

Retirement Security Research Using Fact-Based Messages

**NPEA Conference
Lexington, KY
October 26, 2015**

**Diane Oakley,
Executive Director, NIRS**

www.nirsonline.org



**NATIONAL INSTITUTE ON
Retirement Security**

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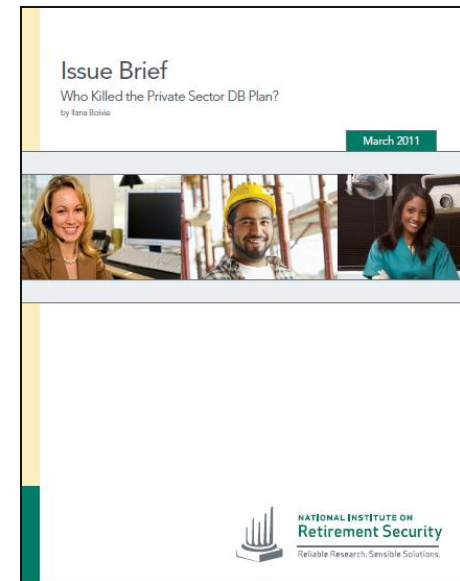
QUESTION?

Proponents of DC plans often say they are less costly for employers than DB plans, but isn't it true that the private sector abandoned DB plans for a variety of reasons one of which was that PPA and other federal regulations that resulted in more funding volatility for private sector DB plans

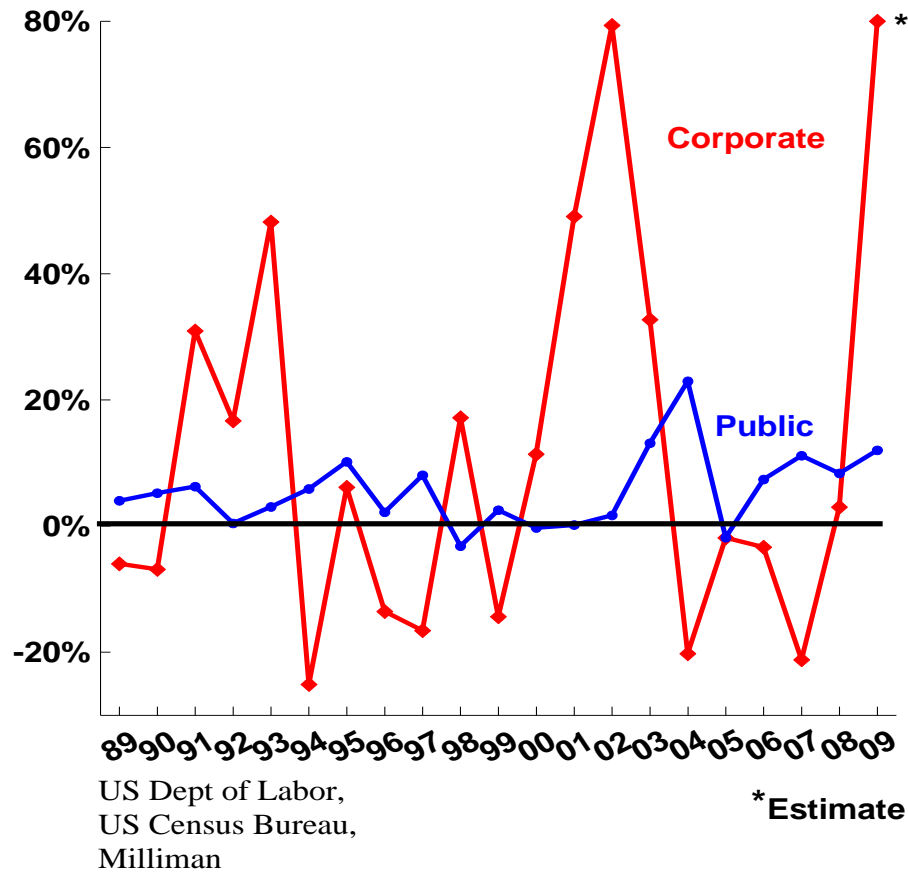
Who Killed Private Sector DB Plans? March 2011

Key Findings

1. Switching to DC plans, employers cut their contributions by almost half and employees now pay the bulk of costs.
2. Federal and accounting regulations impacted cash flow and added volatility to plan funding.
3. Private sector industry changes have seen fewer new industries offering pensions.
4. Imperfect knowledge for employees preferences for traditional DB plans.

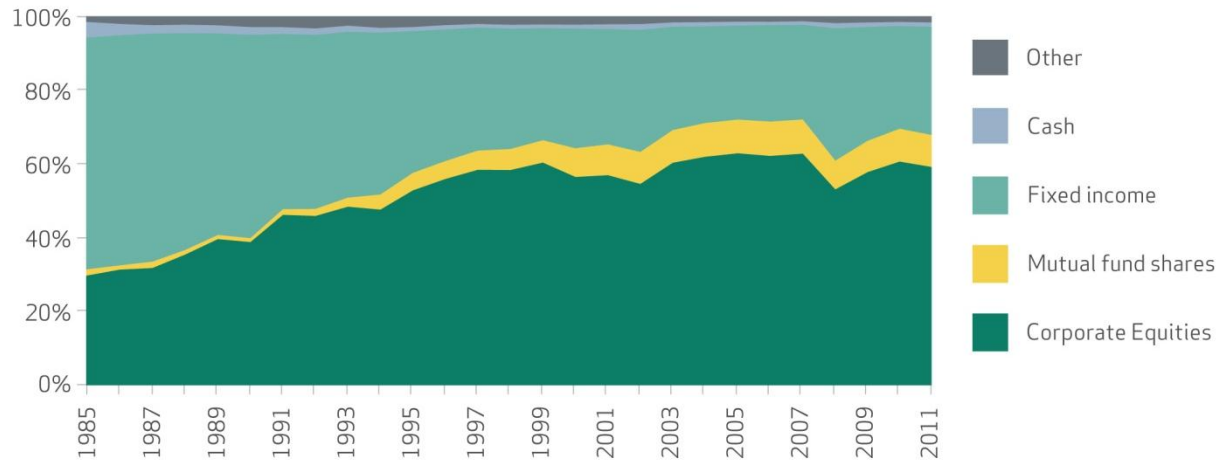


Change from prior year in corporate and public pension contributions, 1989-2009

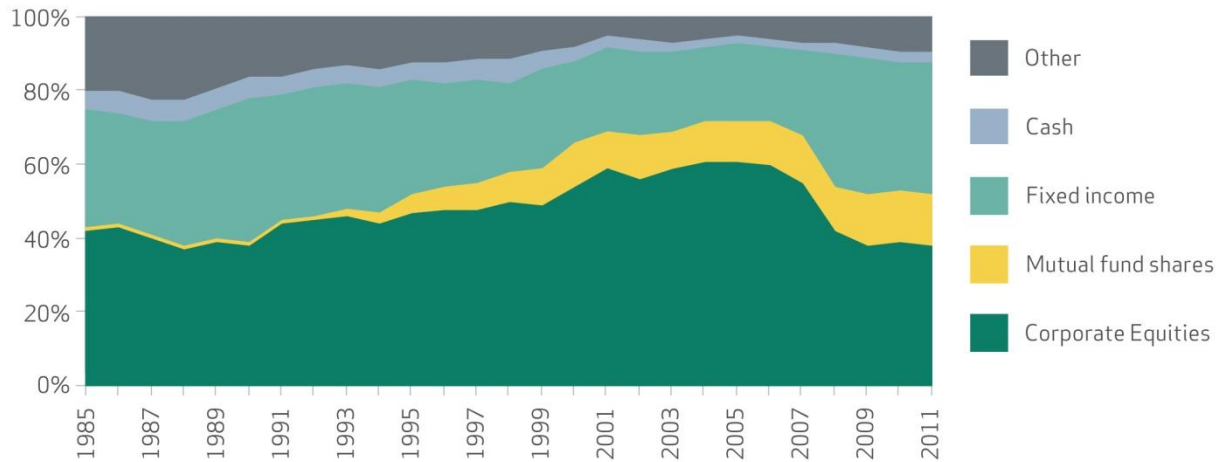


Public and Private Funds Similar in Risk until 2006

State and Local Retirement Systems



Private Sector DB Plans

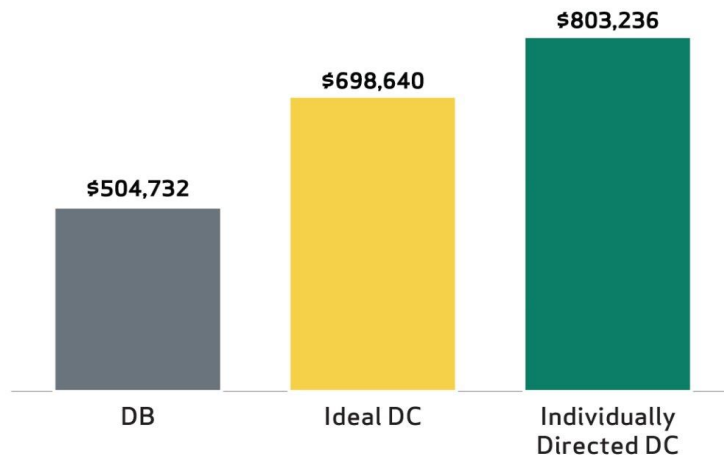



Source: Federal Reserve Flow of Funds Accounts, 1985-2011



Pensions Cost Less: *Still A Better Bang for the Buck* Compares Cost of 3 Plan Designs Providing \$2,700

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



 Contribution needed to fund DB plan is 16.3% of payroll.

DB plan

- Typical asset allocation and fees.

Individually Directed DC plan

- Target Date Fund (TDF).
- Average fund fees, modest “behavioral drag.”

“Ideal” DC plan

- TDF with same glide path.
- Same DB fees, no behavioral drag
- No employee choice.



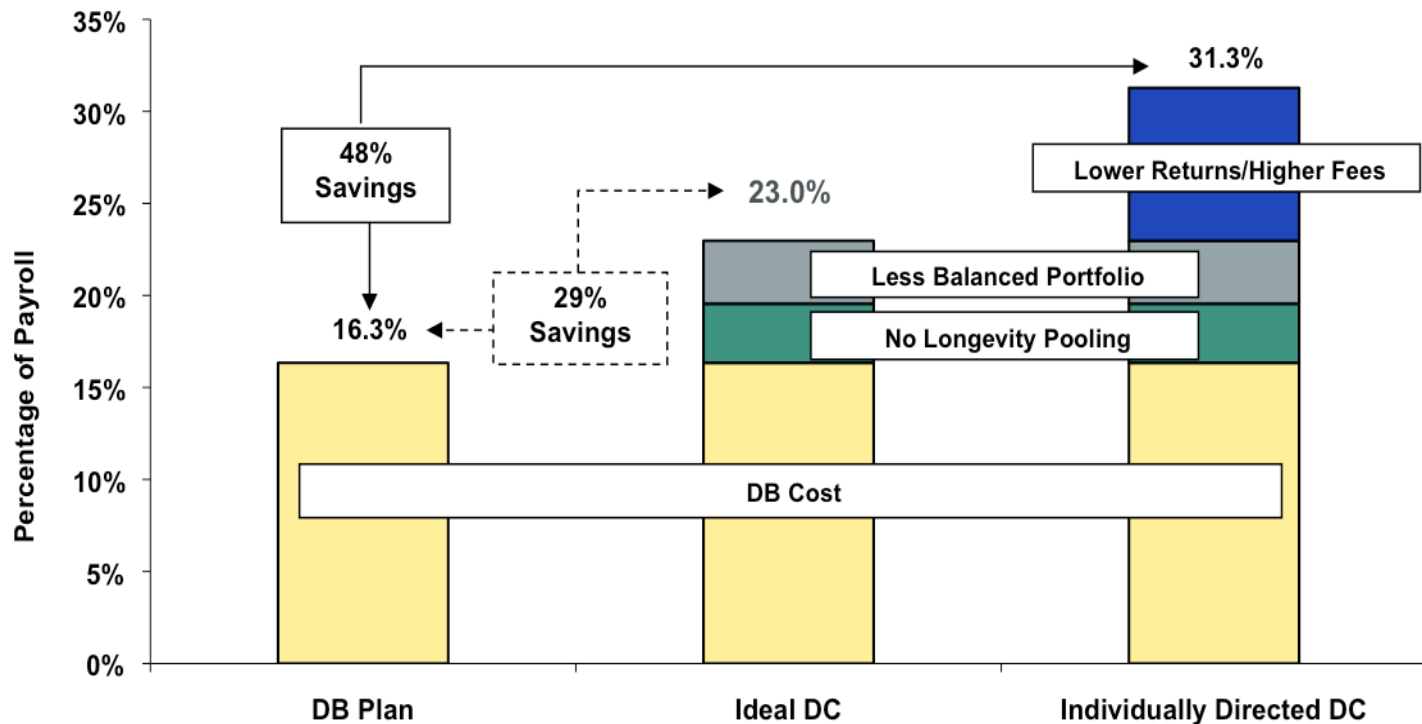
3 Key Reasons that DB Plans Save Money Compared to DC Plans

1. Pool the longevity risks.
2. Maintain optimally balanced investment portfolio compared to down-shifting to a lower risk/return asset allocation.
3. Achieve higher investment returns as compared to individual investors because of professional asset management and lower fees.



Summary: DB Plan Delivers Same Benefit at About Half the Cost of DC Plan

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





Colorado Pension Design Study

A Comprehensive Study Comparing the Cost and Effectiveness

Office of the State Auditor Considered Alternative Plan Designs Costs

SAME BENEFIT for a 30-year Employee at 65

Comparison of Defined Benefit and Defined Contribution Side-by-Side Plan with PERA Hybrid Defined Benefit Plan					
Targeted Benefit Approach					
State Division					
				PERA Hybrid Defined Benefit Plan	Defined Benefit and Defined Contribution Side-by-Side Plan ¹
Employer Contribution²				0.82%	5.29%
Member Contribution²				8.00%	9.03%
Relative Cost (to replace the same age-65 benefits as under the PERA Hybrid Defined Benefit Plan)				100%	160%
REPLACEMENT RATIOS (set equal at age 65 with 30 years of service)					
Age at Hire	Age at Termination	Years of Service	Benefit Commencement Age		
35	65	30	65	72.2%	72.2%
35	62	27	62	62.5%	61.0%
35	60	25	60	49.7%	50.2%
40	60	20	65	39.6%	43.3%
25	45	20	65	20.6%	32.5%
40	50	10	65	13.0%	18.0%
40	43	3	65	4.4%	2.0%

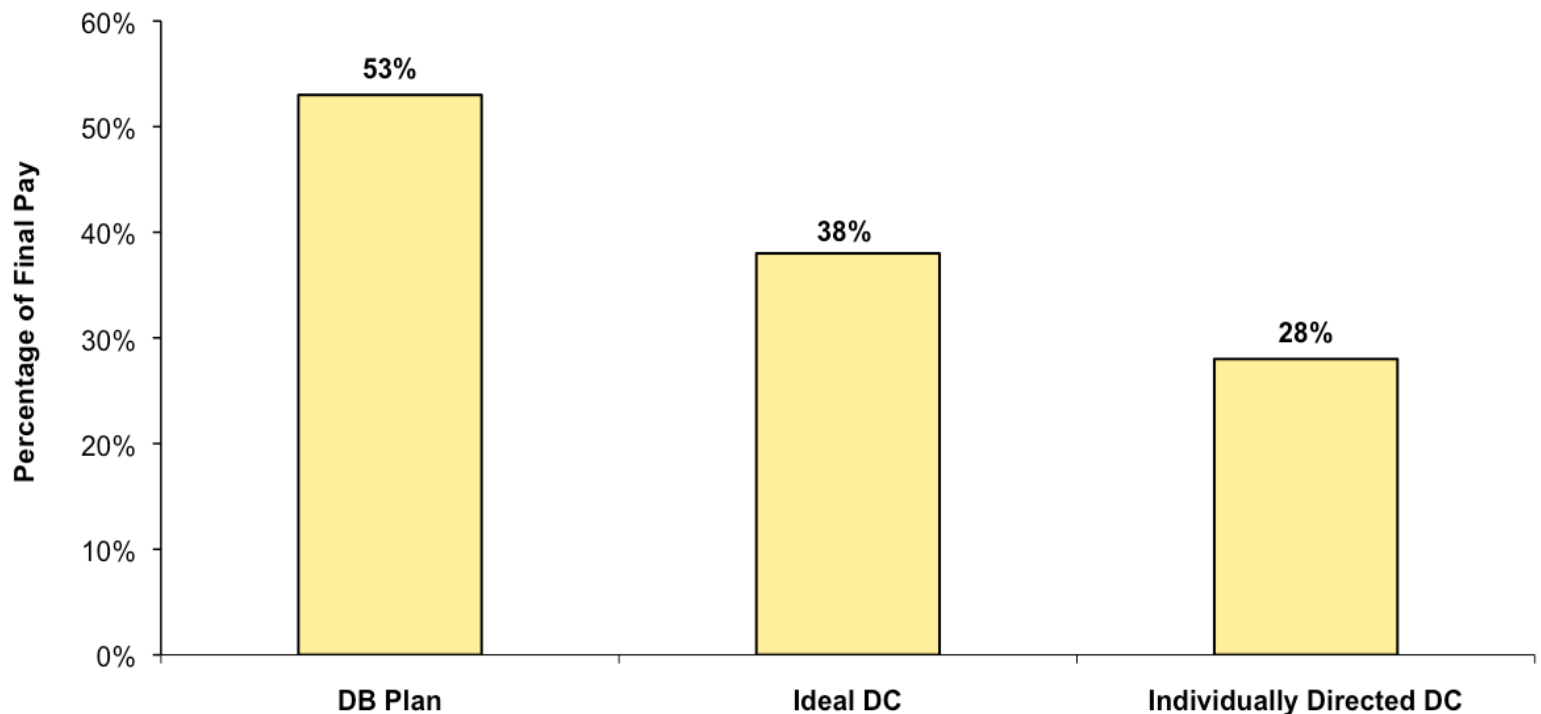
Source: Gabriel, Roeder, Smith & Company.

¹ Features of the Alternative Plan: Defined benefit plan multiplier of 1.50% of final 3 year's pay; the Employer contributes 5.29% of pay. Defined Contribution Plan: Members contribute 9.03% of pay, the Employer contributes 0% of pay, the fund earns 5.5% return each year; the account balance at age 65 is converted to a lifetime annuity based on 5.5% and the valuation mortality table.

² Contribution amounts are calculated as a percentage of employee salary.

Fiscal Reality is that cost can't increase – What if same cost?

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



Retirement Benefits More Important Than Salary For Public Employees

Figure 24: **Retirement Benefits are Significantly More Important to Public Workers as Compared to Private Sector Workers**

When making job decisions, how important are the following job features to you?



QUESTION?

There are a number of media outlets and conservative private foundations that would have us believe that public pensions are an extreme burden on taxpayers. Does NIRS have any data that might counter such opinions?

Laura and John Arnold Foundation

This is just the tip of the iceberg!



Laura and John Arnold Foundation

\$1.3 Billion in Assets

Grants are “Strategic Investments”

The DB Model is “just a bad system,” “we can provide the protections for workers that we want in a simpler, better system,” namely DC or Cash Balance.

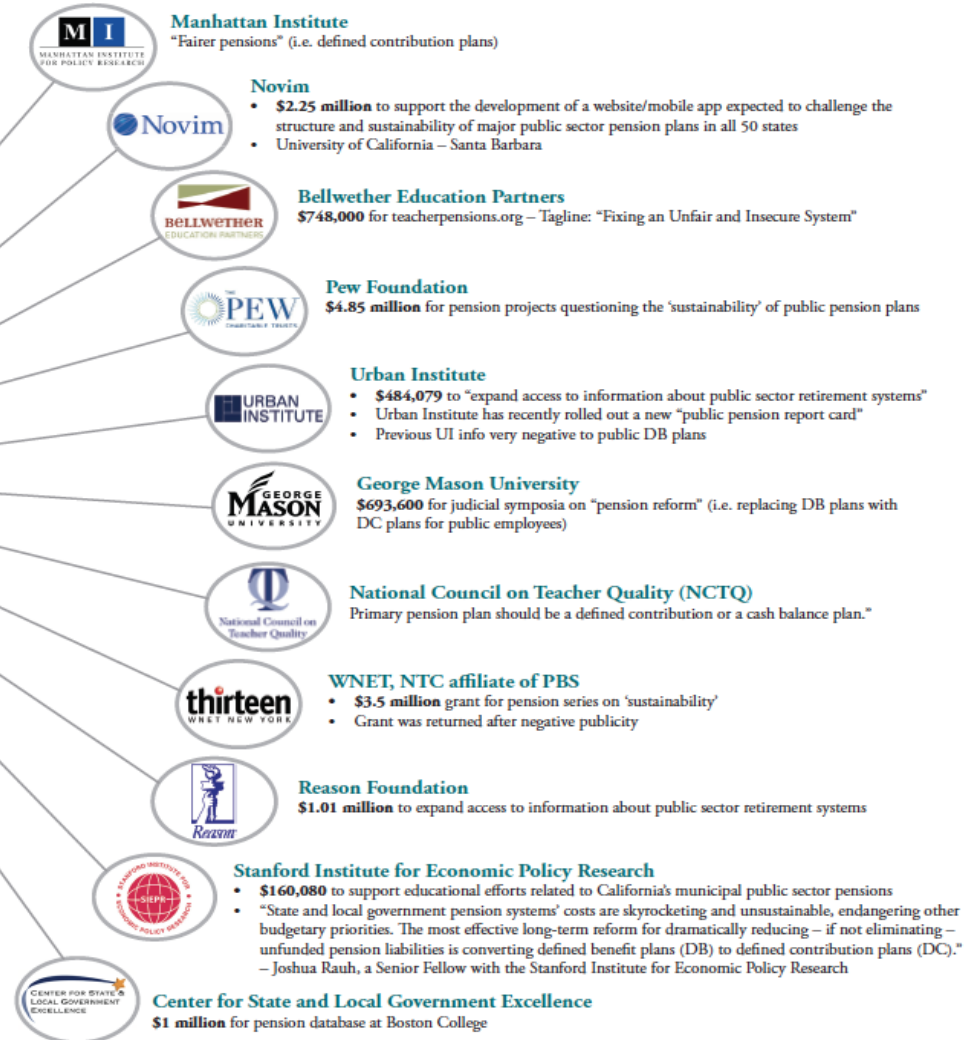
“The way to create a sound, sustainable and fair retirement savings program is to stop promising a benefit and instead promise an accrual or savings rate.”

“Philosophy of Philanthropy”

- Seek transformation change, not incremental change
- Think big, take risks and be aggressive and highly goal-oriented
- Seek to solve problems and better lives and institutions, not just study or illuminate problems

Other Grants Offered

Federalist Society for Law & Public Policy Studies
 Colorado Succeeds Oklahoma Council of Public Affairs Washington Policy Center



Research by Josh McGee Falsely Claims NIRS Bang for Buck is Myth

The Myth of DB Cost-Effectiveness

- When state and local governments have considered DC plans, they have encountered opposition from the leaders of organized labor, current public retirement system managers, and the cottage industry of consultants who rely on public DB plans for work.
- These groups generally claim that DB plans have inherent advantages, resulting in better benefits at a lower cost.
- National Institute for Retirement Security (NIRS), a Washington, D.C.–based nonprofit started by public DB plan administrators and associated interest groups, has been vocal in perpetuating this myth.

CMC REPORT
No. 100 August 2015



Josh B. McGee
Senior Fellow, Manhattan Institute



NATIONAL INSTITUTE ON
Retirement Security

NIRS: McGee Paper Fatally Flawed Exclusively Uses Private Plan Data...

Fact Check

- Data misleading
- Not relevant
- NIRS Numbers Add up
- Fair, Accurate Model
- DB investment tops TDFs
- Efficient DC buys annuity from DB



The National Institute on Retirement Security's Fact Check On

"Defined-Contribution Pensions are Cost-Effective" Paper and "Debunking the Defined Benefit Cost Effectiveness Myth" Presentation to NCSL Summit

The National Institute on Retirement (NIRS) served on a National Conference of State Legislatures (NCSL) panel with Josh McGee of the Manhattan Institute on August 5, 2015. Although it is common practice to provide an advance copy of presentations and research to fellow panelists, Mr. McGee withheld his research paper.

A week after the panel discussion, the Manhattan Institute released the paper, *Defined-Contribution Pensions are Cost-Effective*. Based on NIRS' comprehensive review of this report, which Mr. McGee frequently referenced during his talk, we find that his presentation did not give proper reference or context and could be easily misconstrued. Furthermore, it is clear that the research published by the Manhattan Institute is fundamentally flawed when applied to discussions of public pension systems. The research is not based on public sector plans but instead exclusively uses private sector pension data that is not comparable. Thus, neither have relevance to debate on how to efficiently deliver retirement security to public employees while managing the workforce that delivers key public services to our citizens. More specifically, the Manhattan Institute study is contradicted by – and fails to refute – NIRS research in *Still a Better Bang for the Buck: An Update on the Economic Efficiencies of Defined Benefit Pensions (Still a Better Bang for the Buck)* including:

- The Manhattan Institute paper claims that defined benefit (DB) plans are not structurally more cost-efficient than defined contribution (DC) plans. **Fact: NIRS data and empirical evidence show otherwise. DB pensions can deliver a target retirement benefit at half the cost of a DC account.**
- The paper says DC plans get similar investment returns as DB plans. **Fact: The analysis relies strictly on private sector pension data, and fails to account for asset allocation shifts in private sector DB pension to more conservative, lower-return investments due to increased "frozen" pensions and corporate accounting that makes this private sector data inappropriate for assessing the efficiency of state and local government DB pension systems.**
- The paper indicates that it is incorrect to conclude that DC plans cannot offer annuities to provide lifetime retirement income. **Fact: It does not**

1



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NIRS Responding to Arnold Foundation Opinion Piece

NIRS responds to McGee using Manhattan Institute paper to claim a cost efficient DC retirement plan as a solution in Chicago.



[Print Story](#)

Printed from ChicagoBusiness.com

Here's one public pension that survived the 2008 crisis

By: DIANE OAKLEY September 09, 2015

The 2008 financial crisis hurt retirement savings, but we found public defined benefit pensions in red states and blue states that survived the market's free-fall in reasonable shape. Surprisingly, one of those well-funded plans is the Illinois Municipal Retirement Fund.



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Views: Retirement Crisis is DC Plans; Public Pensions Made Needed Changes

Figure 1: 86 Percent Believe The Nation Faces a Retirement Crisis

Would you say you agree or disagree that America is facing a retirement crisis?

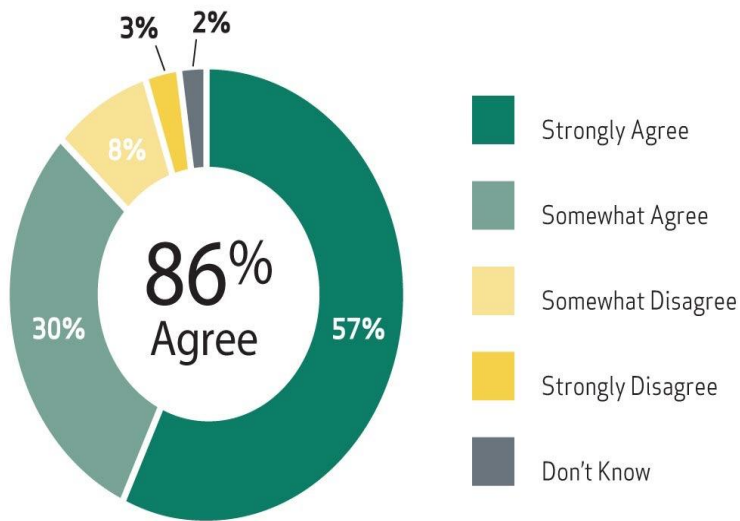
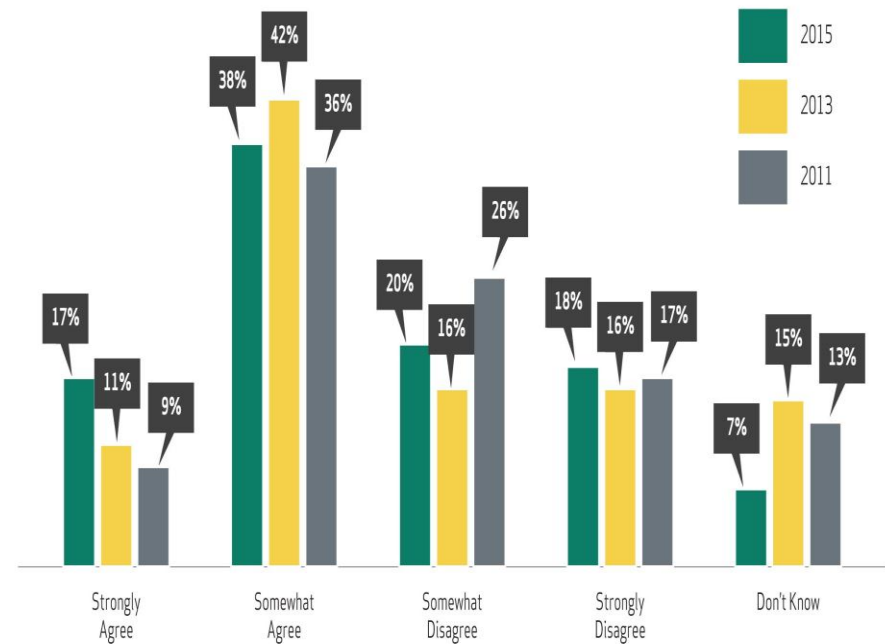


Figure 32: A Majority of Americans Feel the Public Pensions Have Made the Changes Needed to Continue Providing Benefits

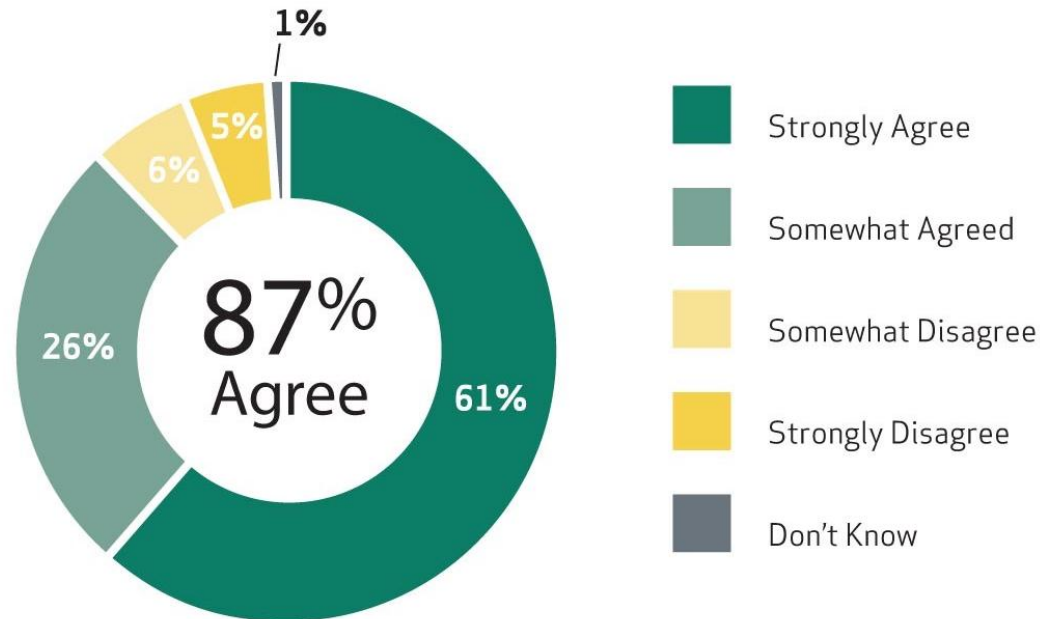
How much do you agree or disagree with the following statements about public pensions, which are offered to state and local government workers? Public pensions have made the changes they need to in order to continue providing promised benefits.



87 Percent: Pensions Are a Tool To Recruit and Retain Public Workforce

Figure 33: **87% of Americans Say Pensions Are Good Tool to Recruit Teachers, Police, Firefighters**

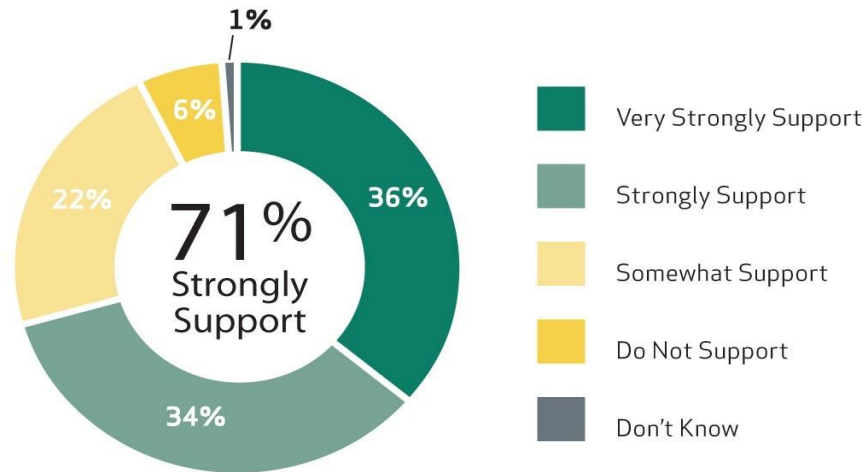
Are pensions a good way to recruit and retain qualified teachers, police officers and firefighters?



More than 7 out of 10 Strongly Support Public Pensions

Figure 29: 71 Percent Strongly Support Local Pensions for Police, Fire, and Municipal Employees Because Workers Help Fund Pensions

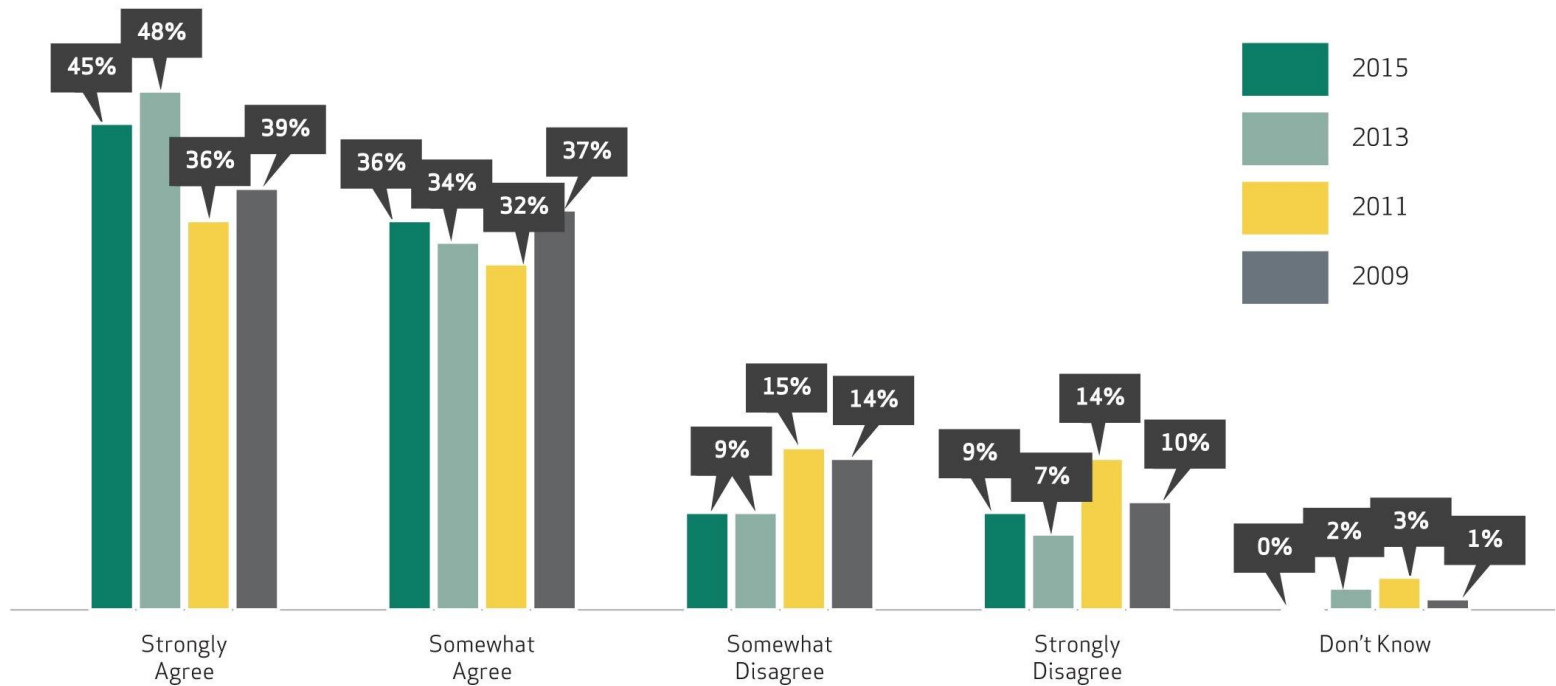
Given that they fund a significant portion of their own pensions, how strongly do you support or oppose giving pensions to local firefighters, police, and municipal employees?



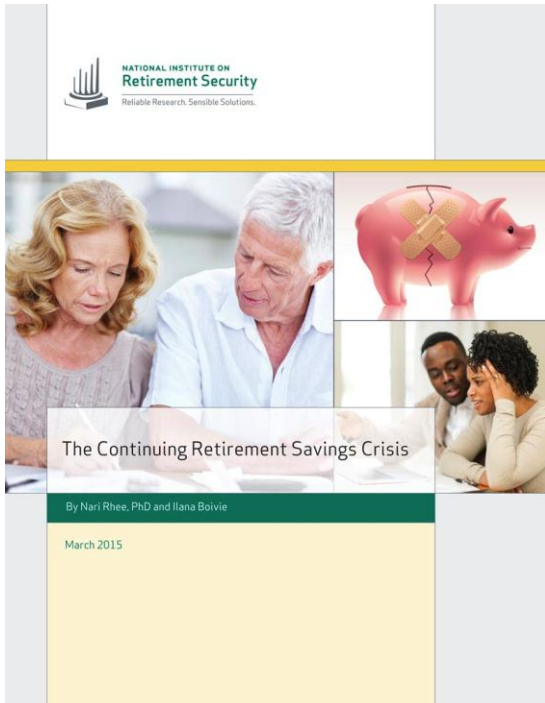
Americans Agree That Everyone Should Have A Pension

Figure 28: **81 Percent of Americans Say All Workers Should Have a Pension**

I would like to ask how you feel about the pensions that are sometimes given to state and local government employees. For each of the following statements, please tell me whether you agree or disagree that all workers, not just those employed by state and local governments, should have access to this kind of pension.



Americans Lack Adequate Savings: Policy Makers, GAO Concur



By KATE GIBSON / MONEYWATCH / March 4, 2015, 5:00 AM

With good reason, Americans stressed about affording retirement



United States Government Accountability Office

Report to the Ranking Member, Subcommittee on Primary Health and Retirement Security, Committee on Health, Education, Labor, and Pensions, U.S. Senate

May 2015

RETIREMENT SECURITY

Most Households Approaching Retirement Have Low Savings

QUESTION?

Many of us have read *Pensionomics*, which discusses how public pensions are economic drivers. How can the information in these studies be useful to public pension systems when they communicate with the media, policy-makers and stakeholders?

Pensionomics: Retirees

Spending DB Benefits Fuel...

Expenditures from public and private pension benefits supported...

- **Over \$940 billion** in economic output nationwide
- **Over 6 million jobs** that paid over **\$300 billion** in income
- **Over \$550 billion** in value added nationally
- **\$130 billion** in federal, state, and local tax revenue

Business Stakeholders: Howell's Grocery & Restaurant

Illustrating
Direct, Indirect,
and Induced
Impacts

Howell's Grocery
& Restaurant



Situated in the foothills of the Virginia Blue Ridge Highlands, Stuart is an iconic American town. Like other rural towns, small business is central to Stuart's economy.

Howell's Grocery and Restaurant is one of the oldest businesses in the town. The Howell family has owned and operated the business since 1924. It is a favorite of locals for a good meal, provides income for its employees and supports other regional businesses.

"I'm getting up there in years, but I love what our restaurant provides – friendship, food, and jobs," says Leon Howell. Along with his wife Chris, Leon has run the business since taking over in the 1980s after his father passed away.

retirees at Howell's for a bite to eat. Even during the recession, I still dined out occasionally because my pension income didn't go down," Phyllis says

As much as possible, Howell's purchases its supplies and food from other regional businesses. This is an example of an **indirect economic impact**. As a result of a consumer purchase, a business purchases supplies and services from other businesses, which generates an economic ripple effect.

Then, the owners and employees of Howell's, and of the businesses that supply goods and services to the restaurant, spend the personal income that resulted from retirees' pension spending. This is called an **induced economic impact**.

Pensionomics: State Fact Sheets

ALABAMA

Pensionomics 2014:

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 Alabama.

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 2012, expenditures stemming from state and local pensions supported...

- 36,063 jobs that paid \$1.4 billion in wages and salaries
- \$4.8 billion in total economic output
- \$559.2 million in federal, state, and local tax revenues

... in the state of Alabama.

Each dollar paid out in pension benefits supported \$1.63 in total economic activity in Alabama.

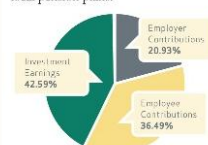
Each dollar "invested" by Alabama taxpayers in these plans supported \$7.79 in total economic activity in the state.

Overview

Expenditures made by retirees of state and local government provide a steady economic contribution to Alabama communities and the state economy. In 2012, 115,224 residents of Alabama received a total of \$2.9 billion in pension benefits from state and local pension plans.

The average pension benefit received was \$2,114 per month or \$25,367 per year. These modest benefits provide retired teachers, public safety personnel, and others who served the public during their working careers income to meet basic needs in retirement.

Between 1993 and 2012, 20.93% of Alabama's pension fund receipts came from employer contributions, 36.49% from employee contributions, and 42.59% from investment earnings. Earnings on investments and employee contributions—not taxpayer contributions—have historically made up the bulk of pension fund receipts.



Impact on Jobs and Incomes

Retiree expenditures stemming from state and local pension plan benefits supported 36,063 jobs in the state. The total income to state residents supported by pension expenditures was \$1.4 billion.

To put these employment impacts in perspective, in 2012 Alabama's unemployment rate was 7.1%. The fact that DB pension expenditures supported 36,063 jobs is significant, as it represents 1.7 percentage points in Alabama's labor force.

Economic Impact

State and local pension funds in Alabama and other states paid a total of \$2.9 billion in benefits to Alabama residents in 2012. Retirees' expenditures from these benefits supported a total of \$4.8 billion in total economic output in the state, and \$2.6 billion in value added in the state.

\$2.6 billion in direct economic impacts were supported by retirees' initial expenditures. An additional \$1.3 billion in indirect impact resulted when these businesses purchased additional goods and services. \$868.7 million in induced impacts occurred when workers employed by businesses as a result of the direct and indirect impacts made expenditures.



Totals may not add up due to rounding. For data and methodology, see Rhee, N., 2014, *Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures*, National Institute on Retirement Security, Washington, DC, www.nirosonline.org. Results are directly comparable to previous *Pensionomics* due to technological refinements.

National Institute on Retirement Security
Pensionomics 2014: Measuring the Economic Impact of DB Pension Expenditures

ALABAMA

Economic Multipliers

Taxpayer Contribution Factor*



Each \$1 in taxpayer contributions to Alabama's state and local pension plans supported \$7.79 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



Each \$1 in state and local pension benefits paid to Alabama residents ultimately supported \$1.63 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.

*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 Alabama residents supported a total of \$559.2 million in revenue to federal, state, and local governments. Taxes paid by retirees and beneficiaries directly out of pension payments totaled \$23.4 million. Taxes attributable to direct, indirect and induced impacts accounted for \$535.8 million in tax revenue.

Category	Amount
Federal Tax	\$328.8 million
State/Local Tax	\$230.4 million
Total	\$559.2 million

Economic Impacts by Industry Sector

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

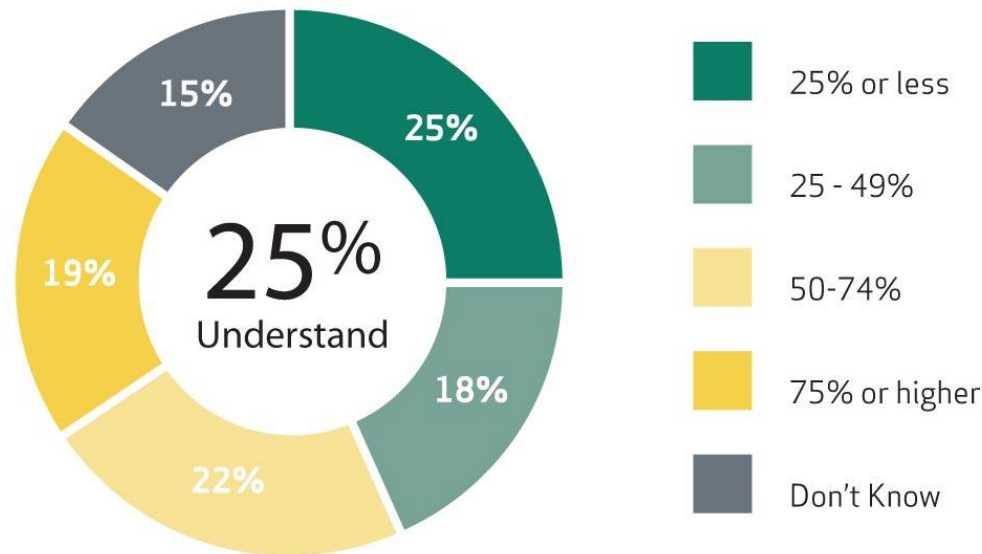
Industry	Employment Impact (# Jobs)	Labor Income Impact	Value Added Impact	Output Impact
Food Services and Drinking Places	3,258	\$63,403,944	\$95,331,197	\$176,672,356
Real Estate Establishments	2,149	\$29,865,721	\$203,562,722	\$263,609,306
Physicians, Dentists, and other Health Practitioners	1,684	\$140,794,507	\$143,402,177	\$211,986,973
Private Household Operations	1,476	\$4,327,664	\$4,327,664	\$4,327,664
Private Hospitals	1,374	\$81,408,321	\$93,102,446	\$172,928,948
Nursing and Residential Care Facilities	1,238	\$38,837,498	\$45,868,778	\$68,645,428
Wholesale Trade Businesses	1,122	\$77,342,970	\$138,738,900	\$219,486,145
Retail Stores - General Merchandise	956	\$25,929,810	\$44,243,747	\$55,106,229
Retail Stores - Food and Beverage	917	\$24,914,353	\$35,232,181	\$50,372,681
Employment Services	747	\$16,646,454	\$18,573,175	\$23,293,885

Industry totals include the first round of impacts from pension payments to state residents, and do not account for recaptured "leakage" to or from other states.

Media and Public – Misunderstand Who Pays For Public Pensions

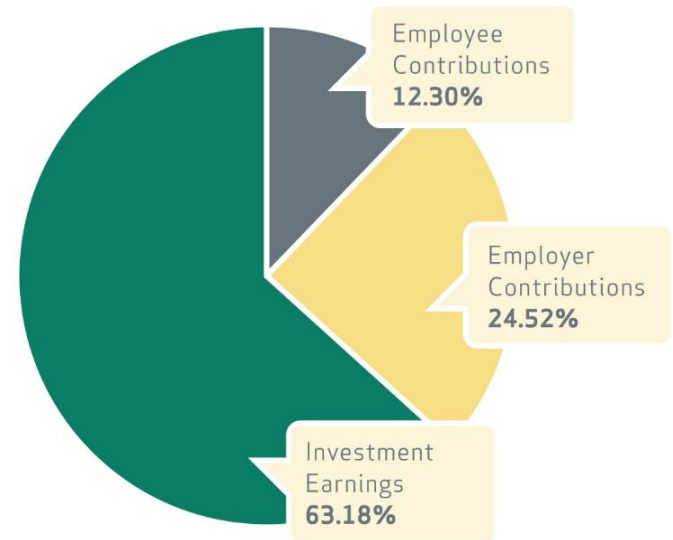
Figure 30: **Only 25 Percent of Americans Understand that Taxpayers Pay for About One-Fourth of the Cost of Pensions**

What percentage of public pensions do you think is paid for by taxpayers?



Taxpayer Stakeholders: Financing of Public Pension Plans, 1993-2012

Sources of pension fund receipts.



Taxpayer Investment Factor*



\$1.00

contributed by taxpayers to state and local pensions over 30 years



\$8.06

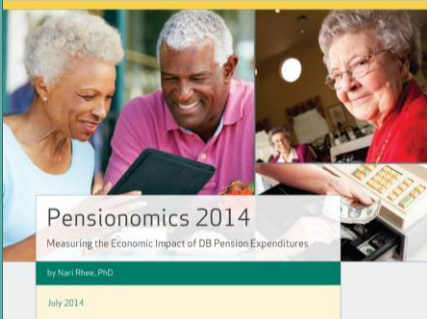
total output

QUESTION?

What are some examples of how NIRS research has been used in pension policy development?

Follow-up question to audience: have any of your systems utilized NIRS reports and data in your communications?

Pensionomics to Task Force Arizona Police and Firefighter System

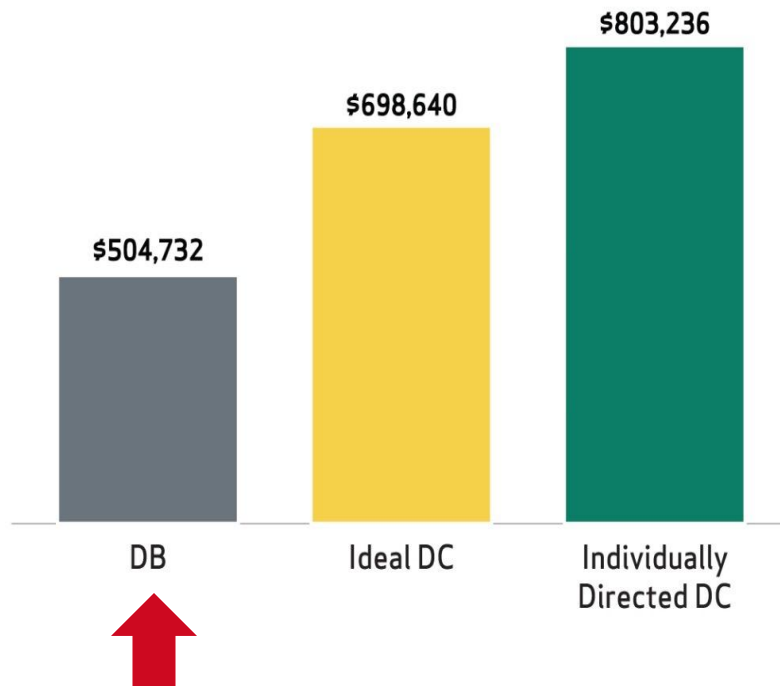


Expenditures by government retirees provide steady economic stream to **Arizona** and its communities. 2012 expenditures supported:

- **42,542 jobs** that paid \$1.9 billion in wages.
- **\$5.9 billion** in total economic output. Each dollar in DB benefits supported \$1.77 in total economic activity.
- \$793 million in federal, state, and local tax revenues.
- **Each taxpayer dollar “invested” in plans supported \$5.93** in total economic activity in the state.

Pennsylvania Legislators: DB Plans Cost Efficient Retirement Benefits

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



The "Public Pension Resource Guide" provides readers with facts and data on the important role that public pensions play in the economy—for employees and retirees, public employers, and taxpayers alike.

A misperception persists among some that defined contribution (DC) plans "save money" when compared with traditional pensions. However, several states that switched to DC plans have experienced a much different reality over time. Indeed, a recent NIRS analysis of the economic efficiencies of defined benefit (DB) plans reconfirmed that pensions deliver the same amount of lifetime income for about half of the cost of providing the lifetime income from a typical DC plan.

"Case Studies of State Pension Plans that Switched to Defined Contribution Plans" presents summaries of past changes in three state retirement systems that made the switch to a DC plan from a traditional DB pension. Case studies cover the following states: West Virginia, Michigan, and Alaska. Rather than save states money, these DB to DC switch exacerbated funding problems and drove up pension debt.

Overall, certain trends appear common to all three states, such as:

- Changing from a DB plan to a DC plan did not help an existing underfunding problem, and, in fact, increased pension plan costs.
- Workers under the DC plan face increased levels of retirement insecurity.
- The best way to address a pension underfunding problem is to implement a responsible funding policy of making the full annual required contribution each year and to evaluate and adjust assumptions as well as funding over time.

Each analysis examines the key issues and the impact of the plan change over time. Specific areas include: the impact on the overall demographics of the system membership; changes in the cost of providing benefits under the plan; the percent of the actuarial required contribution made by the state and other public employers each year from 2003-2013; the effect on the retirement security of workers impacted by the change; and the impact on the overall funding level of the plan over time. To the extent possible, the case studies also examine subsequent action taken by policymakers to address the results of the plan changes.



QUESTION?

What do you see as the next generation challenges for public pension plans and what is on NIRS's research agenda?

Annuity Proposals Beyond Senator Hatch's Bill: Mercatus Center too



MERCATUS CENTER
George Mason University

Government Policy on Distribution Methods for Assets in Individual Accounts for Retirees

Life Income Annuities and Withdrawal Rules

Mark J. Warshawsky

June 2015

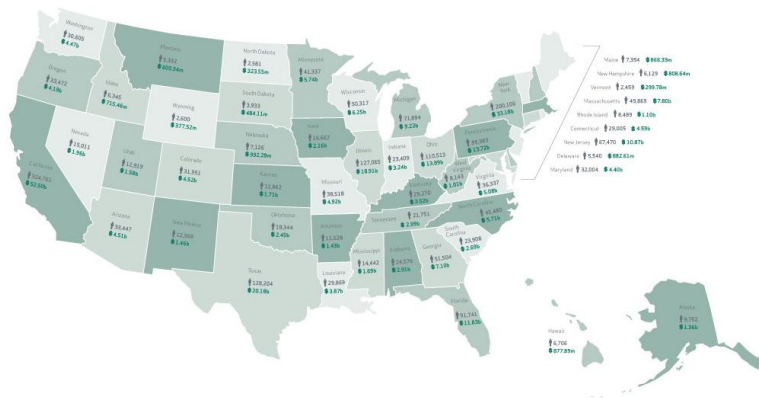
- Annuity vs. 4 percent withdrawal from a DC plan.
- Annuity is more effective.
- **Leaps to suggest a policy application for annuities to replace underfunded public DB pensions.**

Senator Hatch Creates SAFE Annuity Plan: High Cost & Low Protection

- *Still a Better Bang for the Buck* looked at the cost of using an annuity at retirement greater than self insuring today.
- Rate of Return tradeoff: Public DB plan real ROR of 5.4% but Fixed Annuity only 2.8% historical real ROR._(NIRS & CRS)
- Cost of fixed annuities is **57 to 180 percent more** than funding DB pensions.



Pensionomics 2016: Update Impact of Retirees' Spending in Our Economies





Research

- > Reports
- > Issue Briefs
- > Data Zone
- > Report Fact Checks
- > Pensionomics State Factsheets
- > State Financial Security Scorecards

Home > Research

Research



NIRS [Research Reports](#) and [Issue Briefs](#) focus on informing the public policy debate around important retirement security issues. Through high-quality and reliable research, our goal is to identify sensible solutions that build broad-based retirement security.

NIRS has issued more than 30 Research Reports and Issue Briefs:

- ▶ [Retirement Security Risks: What Role Can Annuities Play in Easing Risks in Public Pension Plans?](#) finds that most public defined benefit (DB) pension plans have effectively managed key retirement security risk – investment, adequacy, longevity and inflation risks.
- ▶ [The State Financial Security Scorecards](#) summarize the economic outlook for retirement security in every state. The Scorecards are designed to serve as a tool for policymakers to help identify potential areas of focus for state-based policy interventions to improve Americans' retirement prospects.
- ▶ [The Continuing Retirement Savings Crisis](#) calculates that the U.S. retirement savings crisis continues to worsen, and that the typical working household still has virtually no retirement savings.
- ▶ [Retirement Security 2015: Roadmap for Policy Makers, Americans' Views of the Retirement Crisis](#) finds that an overwhelming majority of Americans believe there is a retirement crisis and feel highly anxious about their retirement prospects.

NEWS

USA TODAY reports on NIRS state-by-state financial security scorecard.

[READ MORE](#)

WASHINGTON POST covers NIRS race and retirement study.

[READ MORE](#)

RETIREMENT CRISIS: WORSE THAN THOUGHT?



Americans only have \$3K saved. [Read More](#)

WHO KILLED PRIVATE PENSIONS?



It's the funding volatility, not the cost. [Read More](#)

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