Wisconsin Coalition for Retirement Security

Changing the State Pension System Could Be a Billion Dollar Mistake

Wisconsin's 'defined benefit' pension system is better for central Wisconsin taxpayers, businesses and retirees

Why is it important to maintain the Wisconsin Retirement System?

The state's public employee pension system is well-funded and in fine shape.

That's how it delivers $4 billion a year in benefits to every corner of the state.

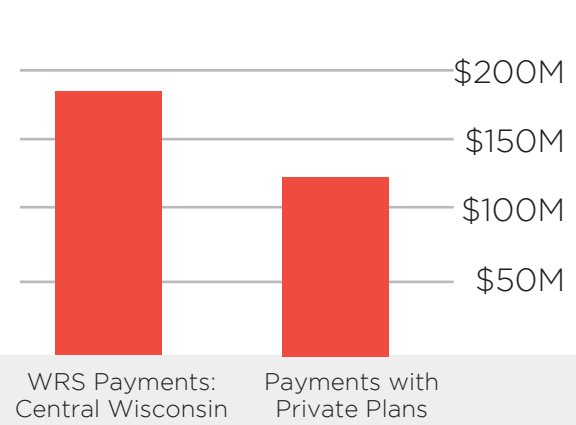
An alternative—known as 'defined contributions'—could cut benefits by 30%. That would mean $1 billion less for Wisconsin retirees to spend at local businesses. That cash would vanish from Main Street WI, and move to Wall Street.

Private sector plans mean less purchasing power for central Wisconsin retirees

Wisconsin's pension plan pays about $180 million a year to retirees in central Wisconsin (Lincoln, Marathon, Portage and Wood Counties).

This supports over 1,700 jobs and $25 million in state/local taxes.

A 30% cut means $54 million less to be spent at local businesses and support the tax base and regional economy. And switching to the inferior plan wouldn't save taxpayers anything.



Public employee pensions cycle funds through the state's economy

Wisconsin's public employee pension system is one of the best-funded and well-managed in America, knowledgeable observers agree. But some, including legislators and ALEC, the corporate lobby, want radical change.

They want to exchange the 'defined benefit' system, which guarantees pensions, for a 'defined contribution' system, which sends individuals to invest on their own.

This brings profit to the Wall Street finance industry, but earns smaller returns on pension investments. That's because individuals lack the expertise and benefits of scale the WRS has. It puts individual pensions at much greater risk without saving a dime for taxpayers.

Don't start down the road to a money-losing 'defined contribution' plan

Taxpayers wouldn't save a penny. Retiree benefits would be lower. The state economy would suffer.

A 'defined benefit' system guarantees a level of benefits. A 'defined contribution' guarantees only that employees and employers pay into the fund, but doesn't guarantee benefits. The benefit level is left up to the individual's investment skill and luck.

The calculations here show how much worse we'd be if our current system had been 'defined contribution' instead. The numbers show the long-term consequence of changing the pension system. Let's not even start moving in this direction.

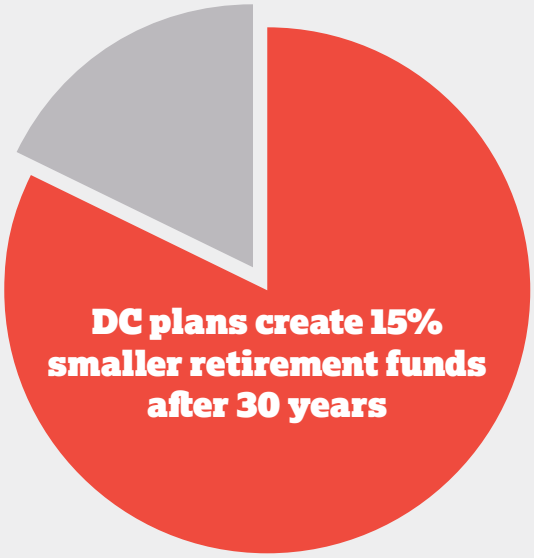
Retirees can lose 30% with a defined contribution system

1st Way to Lose: During Working Years

One percent a year doesn't sound like much. But over a career it makes a huge difference in the size of an individual pension fund.

Studies have found that a 'defined benefit' plan grows about one percentage point a year faster than a 'defined contribution' plan.

The whole pie represents a retirement account built over a 30-year career. The cut-out piece represents how much would be lost if the account grew at 6.2% a year (defined contribution plan) instead of 7.2% (defined benefit). Those average returns are based on numerous studies.



2nd Way to Lose: During Retirement

For the same size retirement fund, a WRS guaranteed monthly payment is about 15% larger than an annuity from the private market.

That's because private companies take a profit; WRS doesn't. And WRS' size gives it efficiencies that small private accounts can't match.

With a retirement fund 15% smaller, and another 15% lost when converting to a monthly payment, the 'defined contribution' plan is 30% worse.

Sources and more information: Data come from public documents issued by: Wisconsin Department of Employee Trust Funds; Wisconsin Legislative Bureau; US Bureau of Labor Statistics; US Census Bureau.

Wisconsin Department of Employee Trust Fund's Study of the Wisconsin Retirement System (June 30, 2012) http://etf.wi.gov/publications/wrs-study.pdf.

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