

NAPPA Summer Program

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National Conference on
Public Employee Retirement Systems



Are Public Pensions Sustainable?

Most certainly yes when:

- Sponsors make their contributions consistently and fully.
- Employees make their contributions.
- Investments are well managed and fees are low.
- Benefits are appropriate and funded.



What You Need to Know About Threats to Public Pensions

- It's national.
- It's well financed and orchestrated.
- And pensions are going away in the private sector.
- But we have an opportunity to change the debate.



Public Pension History

- Public pensions have been around for more than 150 years.
 - 1857 New York establishes LOD benefits for NYC police.
 - 1866 FDNY gets LOD benefits.
 - 1878 NYC public safety get lifetime benefit 55/21.
 - 1894 NYC teachers pension benefit.
 - 1900's state plans in ND, CA, MA, CT, PA, NJ.
 - Most public plans established soon after 1935.



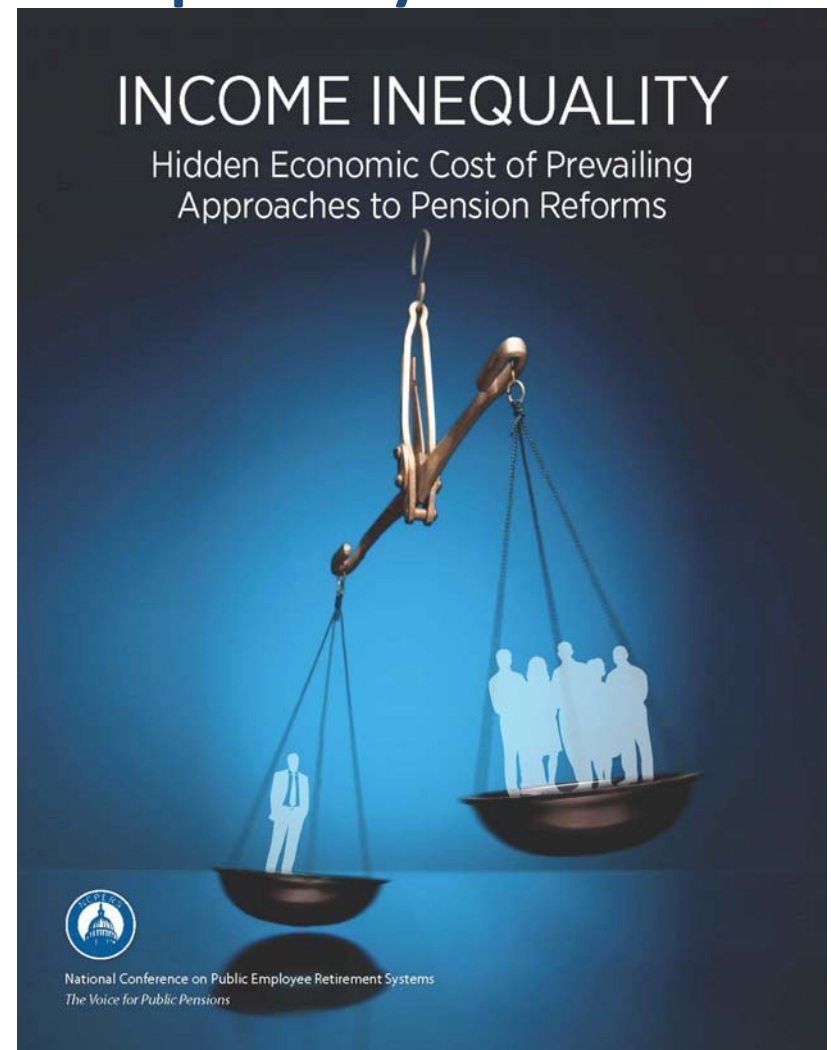
Top Benefits of DB Plan

- DB plans cost state and local governments less.
- DB plans provide disability and survivor benefits.
- DB plans enhance the ability of state and local governments to attract and retain qualified employees.
- DB plans help state and local governments manage their workforce.
- DB plans earn higher investment returns and pay lower investment management fees.
- DB plans reduce the overall cost of providing lifetime retirement benefits by pooling risks.
- DB plan investment earnings supplement employer & employee contributions.
- DB plans provide predictable secure retirement benefits.
- DB plans help sustain state and local economies.



Public Pension & Rise in Income Inequality

Income inequality is bound to rise when incomes of one group are reduced through pension cuts or through other means such as tax cuts for the top one percent.

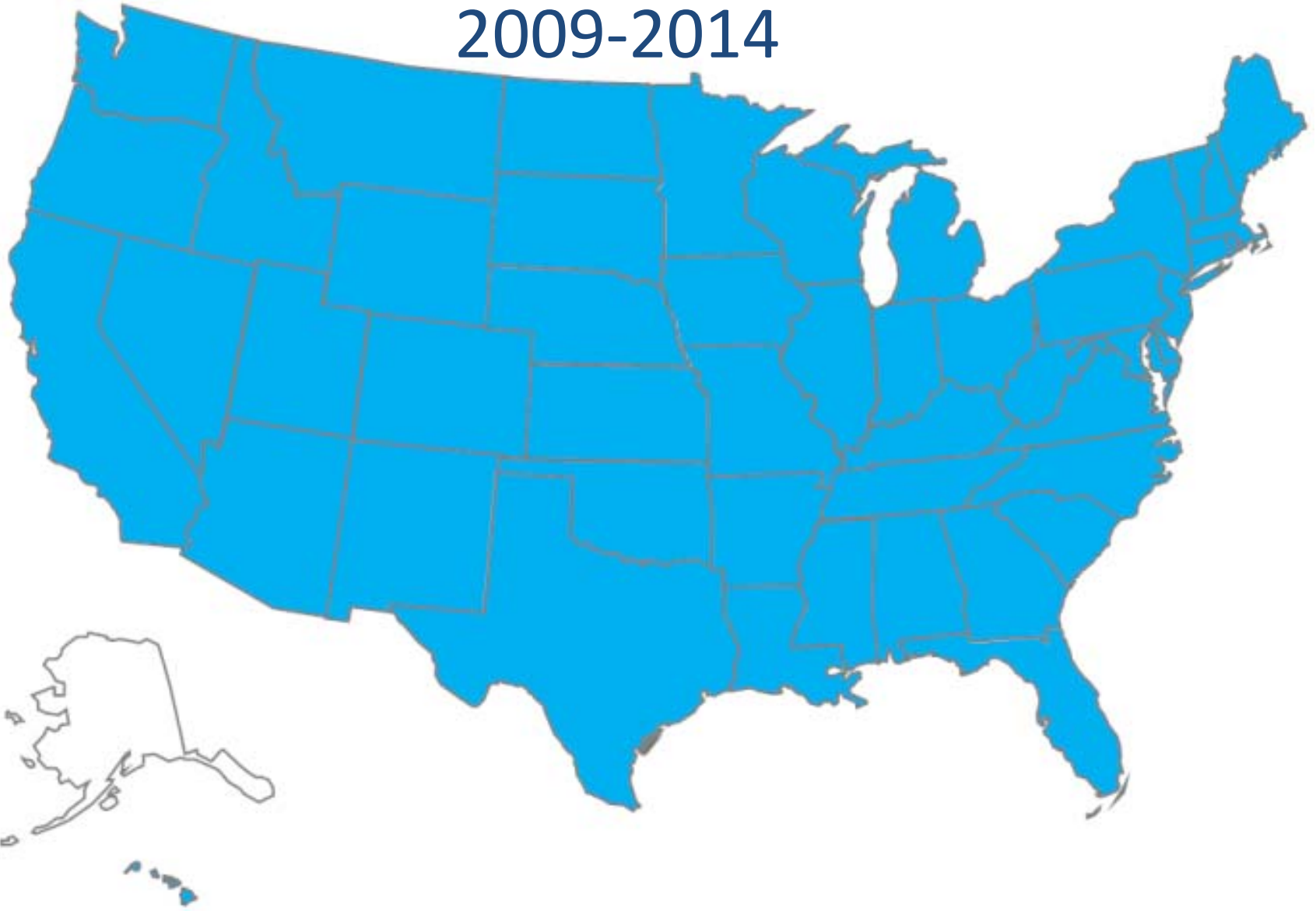


Prevailing Approaches to Public Pension reforms

- Between 2009-2013, 48 states made changes to their pension plans – some more than once
- 34 states increased employee contributions
- 38 states Instituted higher age and service requirements for retirement
- 30 states reduced COLAs
- 18 states instituted steps to convert DB plans into DC or Hybrid Plans (Mandatory Hybrid – 6 States, Mandatory Cash Balance – 3 State, Mandatory DC – 2 States, and Choice of Plan – 7 States)



Major Pension Enactments 2009-2014



Analysis of State Pension Reforms and Income Inequality, 2000-2010

- We reviewed state and local pension changes during 2000-2010.
- Counted number of negative pension changes such as cutting benefits, increasing employee contributions, converting DB plans into DC or hybrid plans in each state.
- Examined changes in income inequality in each state during the same period.
- Conducted an analysis of the relationship between the negative pension changes and income inequality.



What Did We Find?

- The analysis shows that the higher the number of negative changes a state makes to its pensions, the higher the increase in income inequality in that state.
- This relationship holds even when we take into account other factors that might impact income inequality – such as lack of investment in public education.
- Furthermore, the analysis shows that a single negative change increases income inequality by about 15 %

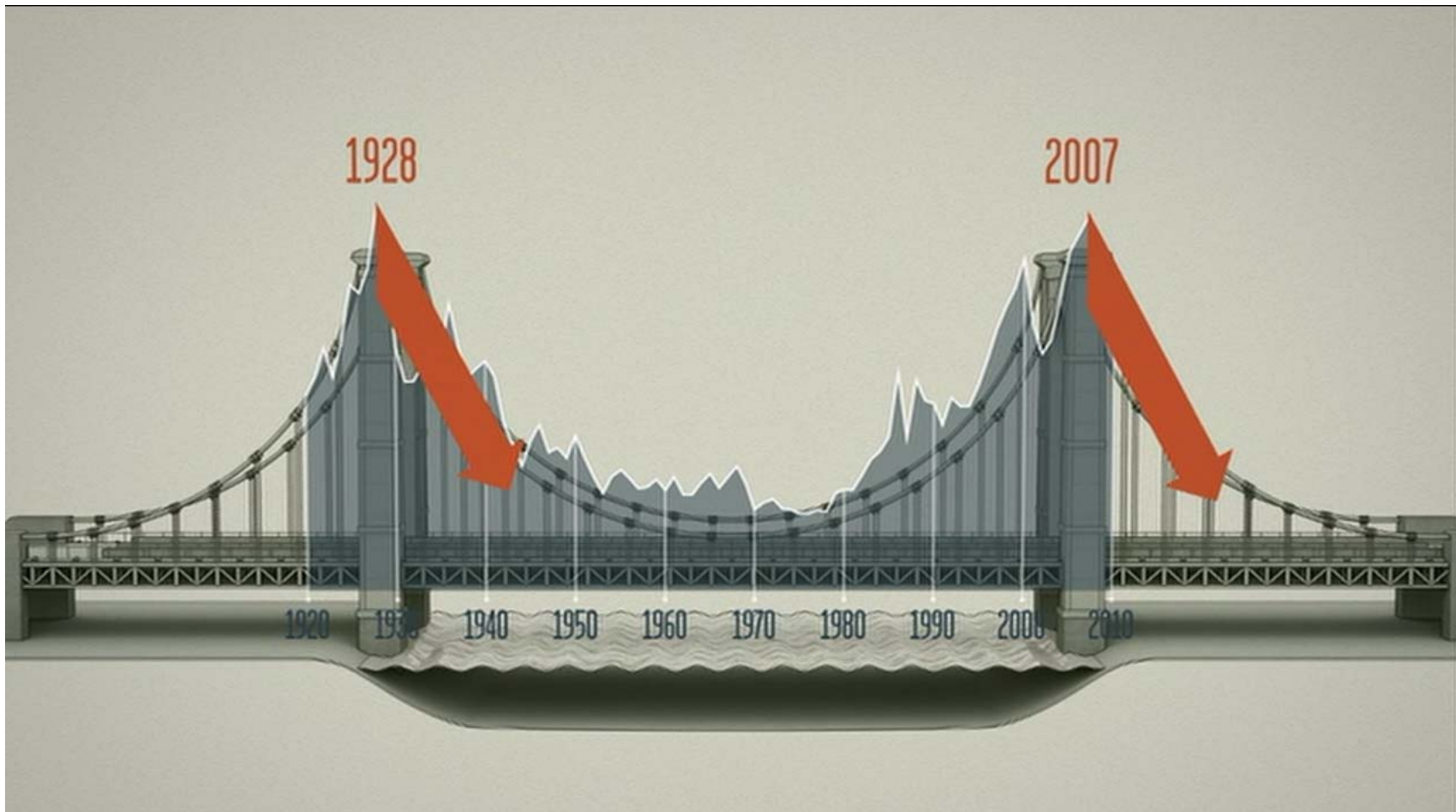


There is Ample Evidence that Rising Income Inequality Drags the Economy Down

- Organization for Economic Cooperation and Development – “Trends in Income Inequality and Its Impact on Economic Growth,” December 2014
- Standard and Poor’s – “How Increasing Income Inequality Is Dampening U.S. Economic Growth,” August 2014.
- International Monetary Fund – “Redistribution, Inequality, and Growth,” February 2014



Each Time Income Inequality Reached its Peak, A Major Recession Followed, and Everyone Suffered



Source: Robert Reich Documentary – Inequality for All



Analysis of State Income Inequality and Economic Growth, 2000-2010

- We examined changes in income inequality in each state from 2000 to 2010.
- We also examined economic growth in each state during the same period.
- We conducted an analysis of the relationship between the income inequality and economic growth.



Findings on the Relationship Between Income Inequality and Economic Growth

- The higher the rise in income inequality in a state, the lower the economic growth in that state.
- This relationship holds true even when we take into account other factors that might impact economic growth such as productivity.
- The analysis shows that during 2000-10, for each 1% increase in income inequality, a state's economic growth rate fell by about 18%.



Bottom Line

- Analysis of empirical data shows that the prevailing pension reforms increase income inequality
- Rising income inequality slows the economy down.
- In the end, everyone suffers not just public employees.



What Can We Do?

- For starters, policy makers should pay serious attention to the hidden economic cost to taxpayers before they cut benefits and diminish public pensions.
- Instead of diminishing pensions, state and local governments should close tax loopholes first.
- The political justification: Whereas taxpayer money given to global corporations through loopholes and subsidies often ends up in overseas tax havens, pension checks are spent to stimulate local economies.



Comparison of Annual Employer Pension Contributions and Annual Cost of Corporate Tax Loopholes and Subsidies in Selected States


	Annual employer normal pension costs	Annual cost of corporate subsidies and tax breaks/loopholes	Annual pension costs as a share of subsidies + tax breaks/loopholes
Arizona	\$474,524,688	\$552,108,211	86%
California	\$6,822,294,460	\$9,701,000,000	70%
Colorado	\$179,560,282	\$593,109,000	30%
Florida	\$905,581,094	\$3,810,902,291	24%
Illinois	\$1,855,100,000	\$2,400,796,000	77%
Louisiana	\$348,471,694	\$1,813,729,079	19%
Michigan	\$586,592,328	\$1,860,600,000	32%
Missouri	\$427,300,226	\$840,231,523	51%
Oklahoma	\$221,501,696	\$479,033,081	46%
Pennsylvania	\$1,395,509,900	\$3,888,000,000	36%
TOTAL	\$13,216,436,368	\$25,939,509,185	51%

Source: Good Jobs First, 2014




Secure Choice Pensions (SCP)

Public-Private Partnership to bring retirement security to the private sector by leveraging the investment expertise and economies of scale of public pension plans



The Secure Choice Pension:
A Way Forward for Retirement Security
in the Private Sector



National Conference on Public Employee Retirement Systems
The Voice for Public Pensions

September 2011

Why State Based?

NEW YORK

Pensionomics 2012:
Measuring the Economic Impact of DB Pension Expenditures

Key Findings

Benefits paid by state and local pension plans support a significant amount of economic activity in the state of New York.

Pension benefits received by retirees are spent in the local community. This spending ripples through the economy, as one person's spending becomes another person's income, creating a multiplier effect.

In 2009, expenditures stemming from state and local pensions supported...

- 200,106 jobs that paid \$11.9 billion in wages and salaries
- \$33.2 billion in total economic output
- \$5.1 billion in federal, state, and local tax revenues

... in the state of New York.

Each dollar paid out in pension benefits supported \$1.62 in total economic activity in New York.

Each dollar "invested" by New York taxpayers in these plans supported \$6.87 in total economic activity in the state.

DIRECT IMPACT
\$15.3 billion

from employee control on investments and historically made up t

Overview
Expenditures made by retirees of state and local government provide a steady economic stimulus to New York communities and the state economy. In 2009, 768,392 residents of New York received pension plans.

Economic Multipliers

Taxpayer Contribution Factor*

\$1.00 contributed by taxpayers to New York pensions over 30 years

→

\$6.87 total output

Each \$1 in taxpayer contributions to New York's state and local pension plans supported \$6.87 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share.

Pension Benefit Multiplier

\$1.00 pension benefits paid to retirees in New York

→

\$1.62 total output

Each \$1 in state and local pension benefits paid to New York residents ultimately supported \$1.62 in total output in the state. This "multiplier" incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy.

- Retirement security means productive, taxpaying retirees.
- Limits social safety net expenditures.
- Helps manage workforce.
- No foreseeable Federal action.
- Bottom line: it's in states' interest.

*Caution should be used in interpreting these numbers. See the Technical Appendix of the full Pensionomics report for details.

Impact on Tax Revenues

State and local pension payments made to New York residents supported a total of \$5.1 billion in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$347.6 million. Taxes attributable to direct, indirect and induced impacts accounted for \$4.7 billion in tax revenue.

Federal Tax	3.0 billion
State/Local Tax	2.0 billion
Total	\$5.1 billion

Economic Impacts by Industry Sector

The economic impact of state and local pension benefits was broadly felt across various industry sectors in New York. The ten industry sectors with the largest employment impacts are presented in the table below.

Industry	Employment Impact (# Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	15,334	\$427,126,331	\$601,825,609	\$1,083,749,504
Private Hospitals	13,784	\$1,090,810,747	\$1,164,368,753	\$2,217,818,910
Real Estate Establishments	10,713	\$252,091,539	\$1,861,747,019	\$2,569,644,838
Physicians, Dentists, and other Health Practitioners	10,036	\$797,493,701	\$850,966,045	\$1,410,822,459
Nursing and Residential Care Facilities	9,957	\$436,939,060	\$471,661,290	\$756,520,775
Colleges, Universities, and Professional Schools	5,057	\$273,053,688	\$282,597,702	\$511,173,680
Individual and Family Services	5,041	\$149,214,816	\$149,643,109	\$216,509,340
Retail Stores - Food and Beverage	4,926	\$153,053,958	\$248,072,556	\$283,475,798
Home Health Care Services	4,285	\$159,201,018	\$169,534,337	\$259,675,159
Wholesale Trade Businesses	4,240	\$378,531,866	\$652,558,622	\$886,397,799

Industry totals include impacts from in-state pension payment only, and do not account for the occupant "leakage" impacts from other states.



SCP Estimated Income Replacement

ESTIMATED REPLACEMENT RATIOS WITH A 5% INTEREST CREDITING RATE

Average Life Time Income	Expected Social Security Replacement Ratio ¹	Replacement Ratio from Expected Personal Savings Including 401(k) ²	Total Replacement Ratio with Social Security and Personal Savings Only	Expected SCP Replacement Ratio ³	Total Replacement Ratio with SCP
\$20,000	60%	0%	60%	29%	89%
\$50,000	43%	12%	55%	29%	84%
\$100,000	32%	25%	57%	29%	86%

¹ Calculated using Social Security AIME calculation.

² Calculated using assumed salary increases based on age, an average return of 5% per year, a contribution rate of 3% per year at \$50,000 and 6% per year at \$100,000, retirement of age 65, and annuity conversion based on PBGC annuity valuation assumptions.

³ Calculated using assumed salary increases based on age, and an expected credited interest rate of 5% per year.

**Retirement Income Replacement Gap:
Surveys report individuals estimate 60% as
adequate—when 80% to 90% is needed.**



State Actions

Enacted Legislation

Massachusetts 2012

- Treasurer will manage a separate trust for small non-profits

California 2012

- CA Secure Choice Retirement Savings Trust Act

Oregon 2013

- Enacted study commission

Connecticut 2014

- Enacted study commission

Illinois 2014

- IL Secure Choice Savings Program Act

Minnesota 2014

- Enacted study commission

Vermont 2014

- Enacted study commission

Utah 2015

- Enacted study commission

Virginia 2015

- Enacted study commission

2015 Activities

Hawaii

Indiana*

Kentucky*

Maryland*

Massachusetts*

New Hampshire*

New Jersey*

New York

North Dakota*

Ohio

Oregon*

Washington*

West Virginia*

Wisconsin*

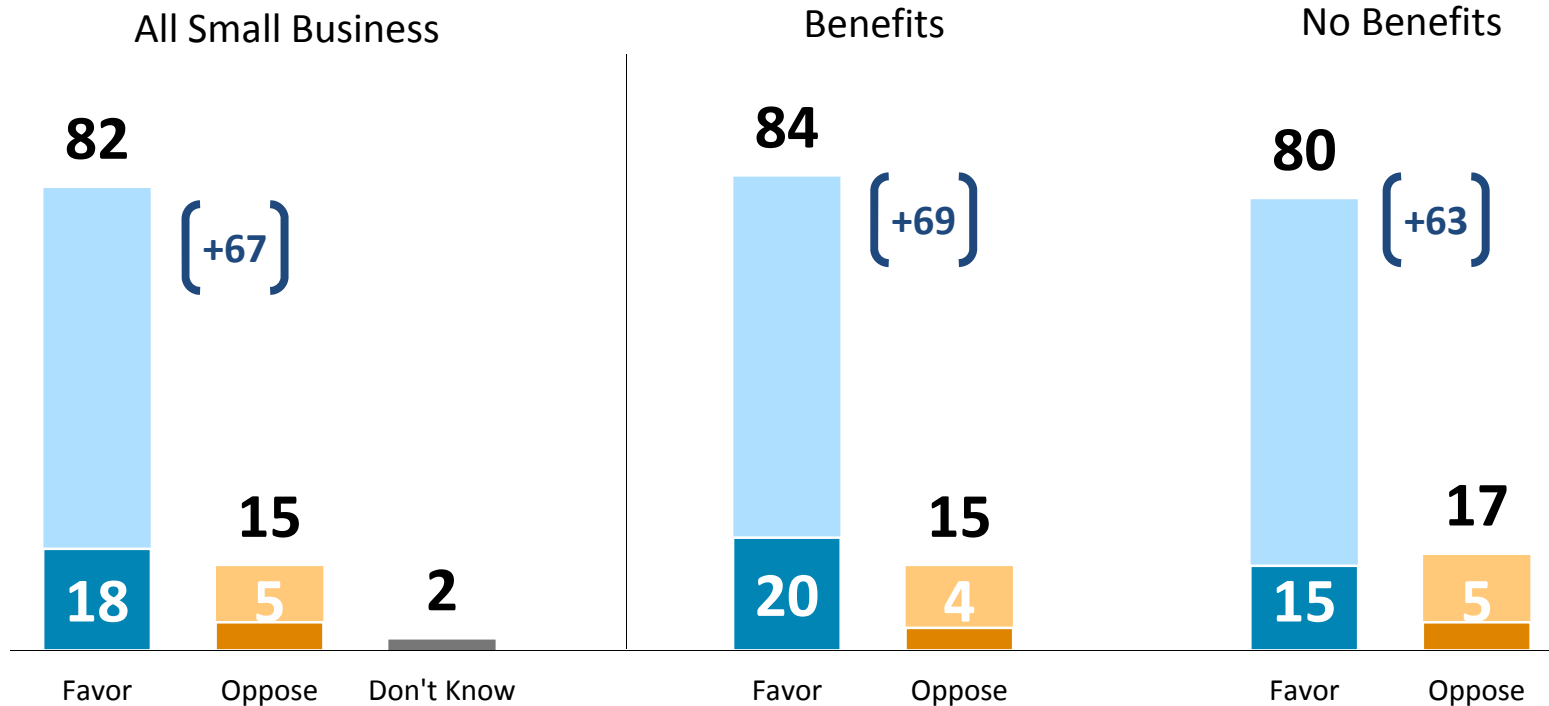
* indicates legislation introduced

Underline indicates failed



Small business owners overwhelmingly support the Secure Choice Pension, regardless of whether or not they already provide a retirement benefit to their employees.

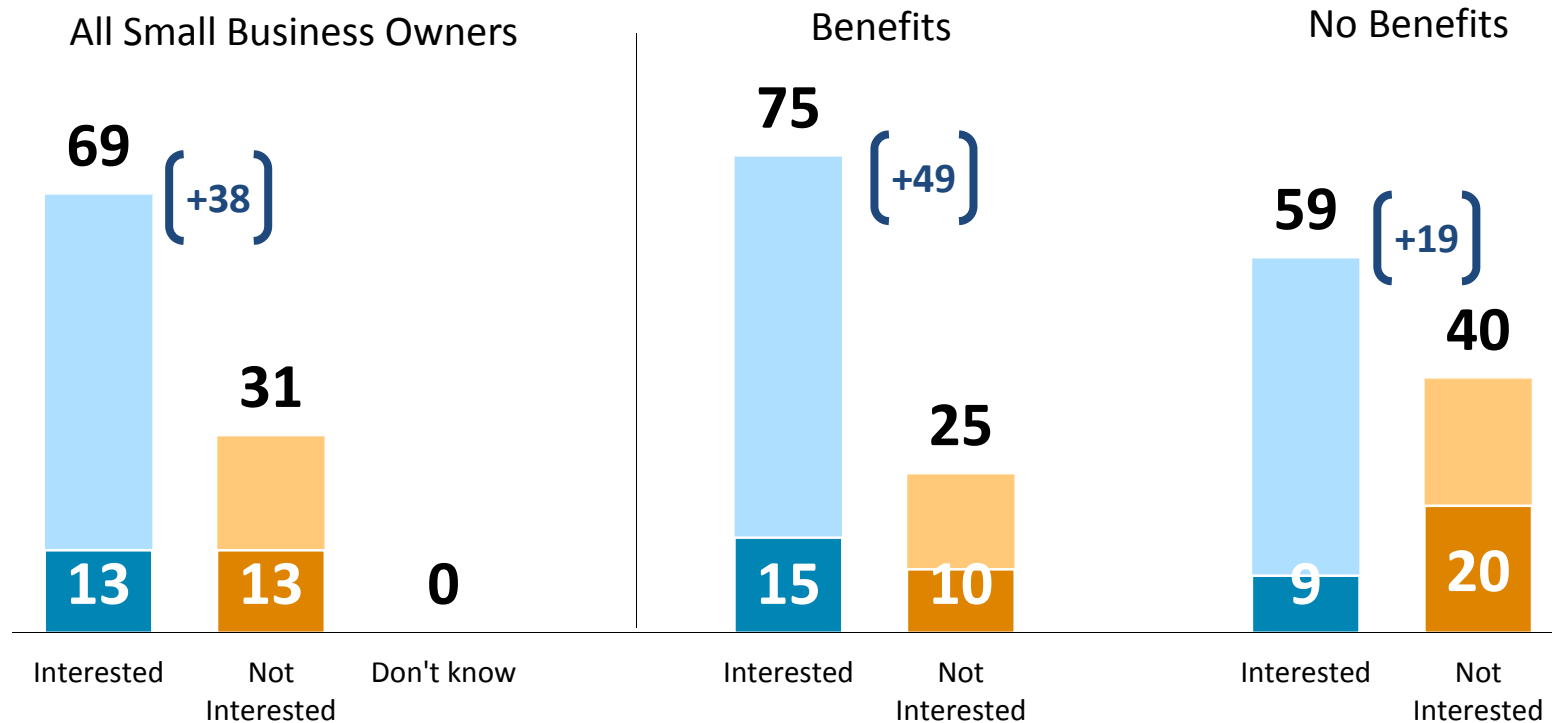
The Secure Choice Plan Proposal



Now, please tell me if you would favor or oppose this proposal having this type of retirement plan available for small private employers? [FAVOR/OPPOSE] Is that strongly or somewhat?

Three out of four small business owners who provide retirement benefits are interested in the Secure Choice Pension for their own employees. A majority of those not providing benefits are also interested.

Interest in the Secure Choice Plan for their Employees



And thinking about your own small business, would you be very interested, somewhat interested, not too interested, or not at all interested in this type of retirement plan for your own employees?

Thank You

NCPERS

444 North Capitol Street, NW, Suite 630

Washington, DC 20001

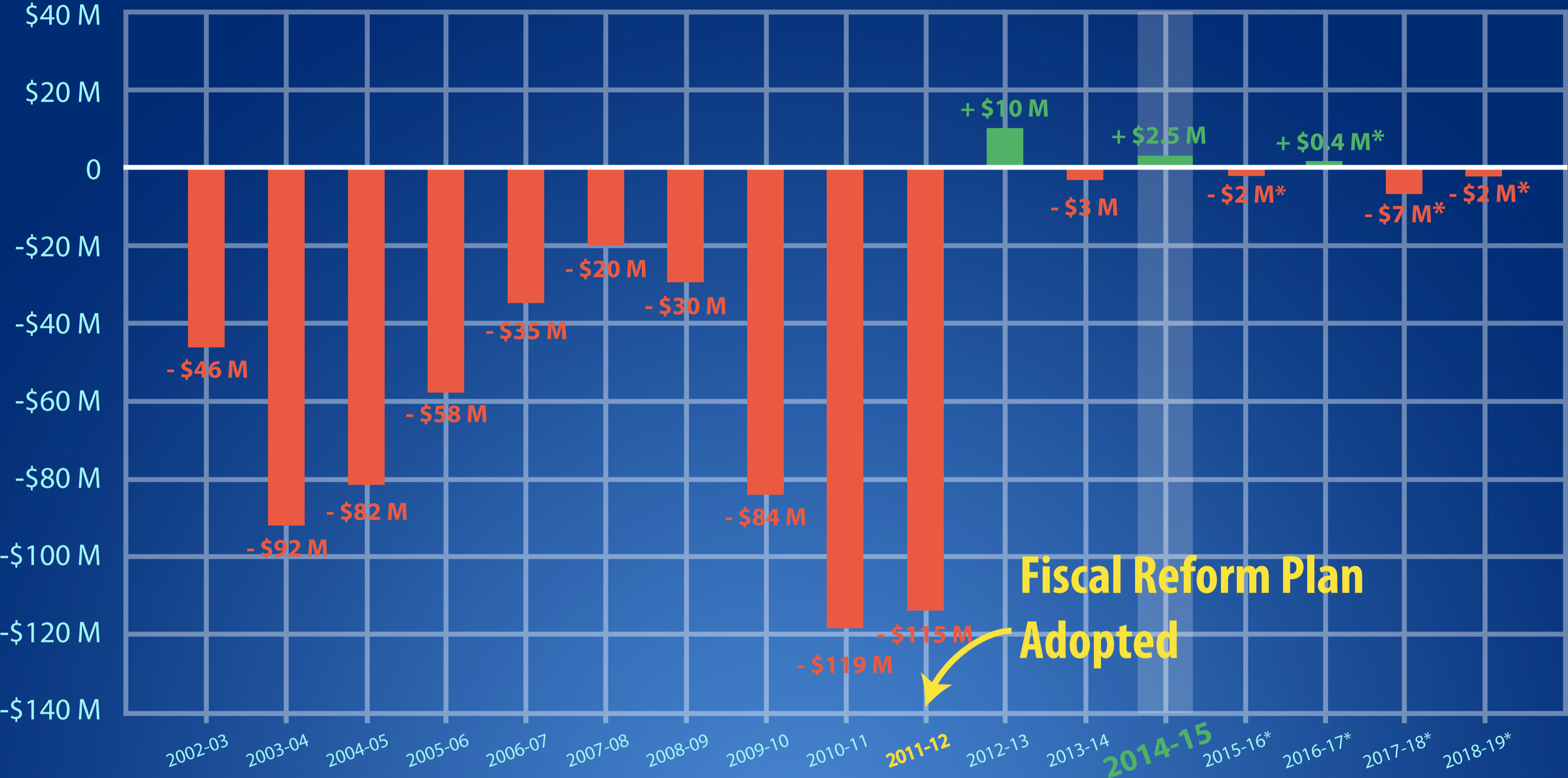
1-877-202-5706

www.retirementsecurityforall.org

www.NCPERS.org



San Jose General Fund Deficits



Sources: For FY 2002-03 through FY 2013-14: "9/3/2013 Presentation - City Council Study Session: City Service Restoration and Revenue Measures"

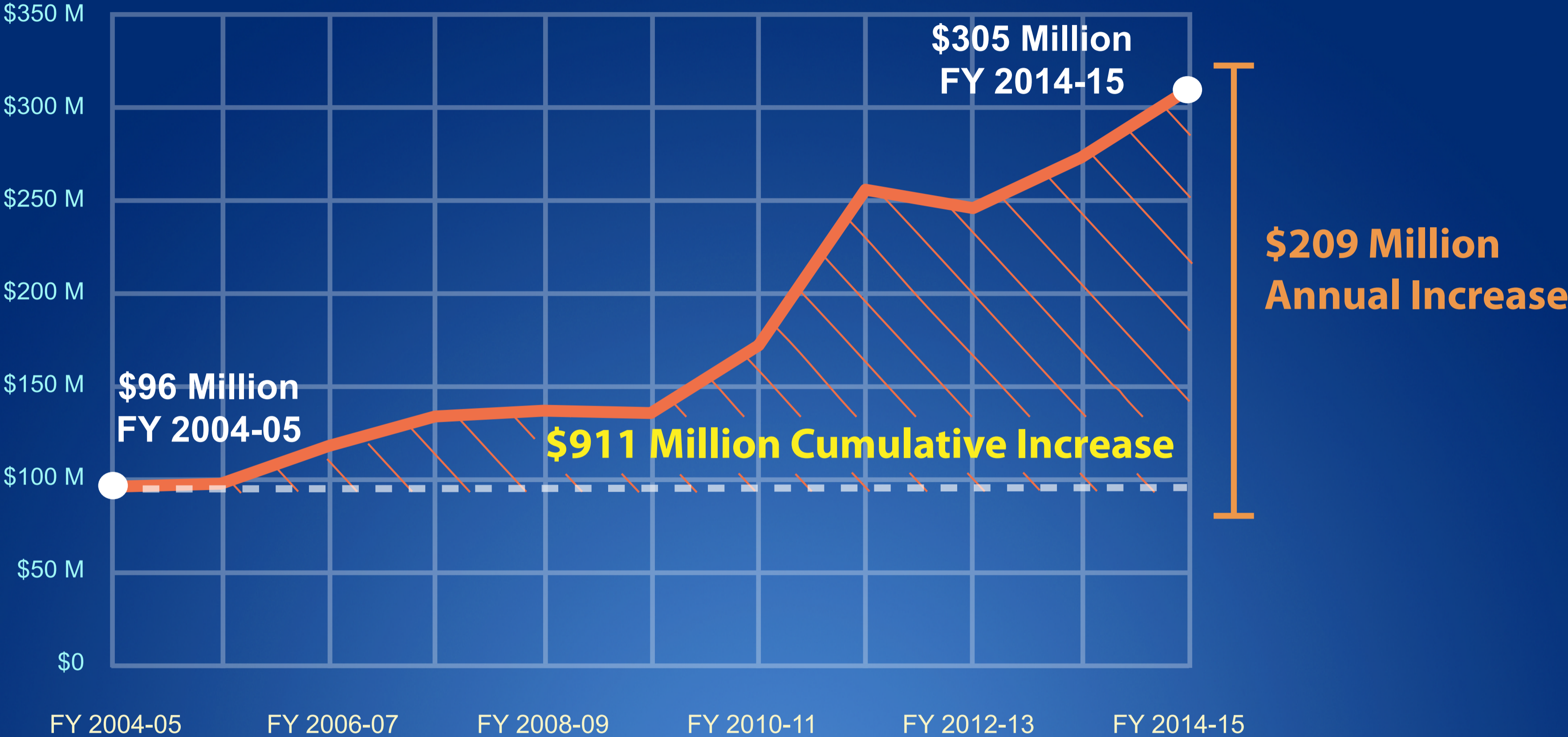
Note: FY 2003-04 and FY 2004-05 includes State impact of \$10.8 million in FY 2003-04 and \$11.4 million in FY 2004-05

* FY 2015-16 projection updated in June 2014 per the adopted FY 2014-15 Operating Budget; FY 2016-17 through FY 2018-19 based on the 2015-19 Five-Year Forecast released in February 2014



Office of Mayor Chuck Reed

The Crushing Burden of Retirement Cost Increases



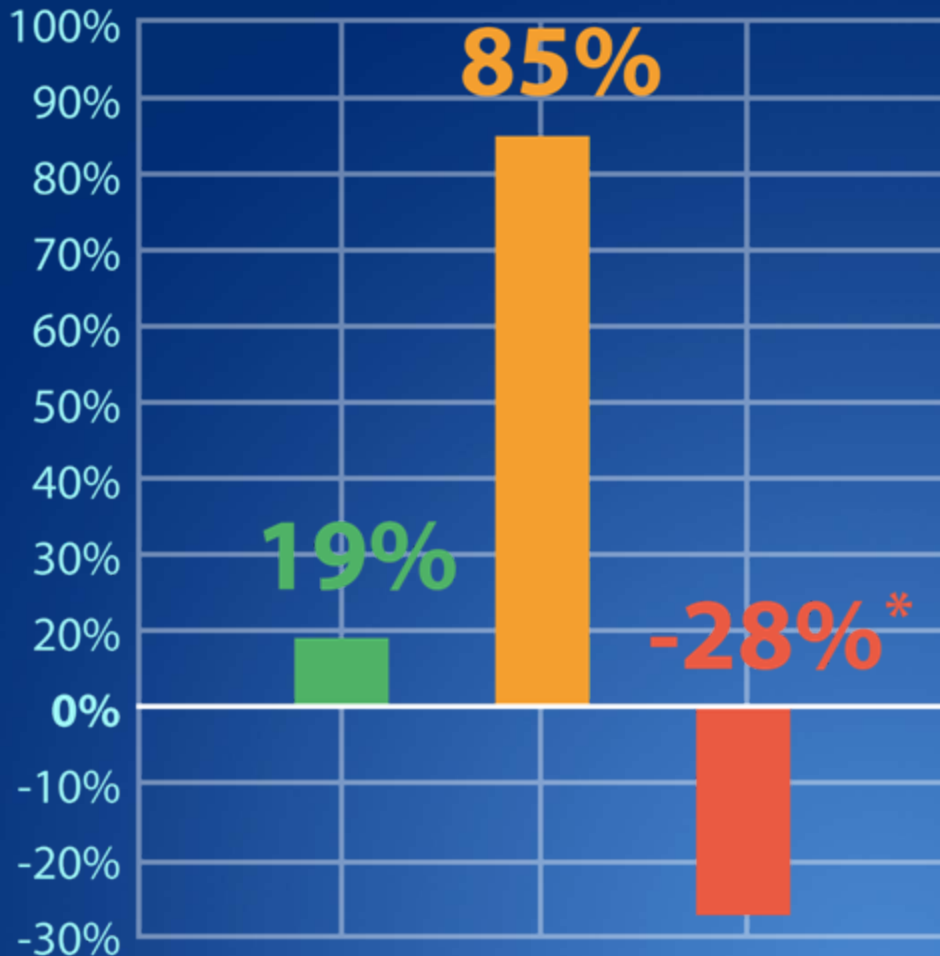
Sources: FY 2003-04 through FY 2011-12, Retirement Systems Comprehensive Annual Financial Reports; FY 2012-13, Modified Budget (as listed in 2013-14 General Fund Forecast); FY 2013-14, Adopted Budget with Annual Report Adjustment; FY 2014-15 Adopted Budget with Annual Report Adjustment.

* Figures denote the employer's (the City's) share of retirement contributions. These costs do not include employees' contributions.



Office of Mayor Chuck Reed

10 Years of Budget Deficits – How Did We Get Here?



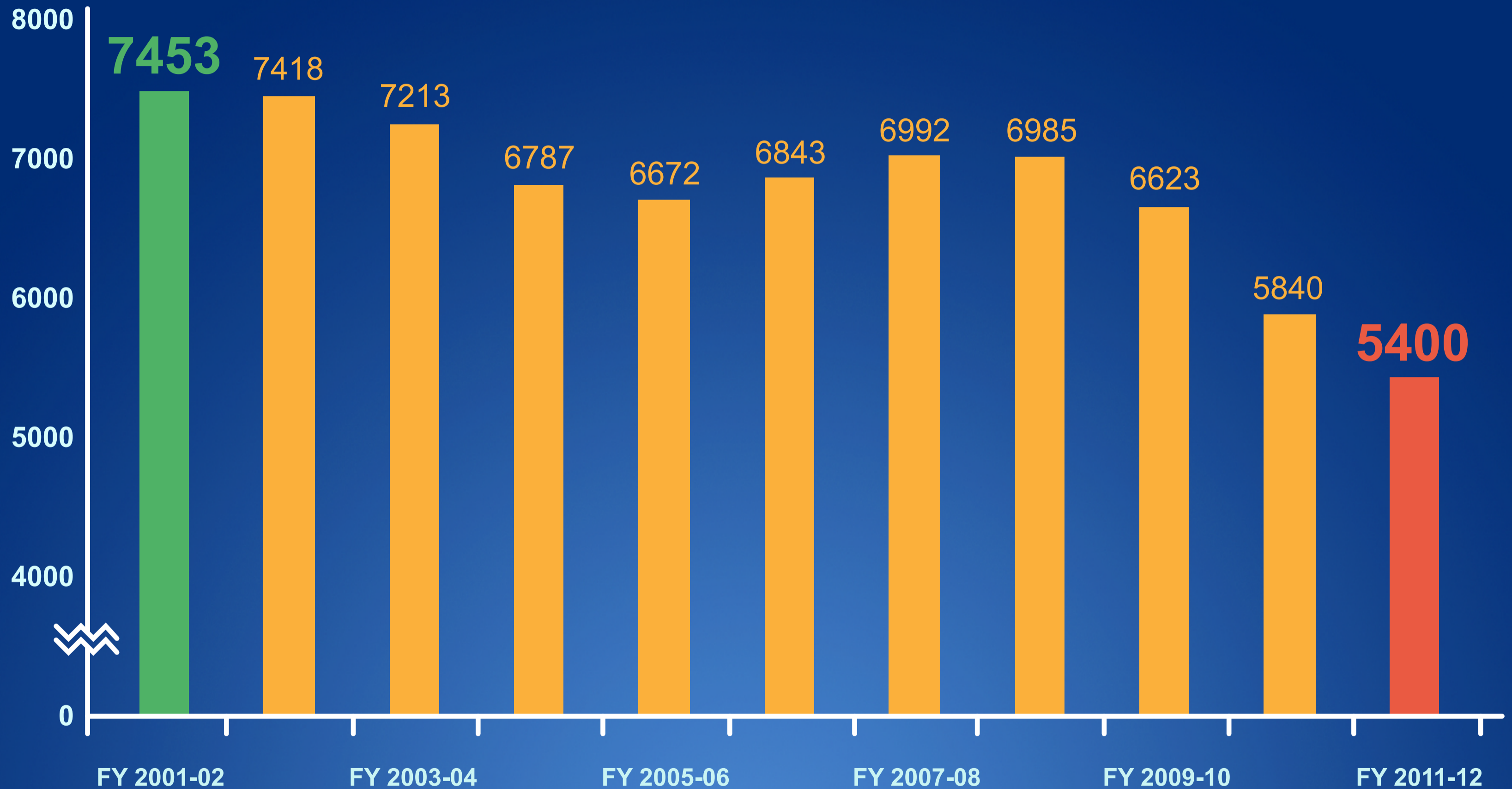
**Change from
FY 01-02 to FY 11-12**

- **General Revenue**
- **Avg. Employee Cost**
- **# of Employees (FTEs)**

* Note: the 28% workforce reduction totaled more than 2,000 FTEs.

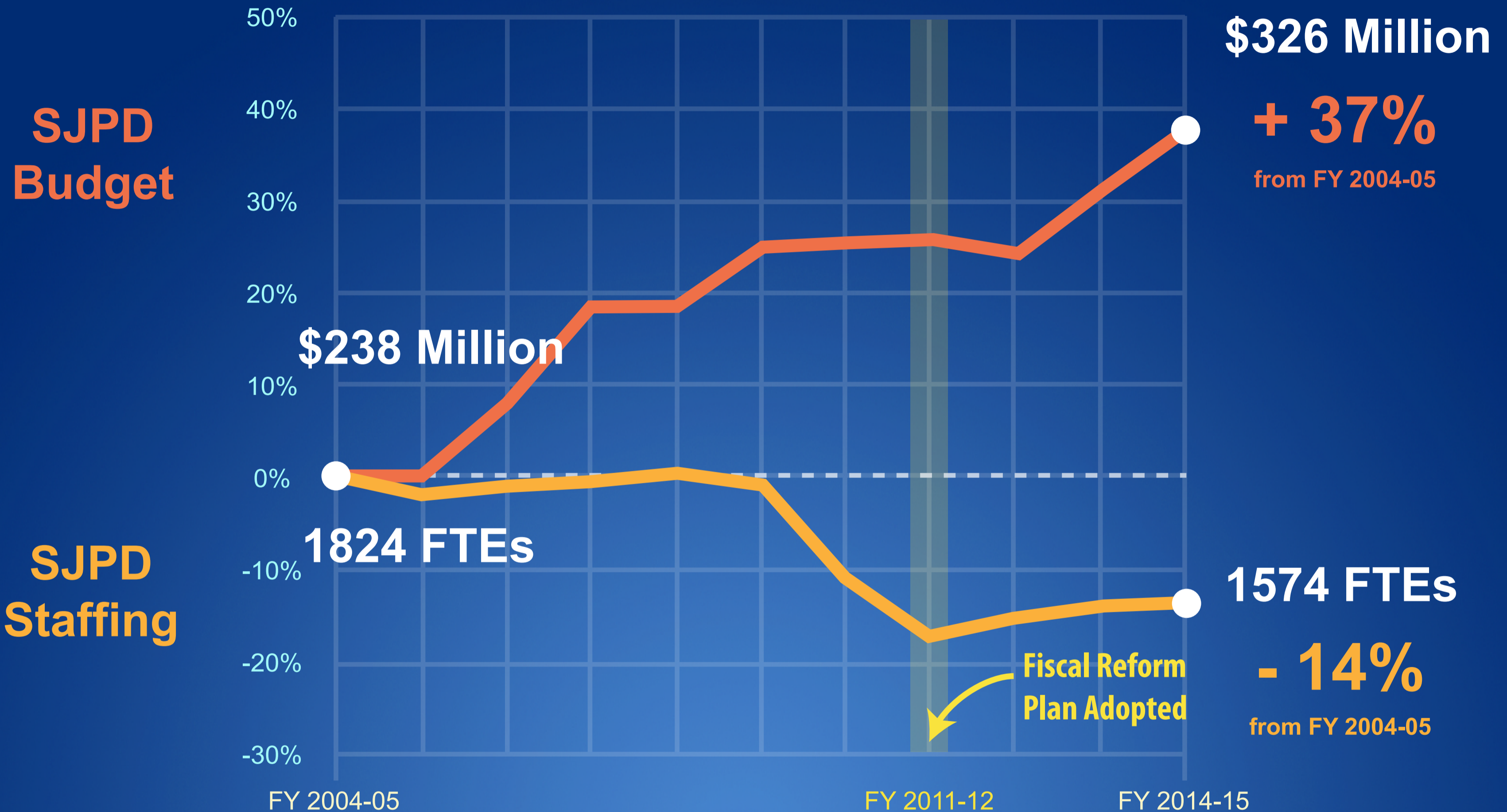
Source: City Manager's Budget Office

A Shrinking Number of City Employees



Source: City of San Jose Adopted Operating Budgets, FY 2001-02 through FY 2011-12

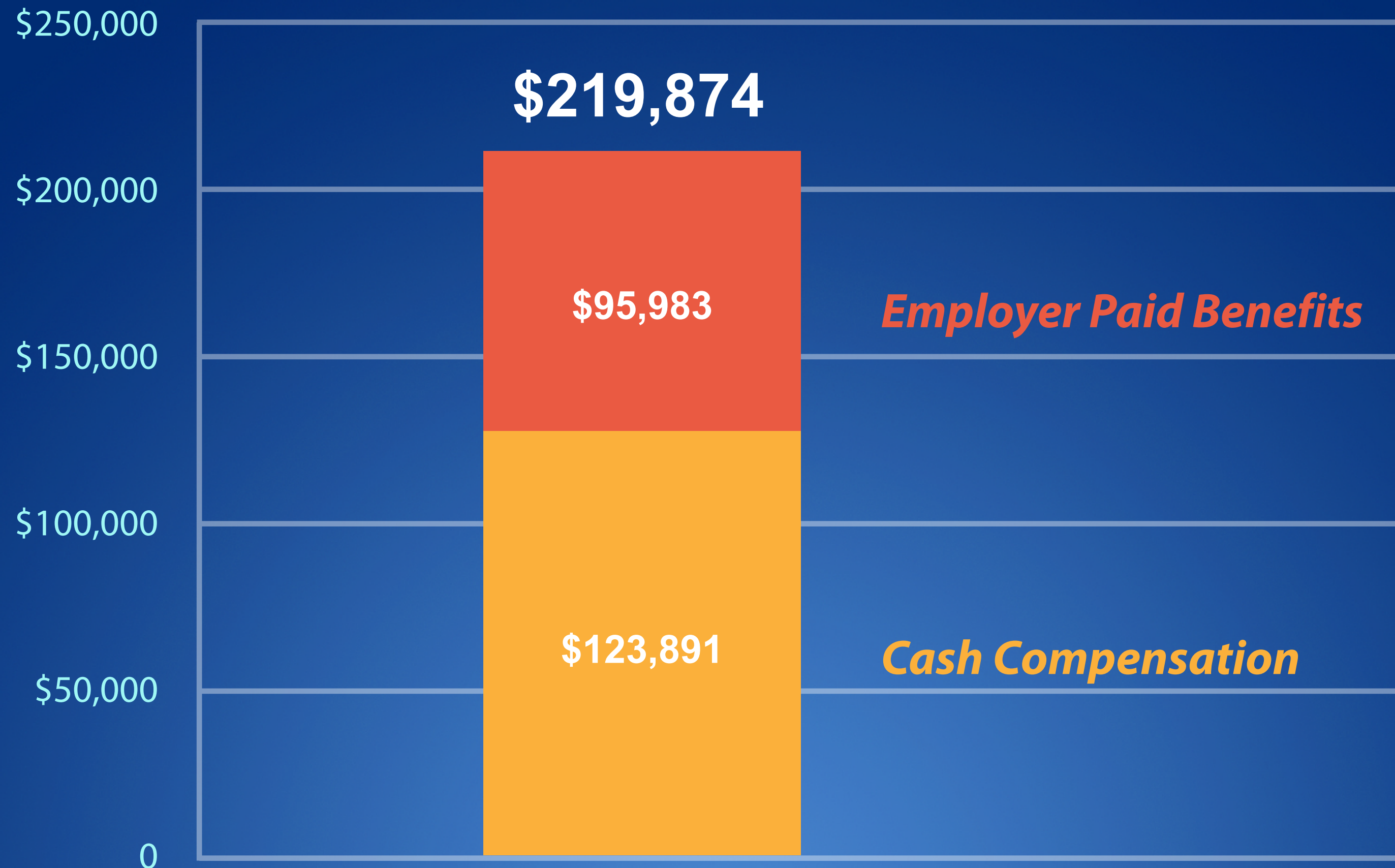
Police Department Budget and Staffing Since FY 2004-05



Source: City of San Jose Adopted Operating Budgets, FY 2004-05 through FY 2012-13 and FY 2014-15;
FY 2013-14 Modified Operating Budget

Employer Costs - San Jose Police Officers

Average Total Compensation and Benefits
for Top Step Police Officers (Tier 1)



Employer Paid Benefits include Health and Dental Benefits, Employee Assistance Program, and Retirement Contribution including Retiree Health Care.

Cash Compensation includes Base Pay, POST, Overtime, and Uniform Allowance, before taxes and before employee contributions for benefits.

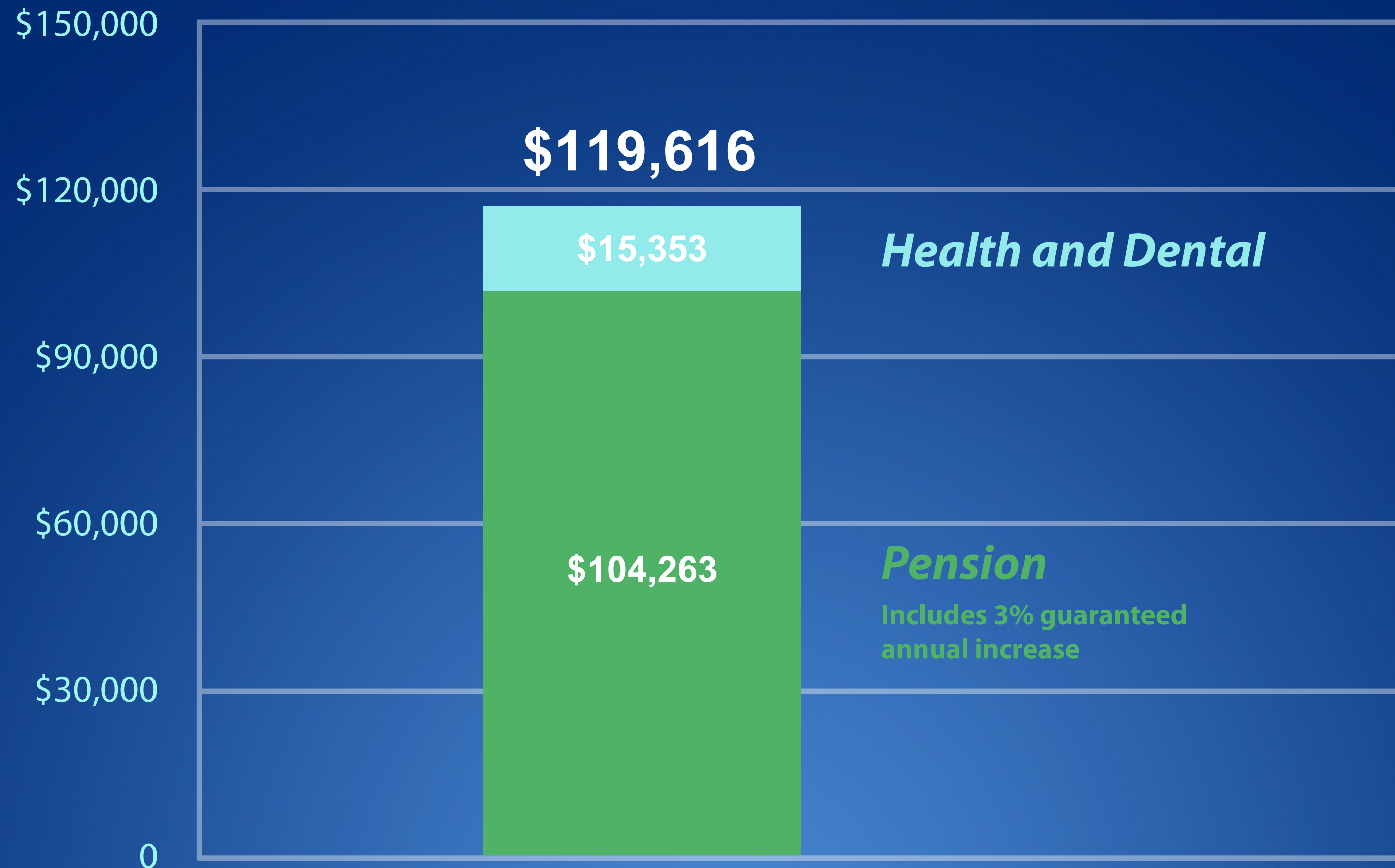


Source: Office of Employee Relations. Data is based on information for 2013 from the pay plan, SJPOA MOA, Police Benefit Fact Sheets, and Medical and Dental Plan Premiums, with the exception of average overtime which is actual data from 2013 W-2's and includes stand-by, callback, comp time payouts, and overtime. Overtime compensation is non-pensionable. POST is not the average POST pay received; it is the average of Basic POST (0%), Intermediate POST (5%), and Advanced POST (7.5%) multiplied by the top step of base pay.

Office of Mayor Chuck Reed

Public Safety Retirement Benefits

Average Pension and Health Care Benefits for Tier I Safety Employees Who Retired Between 2009–2014



Source: Office of Employee Relations. Includes approved retirements January 1, 2009 through March 31, 2014. Value of Retiree Health and Dental Benefits is taken from the City of San Jose Police and Fire Department Retirement Plan 2012-2013 Comprehensive Annual Financial Report; the average figure is for 2012 only, is per retiree and beneficiary, and includes single or family coverage.

Still a Better Bang for the Buck: An Update on the Economic Efficiencies of Defined Benefit Pensions

William B. Fornia, FSA
President,
Pension Trustee Advisors, Inc.

June 25, 2015



Why This Study

- Original NIRS study “A Better Bang for the Buck” (2008):
Defined Benefit (DB) plans cost 46% less than a Defined Contribution (DC) plan to provide equivalent retirement benefits
- Continued misperception that DC plans inherently “save money”
- This study updated assumptions & methodology to reflect changing retirement benefit landscape
 - DC plans: lower fees, increased use of Target Date Funds (TDFs)
 - DB asset allocation changes



Thank you, National Institute on Retirement Security & Expert Advisory Group



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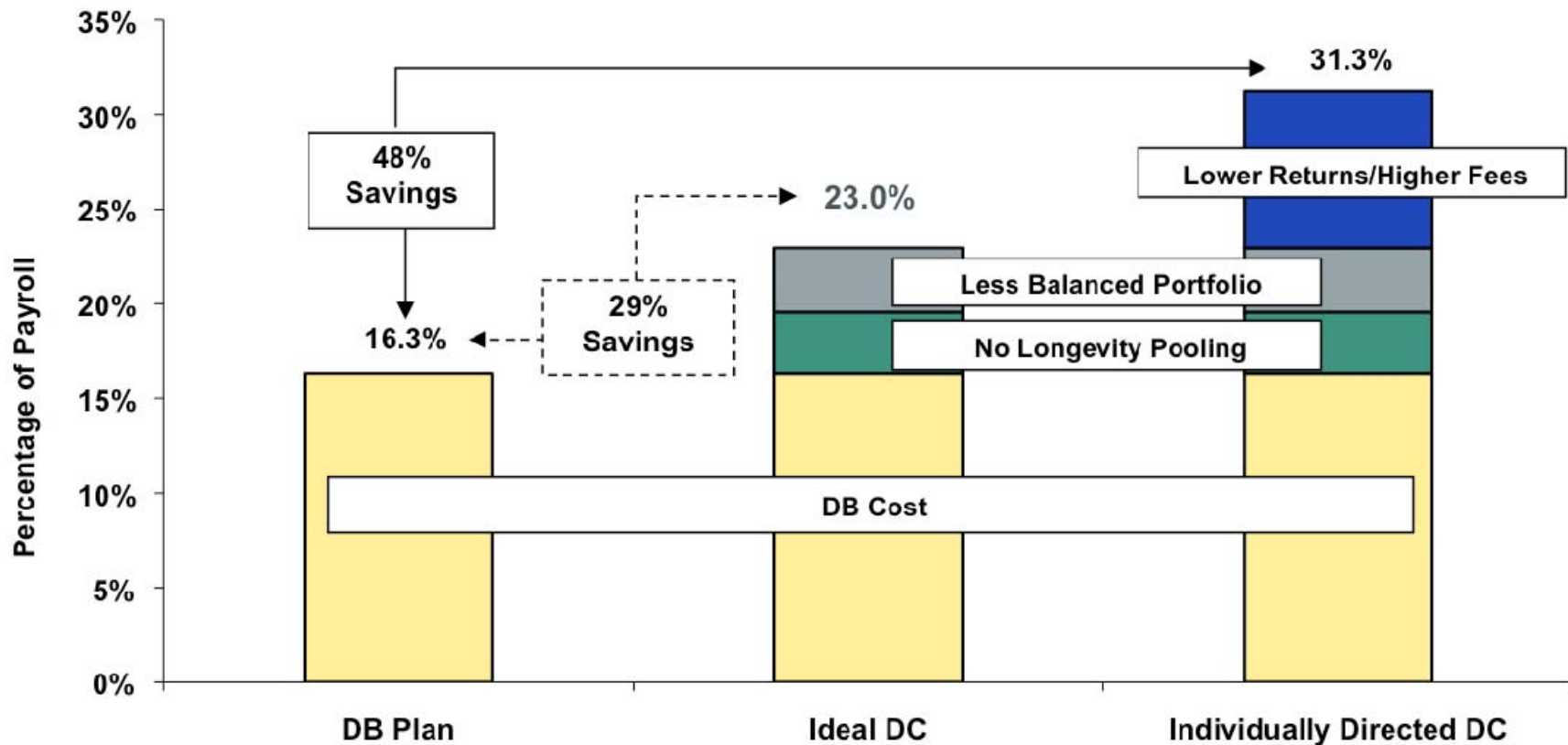


We Found 3 Reasons Why DB plans Save Money Compared to DC plans

1. DBs pool the longevity risks of large numbers of individuals, providing each the security of a lifetime pension without the risk of outliving their savings
2. DBs are “ageless” and therefore can perpetually maintain an optimally balanced investment portfolio rather than the typical individual strategy of down-shifting over time to a lower risk/return asset allocation
3. DBs achieve higher investment returns as compared to individual investors because of professional asset management and lower fees

Summary: DB Plan Can Still Deliver Same Benefit at About Half the Cost of DC Plan

Figure 1: Cost of DB & DC Plans as Percentage of Payroll



Study Methodology

- How do the costs of delivering retirement benefits through each type of plan compare?
- Apples-to-apples comparison
- Calculate the cost to deliver the same level of retirement benefits
 - DB plan
 - DC plan



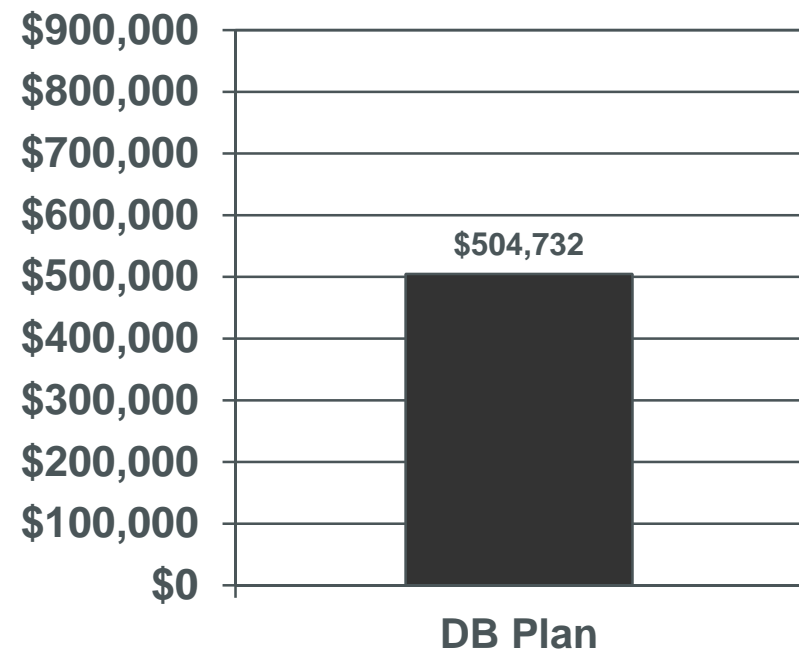
Methodology

- We model a population of 1,000 female teachers who work for 30 years – their final salary is \$60,000
- We define a “target” retirement benefit – about \$2,700/month – at age 62
- We calculate the cost to fund this benefit through a DB plan structure, then through a DC plan structure



Amount Needed at Age 62 to Fund Target Retirement Benefit in DB Plan

- The DB plan must have about **\$500,000** set aside for each person in the plan at age 62
- In order to fund this amount, contributions must be **16.3%** **of payroll** each year

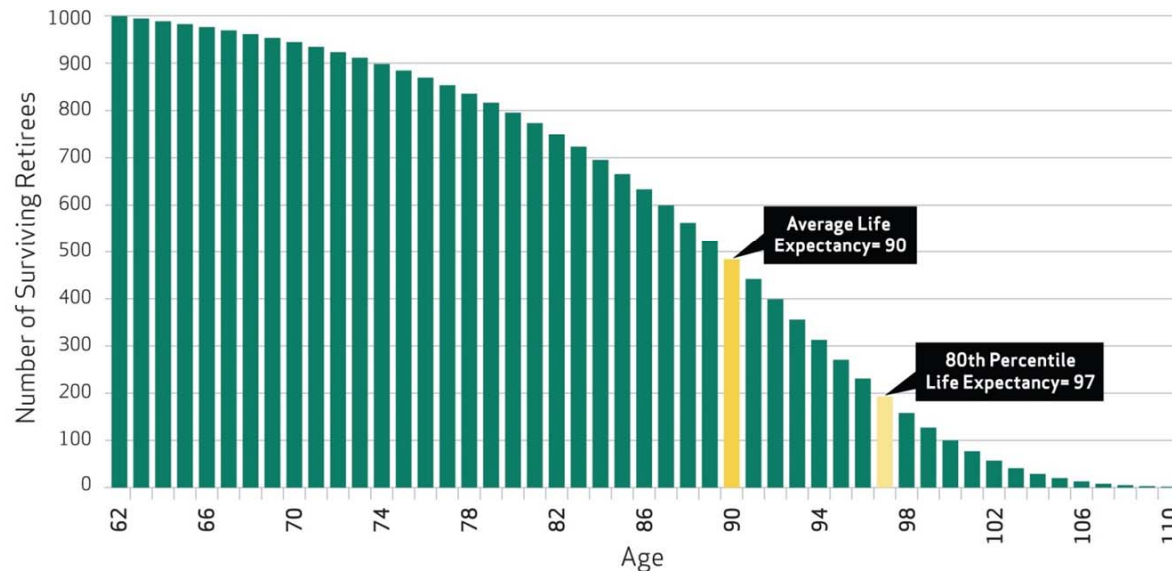


DB Plan Strength # 1

Longevity Risk Pooling

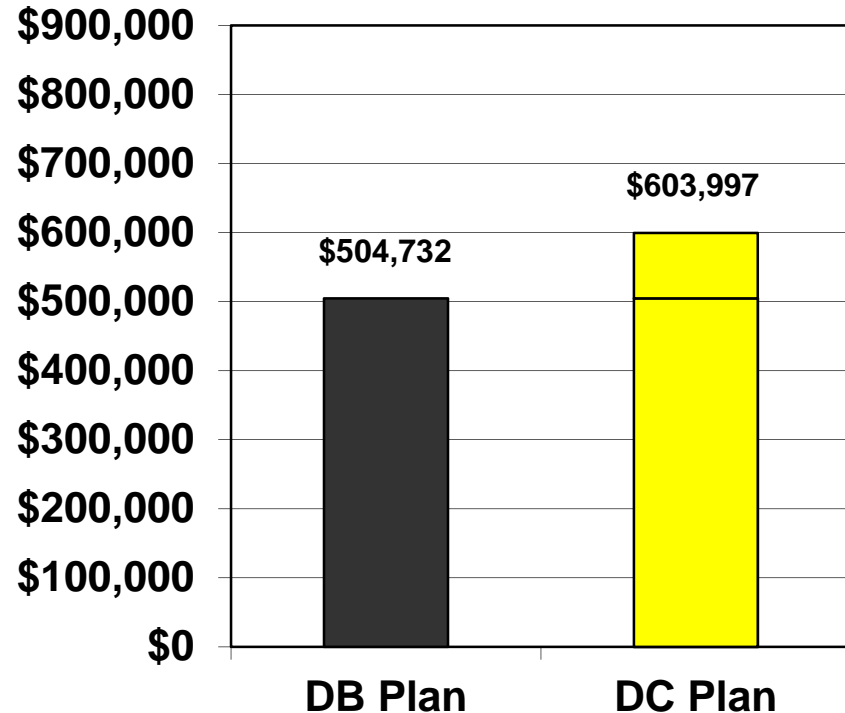
- DB plans can be funded to last the **average life expectancy** for each participant
- An individual under a DC plan must plan to get income beyond average, to avoid running out

Figure 2: Longevity of 1,000 Retired Female Teachers



Lack of Longevity Risk Pooling Drives Up Cost in DC Plans

- To “self-insure” longevity risks, a retiree at age 62 needs about **\$600,000** in DC plan for same monthly income
- Based on an **80th percentile life expectancy**, an individual still has a 1-in-5 chance of outliving savings
- Contributions must be **19.6% of payroll** for this protection

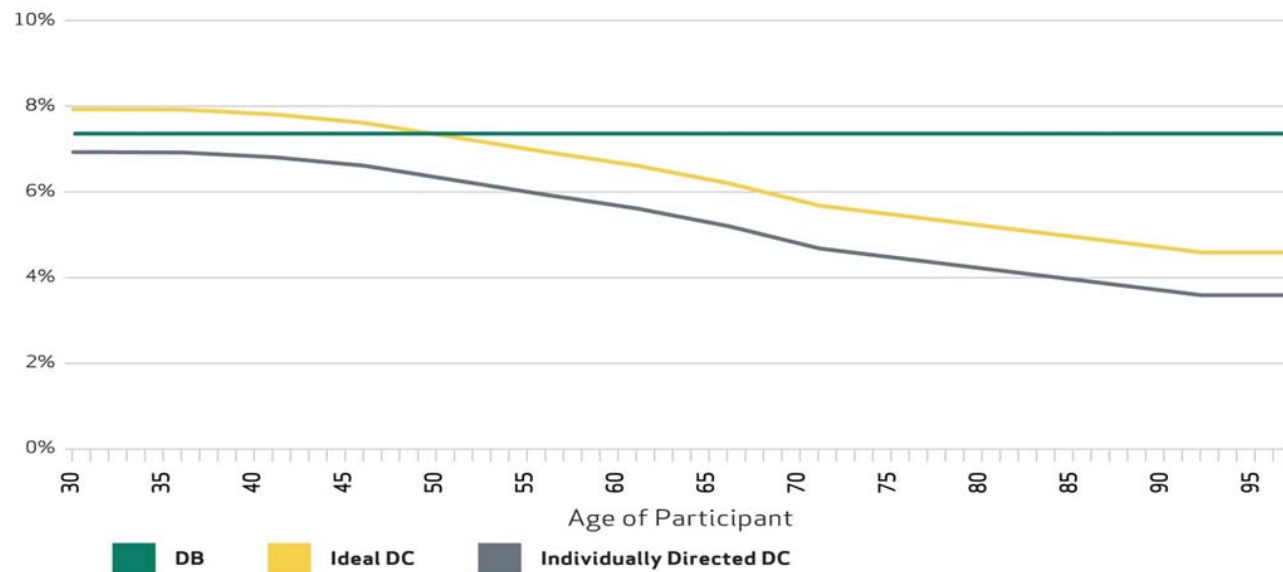


DB Plan Strength #2

Maintenance of Portfolio Diversification

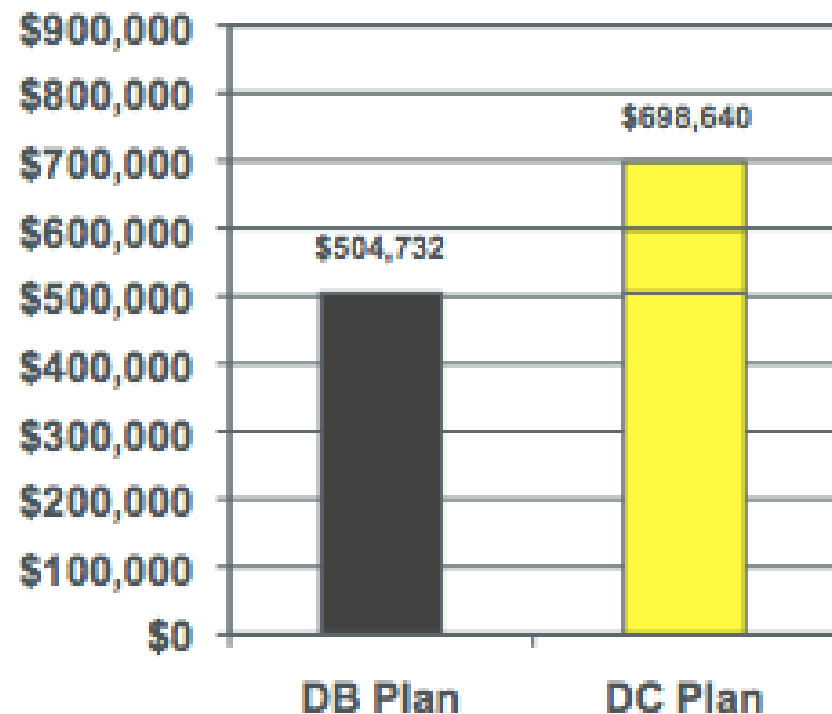
- In a DC account, individuals must adjust risk as they age to protect against market shocks, shifting to more conservative investments as they age, sacrificing some expected return
- Model uses typical TDF asset allocation until age 71, then gradual shift to 100% fixed income by age 92

Figure 6: **Expected Annual Investment Return (Net of Fees)**



Age-Driven Shift to More Conservative Portfolio in DC Plans Drives Up Cost

- Each retiree in the DC plan now must have nearly **\$700,000** account balance at age 62
- In order to fund this amount, contributions must be **23.0%** of payroll
- This summarizes the “Ideal” DC plan cost



DB Plan Strength #3

Lower Fees & Professional Management

- Pooled investments in DB plans can lower expenses
 - Large group pricing negotiation
 - Avoid expenses of individual record keeping, investment education, investment transactions



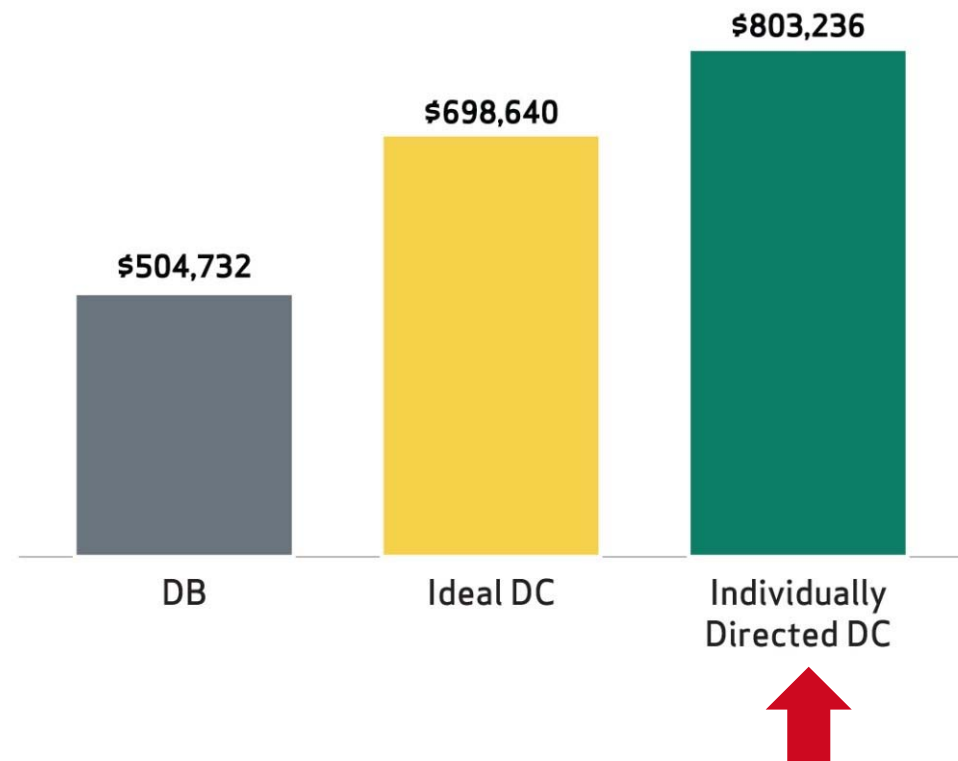
Lower Fees & Professional Management (cont.)

- While DB plan investments are professionally managed, individuals tend to underperform
 - Individual investor level returns lag behind long-term returns for any asset class, and most mutual funds
 - Failure to re-balance, poor timing
 - “Behavioral drag” estimates range from 98 bp to over 200 bp
- 2014 study is based on additional 1.00%, like 2008 study
 - 40 bp additional DC expenses, industry average
 - Optimistic 60 bp for “behavioral drag” (individual vs. fund skill)

Lower Returns/Higher Fees in DC Plans Drive Up Cost

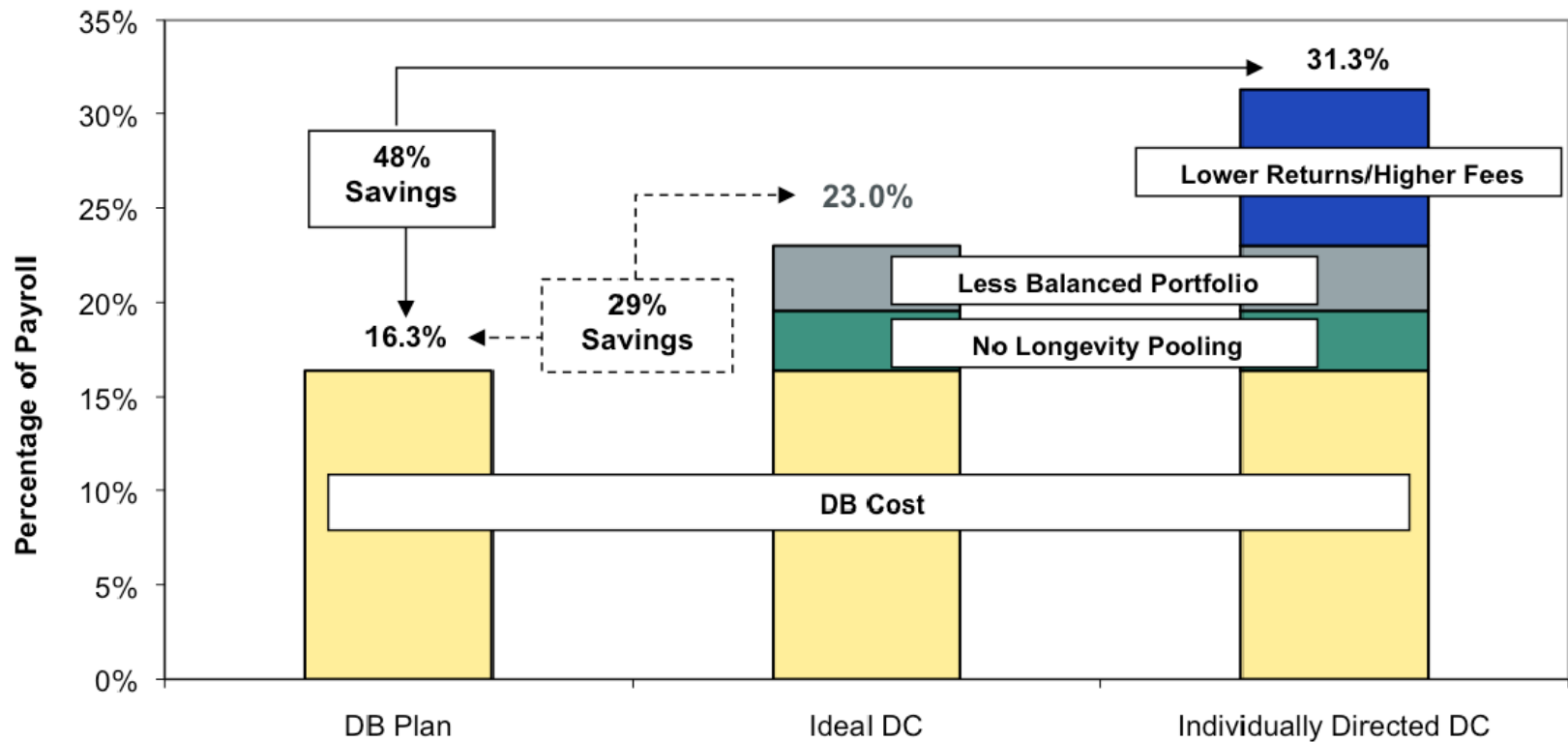
- Each retiree in the DC plan now must have more than **\$800,000** in account at age 62
- In order to fund this amount, contributions must be **31.3%** of payroll

Figure 7:
**Per Employee Amount Required at Age 62
DB Plan vs. DC Plan**



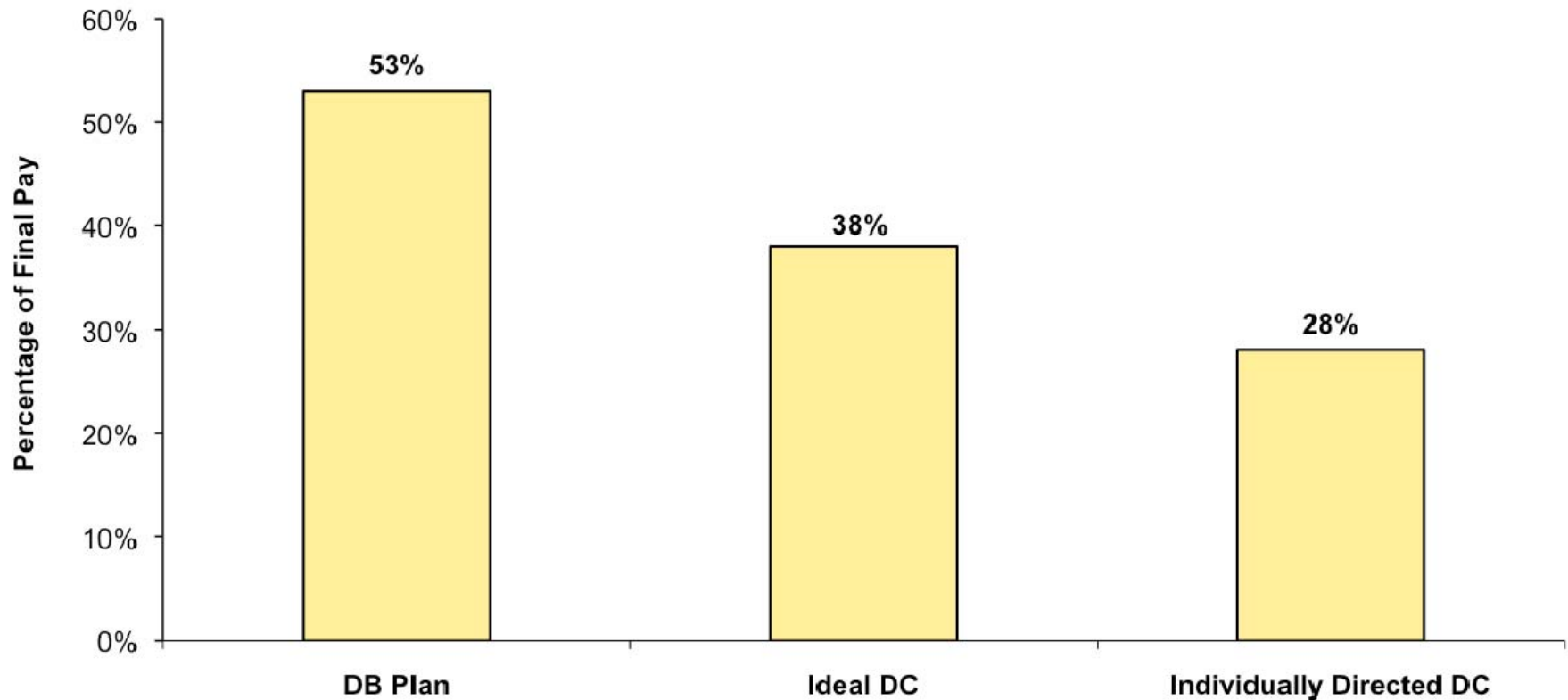
Cost of DB Plan is About Half the Cost of DC Plan

Figure 1: Cost of DB and DC Plans as Percentage of Payroll



Fiscal Reality is that the cost can't increase – So what if same cost?

Retirement Benefit from 16.3% Contribution Rate, by Type of Plan



Can Buying Annuities Take Away Longevity Risk?

- Senator Hatch (R-UT), Senate Finance Committee Chair proposed “Annuity Accumulation Retirement Plan” that would permit state and local governments to annually purchase fixed annuity contracts from insurance companies for each employee
- Annuities protect more fully against longevity risk, but at a cost
- Impact of annuitizing at 62 in “ideal” DC plan:
 - At current annuity purchase rates – more costly (25.4% with annuities vs. 23.0% without)
 - At annuity purchase rates closer to historical norm (100 bp higher return) – slightly less costly (20.9% with annuities vs. 23.0% without)

Recap

- DB plans have built-in economic efficiencies – provide a “better bang for the buck”
 1. Longevity Pooling
 2. Maintenance of Diversified Investment Portfolio
 3. No Drag on Returns vis-à-vis Individually Directed
 - From expenses
 - From investment behavior
- Plausible changes in assumptions do not change this basic conclusion

Questions?



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President, Pension Trustee Advisors, Inc.

www.pensiontrusteeadvisors.com

www.NIRSONline.org

Protecting workers and taxpayers: Sustainable, Secure, and Fair Retirement Plans



Michelle Welch
2015 Legal Education Conference
National Association of Public Pension Attorneys
June 25, 2015

Retirement benefits are an important and valued part of public workers' total compensation package.

But, rising **pension costs**, particularly pension debt service costs, are threatening workers' retirement security and hurting taxpayers. **Services** have been **cut**, and **workers** have been forced to endure **benefit cuts, wage freezes, and job reductions.**

By taking steps to address the issue today, we can prevent a crisis tomorrow.

What should retirement
policy seek to accomplish?

State and local retirement policy should establish a retirement savings system that is **affordable, sustainable, and secure.**

A public retirement system should:

- Place all workers, regardless of tenure or hire date, on the path to **retirement security**.
- Remain **financially sustainable** across multiple generations of workers and taxpayers.
- Be managed in a **transparent and publicly accountable** manner.

A variety of plans can be tailored to meet these design principles
(including Final Average Salary Defined Benefit (FAS DB), Hybrid, Cash
Balance Defined Benefit, and Defined Contribution)

Retirement Security

Workers must:

- Accumulate adequate retirement savings across their career.
- Have access to professionally managed, low-fee investment options with appropriate asset allocation.
- Have access to lifetime annuities upon retirement.

A variety of plans can be tailored to meet these design principles
(including Final Average Salary Defined Benefit (FAS DB), Hybrid, Cash Balance Defined Benefit, and Defined Contribution)

Financial Sustainability

Plan sponsors must:

- Fully pay for retirement promises in a responsible and sustainable way.
- Use appropriate assumptions which consider the sponsors' ability to pay for future shortfalls.
- Have an ex-ante plan to deal with cost uncertainty.

A variety of plans can be tailored to meet these design principles
(including Final Average Salary Defined Benefit (FAS DB), Hybrid, Cash
Balance Defined Benefit, and Defined Contribution)

Transparency and Accountability

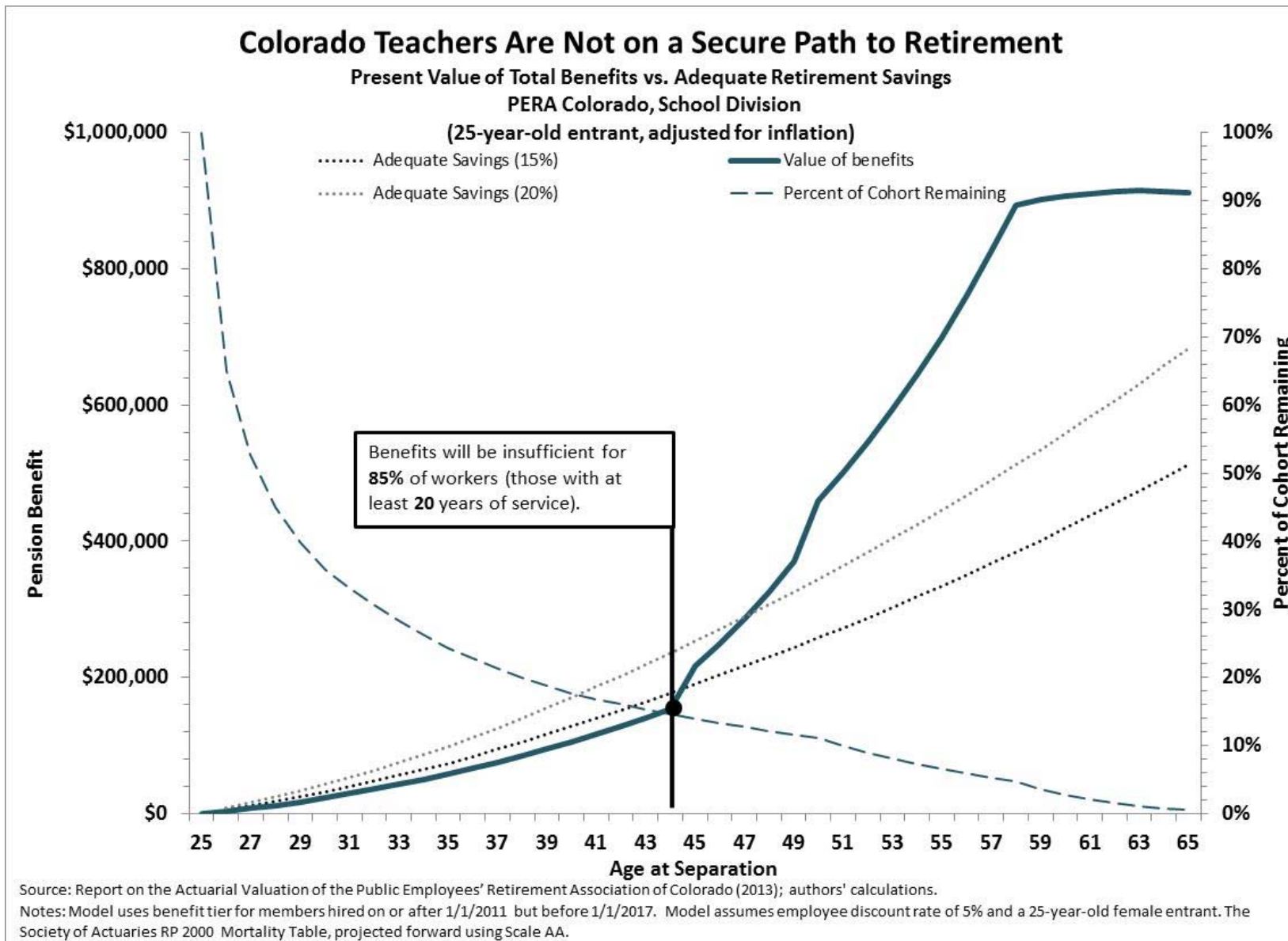
Plans must have:

- Representative boards of trustees with a fiduciary duty to preserve plans' long-term sustainability.
- Independent boards of investment experts.
- A process to openly share data about the plan.

Retirement plan design does not run on a smooth continuum from FAS DB to Defined Contribution, with the former offering workers the most protection and the latter the least.

Protecting Workers' Retirement
Security: Problems with FAS DB plans

FAS DB plans leave many workers without enough retirement savings



FAS DB plans leave many workers without enough retirement savings

- The **average tenure** of a public worker is **7.8 years**. (Bureau of Labor Statistics)
- **72 percent** of public school teachers **will leave** the profession **before 20 years**. (Institute for Educational Statistics)
- The **majority of teachers** in the ten largest school districts **are not accruing adequate retirement savings**. (McGee and Winters, 2013)
- **FAS DB plans short-change early- to mid- career workers**. It would cost significantly more to provide a secure retirement to **ALL** workers under a FAS DB plan.

FAS DB plans are risky for workers and taxpayers

- **Workers (and taxpayers) are exposed to risk** when the plan sponsor fails to make sufficient payments, takes on too much investment risk, and makes incorrect assumptions about factors like life expectancy. (Brown, 2014)
- The **consequences of this risk** for workers and taxpayers **are cuts in retirement benefits, wages, jobs, and public services.**
- Not including the cost of risk to workers and taxpayers, **the carrying cost of debt is about 9 percentage points of payroll for a plan with a funded ratio of 80 percent.** (McGee, 2015)

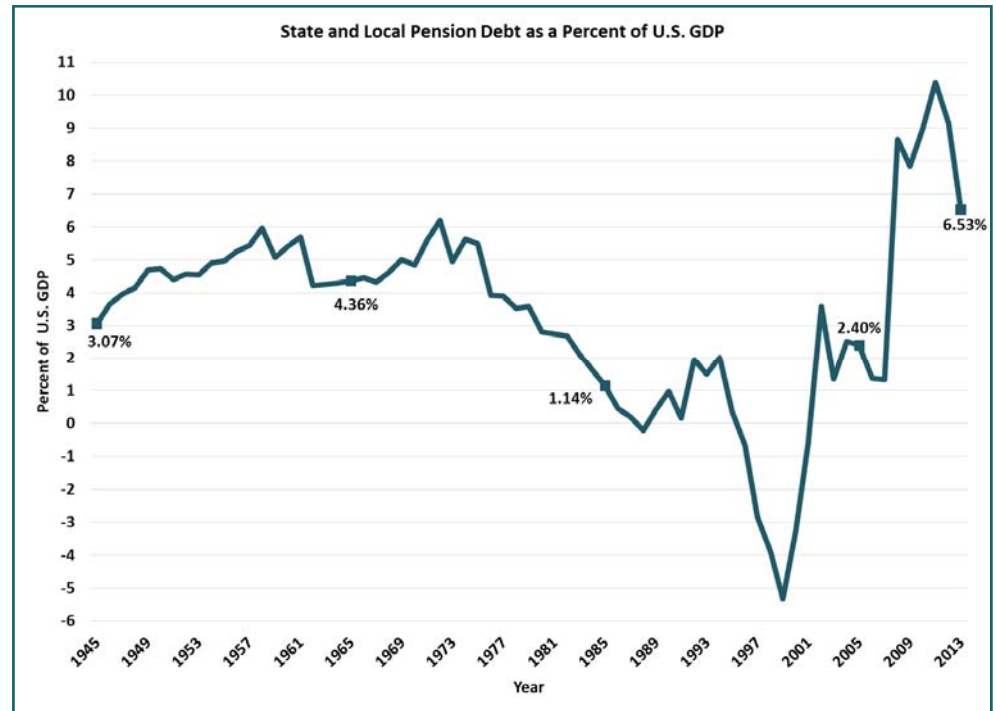


Chart Source: Financial Accounts of the United States (Z.1) release, Federal Reserve Board of Governors, U.S. Department of Commerce: The Bureau of Economic Analysis (BEA), and authors' calculations.

Improving Retirement Security for Workers: Alternative Plan Designs

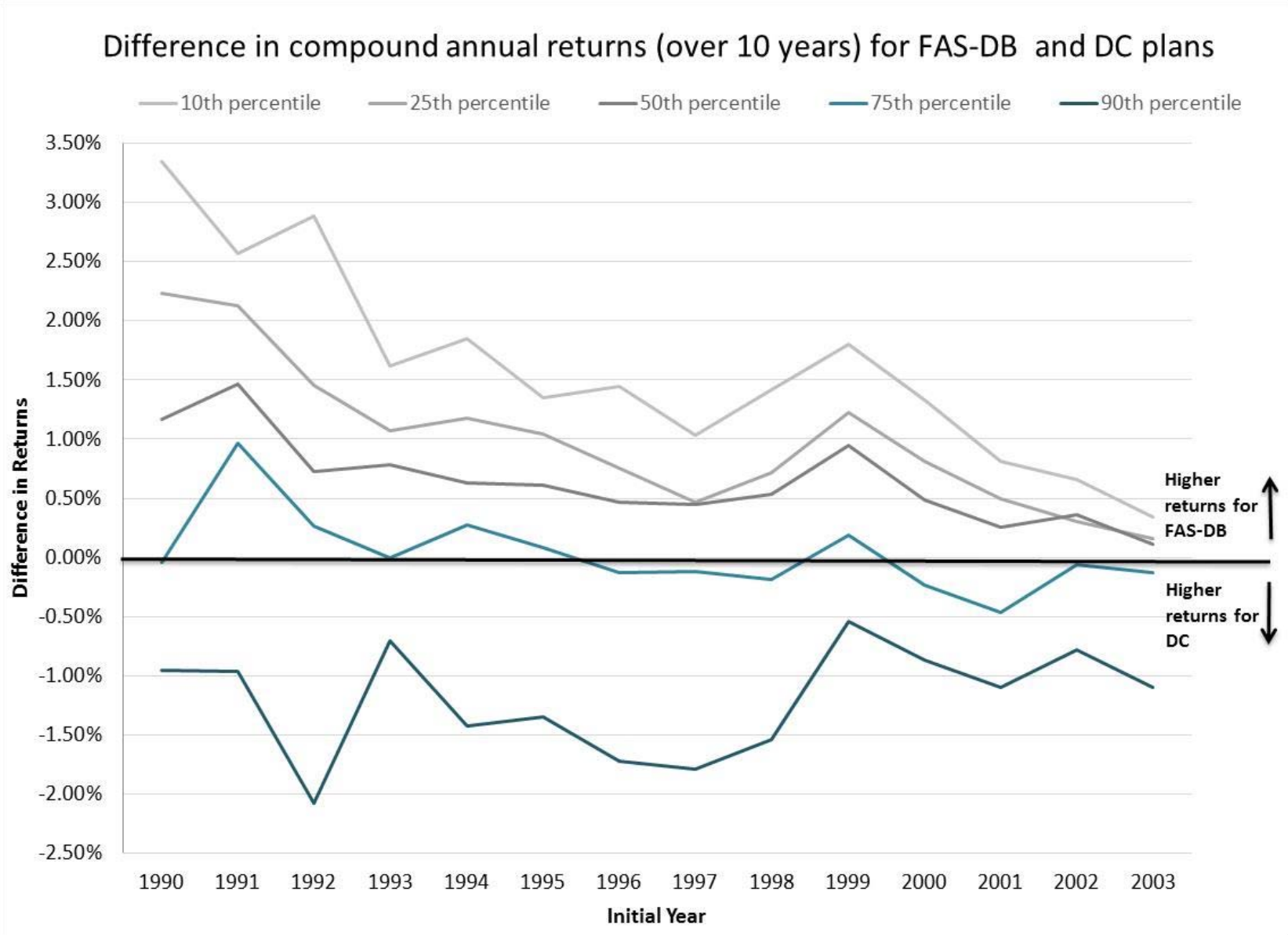
All plan designs can incorporate **important protections for workers** including:

- Adequate savings/benefit accrual rates.
- Pooled, professionally managed, low-fee, and appropriately allocated investments.
- Limited lump sums and annuities upon retirement.

While all plan types can be designed to meet the design principles, **Cash Balance and Defined Contribution** represent the **simplest, most transparent models** for providing secure retirement benefits.

Cash Balance and Defined Contribution plans tie benefits more closely to contributions and investment returns, eliminate unnecessary variables from cost estimation, and allow governments to more flexibly and transparently offer workers investment and longevity protection.

Defined Contribution Investment Returns are Higher for the Top-Performing Plans



Defined Contribution plans offer professionally managed, low fee, and diversified investment options

- **Well-designed Defined Contribution plans** offer life-cycle or target-date retirement funds that perform on par with FAS DB funds.
- **Large Defined Contribution plans have low investment fees.** The Federal Thrift Savings plan has administrative costs of 2.9 basis points. ([Thrift Savings Plan, Expense Ratio](#))
- On average, fees for large FAS DB plans are about 47 basis points. Fees for large private sector DC plans range between 30 and 57 basis points. (BrightScope, 2014)

A Defined Contribution plan can offer annuities

- **Just like FAS DB plans**, Defined Contribution plans can offer workers longevity protection by offering annuities.
- The Federal Thrift Savings plan provides annuities to workers as do many public DC plans.
- Most public DC plans **offer annuities through the retirement plan**, and a few offer government sponsored annuities. (McGee, 2015)
- **Public plans have the authority to offer annuities at prices that match public DB plans** and can require participants to take all of their benefits in the form of an annuity.

To conclude, the observed differences between DB and DC plans discussed in “Still a Better Bang for the Buck” (NIRS) are caused by the use of a poorly-designed Defined Contribution model and would not exist otherwise.

Policymakers must adopt a plan that will place all workers on the path to retirement security, and that will be affordable, lasting, and fair.

FAS-DB plans do not offer benefit or cost advantages over DC plans, and DC plans can solve the retirement security, sustainability, and transparency/accountability problems of the current system.

SOURCES AND NOTES

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