HayGroup®

Trim the fat from government retirement programs

It's cost reduction season in the public sector. And to no one's surprise, government retirement benefits are one of this year's big targets, especially if the program includes a defined benefit plan. Hit hard since the onset of the financial crisis in 2008, these traditional retirement programs have seen steep declines in their investment portfolios. >>

How is the public sector dealing with the prospect of real reductions in future retirement benefit dollars? Here are four approaches.

1. Trimming defined benefit (DB) plans

Administrators can reduce the cost of government-sponsored DB plans as long as the changes comply with state and federal laws. A common approach is to modify benefits only for future hires, resulting in tiers of active or even retired employees covered by different provisions according to their hire date.

2. Adding or improving defined contribution (DC) plans

As in the private sector, some governments in recent years have moved toward DC programs and away from DB. The DC approach involves no unfunded liability and is often popular with employees because they can see their account balances increase. Many public sector organizations offer a range of DC plans, often featuring employee contributions only. But to overcome the loss of a DB plan, new plans should include employer contributions.

3. Hybrid approach

It's possible to combine DB and DC programs in a "hybrid" design. Examples include "Cash Balance Plans," "Floor Plans" or "Pension Equity Plans." To employees, they look like a DC plan. But they're administered as DB plans. They are most often used to move from an existing traditional DB plan toward a DC-like approach.

4. Early retirement windows

Sometimes granting additional pension benefits can reduce overall costs. For example, granting early retirement incentives during a window period can encourage eligible employees to retire early, thus reducing the workforce and perhaps allowing the replacement of more senior individuals with lower paid ones. When applying this strategy it is key to use great care when designing the incentive offered and defining the eligible group of employees. Of course this must be done in a legal, nondiscriminatory way.

Case studies

How can Hay Group help organizations trim the fat from existing retirement plans? Here are a few examples:

Shift in benefits delivery for long-term savings

As the result of substantial investment losses in a plan's trust fund, one public organization's defined benefit costs began to spiral out of control. While this was not an easy fix, a long-term view was needed to move the dial on retirement benefits. Hay Group analyzed the financial impact and recommended that the DB plan be closed to new employees and a new, more modest DC plan put in place for new hires.

Results:

> A breakeven state was reached in years three and four
> By year five, there was a net savings that grew to 2% by year eight
> Savings will continue increasing until the DC plan overtakes the DB plan as the primary plan and costs will be 50% of the old DB plan

Defined benefit plan data clean up

When Hay Group performed a detailed on-site data audit for a client's active plan population they discovered errors or omissions in the historical data for at least 25% of the active population. These were cleaned up and all old paper records were converted to electronic form. In addition, the audit of the inactive population uncovered such errors as incorrect and duplicate payments and distributions continuing past the final payment.

Results:

> 10% savings in contributions in year one; 5% savings annually in subsequent years
> Fully usable and reliable electronic database
> Reduced administrative costs for plan benefit calculations

Driving early retirement

A public transportation agency wanted a large percentage of its long-term employees to retire early in order to reorganize their business operations model. The two key objectives were to have a high level of acceptance and recoup the costs of the incentives within 12 months. Hay Group worked with senior management to design a generous retirement package that included enhanced pensions, extended medical benefits and cash payments.

Results:

> More than 60% of the eligible group accepted the package
> All incentive costs were recouped in less than 12 months

For more information on how your organization can benefit from Hay Group's actuarial and retirement benefits services, please contact Michael Cotter at +1.201.557.8570 (michael.cotter@haygroup.com) or Jeff Furnish at +1.415.644.3715 (jeff.furnish@haygroup.com).

About Hay Group

Hay Group is a global management consulting firm that works with leaders to transform strategy into reality. We develop talent, organize people to be more effective and motivate them to perform at their best. Our focus is on making change happen and helping people and organizations realize their potential.

We have over 2600 employees working in 86 offices in 47 countries. Our clients are from the private, public and not-for profit sectors, across every major industry. For more information please contact your local office through **www.haygroup.com**