



Cash Balance Plans at the Municipal Level

Cash Balance plans are immensely popular in business and industry¹, but are rare in the public sector. A handful of states have statewide plans that local governments participate in, but few municipal governments have their own plans. That’s why it’s hard to find information about them. This report fills that gap.



A Quick Primer

Traditionally, government plans at all levels were Defined Benefit (DB) plans (usually with a benefit formula based on compensation, years of service, and some percentage). These are great for employees because they promise predictable retirement income for long-term workers. But the cost of those promises has created huge, sometimes unbearable, liabilities.

At first the liabilities were a bigger problem for the private sector, because increases showed up as a big negative on financial reports. They scared investors and they could reduce CEO compensation (Horrors!). So 401(k) and other “Defined Contribution” (DC) plans were invented, where the employer made no promises for the future, but instead contributed to a retirement account for each employee, an account that could grow substantially over time; and then at retirement, the employee owned that fund and could do whatever s/he wanted with it, including squander it.

The public sector was slow to emulate this DC approach, but it’s more prevalent every year. The plans are portable, but the employee bears the risk of bad luck or bad judgment in managing the account. These

¹ In 2018 the *National Cash Balance Research Report* from Kravitz, Inc. announced that total Cash Balance plan assets exceeded \$1 trillion for the first time. Also that 57% of such plans had 10 members or fewer. Cash Balance plans are not just for giant organizations, whether in the private sector or the public sector.!

problems are ameliorated by a “Hybrid” approach, which offers both a DB plan and a DC plan, so you get some of the benefits (and disadvantages) of both.

A Cash Balance plan is a form of Hybrid plan that combines DB and DC features into one plan instead of two. In the public sector this involves an actual or virtual personal retirement account for each employee, an account usually fed by mandatory contributions from both the employer and the employee. The account receives a rate of return guaranteed by the employer (the guarantee distinguishes the cash balance plan from DC plans). And when the employee retires, s/he can take it as a lump sum, or can receive guaranteed monthly payments determined by the amount in the account and based on actuarial calculations (basically, an annuity), which in many plans can also cover a spouse.

Note on terminology: Some people, even people in the business, refer to any plan or feature with a cash balance as a cash balance plan (e.g., a 401(a) defined contribution plan, or even a deferred retirement option (DROP) in a defined benefit plan). This study is not about those things.



How’s That Working Out for You?

Public employees and their unions often hate switching from a DB plan to a DC plan, because they don’t want to give up the guarantees and, they argue, those plans are less beneficial over the long run. The only real advantage to them, they say, is the portability – if you leave your employer, your account goes with you. By contrast, in a DB plan, you are usually eligible for a future benefit, but it’s not worth so much. That’s because it’s based on your compensation as of the day you left, not final compensation at retirement, and it’s further reduced or eliminated if you’re not fully vested. But current employees, especially long-term employees are usually not thinking about changing jobs. They like their guarantees! And who can blame them?

Still, if a state or local government’s finances are bad enough, they usually switch to a DC or Hybrid Plan for new hires. A DC plan is easy to explain, but the near total lack of guarantees can be a tough sell. A Hybrid plan looks like a good compromise, but the DB+DC model is the one that is usually adopted, because it’s the easiest

to understand, and the hard part (the DB piece) usually already exists; adding a separate DC plan is relatively simple. The Cash Balance plan is easier to administer over the long run, but it's harder to explain, and the transition is messier.

We have no horse in this contest. There are numerous pros and cons to Cash Balance Plans, as there are with the alternatives, so whether it's a good idea depends on the financial, administrative, and political situation in the municipality, as well as the ages, financial situations and viewpoints of the employee population and, of course, of the decision-makers.



So Where Does That Leave Us?

The bottom line: few governments of any size opt for a Cash Balance plan. But some have.

As is commonly known, there are four states that offer significant statewide Cash Balance plans: Kansas, Kentucky, Nebraska, and Texas. Some of these apply to state employees, some to teachers, some to county employees, some to cities and towns, and some to combinations of these.

Then there's California, which has one statewide Cash Balance Plan offered to a very limited group of school employees. Much less well known but maybe more significant, the Pennsylvania Municipal Retirement System provides a variety of plan options, and administers over 300 Cash Balance plans in mostly small communities.

Beyond that, a quite modest group of cities and counties, but including some big ones, along with some regional utilities or other agencies/authorities, have established their own Cash Balance plans.

The attached reports provide details on these plans, who they cover, and some of their key features. This is information you will not find anywhere else, but you will benefit from it if you now or later find yourself considering such a plan.



To Find Previous Issues, Visit...

http://www.stillriverretire.com/SRRPS_FinancialTopics.asp



Coming Next Month: How Prevalent are COLAs in Municipal Pension Plans? What Are Their Rules?

It's pretty common for municipal plans not to offer a Cost of Living Adjustment on retiree benefits. But there are plenty that do, and there are many techniques for limiting the long-term liability. Who's doing what, and what are the trends?

Next time we tell all (well, all we can, anyway).



Wait, Who are We? How Do We Know This Stuff?

We are NOT part of a university, a research institute, or a consulting firm. For better or worse (we like to think "better"), we're a small but experienced, hard-working, and nimble team of researchers who work under the auspices of a retirement software firm that has been dealing with DB pension plan calculations since 1994.

Furthermore, our primary business is calculating benefits for county, city, town, and public agency plans. (OK, yes, we calculate state and federal plans as well.)

We calculate about 2,000 tiers for employees of municipalities, including many of the largest cities and counties. We're easily the leader in this enterprise.

We thought it was time for us to share our expertise, supplemented by original new research for each issue. (We do NOT rely on information in our studies that is proprietary to our clients.)

We'd be happy to hear from you if you'd like to commission some original research for your own purposes (at a fraction of what anyone else would charge), want to suggest a topic for a future issue of this publication, or if you'd like to add a benefit calculator to your own website at a reasonable fee. You can reach us at:

info@StillRiverRetire.com

-Chuck Yanikoski and Kristin Sherman, editors

Special Report: Cash Balance Plans for Cities, Counties, and Regional Authorities

Table MRPAR 1.2a Summary of Local Government Cash Balance Plans by State Data compiled Summer 2021

State	Status
Alabama	No, except for Montgomery
Alaska	No
Arizona	No
Arkansas	No
California	For public School part-time employees and governing body members, as an optional alternative to Social Security, private plans, or CalSTRS DB plans, subject to approval by the local employer
Colorado	No
Connecticut	No
Delaware	No
District of Columbia	No
Florida	No, except Lake Worth Beach and the Orlando Public Utilities Commission do have cash balance plans
Georgia	No
Hawaii	No
Idaho	No
Illinois	No
Indiana	No
Iowa	No
Kansas	State-level plan for county employees; optional for towns and cities, but 100% of 1st and 2nd class cities (123 just in those groups) use it.
Kentucky	State-level plan for teachers and county non-hazardous employees; optional for towns and cities (the 10 largest cities all participate, but the 10 smallest municipalities do not)
Louisiana	No (adopted in 2012 but ruled unconstitutional in 2013 by the state Supreme Court)
Maine	No
Maryland	No, except for Montgomery County
Massachusetts	No
Michigan	No
Minnesota	No
Mississippi	No
Missouri	No
Montana	No
Nebraska	Statewide plan for County employees; Omaha has its own plan that covers civilian employees
Nevada	No
New Hampshire	No
New Jersey	No
New Mexico	No
New York	No
North Carolina	No
North Dakota	No
Ohio	No
Oklahoma	No
Oregon	No
Pennsylvania	The Pennsylvania Municipal Retirement System has over 300 participating municipalities, all of them small ones (boroughs, towns, and townships). Many of these are optional supplementary plans.

State	Status
Rhode Island	No
South Carolina	No
South Dakota	No
Tennessee	Some municipalities of various sizes (Memphis, Franklin, Bartlett, Germantown) have their own cash balance plans, as does the Tennessee Valley Authority.
Texas	Statewide plans for all county employees, and for municipal employees other than firefighters. The largest cities mostly have their own plans, but of the traditional DB kind. A few regional authorities offer their own Cash Balance plans.
Utah	No
Vermont	No
Virginia	No, except for Montgomery County
Washington	No
West Virginia	No
Wisconsin	No
Wyoming	No

Points of interest:

- Only Kansas, Kentucky, and Texas have statewide Cash Balance plans that cover most local government employees. Nebraska, Pennsylvania, and California statewide systems provide more limited coverage.
- Half a dozen states (also including Texas) have one or a few local governments that have independently established Cash Balance plans.
- All other states have no Cash Balance plans at all (though there have been failed attempts to establish them in many states).
- Fun fact: Cities and counties named “Montgomery” are way more likely than others to have locally administered Cash Balance plans.

Table MRPAR 1.2b
Plan Features of Existing Local Government Cash Balance Plans
Data compiled Summer 2021

State	Plan	Eligible members	Year Started	Contribs. as Pct. of Comp.		Interest Rate	Normal Ret. Date	Calculation of Defined Benefit at Retirement	
				Employer Contrib.	Employee Contrib.			Int. Rate	Mortality Table
AL	Employee's Retirement System of the City of Montgomery - Group I Cash Balance Plan	General municipal and Airport Authority employees	2013	not specified	6.00%	30year Treasury yield	25 Yrs. Svc. or Age 65 with 10 yrs.	7.00%	Sex-distinct RP-2000 Blue Collar Mortality Table Projected with Scale BB to 2020 with an adjustment of 125% at all ages for males and 120% for females ages 78+
CA	CalSTRS Cash Balance Benefit Program	Public school part-time (less than 50%) or temporary employees; also members of governing boards	1995	4.00% (adjustable)	4.00%	Set annually, minimum is 30-year Treasury yield	Age 60 or 62 depending on hire date	6.50%	CalSTRS tables using a generational mortality approach with a base year of 2019 and projected improvement based on 110% of the MP-2019 Ultimate Projection Scale
FL	Lake Worth Beach Employees' Retirement System	All positions not identified in PERC certification No. 529	2018	5.00%	5.00%	5.00%	Age 55 with 30 Yrs. Svc. or Age 65 and 10 yrs	7.00%	1983 Group Annuity Mortality Table for Males
	Orlando Utilities Commission Cash Balance Defined Benefit	All employees hired 1998 or later, or earlier employees who elected it	2011	5.00% to 12.00% based on age & svc.	none	4.00% to 6.00% based on fund performance	Age 62 with 5 Yrs. Svc. or Any age and 30 yrs	7.25% but can vary	RP-2000 Mortality Table for Annuitants, with mortality improvements projected to all future years using Scale BB
KS	Kansas Public Employees' Retirement Plan Tier 3	non-hazardous county employees and most city/town employees	2015	credits based on yrs. of svc. applied at retirement	6.00%	4.00% minimum	Age 65 with 5 Yrs. Svc. or Age 60 and 30 yrs	5.75%	Blended mortality rates from the current post-retirement mortality assumptions for KPERS members. The blended mortality rates are projected to 2030 using improvement scale MP-2016

	Johnson County Water District #1	All full-time employees	2014	3.00% to 6.00% based on Yrs. Svc.	3.00%	5.25%	Age 65	7.75%	RP-2000 Combined Mortality Table with generational mortality improvements using scale AA
KY	Kentucky Employees Retirement System (Tier 3 / Non-Hazardous)	Teachers	2014	4.00%	5.00%	4.00% minimum	Age 65 with 5 Yrs. Svc. or age 57 meeting the rule of 87	5.25%	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019
	Kentucky County Employees Retirement System (Tier 3 / Non-Hazardous)	All county employees, <u>except</u> police, fire, and correctional; cities and towns may join (most do)	2014	4.00%	5.00%	4.00% minimum	Age 65 with 5 Yrs. Svc. or age 57 meeting the rule of 87	5.25%	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019
	Kentucky County Employees Retirement System (Tier 3 / Hazardous)	All county police, fire, and correctional employees; cities and towns may join (most do)	2014	7.00%	8.00%	4.00% minimum	Age 60 with 5 Yrs. Svc. or Any age with 25 Yrs. Svc.	5.25%	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2019
MD	Montgomery County Employee Retirement Plans - Guaranteed Retirement Income Plan / Non-safety employees	County employees, Town of Chevy Chase employees, and employees of various agencies	2010	8.00%	4.00% up to the Social Security Wage Base, then 8.00%	7.25%	Age 62	7.25%	RP-2014 Healthy Annuitant Mortality Table, sex-distinct for healthy mortality. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 are used.
	Montgomery County Employee Retirement Plans - Guaranteed Retirement Income Plan / Safety employees	County employees, Town of Chevy Chase employees, (except unionized).	2010	10.00%	3.00% up to the Social Security Wage Base, then 6.00%	7.25%	Age 62	7.25%	RP-2014 Healthy Annuitant Mortality Table, sex-distinct for healthy mortality. To provide a margin for future mortality improvements, generational mortality improvements from 2014 using projection scale MP-2014 Are used.

	Nebraska County Employees Retirement Plan - Cash Balance Plan Tier 1	Most full-time employees in most counties. Optional for part-time employees	2003	6.25%, but for police, 7.25%/ 8.25% (small/large counties)	4.50%, but for police, 5.50%/6.50% (small/large counties)	5.00% or Federal mid-term rate + 1.50% if greater	Age 55	7.75%, but can vary	1994 Group Annuity Mortality Table Note: benefit reduced if 2.5% COLA is elected
	Nebraska County Employees Retirement Plan - Cash Balance Plan Tier 2	Most full-time employees in most counties. Optional for part-time employees	2018	6.25%, but for police, 7.25% in small counties and 8.25% in large ones	4.50%, but for police, 5.50% in small counties and 6.50% in large ones	5.00% or Federal mid-term rate + 1.50% if greater	Age 55	7.50%, but can vary	Mortality tables updated as recommended by the plan actuary and approved by the Public Employees Retirement Board Note: benefit reduced if 2.5% COLA is elected
	City of Omaha Employees' Retirement System (the Civilian Plan)	Non-uniformed city employees	2015	18.775%	10.075%	7.50%	Age 65 with 10 Yrs. Svc.	7.50%	Pub-2010 General Employees Amount-Weighted Mortality Table with generational projections using the MP-2019 scale
PA	Pennsylvania Municipal Retirement System (excl. regular DB plans)	Civilian employees and some police in over 300 small municipalities, averaging 4 active participants each	Varies by municipality	Varies with actuarial valuation of the overall plan	3.00% to 8.00%	5.25%	Age 65 (55 for police) with 24 Yrs. Svc.	5.25%	RP-2000 Annuitant Male table projected 5 years with Scale AA, and RP-2000 Annuitant Female table projected 10 years with Scale AA
TN	City of Bartlett, Tennessee Retirement Plan ("Employee Cash Balance Plan")	City employees other than teachers	2014	5.00%	5.00%	5.00% minimum	Age 65 with 5 Yrs. Srv. or Age 55 with 25 years	7.25%	Actual experience including an adjustment for anticipated movement
	City of Franklin Employees' Pension Plan and Trust / Cash Balance Plan	Full-time employees hired 7/1/1995 thru 2/14/2010. Current hires participate in the statewide plan.	1995	100% of funding (amount actuarially determined)	None. Voluntary contribs. up to 10.00% permitted.	7.20% (can vary)	Age 65	7.20% (can vary)	P-2014 Healthy Annuitants and Non-Annuitants, Blue Collar Mortality Tables, adjusted back to 2006, separate for males and females
	City of Germantown Defined Benefit Plan ("Employee Cash Balance Plan")	Employees age 21 and older	2013	5.00%	5.00%	5.00%	No set age	7.25%	Pub G-2010 for general employees ages 18-54 Pub-2010 for healthy employees over age 54

	City of Memphis Retirement System / 2016 Plan	General employees	2016	Actuarially determined amount	2.00% (plus 6% to a separate DC plan)	7.50%	Age 65 with 5 Yrs. Svc., or Any Age and 25 yrs	7.50%	Fully Generational Pub G-2010 Public Sector Mortality table for general employees with MP-2019 projection scale from 2010 and adjusted by a one year set forward
	City of Memphis Retirement System / 2016 Plan	Fire and Police employees	2016	Actuarially determined amount	2.00% (plus 6% to a separate DC plan)	7.50%	Age 55 with 10 Yrs. Svc., or Any age and 25 yrs	7.50%	Fully Generational Pub S-2010 Public Sector Mortality table for safety employees with MP-2019 projection scale from 2010 and adjusted by a one year set forward
	Tennessee Valley Authority Retirement System / Cash Balance Plan	Partially frozen in 2014. Information here applies to remaining participants	1996	3.00%, plus 3.00% (to the Cash Balance account or a 401(k) account, based on hire date)	none	6.00% to 10.00% (based on Consumer Price Index)	Age 60	N/A	N/A - annual benefit amount is based on pre-set conversion factors, according to age at retirement.
TX	Texas County and District Retirement System	Employees at over 800 county and district employers not eligible for other state plans	?	4.00% to 10.00%, as selected by employer	4.00% to 7.00%, as selected by employer	7.00%	Age 60. Employers allow Rule of 75 or 80, or Any age with 20 or 30 Yrs. Srv.	7.00%	UP-1984 table with an age setback of five years for retirees for funds accrued before 2018. RP-2000 Combined Mortality Table, with a one-year set-forward for males, projected to 2014 using Scale AA and for projections after 2014 using 110% of MP-2014 Ultimate Projection Scale, with a 32.79% reserve refund assumption for the single life option, blended 50% male / 50% female, for funds accrued after 2017.

	Texas Municipal Retirement System	Employees of approximately 900 cities	2010 in current form	100%, 150%, 200% or 300% matching of employee contribs. as selected by employer	5.00%, 6.00%, or 7.00%, as selected by employer	5.00% min.	At 20 or 25 Yrs. Srv., as selected by employer	5.00%	Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. APRs until 2027 are being phased in based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. A unisex blend of 70% of the male table and 30% of the female table.
	Retirement Plan for Employees of Brownsville Navigation District	Full-time employees	2009	Actuarially determined amount	4.00%	5.00%	Age 65 with 5 Yrs. Srv.	6.00%	RP-2014 Blue Collar Healthy Annuitant Sex Distinct Tables adjusted to 2006 and projected using the Scale MP-2018 mortality improvement rates.
	Galveston Wharves Pension Plan / 2010 Plan	Port of Galveston employees hired before 2005; benefits are supplementary to the regular DB plan	1965; new contributions stopped in 2005	Currently none; 6.00% prior to October 2005	none	Currently none; 7.00% prior to October 2005	Age 65 with 5 Yrs. Srv.	7.00% [?]	Pri-2012 Mortality Tables projected from 2012 with the Mortality Improvement Scale MP-2019
	Lower Colorado Resource Authority	Employees hired 1/1/2002 thru 4/30/2012, and prior employees who converted to the plan	2002	Actuarially determined amount, same for all participants	none	varies	Age 65 with 5 Yrs. Srv. or Age 55 with 15 years, or Rule of 80	varies	Rates vary by age and service, and mortality tables can change from year to year.
VA	Montgomery County Guaranteed Retirement Income Plan (general employees)	Non-union employees, MCGEO union employees, and elected officials	2010	8.00%	4.00% up to Soc. Sec. Wage Base, then 8.00%; 3.00%/6.00% for Safety members	7.25%	Social Security normal retirement age	6.00%	UP 84 Mortality Table