

## Proposed Framework for Study Commission Discussion

Retirement benefit design can be a complex process, requiring decisions across many different dimensions. For that reason, the Chair of the Commission, Robert Clark, and the Department of State Treasurer staff feel that it would be helpful to break the decision down into manageable steps and consider them one meeting at a time. We propose the following steps:

1. **Knowing the Customer.** The Commission gets to know the employers and employees covered by the state and local retirement systems.
2. **Setting the Goal.** The Commission discusses the basic requirement of any retirement system to provide adequate retirement income after the employee has worked a reasonable career, only part of which might be worked in the state/local government. This step helps the Commission define adequate and reasonable from the employee's perspective.
3. **Managing Risks.** This step highlights the different risks employers and employees face in planning for retirement. It separates each risk into non-systematic types that can be eliminated by pooling and systematic types that must be managed by the employer or employee or pushed off to a third party.
4. **Adjusting Incentives.** This step describes the significant incentives retirement design can create, including incentives to take a job (attraction) and stay with the state/local government (retention). In this step, the Commission identifies which incentives are best for the government as employer.
5. **Participant Decision Making.** The Commission decides how much choice and control should rest with individual members of the retirement system, as opposed to having default or mandatory decisions made by the system administrators.
6. **Paying for It.** The Commission will examine various cost options to achieve the desired level of total compensation. Total compensation is the sum of all sources of compensation, including base pay, other cash compensation, and all types of benefits.
7. **Reviewing Tentative Recommendations (Optional).** As discussed below, we propose that the Commission make tentative recommendations in each of the steps above. Because each topic is being considered in isolation, the Commission may wish to review the combined set of tentative recommendations to identify any conflicting goals and make sure the earlier recommendations still make sense in light of the later ones.
8. **Finalizing Recommendation for New Hires.** Staff will present one or more designs that meet the objectives identified in the earlier steps. Staff will also compare how well other common designs and the current design meet the objectives selected. It is anticipated that the Commission will then adopt a final recommendation for the new hire design.
9. **Finalizing Recommendation for Current Employees.** The Commission will consider whether or not it is appropriate or possible to extend the new design to any of the current employees, considering legal restrictions, employee relations, and financial considerations.

We feel that the first 8 steps can each be completed in one meeting of the Commission and the last step may require anywhere from 1 to 3 meetings. Therefore, it is possible that the whole process will require 8 to 11 meetings.

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In order to produce meaningful recommendations and keep the discussion focused, we feel that it is important to provide some constraints on each step of the discussion. In particular, we would recommend that during each step, all factors discussed in other steps should be held constant. For example in step 2 the Commission would assume that:

- Total compensation (the value of all cash compensation and benefits) remains constant since it will be discussed in step 6
- Risk remains constant since it will be discussed in step 3, and
- The employer does not wish to encourage any particular behavior beyond what it encourages through higher pay since that will be discussed in step 4.

We suggest that by the end of each step the Commission adopt a set of tentative recommendations in the particular area being discussed. The Commission could revisit any of these tentative recommendations at a later point and will have the option of reviewing them in combination in step 7. However, by making these tentative recommendations, the Commission will keep the process moving toward a final recommendation.

In preparation for each meeting, the staff will identify a balanced set of readings on the topics being discussed and provide those on the Commission website. Since the website is accessible by the general public, this will also provide an opportunity for others to study along with the Commission.

We welcome feedback on this proposed framework prior to the first meeting and will place discussion of this framework on the agenda for the first meeting.

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