



NPPC

DEFINED BENEFIT PENSIONS

The best path for states to provide retirement security to public employees and their families.



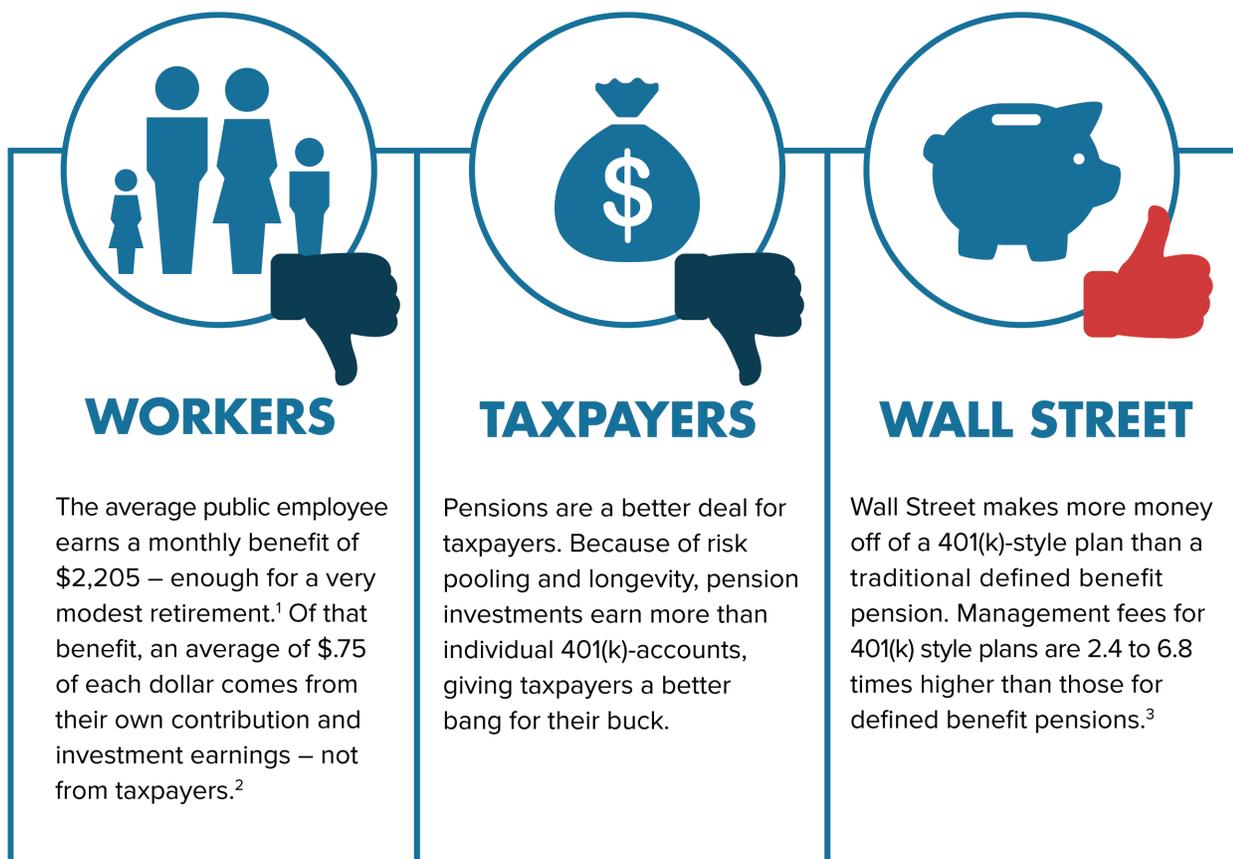
WHAT IS A DEFINED BENEFIT PENSION?

After a lifetime of hard work, employees deserve financial security in retirement. Defined benefit pensions are the most cost effective way to allow teachers, firefighters, nurses, librarians and other public servants to retire with dignity.

Defined benefit pensions offer low fees, asset diversification, longevity risk pooling, and professional management. Because of these advantages, pensions are able to provide equivalent benefits for about half the cost of 401(k)-style defined contribution plans.

Moving from pensions to 401(k) style plans benefits Wall Street, but hurts workers and taxpayers. In states that have moved public employees to 401(k) style plans, costs have increased—damaging state budgets and costing taxpayers—and benefits for employees have dropped. The only winners have been Wall Street executives, the same people who tried to privatize Social Security, who profit from the high fees associated with 401(k) style plans.

WALL STREET: THE ONLY WINNER WHEN YOU TRANSITION FROM A TRADITIONAL PENSION PLAN TO 401(K)



1. U.S. Census: <https://www.census.gov/content/dam/Census/library/publications/2015/econ/g14-aspp-sl.pdf>

2. National Association of State Retirement Administrators: Employee Contributions to Public Pension Plans: <http://www.nasra.org/files/Issue%20Briefs/NASRAContribBrief.pdf>

3. National Institute on Retirement Security: Still A Better Bang for the Buck: http://www.nirsonline.org/storage/nirs/documents/Still%20a%20Better%20Bang/final_report_bang_for_buck_dec_2014.pdf

AMERICANS SUPPORT PUBLIC EMPLOYEES

Our communities are stronger when working people have good-paying jobs and a secure retirement. When workers are financially secure and have money to spend in their local communities, everyone is better off. That's one reason why voters overwhelmingly value public employees and the services they provide to our communities, and why 80 percent of Americans believe the disappearance of pensions has made it harder to achieve the "American dream."

VOTERS LIKE PUBLIC WORKERS

Teachers 80%

Fire Fighters 70%

State Workers 66%

VOTERS SUPPORT PUBLIC EMPLOYEE PENSIONS

55% Think pensions are just right or too small

23% Think pensions are too large

WHY PENSIONS ARE UNDER ATTACK

Over the last 30 years, the very wealthy have used their influence to manipulate the rules for their benefit. With an economy that's out of balance, many wealthy individuals now pay lower tax rates than the average middle-class worker. The result is that many states are now struggling to pay for vital public services. Additionally, in many states with the most contentious fights over pensions, some politicians are spending far more to provide highly profitable corporations with subsidies and tax abatements than it would take to fully fund pension obligations. In many states, the total annual cost of corporate subsidies, tax breaks and loopholes exceeds the total current annual pension costs for public pension plans. For example, in Louisiana, subsidy and tax break/loophole costs are more than five times the current pension costs, and in Florida they are about four times pension costs.⁴

TRUTH IN NUMBERS: STATES SUFFER AFTER SWITCHING FROM DB TO DC RETIREMENT PLANS

WEST VIRGINIA

There is a misperception that defined contribution, 401(k)-style plans 'save money' as compared with traditional defined benefit pension plans. In 1991, West Virginia switched from a DB pension to 401(k)-style plans. By 2003, funding for the Teachers Retirement System hit rock bottom with an 18% funding ratio. They returned to a DB plan that year and made up half their losses in the next 9 years.⁵

MICHIGAN

Following the same logic as West Virginia, in 1997 Michigan closed its defined benefit pension plan for new hires in the Michigan State Employees Retirement System. At the time of its closure, MSERS was overfunded with 109% of assets on hand to cover liabilities. By 2012, the plan's unfunded liability grew to an enormous \$6.2 billion, or a funding ratio of just 60.3%.

ALASKA

In 2005, Alaska adopted a 401(k)-style defined contribution retirement program for all state employees hired after July 2006. Instead of alleviating pension debt, it more than doubled the unfunded liability in six years. By 2013, pension debt reached \$12.4 billion.

4. Good Job First: Putting State Pension Costs in Context: http://www.goodjobsfirst.org/sites/default/files/docs/pdf/statepensions_national.pdf

5. National Institute on Retirement Security: Case Studies of State Pension Plans that Switched to Defined Contribution Plans: http://www.nirsonline.org/storage/nirs/documents/Case%20Studies/public_pension_resource_guide_-_case_studies_of_state_pension_plans_that_switched_to_defined_contribution_plans.pdf

THE FACTS

It's about fairness. Most public employees contribute a portion of their salary to their pension—and they never miss a payment. It's not fair for politicians to re-write the rules and jeopardize the retirement security of millions of Americans.

Pensions are rebounding. Public pension funds are returning to healthy funding levels following the Wall Street crash of 2008. According to a fall 2014 Wilshire Consulting report, the average funding ratio across all public pension plans in FY 2013 was 75%, up from 65% in FY 2009. And researchers at the Center for Retirement Research at Boston College project funding levels will be as high as 80.5% by 2018.

Pension benefits are modest. The average public employee earns \$25,000 in retirement. Thirty percent of public employees do not earn Social Security. A recent study by the University of Wisconsin-Milwaukee revealed that state workers earned 12 percent less than comparable private sector workers between 2000 and 2008. "Public workers get lower pay than private-company employees even when benefits are included," Bloomberg reported. "Total compensation is 6.8 percent lower for state employees and 7.4 percent less for local workers [and] the pay gap is widening."

Pensions benefit the local economy, spurring growth and development. Every dollar paid in pension benefits supports \$1.98 in economic activity. That translates to 6.2 million American jobs and nearly \$307 billion in labor income.⁶

Workers should not lose their life savings because some politicians don't pay their contribution to pensions. Instead of cutting pensions by a few thousand dollars for hard-working teachers, firefighters, nurses and others, we should eliminate special tax breaks for the wealthy and big corporations.

6. National Institute on Retirement Security: Pensionomics
2014: http://www.nirsonline.org/index.php?option=com_content&task=view&id=861&Itemid=48



NATIONAL PUBLIC PENSION COALITION

Our mission is to effectively defend defined benefit plans for public employees, and to take the initiative to ensure that these plans continue to provide the foundation of a secure retirement.

CONTACT US:

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