Defined Benefit Pensions Work!

Dispelling myths about public pensions in New York State
As the economy begins to slowly right itself, public employees in New York State are coming under attack and have become a convenient scapegoat for government deficits.
Public employee pensions are facing a wide range of attacks on many fronts. Unfortunately, these attacks are not based on a fact set that apply to the pensions earned by public employees in New York state.

For the most part, these arguments are myths being used to undervalue the vital public service teachers and other public employees provide each day and subject public retirees to scorn for collecting a pension they earned after decades of hard work.
Myth

- All public pension systems are under-funded.

Fact

- While it’s no secret that public pensions in many other states across the nation are in fact under-funded, a report issued by the Pew Center on States in 2010 ranked New York one of the country’s strongest public pension systems.
NYSLERS

- New York State and Local Employees’ Retirement System (NYSLERS):
  - Accrued Liability: $125 Billion
  - Percent of Liability Funded: 102%

NYSTRS

- New York State Teachers’ Retirement System (NYSTRS):
  - Accrued Liability: $86 Billion
  - Percent of Liability Funded: 103%
Myth

- Taxpayers pay for the full cost of public employee pensions.

Fact

- 86% of the pension plan income comes from successful investment returns. 14% comes from employer and employee contributions to the plan.

- During a 20 year period, NYSTRS took in $14.4 billion in member and employer contributions and paid out $58.9 billion in earned benefits – all while net assets more than doubled.
Myth

- Most public employees earn overly generous pensions at the end of their career.

Fact

- The average retiree benefit of a NYSTERS retiree is around $39,000
- The average retiree benefit of NYSLERS retiree is around $18,000
Less than one percent of retired educators earn the much touted “six-figure pension.”

These individuals are generally not rank and file classroom teachers, but rather a select group of school administrators from larger districts.
Myth

- Mandated employer contributions to public pension systems are bankrupting state and local governments.

Fact

- While employer contribution rates have risen in the past few years due to declines in the market, rates have held in the single digits for the last 22 consecutive years with the fifteen year average rate of 4.31%.
- For a three-year span beginning in 2000, employers paying into the NYSTRS were contributing less than 0.5% of payroll to the fund.
<table>
<thead>
<tr>
<th>Year Range</th>
<th>Employer Contribution Rate</th>
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<tr>
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<td>2010 – 2011</td>
<td>8.62%</td>
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</tbody>
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Myth

- Switching from the current defined benefit pension plan to a 401(k) style defined contribution plan will save money while providing a similar benefit to retirees.

Fact

- Historically, defined benefit plans have achieved higher investment returns than defined contribution accounts. This fact is supported by the National Institute for Retirement Security which in a recent study concluded that economic efficiencies of defined benefit plans make them half the cost as 401(k) style plans.
Defined benefit plans are professionally managed at significantly lower cost than 401(k) style defined contribution plans where employees are left to fend for themselves to save for retirement:

- Cost to operate a 401(k) style defined contribution plan: around $2.00 per $100 of assets.
- Cost to operate a defined benefit pension plan: around 0.10 cents per $100 of assets.
Defined Benefit Plan

- Pooled investment resources
- Pooled mortality risk - No risk of outliving retirement income
- Mandatory participation by both employee and employer.
- Government-run pension plans that are not-for-profits, accountable to the public and protected by the State Constitution.
- Provide death & disability benefits without requiring the purchase of additional insurance which is costly to both employee and employer.
401(k) Style Defined Contribution Plan

- Funds available are based on amount in the individual account; employee shoulders the full risk of the plan.
- Risk of outliving your benefit funds
- No mandatory participation by employer; employer contributions are some of the first benefits to go when an employer looks for ways to cut costs.
- Managed by for-profit firms with no constitutional protections and high operational fees and costs.
- Limited/no death or disability benefits.
Myth

- Retired public employees leave New York state once they leave service.

Fact

- Teachers generally stay put after retirement. NYSTRS paid out $5.3 billion in benefits in 2009. Of that total 80%, $4.2 billion, were paid to retirees living in New York state. These payments create a multiplier effect throughout the state’s economy.
According to a study by the National Institute for Retirement Security, each dollar invested in public pensions by New York taxpayers supports $10 in total economic activity. One person’s pension spending becomes another’s income.

The study also concluded that retiree expenditures in New York State supported nearly 137,000 jobs in the state, accounting for $10.5 billion in wages and salaries and $4.1 billion in tax revenue to the federal, state and local governments.

The retirement systems of New York are huge investors in private companies. Where would private sector jobs be without these investments?
Myth

- A 401(k) alone is good enough.

Fact

- 401(k) accounts are not pensions. Congress created 401(k) accounts in 1978 as a way to close a loophole on large bonuses for highly paid executives. Congress never intended 401(k) accounts to replace traditional, employer-sponsored, defined benefit pension plans.
Over time, numerous employers dismantled their defined benefit plans which provide guaranteed security in old age, instead switching to providing a small match to funds placed in voluntary individual 401(k) plans.

401(k) accounts were designed to be a retirement side dish, not the main course. Alone can never provide real retirement security.
In 2009, the National Retirement Risk Index found that 51% of American workers are not able to maintain their current standard of living in retirement; the highest level in the history of the index.

According to the Society of Professional Asset Managers & Record Keepers, the average 401(k) balance is just over $45,000.
43% of the 73 million Americans with 401(k) accounts have a balance of less than $10,000.

From 2007 -2009, 401(k) returns fell 31%.

Rep. George Miller (D, CA), former Chair of the House Committee on Education & Labor, has stated publicly that while 401(k) plans, “May be a good tax-free savings account for the wealthy, they may not be the best retirement savings system for working families.”

In 2009, a the Government Accountability Office (GAO) report on the funding levels of 401(k) accounts in the United States found that, “If no action is taken, a considerable number of Americans face the prospect of a reduced standard of living in retirement.”
Conclusions

- The state’s long-term viability is dependent upon a stable, well-trained and fairly compensated public work force.

- Even in good economic times, public employment offers lower salaries, no bonuses, no stock options and no similar perks common in the private sector.

- The trade-off has always been the security of a retirement after a lifetime of public service.

- If that trade-off is taken away, who is going to devote their working career to public service and guarantee themselves inadequate resources for retirement?
Conclusions

- Retirement security without a defined benefit pension is a myth. Defined benefit pensions have proven to be a good investment for taxpayers, governments, employees, and the economy.

- Those who argue differently are misleading taxpayers with short-term fixes and ignoring the long-term impacts to taxpayers, retirees, and society in general.