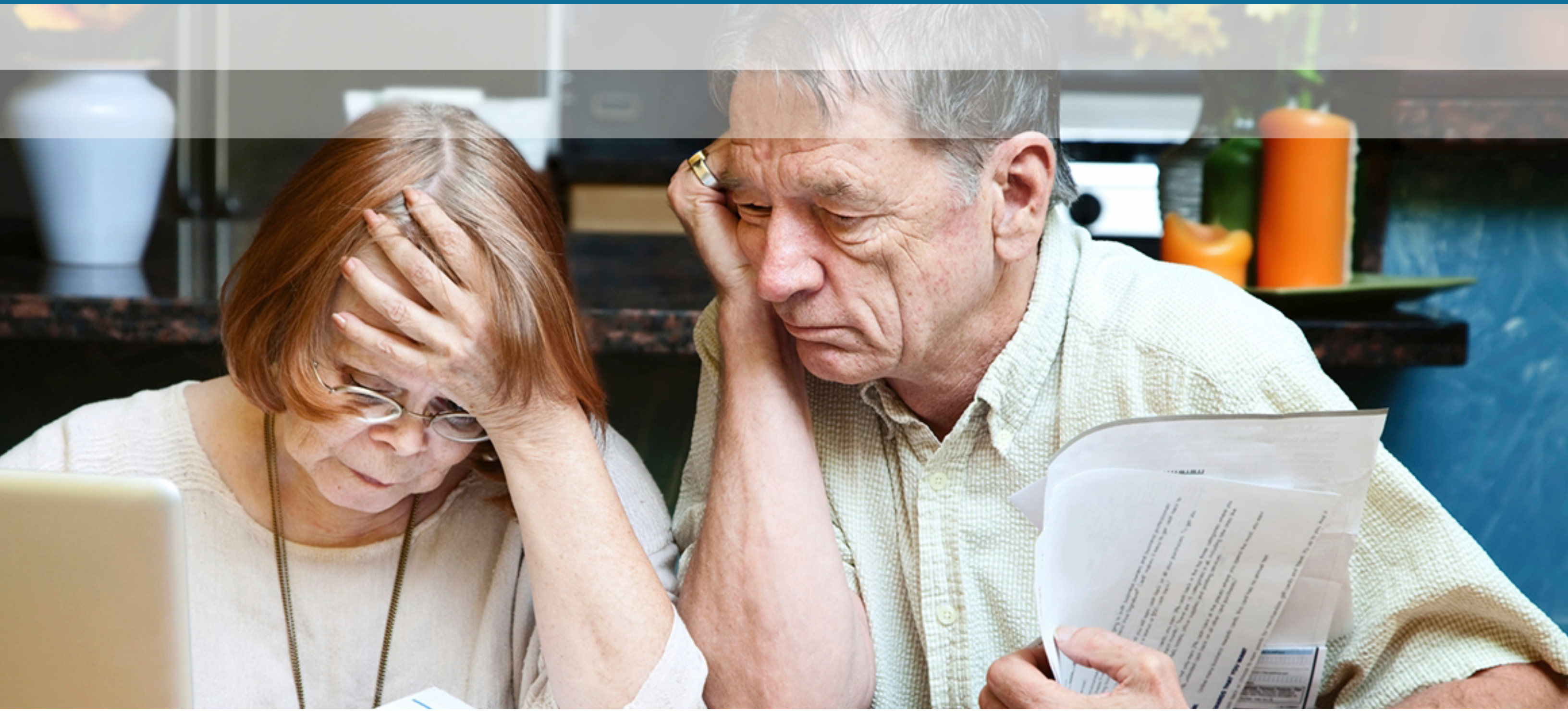
FISCAL RESPONSIBILITY AND 401(K)S

Why Converting Public Employees to Defined-Contribution Retirement Plans Is Wrong For Arizona



NATIONAL PUBLIC PENSION COALITION

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Summary

Throughout the country, state policymakers are tasked with formulating a state budget. Whether it is a time of financial hardship or pursuing an ideological agenda, too often, those in power will explore the option of converting their defined-benefit pension plans to defined-contribution 401(k) plans for state and local government workers.

This report explores the potential impact states will face should lawmakers decide to convert new public employees from a defined-benefit pension plan to a defined-contribution 401(k) retirement plan as a budget-saving measure.

This report seeks to answer the following questions:

- Has the emergence of defined-contribution plans contributed to the retirement savings crisis in the country?
- Does converting a defined-benefit pension plan to a defined-contribution plan impact the overall cost to the state?
- What are the consequences of converting a defined-benefit pension plan to a defined-contribution plan?
- Does conversion to a defined-contribution plan impact recruitment and retention of public employees?

History of Employer-Sponsored Retirement Plans

Since the 1980s, defined-contribution 401(k) retirement plans have become the predominant plan offered to private-sector employees in the United States. In March 2021, 65% of private-sector employees were offered a defined-contribution plan and 15% were offered a defined-benefit pension plan. Eighty-six percent of state and local public sector employees had access to a defined-benefit pension plan, and of those workers 75% opted to participate.[1]

Defined-contribution 401(k) retirement plans were established with the passage of the 1978 Revenue Act. The initial intent of the 401(k) was to provide another vehicle for the wealthy to save money on their taxes.[2] It wasn't until the 1980s that U.S. corporations saw the 401(k) as a replacement retirement product, creating an opportunity to move away from providing a defined-benefit pension to their employees. The defined-benefit pension plan, which continues to be the standard-bearer in the public sector, is a retirement plan that pools workers' assets and offers a monthly retirement benefit for life after a career of service.

Defined-Contribution Retirement Plans and the Retirement Savings Crisis

Economists and researchers agree that the U.S. is on the precipice of a retirement savings crisis because Americans cannot save enough using defined-contribution 401(k)-style plans or they are not saving at all. The Economic Policy Institute found that the median defined-contribution retirement account balance ranges from $1,000 for families headed by people in their mid-30s to $21,000 for near-retirement households—which is not enough to retire with security. Additionally, nearly half of families have no retirement account savings.[3]

Workers currently participating in defined-contribution plans in the private sector have experienced two major economic downturns in the last 12 years: the Great Recession and the

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[1] "Retirement Benefits: Access, Participation, and Take-up Rates for Defined Benefit and Defined Contribution Plans" U.S. Bureau of Labor Statistics, U.S. Department of Labor, last modified March 2021, https://www.bls.gov/charts/employee-benefits/percent-access-participation-takeup-retirement-benefits.htm#.
[2] Olshan, Jeremy, "The inventor of the 401(k) says he created a monster," *MarketWatch*, September 26, 2016, https://www.marketwatch.com/story/the-inventor-of-the-401k-says-he-created-a-monster-2016-05-16.
[3] Morrissey, Monique, "The State of American Retirement Savings: How the Shift to 401(k)s Has Increased Gaps in Retirement Preparedness Based on Income, Race, Ethnicity, Education, and Marital Status," Economic Policy Institute, December 10, 2019, https://www.epi.org/publication/the-state-of-american-retirement-savings/.

recession caused by the coronavirus pandemic. These downturns have hurt everyday Americans' retirement savings. With the coronavirus pandemic-induced recession specifically, the jobless rate increased mainly for low-income workers, while wealthy earners have remained relatively unscathed. CNBC cites a "two-track" economy, where wealthy Americans weather financial storms and low-income workers are forced to withdraw from their retirement savings accounts to get by.[4] The lack of retirement savings and the two-track economy that prevents lower-income workers from saving enough for retirement directly correlates with the obstacles that are already in place for older and younger workers trying to save.

One of these obstacles is the student debt crisis. The current total U.S. student loan debt is $1.53 trillion, and 1 in 4 Americans under age 60 have this debt. The average student loan debt in America is $37,172, and the average student loan payment is $393 per month.[5] For younger workers entering the workforce, this presents a significant barrier to properly saving for retirement. According to TIAA, 84% of working Americans cite student loan debt as an obstacle to saving for retirement. Seventy-three percent of borrowers are putting off maximizing their retirement savings while 26% are not saving for retirement at all because of their student loans.[6]

Millennials, the generation born between 1981-1996,[7] have faced the brunt of the recent economic downturns. Many struggled to find adequate employment when finishing their education due to the Great Recession. Compounding the burden of student loan debt with underemployment, wage stagnation, and other factors have led millennials to drastically

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[4] Iacurci, Greg, "Americans are raiding retirement savings during the coronavirus pandemic," *CNBC,* September 14, 2020, https://www.cnbc.com/2020/09/14/americans-are-forced-to-raid-retirement-savings-during-the-pandemic.html.

[5] Nitro College, "Student Loan Debt," accessed January 8, 2021, https://www.nitrocollege.com/research/average-student-loan-debt.

[6] TIAA-MIT AgeLab, "TIAA-MIT AgeLabStudy Finds Student Loan Debt Significantly Impacts Retirement Savings, Longevity Planning and Family Relationships," *TIAA-MIT AgeLab*, July 30, 2019, https://tiaa.new-media-release.com/mit-agelab/.

[7] CNN Editorial Research, "American Generation Fast Facts," *CNN,* September 1, 2020, https://www.cnn.com/2013/11/06/us/baby-boomer-generation-fast-facts/index.html.

under-save for their retirement. That's why two-thirds of working millennials have nothing saved for retirement.[8]

For older workers, many are concerned about their ability to retire securely and with dignity. In July 2020, the U.S. Government Accountability Office (GAO) released a report entitled *Retirement Security: Older Women Report Facing a Financially Uncertain Future,* which cited the increasing cost of healthcare and housing as two of the primary reasons women 70 years and older are concerned about retirement.[9]

Overall, the reliance on defined-contribution plans paired with Social Security to provide a secure retirement can be faulty. Due to the aforementioned obstacles, the vast majority of workers are not saving enough in defined-contribution accounts, regardless of how hard they may try. This leaves many retired workers to rely solely on Social Security, which does not provide financial security in retirement. The National Institute on Retirement Security (NIRS) released a report in January 2020 that found 40% of retired workers rely solely on Social Security income in retirement. The same report states that Social Security replaces roughly 40 percent of pre-retirement income, but varies depending on a variety of factors.[10]

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[8] Brown, Jennifer Erin, "Millennials and Retirement: Already Falling Short," National Institute on Retirement Security, February 2018, https://www.nirsonline.org/reports/millennials-and-retirement-already-falling-short/.

[9] Bonvissuto, Kimberly, "Pandemic hurting retirement security; older women face unique challenges, GAO comptroller tells Senate committee," *McKnight's Senior Living,* September 25, 2020, https://www.mcknightsseniorliving.com/home/news/pandemic-hurting-retirement-security-older-women-face-unique-challenges-gao-comptroller-tells-senate-committee/.

[10]Porell, Frank and Tyler Bond, "Examining the Nest Egg: The Sources of Retirement Income for Older Americans," National Institute on Retirement Security, January 2020, https://www.nirsonline.org/reports/examining-the-nest-egg/.

Financial planners advocate for a 70% income replacement rate for retirees in order to maintain their current level of financial security.[11] In 2021, Fidelity Investments published these commonly agreed upon multiples that are used across the financial services industry:[12]

- *Age 30: 1x your salary*
- *Age 35: 2x your salary*
- *Age 40: 3x your salary*
- *Age 45: 4x your salary*
- *Age 50: 6x your salary*
- *Age 55: 7x your salary*
- *Age 60: 8x your salary*
- *Age 67: 10x your salary*

A study by Bankrate found that 52% of Americans have stated that they were behind on their own savings goals for retirement, and only 16% said they were right on track.[13]

Defined-contribution 401(k) retirement plans have eroded the American worker's path to a stable retirement and contributed heavily to the retirement savings crisis. With so many younger workers having nothing saved for retirement and the economic weariness of older workers who are about to retire or are already retired, it's clear that the U.S. has a major crisis on its hands.

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[11] Ibid.

[12] Fidelity, "How Much Do I Need to Retire?," August 27, 2021, https://www.fidelity.com/viewpoints/retirement/how-much-do-i-need-to-retire.

[13] Royal, James, "Survey: More than half of American workers say they are behind in saving for retirement," *Bankrate,* November 21, 2019, https://www.bankrate.com/surveys/financial-security-poll-november-2019/.

The Negative Financial Consequences of Closing a Pension Plan

Closing a defined-benefit pension plan can be costly for a state. A few states have chosen to close pension plans for future hires in an attempt to reduce their pension plans' unfunded liabilities or reduce short-term budget deficits, but the opposite occurred.

It is important to note that when a state closes a pension plan, the state is not absolved of its liabilities to those already participating in the system. This means current and future pension benefits still need to be paid to those retirees and future retirees who are guaranteed pension benefits. Additionally, by removing new and future employees from the system, their contributions are no longer sustaining the fund. Without new employees paying into the plan, liabilities increase while the state provides new employees with a different type of retirement benefits. The experiences of Michigan and West Virginia provide historical context for these changes.

Michigan

In 1997, Michigan lawmakers closed their state employee pension plan, the Michigan State Employees' Retirement System (SERS). At the time, the plan was 109% funded and had tens of thousands of beneficiaries. Although the system was well-funded, without new employees participating in the fund the funding status has dropped significantly since the plan's closure. When the plan was closed, SERS had $734 million in excess assets since it was 109% funded.[14] As of September 30, 2020, the plan only has 6,857 active participants and 60,633 beneficiaries. and was $6.54 billion underfunded with a funded status of 65.4%.[15] This large increase in unfunded liabilities can be traced back to the large difference in active and retired employees. With fewer workers participating in the defined-benefit retirement plan and more beneficiaries, the unfunded liability has increased, putting more strain on the state's budget.

[14] Bond, Tyler and Dan Doonan, "Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, National Institute on Retirement Security, August 2019, https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf.

[15] Michigan State Employees' Retirement System, "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2020," September 30, 2020, https://www.michigan.gov/documents/orsstatedb/CAFR_SERS_Fiscal_Year_2020_716980_7.pdf.

West Virginia

After years of underfunding the state's Teacher Retirement System (TRS), lawmakers in West Virginia closed the plan to newly hired teachers in 1991 and moved all future hires into a defined-contribution 401(k) plan. For years, public employees contributed to their pensions with every single paycheck, while the state legislature did not. Fourteen years after the plan's closure, only 18,000 active teachers were contributing to TRS, while having 27,000 retirees. With lopsided pension funding, the funded status of the plan dropped to 25%.[16]

With so many newly hired teachers in an inadequate 401(k) retirement plan and the pension plan's funded status plummeting, West Virginia began studying the impact of converting the system back to a defined-benefit pension plan. The state then realized that if they re-opened the defined-benefit plan provided by TRS to new teachers and gave current teachers participating in the 401(k) plan a choice to switch back, they could provide equivalent benefits at half of the cost. In 2005, state lawmakers re-opened the plan and more than 78% of current teachers made the switch to the defined-benefit pension plan.[17] As of July 1, 2019, TRS covers 34,108 active members and 36,652 retirees and beneficiaries, and as of 2020 has a funded ratio of 70.9%.[18]

Economic Benefits of Pensions Nationwide

Closing pension plans comes at a cost that will ultimately strain future budgets. Still, the consequences of losing out on pension-generated economic activity can cause even more strain on local communities. Public pension spending has a profound impact on the country's economy. In 2018, the expenditures of 23.8 million retired Americans from their monthly pension payments supported nearly 7 million jobs and $1.3 trillion in total economic output

[16] Watkins, Jennifer, "Three States That Abandoned Their Pensions - And Suffered the Consequences," National Public Pension Coalition, February 24, 2017, https://protectpensions.org/2017/02/24/abandoned_pensions_consequences/.

[17] Bond, Tyler and Dan Doonan, "Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, National Institute on Retirement Security, August 2019, https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf.

[18] West Virginia Consolidated Public Retirement Board, "2020 Comprehensive Annual Financial Report," June 30, 2020, http://www.wvretirement.com/Forms/2020-CompAnFinR.pdf.

nationwide.[19] A report from the National Conference on Public Employee Retirement Systems (NCPERS) found that the economy grows by $1,362 for each $1,000 of pension funds invested. Taking into account that in 2018, there were $4.3 trillion in public pension assets, those investments contributed roughly $872.4 billion to state economies.[20]

These are real dollars being spent in rural and urban areas around the country. Eliminate this spending by retirees, and many "Main Streets" may struggle in the future.

Recruitment and Retention

Closing a pension plan and moving all newly hired public employees into a defined-contribution plan such as a 401(k) can have adverse effects on the recruitment and retention of employees for state and local governments. Several historical examples show these negative effects on small and large municipalities, and even states. Many governments have eventually re-opened their defined-benefit plans or are currently sounding the alarm about the difficulties they are facing.

The Town of Palm Beach, Florida

In 2012, the Town of Palm Beach, Florida closed its pension system to newly hired public safety officers, including police officers and firefighters. All newly hired public safety officers were provided with a hybrid retirement plan consisting of defined-contribution and defined-benefit components. This new plan did not provide an adequate retirement. According to the Florida Public Pension Trustee Association, Palm Beach lost 24 public safety officers in 2012. The following year, the town lost 24 more. In a short time a er, more than 60% of the town's employees had less than three years of experience in their jobs.[21] The cost incurred by

[19] Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf.
[20] Kahn, Michael, "Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk," National Conference on Public Employee Retirement Systems, May 2020, https://www.ncpers.org/files/NCPERS%20Unintended%20Consequences_2020_Update_WEB_FINAL.pdf.
[21] Ryals, Kimberlie, "City's move to 401(k) pensions is big mistake as Palm Beach showed," *The Florida Times-Union,* February 22, 2017, https://www.jacksonville.com/opinion/columnists/2017-02-22/guest-column-city-s-move-401k-pensions-big-mistake-palm-beach-showed.

the town ballooned to almost $20 million based on the $240,000 price tag to train a new police officer.[22] With surrounding cities and municipalities still offering a pension plan, police officers and firefighters would train in the Town of Palm Beach and leave for other jurisdictions to earn a better retirement benefit. In 2016, after four years of retention issues, the town reopened its pension plan for public safety officers.

The Town of Branford, Connecticut

The Town of Branford, Connecticut encountered the same issue in 2019: their police officers weren't staying on the job. In 2011, the Town of Branford moved all of its newly hired police officers into a defined-contribution 401(k) retirement plan. After years of losing police officers to neighboring departments that offered a defined-benefit pension, the Representative Town Meeting unanimously approved a new contract that moved all police officers back into the defined-benefit pension plan.[23]

The State of Alaska

In 2005, a unique set of circumstances unfolded in Alaska. After the state's actuary made inaccurate projections about the state's pension assets, lawmakers faced a combined $4.1 billion unfunded liability for their Public Employees Retirement System and their Teachers Retirement System. In response, lawmakers made the ill-informed decision to close their defined-benefit pension plan to newly hired public employees and switched them to a defined-contribution 401(k)-only plan.[24] This policy differs from other states that made this change because in Alaska public employees are not eligible for Social Security benefits, making their 401(k) the only retirement vehicle at their disposal.

[22] Oakley, Diane, "Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions," National Institute on Retirement Security, February 2018, https://www.nirsonline.org/wp-content/uploads/2018/02/Final-Palm-Beach-Feb-2018.pdf.

[23] Zaretsky, Mark, "Branford RTM approves PD switch back to traditional defined-benefit police pensions," *New Haven Register*, May 15, 2019, https://www.nhregister.com/metro/article/Branford-Police-Department-switching-back-to-13848213.php.

[24] Bond, Tyler and Dan Doonan, "NIRS, Case Study: Alaska faces mounting challenges thirteen years after closing pension plans," National Institute on Retirement Security, August 2019, https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf.

Since then, Alaskan government agencies have had their fair share of recruitment and retention issues. The Institute of Social and Economic Research at the University of Alaska (ISER) found that the cost of teacher recruitment and turnover became too high, and some rural school districts had trouble keeping up. ISER research has shown that it costs the state roughly $20 million a year, or $20,431 for every teacher turnover.[25] Some superintendents have offered up to $3,000 signing bonuses for teachers to entice recent college graduates to their school districts.[26]

Recruitment troubles aren't only found in the teaching profession. In 2018, the Alaska State Troopers had to undergo a rebranding effort to entice recruits to the state. The Alaska Department of Public Safety Recruitment and Retention Plan Overview for 2018-2023 found that the department was drastically understaffed. The report stated, "The budget climate, reduced resources, inadequate wages and the *inability to provide a defined benefits retirement system* have placed the department at critically low staffing levels. Low staff and reduced funding are detrimental to the department's ability to effectively deliver core public safety services. (emphasis added)"[27] With multiple government agencies having issues with recruitment and retention, the misguided decision to eliminate the defined-benefit pension plans is a direct cause of their troubles.

Teachers and Public Pensions

In a study conducted by NIRS, it was found that although attrition is high in the first five years of employment, the number of teachers that leave the profession drops dramatically after those years and stays low through the middle of their career. This can be attributed to one thing: Pensions. Sixty-five percent of teachers from the states of Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas will serve for at least 20 years. Additionally, NIRS found that

[25] "This is what teacher turnover looks like in Alaska," *Anchorage Daily News*, February 3, 2020, https://www.adn.com/sponsored-content/2020/02/01/this-is-what-teacher-turnover-looks-like-in-alaska/.
[26] Petersen, Victoria, "A Perennial Challenge in Rural Alaska: Getting and Keeping Teachers," *Education Week,* September 10, 2019, https://www.edweek.org/ew/projects/letters-from-alaska/a-perennial-challenge-in-rural-alaska-getting.html.
[27] "Alaska State Troopers Stepping Up Recruitment Efforts," *Associated Press*, August 25, 2018, https://apnews.com/article/0fb7d3516a6e470895fe19ad9ae797df.

retaining experienced teachers lowers teacher turnover, which can help school districts that are facing staffing shortages.[28] Eliminating pensions for future employees would harm teacher retention and there would be no incentive for experienced teachers to stay on the job.

Public Employees' Views

In 2019, a NIRS poll of current public employees found that pensions remain one of the best recruitment and retention tools available for municipalities, cities, and states. For millennial public employees, 74% cited their pension benefit as a major reason why they chose public service. Additionally, 94% of state and local employees polled said that pensions are a useful tool for retention, and 73% said they would be likely to leave their job if their pensions are cut.[29]

[28] Rhee, Nari and Leon F. "Rocky" Joyner, Jr, "Teacher Pensions vs. 401(k)s in Six States: Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas," National Institute on Retirement Security, January 2019, https://www.nirsonline.org/wp-content/uploads/2019/01/Teacher-Pension-vs-401ks-in-Six-States_FINAL.pdf.

[29] Kenneally, Kelly and Tyler Bond, "State and Local Employees Views on Their Jobs, Pay and Benefits," National Institute on Retirement Security, November 2019, https://www.nirsonline.org/reports/state-and-local-employees-views-their-jobs-pay-and-benefits/.

ARIZONA BY THE NUMBERS

PENSIONOMICS IN ARIZONA

Total Economic Output: $8.3 billion
Total Jobs Supported: 50,443
Pension Benefit Multiplier: $1.00 = $1.72 total output
Total Federal, State, Local Taxes Revenue Generated: $1.3 billion

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf.

ARIZONA STATE RETIREMENT SYSTEM

Active Members: 214,810
Inactive Members: 241,518
Current Beneficiaries: 163,069

Arizona State Retirement System, "Facts & Figures," date accessed February 11, 2021, https://www.azasrs.gov/content/facts-figures.

The Arizona State Retirement System's (ASRS) history can be traced back to when Arizona first became a state. In 1912, Arizona not only became the 48th state in the union but also administered its first pension to a teacher.[30] Thirty years later in 1943, the state formalized the creation of the Teachers' Retirement System, and in 1953 the legislation that created ASRS. ASRS now facilitates retirement plans for the state's educators in public and charter schools, state universities and community colleges, as well as state government employees.

Today, ASRS provides an average monthly benefit of $1,704 to more than 163,000 retirees and beneficiaries. In other words, employees who retire after 30 years of service will receive a benefit equivalent to 69% of their pre-retirement income.[31] As of June 30, 2020, ASRS's funding status stood at 72.8%, with $41.8 billion in assets.[32]

[30] Arizona State Retirement System, "Our History" date accessed February 11, 2021, https://www.azasrs.gov/content/our-history

[31] AARP, and the National Institute on Retirement Security "AARP in the States: Arizona," date accessed February 11, 2021, https://www.nirsonline.org/wp-content/uploads/2021/01/AARP-In-The-States-Snapshot-AZ-Public-Employee-Retirement-System.pdf

[32] Arizona State Retirement System, "Facts & Figures," date accessed February 11, 2021, https://www.azasrs.gov/content/facts-figures.

In order to ensure that ASRS continues to provide a benefit to public employees, the state legislature has made changes to the benefit formula. In the 2008-2009 legislative sessions, lawmakers passed legislation that increased the length of service needed for a normal retirement, and extended the average salary calculation for new hires after July 1, 2011.[33] They also eliminated a cost-of-living adjustment for anyone hired after September 13, 2013.[34]

In recent years, members of the legislature have discussed the possibility of closing the defined-benefit pension plan and changing the system to a defined-contribution plan. These efforts have not extended past the hearing phase in the legislature, but discussions continue each year. As illustrated earlier in this report, these changes will not absolve the state of the accrued unfunded liability for benefits already earned by active and retired ASRS members. In addition to the cost of paying off the unfunded liability, the state would have to find the dollars to replace the contributions new employees would pay into the system.

Arizona lawmakers are already experiencing the financial costs of enacting similar changes to another system. In 2013, state lawmakers passed legislation impacting the Elected Officials Retirement Plan (EORP), which covers judges and elected officials. This closed the pension plan on January 4, 2014 to any newly elected or appointed officials and moved them into a defined-contribution plan.[35] At the time, the state statute did not set an actuarially determined contribution that could account for the loss of employee contributions and investment returns. Instead, the statute set a fixed rate of 29.5% for employers, coupled with a $5 million annual contribution from the state and dedicated revenue from court fees in hopes that that would be enough. It was not. The system is now hovering at a 31% funded ratio. In order to pay down the unfunded liability, the legislature is considering SB 1467, which would increase the state's annual contribution amount to EORP by $1 million, starting at $6 million in FY 2020 and

[33] AARP, and the National Institute on Retirement Security "AARP in the States: Arizona," date accessed February 11, 2021, https://www.nirsonline.org/wp-content/uploads/2021/01/AARP-In-The-States-Snapshot-AZ-Public-Employee-Retirement-System.pdf.

[34] Ibid.

[35] Arizona State Library, Archives & Records "Elected Officials' Retirement Plan (EORP)," date accessed February 11, 2021, https://azlibrary.gov/sla/agency_histories/elected-officials%E2%80%99-retirement-plan-eorp

capping at $10 million in FY 26 through FY 43.[36] What this means is, the cost of switching from a defined benefit system to a defined contribution system is borne by employers and taxpayers. And the portion of cost borne by employers is ultimately passed on to taxpayers. Despite the intent of Arizona lawmakers to save the taxpayers money by switching plans, taxes have instead been increased as a consequence.

Conclusion

History has shown that closing a defined-benefit pension plan for future public employees and converting them to a defined-contribution 401(k)-style plan only creates more issues for governments and lawmakers. States will see increased costs of funding their pension plans in the future, as the plans cannot keep up with the disparity between active and retired public employees. Additionally, eliminating defined-benefit pensions can create recruitment and retention issues for all levels of government.

Lawmakers who favor conversion will point to short-term savings as a reason why their state should consider it. As described throughout this report, this idea is short-sighted and fails to acknowledge the real long-term fiscal impact. Lawmakers should notice trends in the private sector as to why they should not strip future public employees of a defined-benefit pension, especially those who dedicate their lives in service to their communities.

Defined-contribution 401(k) retirement plans were also never meant to be a primary retirement vehicle for any worker, either in the private or public sector. Ted Benna, who is widely regarded as the "father of the 401(k)," has called the 401(k) "a monster."[37]

With a defined-benefit pension plan, workers and employers do not stop contributing during an economic downturn. Since workers' assets are pooled in the pension fund, they can weather financial storms, such as the Great Recession and the coronavirus pandemic-induced economic downturn. Also, with a pension, retired workers do not have to worry about running out of

[36] Legiscan, "AZ SB 1467," date accessed March 31, 2021, https://legiscan.com/AZ/bill/SB1467/2021.
[37] CBS News, "401(k) Founder: My Creation is "a Monster," November 29, 2011, *CBS News*, https://www.cbsnews.com/news/401k-founder-my-creation-is-a-monster/.

money in retirement - their retirement benefits are earned and paid every month for the rest of their lives.

Observing the wealth of evidence in this report and the examples provided by other local and state governments, lawmakers should strongly consider this research and evaluate the adverse outcomes of passing 401(k) conversion legislation to the detriment of state and local budgets and public employees. 401(k) conversion is not the answer. Instead, maintaining their defined-benefit pensions and practicing fiscal discipline by ensuring that systems are fully funded each year is the better course of action.

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