of actuarial consultants
South Dakota	5,600	Costs of actuarial consultants
Texas	80,367	First year of 1979-81 biennium
West Virginia	50,000	Consultant contract amount
Wisconsin	87,000	Excludes actuarial consultant costs

* Or estimated expenditures.

N.A. = Not available

III. Impact of Pension Oversight Units

In assessing the effect that pension oversight units have had, several things must be kept in mind:

- None of the units has any significant grant of power to modify pension policy, they derive their authority from the willingness of the respective legislatures to act on the basis of their advice and to adopt their proposals.
- The effect that a unit has had must be assessed on the basis of changes in the benefits, financing, structure, or administration of the pension systems themselves.

- Each unit has its own history and unique set of circumstances. Some were created amid crisis and turmoil in pension financing. Others came about in a less turbulent atmosphere. The structures, powers, and functions of the various units reflect these differences, to a degree.
- The status of pension financing and organization of the retirement systems varies widely from state to state. Thus, great effort may be required to move the system in one state to a point easily achievable in another.
- Some of the units were created with certain specific objectives in mind, others were created to generally augment legislative oversight capability.

Major Objectives

The objectives for pension oversight units typically are not spelled out in the statutes that authorize their creation. At best, the statutes imply certain general goals in the description of duties of the agencies. The Illinois statute, for example, has a research agenda detailed in its section on duties. This law mentions "amortizing the accrued liabilities" [sic], "the extension of pension coverage to public employees to whom pension coverage has not been accorded," coordination with Social Security, consolidation of plans, and the "development of a standard pension plan grounded in fundamental principles."

It is necessary, therefore, to look to the units themselves for their objectives. These objectives, as surveyed by the Citizens Research Council can be grouped into five main categories:

(1) "Sound" funding of pension obligations. This objective includes either the achievement or the maintenance of a system in which assets are accumulated in advance of the date they will be needed so that current revenues will not be required to meet pension payrolls. It may be divided into two subcategories: (a) funding of benefit improvements and (b) funding of past service liabilities (i.e., amortization of unfunded accrued service costs).

(2) Establishment of equitable benefit structures. This includes efforts to prevent "leapfrogging, "[4] a process widely suspected of leading to unreasonable high retirement benefits and to inequitable benefits for public employees in the same jurisdiction. An often-used tool to accomplish this objective is plan consolidation which, incidentally, is used to achieve other objectives as well (for example, improvement in investment return and administrative simplification).

(3) Rationalization of benefit levels. This includes those efforts directed toward either raising or lowering benefit levels in public employee plans so that they conform to the jurisdiction's conception of appropriate income for retired employees. Generally, this has involved (a) determination of an appropriate "replacement ratio" (i.e., the percentage of working income to be replaced by retirement benefits); (b) deter-

[4] "Leapfrogging" is a descriptive term used to denote the uneven escalation in plan benefits occurring when one plan obtains a particular new benefit which is then picked up and perhaps improved upon by other plans leading to further improvements in the first plan and so on and on.

mination of a means to deal with the effect of inflation on retirement income purchasing power; and, (c) determination of a policy toward Social Security, usually coordination of plan benefits with Social Security benefits.

(4) Maximization of return on investments. This includes two basic approaches: (a) changing the requirements regarding the permissible "asset mix" (i.e., the proportions of total plan assets represented by different kinds of investment); and (b) consolidation of the investments of many plans into a single investment authority.

(5) Administrative improvements. To date, aside from the administrative streamlining sought through plan consolidation, efforts directed at administrative improvements have centered on assuring that determinations of disability can be justified before pensions are awarded and that procedures exist and are employed to assure ' that investment of pension reserves are prudent and free from conflict of interest.

Effects of Pension Oversight Units

Table 11 summarizes the kinds of changes that have occurred in retirement systems in states that have pension oversight units. Although these changes have been effected, they were not instituted by the various oversight units on their own. Each change required legislative enactment. In some cases, the actual modification in benefits, funding improvement, or plan consolidation was not made exactly as recommended, but it is safe to say that the changes were at least based on the activity of the oversight unit.

Most of the units are able to point to improvements in the level of funding, either in total (as in Minnesota) or for new benefits (as in Tennessee). Similarly, much activity has been directed at achieving uniformity in benefits and in establishing benefits more closely related to actual compensation during working years. Little has been done related to investments and, except for plan consolidation, little has been done related to administration. There are, however, efforts underway in the last two categories (investments and administration).

In actual operation, it has been found that some of the objectives of pension oversight units have conflicted with each other. For example, in establishing a system of more uniform benefits in Minnesota it became necessary to increase benefit levels in certain systems thus placing pressure on the funding levels of the systems.

Conclusion

Pension oversight units are apparently enjoying great success as governmental agencies go. They are widely praised by the direct consumers of their services (primarily legislators) and by taxpayer groups. Their problems, to the extent that they have them, arise from their relationships with employee groups. Some of the units, such as New York and Louisiana, have received opposition from employee organizations for either having proposed lower benefit levels or having resisted employee-supported increases. On the other hand, some legislators have, at times, criticized oversight units (e.g., Minnesota and Ohio) for having supported benefit improvements. In part, both kinds of criticism resulted from differing perceptions of the role of pension oversight unit. Some wish only to see its role as a mechanism for cost containment. Others tend to emphasize its role, in making benefit structures more rational or equitable. As noted earlier, these objectives can be in conflict in specific instances. The ability of the unit to balance the various objectives over a period of time is important to its effectiveness and survival.

Table 11

Examples of Improvements Resulting from Pension Oversight Unit Activities*

Funding of Benefits	Benefit Equity	Rationalization of Benefits	Investment Improvement	Administrative Reform
Massachusetts/ Moved system from pay-as-you-go to establishment of actuarial reserves. Mass. still has $12.6 billion funded accrued liability.	*Minnesota/* State systems now on uniform benefit schedules.	*Minnesota/* Benefits more competitive with private sector.	*Ohio/* Achieved adoption of single investment authority.	Major consolidations have occurred in: South Dakota, Tennessee, Ohio, Wisconsin
Minnesota/ Systems placed on schedule that would amortize unfunded accrued liability by 1997.	*New York/ CO-ESC* system provides uniform benefits for all NY public employees.	*New York/ CO-ESC* system coordinates state with Social Security; provides for cost-of-living increases; eliminates benefits that exceed final salary amounts.	*Illinois/* Achieved adoption of centralized investment authority.	
New York/ Adoption of CO-ESC has permitted systems to retain funding levels; 1975 study led to adoption of realistic actuarial assumptions for NYC systems.	*Ohio/* Adopted provisions for mobility among non-uniform systems.	*Wisconsin/* Adopted Social Security and variable annuity.		
Tennessee/ Guidelines adopted in 1977 legislation which requires minimum funding levels for benefit improvements.	*Tennessee/* Established consolidated system in 1972.			
Wisconsin/l Merged several small underfunded systems.				

* These lists are intended to be representative of the kinds of changes that have occurred following pension oversight unit activity in various states. The table is not inclusive and does not include items (e.g., data collection, report preparation, bill analysis) over which the unit has control.