

February 21st, 2024

Rhode Island Pension Advisory Working Group
Office of the General Treasurer
82 Smith Street, Room 102
Providence, RI 02903

Dear members of the Rhode Island Pension Advisory Working Group,

Thank you again for the opportunity to share our research and recommendations at your meeting on January 17th. To complement our testimony, we would like to share some final thoughts.

Over the past ten years, Rhode Island has improved its fiscal sustainability by paying down pension debt and improving operating cash flow to insulate against risk of insolvency. As the Working Group and state policymakers continue to consider retirement security concerns and pension funding issues, the following considerations will be critical to ensuring long-term fiscal sustainability and managing risks.

- The Working Group is currently considering a range of potential changes to the current cost-of-living adjustment (COLA) policy including: offering a one-time COLA, shortening the period for which the COLA is reduced, or undoing the variable COLA instituted in 2011 and returning to a fixed COLA. As long as actuarial analysis shows the increased costs, liabilities, and risks are manageable, an actuarially funded one-time COLA or a shortening of the period for which the COLA is reduced may help ensure retirement security. But a return to a fixed COLA would undo a key tool to manage risk. Appendix 1 summarizes Pew's research and recommendations regarding effective COLA designs.
- We have reviewed with interest the testimony that Joe Newton of Gabriel, Roeder, Smith & Company (GRS) provided at the Working Group's January 31st meeting. The analyses presented, which we hope will be incorporated in the Working Group's deliberations and recommendations, contained useful findings summarized in Appendix 2.
- While the data shows improvement in the fiscal sustainability of Rhode Island's pension plans, they remain significantly underfunded even as policy changes, including benefit enhancements, are being considered. Our [research](#) strongly and clearly supports routine pension risk reporting as foundational to analyzing potential reforms and understanding investment risk exposure both under current policy and under potential changes.
- Finally, we have included a roadmap showing how the Employees' Retirement System of Rhode Island (ERSRI) performs on key measures of successful retirement systems in Appendix 3.

Our team would be happy to answer any questions you may have about our research and work and the proposals being considered in your state.

Thank you,

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Appendix 1: COLA Benefit Design Research and Recommendations

This appendix summarizes Pew's research and recommendations on variable cost-of-living-adjustments (COLAs) for public pension systems. It provides an overview of existing COLA risk reduction strategies used by state retirement systems, including discussing the most common features, the limitations of many of these designs, and how the provisions work in several case study states.

Variable COLAs stand out as a tool to provide significant risk reduction. In addition to being used in the three model retirement system states (South Dakota, Wisconsin, and Tennessee) with a consistent track record of full funding and stable costs, variations of this policy have also been employed in underfunded state systems. COLAs can be tailored to meet the needs of state retirement systems, both in terms of managing fiscal sustainability and providing retirement security.

Policy Recommendation

Our 50-state research has identified that a variable COLA that adjusts in response to investment returns ideally smoothed over a set number of years can be highly effective at mitigating risk while balancing the retirement security needs of retirees.

An example of an approach under this framework could include a COLA that matches inflation as measured through the Consumer Price Index (CPI) up to a maximum amount and only when long-term investment returns (i.e., a rolling average over five to 10 years) meet or exceed the expected rate. When long-term returns fall below the expected rate, the maximum cap on the COLA is adjusted downward within a set range.

This approach has some similarity with Rhode Island's current policy, in which the COLA is determined by a formula that incorporates both the five-year average investment return against a threshold of 5% and the prior year's CPI-U, with a floor of 0% and a ceiling of 3.5% on the resulting COLA. As discussed in Appendix 2, the GRS analysis presented by Joe Newton showed that the variable COLA provision put in place in 2011 both meaningfully reduces volatility of employer costs and could potentially be expanded. And in periods with high investment returns and high inflation, the current provisions can lead to a higher COLA than the previous fixed 3%, as was the case in 2023 with a 3.11% COLA based on the formula before reduction.

50-State Landscape

Pew's research has identified that over half of states have adopted plan design elements that provide some level of risk reduction, including variable COLAs.

Variable COLA State Examples

The retirement systems in South Dakota and Wisconsin both employ a variable COLA to adjust liabilities in the case of unexpected costs. The South Dakota Retirement System uses a variable COLA to maintain a fully funded system with statutorily fixed employer and employee contribution levels. If an investment shortfall or other change reduces funding levels, the maximum allowable COLA also adjusts downward.

The Wisconsin Retirement System is designed to distribute investment shortfalls or gains that deviate from the plan's stated expectations such that employers, employees, and retirees share the cost of poor returns and the rewards of solid performance. While employees work, their contributions and those from their employers rise and fall equally in response to market conditions. Once employees start to draw their pensions, the estimated cost of their benefits is set using a conservative return assumption of 5%, and retirees receive COLAs only if investment returns beat that threshold. COLAs can also be suspended or rescinded if plan funding drops.

While both South Dakota's and Wisconsin's variable COLAs effectively maintain stable employer costs, the provisions are unlikely to be the right fit for many other state retirement systems. Because South Dakota's provision is tied to full funding, it would not be effective for a state with lower funding levels. Similarly, Wisconsin's system is complex and may be difficult for another state to adopt at this stage.

Colorado Public Employees' Retirement Association's (PERA) recent reform is an example that may be helpful for states with existing funding challenges. In 2018, PERA adopted a series of reforms to distribute gains and losses between employees, employers, and the state. These reforms included variable employee and employer contributions and variable annual increases via COLAs. The yearly increases adjust up or down by 0.25% annually within a range of 0.5% to 2% based on whether PERA is on schedule to meet its full funding goal.

In addition, there are a handful of other states with examples of variable COLAs. In the Maryland State Retirement and Pension System (MSRPS) and the Connecticut Teachers' Retirement System (TRS), the COLA is based on inflation, with caps based on annual investment returns.

- Under Maryland's MSRPS, when the investment return is at or above the plan's assumed rate, the cap on the CPI-linked COLA for the next year is 2.5%. When the investment returns are below the expected rate, this cap for the next year is dropped to 1%.
- Members of Connecticut TRS have a COLA based on the Social Security COLA and the investment performance of the retirement fund for the prior fiscal year, subject to a maximum of 5%. If the investment performance of the retirement fund is less than 6.9%, the COLA is capped at 1%; if returns are between 6.9% and 9.9%, the COLA is capped at 3%; and if returns are over 9.9%, the COLA is capped at 5%.

Pew has also reviewed cases where a COLA policy is contingent on funding level. For example, in Montana, COLAs are subject to reduction or elimination when the system's funded level falls below a certain threshold. However, this type of COLA design has only a minimal impact on risk mitigation. Likewise, the reduction of the COLA until certain funding thresholds are met in Rhode Island will have limited effect on risk going forwards, though it did reduce the existing liability for the state's pension plans.

Appendix 2: Analysis of Proposed Changes by GRS

We reviewed with interest the most recent meeting of the Working Group on January 31st. We found the actuarial [analysis](#) presented by Joe Newton of GRS to contain useful findings that we hope will be incorporated in the Working Group's deliberations and recommendations about pension policy in Rhode Island. In particular:

- The analysis shows how the 2011 reforms put in place tools to better manage risk from volatile investments and other sources of uncertainty.
 - The stress test analysis on slide 28 shows that the hybrid plan design has a smaller increase in costs compared to the alternate benefit formulas considered in a scenario where investment returns are 6% instead of the assumed 7%.
 - Slide 29 shows the efficacy of a variable risk-adjusted COLA. These changes were important to ensuring the long-term sustainability of Rhode Island pensions, and any recommendations from the Working Group should aim to preserve those gains.
- The analysis appropriately includes retirement security metrics—both replacement rate results for career employees and a savings analysis showing how public workers' retirement benefits rise over their working lives. The replacement rate analysis on slide 40 shows that the hybrid plan design offers 90% income replacement through retirement for a Rhode Island worker participating in Social Security. This replacement rate falls below some of the alternate plan designs being considered but above the 70% to 80% threshold identified by GRS as sufficient to maintain a standard of living.
- The savings analysis on slides 30 through 33 and slide 41 show how the hybrid plan design addresses the gap in retirement savings that can emerge for non-career public employees.
 - Someone joining Rhode Island public service at age 27 would have to work more than 30 years before the value of their retirement under the Option C defined benefit formula is worth more than the accumulated value of their employee contributions plus interest. The hybrid plan design has a less backloaded defined benefit component, while the defined contribution component means that workers who leave before retirement still accumulate meaningful retirement savings.
 - Slide 41 shows that someone joining at age 27 and leaving Rhode Island employment after two decades of service would get twice as much in employer benefits under the hybrid plan design compared to the Option C proposed alternative. If the Working Group is considering moving back to a traditional defined benefit formula from the current hybrid design, ensuring this change doesn't penalize younger workers should be an important objective.
- The COLA options being considered vary between proposals addressing the gap in inflation protection currently experienced by retirees and proposals that would undo some of the gains from the 2011 reforms.

- Option 4A.h and options 4B.a and 4B.b would reduce or eliminate the period of COLA reduction but would not change the variable COLA design that helps mitigate risk. These changes also would add to the cost of new benefits going forward.
- In contrast, option 4A.a would return to 3% fixed COLA but would not address the COLA suspension. This change would reduce the efficacy of the 2011 plan design in managing risk.
- If they are affordable, options addressing the inflation protection gap facing current retirees could help resolve retirement adequacy and intergenerational equity concerns. If long-term costs are a concern, pairing these changes with the adoption of a COLA fully based on investment performance, as suggested in slide 29, could result in greater long-term sustainability for the retirement system.
- The discussion of tools to enhance the effectiveness of the defined contribution plan through annuitization or transitioning to a cash balance plan design merits a more complete analysis. If annuitization through the plan can be achieved without adding meaningful risk, the ability to boost income replacement for a career worker from 90% to 93% at no cost and minimal risk is a great opportunity.
 - We agree that applying a cash balance plan approach to replace the defined contribution plan could potentially offer advantages and efficiencies. Still, the specific details would need to be identified before any final conclusion can be reached.
 - Finally, maximizing efficiency through using employer contributions for the defined benefit component and employee contributions for the defined contribution is worth considering.
- Having high-quality analysis to help inform and guide policy discussions will always be useful. Proposals for policy change should include analyses of proposed changes on estimated plan costs, risk, and retirement security metrics. Pension risk reporting should be adopted as a regular practice to ensure that problems can be identified before they become crises—or, alternatively, to demonstrate that current policies are effective at maintaining fiscal sustainability.

Appendix 3: Roadmap to Model Pension Status

Roadmap to Model Pension Status

- 1) **Provide a Path to Retirement Security** – *Plans offer benefits that provide a path to retirement security across the workforce. Success in retirement security means a plan offers benefits that provide a path to retirement security across the workforce. The metrics used to measure the success of this practice are the replacement income ratio and retirement savings rate. (See Notes p. 9.)*
- 2) **Maintain Fiscal Sustainability** – *Plans fund their pension obligations sustainably, predictably, and affordably for government budgets. Fiscal sustainability includes a combination of ensuring plan solvency, sufficient pension contributions to keep the funding gap stable or pay down pension debt, and maintaining cost predictability. Metrics include debt amortization, operating cash flow ratio, and contribution volatility. (See Notes pp. 9-11.)*
- 3) **Plan for Uncertainty** – *Plans adopt and follow risk assessment and management policies that provide a method for economic and demographic uncertainty. Effective risk management requires an integrated approach to funding, investment, and benefit policies. Variable benefit or hybrid plan design is a common characteristic of model retirement systems. However, there is no one-size-fits-all policy. To help plan for the long-term and manage costs, risk reporting tools should be used to assess the impact of investment risk on plan balance sheets and government budgets. (See Notes pp. 12-13.)*
- 4) **Preserve Inter-generational Equity** – *Plans preserve equity from one generation to the next by covering the full cost of pension benefits annually, as they're earned, rather than pushing costs to future generations. In addition, plans should set long-term targets for employer costs and worker benefits and establish effective policies to achieve these targets. (See Notes pp. 11-12)*
- 5) **Govern Transparently** – *Plans ensure that pension fund investments are expertly managed and supported by policies and practices that are fully transparent to workers, retirees, and taxpayers. As a result, government sponsors have the information they need for long-term planning, and the policies and performance for managing public pension assets are fully transparent. Metrics of success include routine pension stress testing, investment fee transparency, and benefits knowledge. (See Notes p. 13.)*



PROVIDE A PATH TO RETIREMENT SECURITY

DEFINITION

Offer benefits that provide a path to retirement security across the workforce.

(See Notes p. 9)

MEASUREMENT

Replacement Income

ASSESSMENT – EMPLOYEES’ RETIREMENT SYSTEM OF RHODE ISLAND

ERSRI performs well on the replacement income metric. It provides career workers with a replacement rate of over 90% of take-home pay in retirement. However, these benefits may not be sufficient for the members who do not participate in Social Security which includes about half of Rhode Island teachers.

Retirement Savings

Under ERSRI, workers who change jobs early or mid-career can expect to save 9.83% of their annual salary. The plan falls slightly short of offering a savings rate within the recommended level of at least 10 to 12%.

Retirement Readiness

Members of ERSRI have access to a 457 deferred compensation plan, but there are no automatic savings features (such as automatic enrollment or escalation), and the participation rate is unknown. The website offers participants access to a basic pension projection tool, which gives retirement eligibility dates and estimated income at retirement. Participants also have access to 1-1 retirement counseling sessions, but counselors do not seem to provide financial advice.



MAINTAIN FISCAL SUSTAINABILITY

Fund pension obligations sustainably, predictably, and affordably for government budgets.

(See Notes pp. 9-11)

Funded Ratio

Rhode Island had a funded ratio of 66% in 2021, below the 50-state average of 84%. The Employees' Retirement System - State Employees (ERSSE) had a funded ratio of 63% and the Employees' Retirement System - Teachers (ERST) was 66.5% funded.

Operating Cash Flow Ratio

Applying the first test of fiscal sustainability, Rhode Island’s operating cash flow ratio in 2021 was -4.1%, below the 50-state average of -2.8%. The ERSSE system had a cash flow ratio of -4.1% in 2021 and the ERSTS system had a cash flow ratio of -4.4%, both above the 5% threshold Pew uses to indicate potential future fiscal distress if mitigating policies are not adopted. Furthermore, Rhode Island achieved positive amortization in 2021, meaning that if plan assumptions hold, policymakers can expect the funding gap to close over time.

Net Amortization

Contribution Volatility

Rhode Island has had volatile contribution rates. The state had a 7.5% rise in employer contribution rates from 2008 to 2021. If smoothing the volatility rate, ERSSE had a historic volatility rate of 8.0% and ERSTS had a rate of 7.3%.



PRESERVE INTER-GENERATIONAL EQUITY

Preserve equity from one generation to the next by setting, and managing to, long-term targets for both employer costs and worker benefits.

(See Notes pp. 11-12)

Normal Cost Sensitivity

Rhode Island had a low normal cost sensitivity in 2021, the expected volatility of employer costs for future benefits as a percentage of payroll under a low return scenario, which Pew sets at 5%. This means employer costs for new benefits would see modest changes in a low-return scenario.

Documented goals related to retirement security and cost

ERSRI has documented goals and requirements on cost and retirement security in its state laws and pension system documents. *See the notes for the full explanation.*



PLAN FOR UNCERTAINTY

Adopt and follow risk management policies that provide a plan for economic and demographic uncertainty.

(See Notes p. 12-13)

Pension Stress Testing

Rhode Island does not currently employ pension stress testing.

Risk Sharing Practices

Rhode Island uses two tools to manage risk. First, the plan design for new hires is a side-by-side hybrid plan. Second, COLAs adjust based on conditions in three ways: half of the annual COLA is calculated through investment performance; the COLA only applies to benefits under a cap that grows based on the annual COLA; and as long as the plan is less than 80% funded, the COLA is reduced by three-quarters.

Funding Policy

The funding policy is based on layered 20-year amortization. When the plan is in surplus, open 20-year amortization is applied.



GOVERN TRANSPARENTLY

Ensure that benefit, funding, and investment policy practices and performance are fully transparent to stakeholders.

(See Notes p. 13)

Investment Policy Transparency

Rhode Island largely adheres to recommended practices to govern their pension plans transparently. First, ERSRI has made its investment policy publicly accessible. Secondly, it has consistently reported pension investment performance net of fees since Pew began closely monitoring this data in 2017. The state also reports returns over a 1-, 3-, 5-, and 10-year time horizons and by asset class. While Rhode Island has demonstrated transparency in other areas, there is still room for improvement in adopting comprehensive fee reporting standards. Pew recommends that comprehensive fee disclosure, particularly concerning private equity fees, be adopted. The most robust reporting standards are characterized by comprehensive fee-reporting practices that disclose all carried interest and fee expenses, categorized by investment managers.

Disclosure of Investment Performance

Comprehensive Fee-reporting

Provide a Path to Retirement Security

Success in retirement security means a plan offers benefits that provide a path to retirement security across the workforce. This criterion is [measured](#) through the replacement income ratio, the plan's retirement savings rate, and the retirement readiness features participants can access.

Replacement income ratio

The percentage of a worker's pre-retirement take-home pay covered by their combined income from a state or city retirement plan benefit plus Social Security. Under most systems, career workers can expect a retirement benefit that matches at least 80% of their final pre-retirement take-home pay.

Retirement savings rate

The level of savings is expressed as the percentage of annual salary that an employee can withdraw from their pension fund when leaving employment before reaching retirement eligibility. Employees typically have access to their contributions—the funds taken from their paychecks—to the retirement plan and the compounded interest on those funds. In some cases, they can also withdraw some or all of the employer contributions made on their behalf. Most experts recommend that individuals save at least 12% to 15% of their annual retirement salary, depending on age and other factors. However, under most plans, separated workers have access to savings of less than 8% of their annual salary.

Retirement readiness

Retirement readiness is evaluated based on access to supplemental savings plans, ideally with auto-enrollment or auto-escalation features to increase participation and level of savings; what types of education and personalized information on an expected level of retirement security are available; and whether participants have access to individual benefits counseling and financial planning guidance.

Maintain Fiscal Sustainability

Fiscal sustainability includes a combination of plan solvency, cost predictability, and sufficiency of pension contributions. Sufficiency of pension contributions means payments are enough to keep the funding gap stable or pay down pension debt and cost predictability. Metrics include operating cash flow ratio, pension debt amortization, and contribution volatility.

To help policymakers navigate the uncertainty inherent in pension management and evaluate their plans' resiliency, Pew has developed a [50-state matrix](#) of fiscal sustainability metrics. The matrix highlights the practices of successful state pension systems, presenting critical data in a single table to facilitate comparative analyses and state plan assessments. Specifically, these data points illuminate historical outcomes from policy choices, measures of cash flow that determine long-term solvency, and indicators of risk and uncertainty.

Funded Ratio

The value of a plan's assets in proportion to the pension liability; is an annual point-in-time measure as of the reporting date and shows the cumulative result of decades of policy choices.

Operating Cash Flow Ratio

The difference, before investment returns, between expenses (including benefit payments) and employer and employee contributions divided by assets. Mature pension plans typically have negative operating cash flows and depend on investment returns to make up the balance. As a result, the operating cash flow ratio serves as a benchmark for the rate of return that plan investments would need to ensure that asset balances do not decline. Persistent cash flow ratios below -5% of assets are a warning sign of solvency risk.

Net Amortization

The cost of new benefits earned in a given year plus the interest on the pension debt minus expected employee contributions. The net amortization benchmark measures whether total contributions to a public retirement system would have been sufficient to reduce unfunded liabilities if all actuarial assumptions—primarily investment expectations—had been met for the year.

Contribution Volatility

The range between the lowest and highest employer contribution rate over a fixed period. A small range means that pension costs have been predictable and stable for that state; a high range means taxpayers and budget officials have faced volatile pension payments.

Preserve Inter-generational Equity

Preserve equity from one generation to the next by setting, and managing to, long-term targets for both employer costs and worker benefits. Plans can illustrate this by establishing documented goals for retirement security and costs, supported by effective policies to achieve these goals.

Rather than focusing on specific metrics or criteria, inter-generational equity may be better understood as a lens for evaluating how successful all plan components are at ensuring participants are paying for the benefits they will receive, and plan policy is neither deferring pension liability to any one pool of workers. *In other words, does the plan's approach to balancing several elements of benefit and plan design ensure that the needs of beneficiaries and the costs to sponsoring governments are both considered across generations?* Plans that establish clear and documented

strategies for ensuring benefit adequacy across generations of workers while balancing long-term costs to sponsoring governments can help preserve inter-generational equity.

Inter-generational Equity in Rhode Island

ERSRI has documented goals and requirements on cost and retirement security in its state laws and in pension system documents. In addition, a working group is currently addressing issues tied to how statutory pension reforms are affecting costs and security, among other matters.

To [foster long-term fiscal stability and retirement security](#) in Rhode Island and to address significant pension underfunding, the state enacted the Rhode Island Retirement Security Act (RISRA) on Nov. 18, 2011, [altering the state's benefits structure](#). The reforms froze pensioners' cost-of-living adjustments until the collective funding status of ERISRA reaches 80% and replaced the traditional defined-benefit pension plan with a new hybrid system comprised of a more limited defined-benefit plan and a new defined-contribution plan.

The state's Fiscal 2024 budget requires that effective Jan. 1, 2024, the "every 4-year" COLA adjustment that applies to state employees, teachers, and some MERS units is revised to 25% of the annually determined COLAs for most plans until those plans are 80% funded; however, COLA eligibility and the indexed cap on which the COLA is applied [were not affected](#).

The Rhode Island [General Laws](#) note that "[***The purpose of the Rhode Island Pension Protection Act is to provide current, retired, and future public employees financial retirement security by codifying procedures that will promote the sustainability and longevity of the state's retirement systems. The act will implement a fair process to be used to facilitate needed changes in times of fiscal distress.***](#)" (§36-10.2-2). In addition, ERSRI recently updated its defined-contribution plan in order to "[to create a pathway to lifetime income, offer choice within the plan, and lower plan fees for all members.](#)"

Plan for Uncertainty

[Having a plan for the unexpected](#) prepares a system for what the future may bring. Plans that adopt and follow risk management policies that plan for economic and demographic uncertainty are more agile in responding to volatility. Incorporating risk sharing and a strong funding policy goes a long way to preparing for the unexpected. Effective risk management requires an integrated approach to funding, investment, and benefit policies. Plan design is a common characteristic of model retirement systems. However, there is no one-size fits all policy. To help plan for the long term and manage costs, risk reporting tools should be used to assess the impact of investment risk on plan balance sheets and government budgets.

Pension Stress Testing

Also known as pension risk reporting, stress testing refers to forward-looking assessments measuring funding levels and required annual contributions under a range of economic scenarios. These assessments can help plan sponsors and fiduciaries understand the potential impact of swings in the financial markets or a recession to better plan for the long term and manage costs. Adoption of risk reporting has grown significantly over the past decade, with 25 states now conducting some routine, forward-looking assessment of investment risk and potential budget impacts, compared with only seven states in 2012.

Risk reporting has proved integral to the success of high-performing retirement systems and has helped inform improvements for underfunded plans. Moreover, as plans face potential cost increases due to inflation, shocks in the financial markets, and other uncertainties, stress tests and other risk assessments could help policymakers balance pension promises alongside other critical government services.

Risk Reduction

Adopting risk-sharing measures—the distribution of unexpected gains and losses among taxpayers, employees, and retirees—increases cost predictability and lowers the risk that states will be forced to choose between making inadequate contributions or crowding out other important public investments. As a result, plans with such policies are generally well funded, report low costs, and enjoy a high level of predictability of costs.

Funding Policy

States that have been successful at sustainably funding pension liabilities, such as South Dakota, Tennessee, and Wisconsin, rely on actuarial funding while also putting in place tools to mitigate risk. This approach ensures that meeting actuarial contributions does not push excessive uncertainty and volatility on plan sponsor budgets.

COLAs

COLAs are critical to retirement system beneficiaries, who rely on them to ensure that monthly benefits keep pace with changes in the cost of living over many years of retirement. Providing a COLA adds to the liability of a pension system but COLA provisions that include automatic adjustments based on investment returns or actuarial factors, can help plan sponsors balance cost, risk, and benefit adequacy.

Govern Transparently

Ensure that public pensions are expertly managed and that the practices and performance of benefit, funding, and investment policies are fully transparent to stakeholders, including policymakers, plan participants, and the public. The primary measure for transparent governance within our framework is [investment fee transparency](#). Our framework also considers the transparency of *reporting* of other practices such as [pension stress testing](#).

Investment Fee Transparency

Previous analysis has revealed a widespread problem among public retirement systems of underreported manager fees and expenses, particularly those associated with alternative investments such as private equity, real estate, and hedge funds, and points to the need for greater disclosure to provide full transparency on investment costs. State retirement systems receive guidance on disclosing investment details from the Governmental Accounting Standards Board and the Government Finance Officers Association's Best Practice for Public Employee Retirement System Investments. However, states interpret and implement these standards differently.

In many cases, current disclosure policies make it difficult for policymakers, stakeholders, and the public to gauge the actual performance of these funds. To help interested parties develop a complete understanding of both the results and the costs of different investment strategies, Pew's framework supports the following steps to improve transparency through greater disclosure:

- 1) Adopt comprehensive fee-reporting standards, such as those proposed by the [Institutional Limited Partners Association's Fee Transparency Initiative](#). This organization also offers a [template](#) for fee reporting.
- 2) Make investment policy statements transparent and accessible.
- 3) Disclose bottom-line performance, both net and gross of fees.
- 4) Expand reporting to include longer-term performance results.
- 5) Report results by asset class, net, and gross of fees.