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Public Pensions and the Lessons of Success.

Do we learn more from success or failure? When it comes to state- and local-government pensions, we tend to focus on the plans that are struggling. But there are valuable lessons to learn from public-sector retirement plans that have remained well funded and from governments that have successfully negotiated changes to put their pension systems on a path to full funding.

Well funded in Illinois: Given all the headlines about Illinois' seemingly endless struggle to reform its pensions, some might be surprised to learn that that the Illinois Municipal Retirement Fund (IMRF), the state's second-largest public pension, is a model of fiscal responsibility.

What distinguishes the IMRF from Illinois' other three statewide plans, which are struggling, is that all 2,969 governments that participate in it are required to pay 100 percent of their annual required contribution. As a result, the IMRF has remained more than 80 percent funded, even after the investment losses that public and private plans suffered from the 2008 recession.

It is also noteworthy that the IMRF is separate from the Illinois state government and its assets are not included in the state's financial statements. (State law does, however, determine employee benefits, including retirement age, employee contributions, vesting period and cost-of-living increases.)

The IMRF maintains fully funded reserves for employees and retirees, has a highly diversified portfolio and assumes a conservative 7.5 percent return on investments, even during periods of stock-market growth. This long-term approach helps the fund ride out market swings.

Navigating change in Georgia: Some governments focus all their attention on costs when they look at pension-plan changes. Because pensions are part of a broader human-resources strategy, it's important to involve employees in the discussions and to consider recruitment and retention issues.

In 2007, Gwinnett County, Ga., decided to take control of its defined-benefit plan, which had been managed by the Association County Commissioners of Georgia. Key drivers of the county's desire for change were to gain control over the county's pension assets and control cost increases.

The county sought to put new employees into a defined-contribution plan. Before making the change, county staff conducted benefit comparison studies, carried out market research to learn what benefits were important to young professionals, and analyzed the short- and long-term costs of closing the defined-benefit plan to new employees. (When a pension plan is closed, the unfunded liabilities are amortized over a shorter period in keeping with sound actuarial principles, and with a fixed group of employees to serve, demographic assumptions must be revised.)

While county staff calculated that closing the defined-benefit plan would be more costly in the short run, the analysis showed long-term cost savings. County commissioners voted to move forward.

Although the costs to service the closed plan were higher than expected due to asset losses from the 2008 economic downturn, the county has continued to make its full annual required contribution.

The closed plan was 70.2 percent funded in 2010 and reached the 76.8 percent level in 2012. So far, the county has not experienced any measurable changes in its ability to recruit or retain workers.

Legislating stability in Iowa: Sometimes, as in the case of the Iowa Public Employees' Retirement System (IPERS), state legislation is needed so it is possible to make the full annual required contribution (ARC). While the IPERS' funded ratio had remained relatively good, it was trending downward.

One problem IPERS had was a statutory required contribution rate that was well below the ARC. It had not been adjusted since 1979. The Iowa General Assembly authorized changes in 2006, 2010 and 2012 to increase the combined employer-employee contribution. Now IPERS has the authority to adjust the contribution rate to an annually adjusted cap and the funded ratio is over 80 percent again. For fiscal year 2014, the required contribution rate is at 100 percent of the ARC.

As these stories illustrate, there's no one-size-fits-all approach to strengthening state and local pension plans. Each has a unique legal framework, and a solution that works for one government may be totally off the mark elsewhere. But while solutions for retirement plans can vary from place to place, there's no debate about the importance of an adequate retirement income for government workers.

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