

Facts from NIRS Research on Pensions and Retirement Security



Annual Delegates Meeting
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NATIONAL INSTITUTE ON
Retirement Security

Reliable Research. Sensible Solutions.

The NFL Starts a New Football Season: Why Did They Fumble on Pensions Last Fall?



Did They Have the Facts?

- HALF the cost of 401(k) plans.
- Help retain qualified workers.
- Source of economic stability.



NIRS: Getting the Facts on Pensions Right

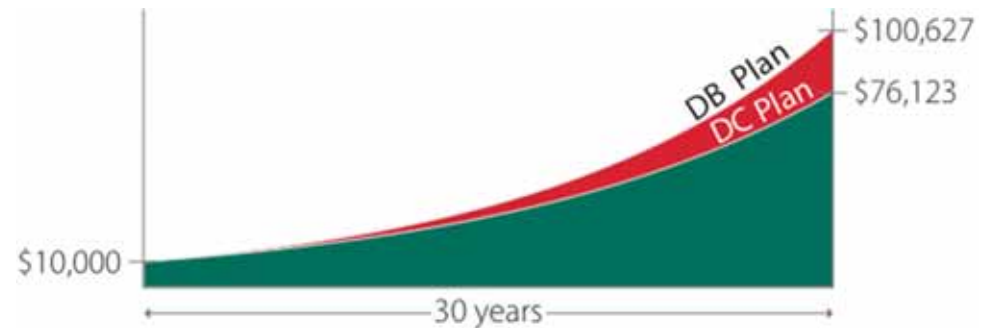
- Nonprofit, nonpartisan research organization founded in 2007.
- Contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, economy.
- National research and education programs available at www.nirsonline.org.

KEY FACT: Pensions Fiscally Responsible



DB More Economically Efficient

How \$10,000 Invested Grows over 30 Years



Longevity Risk Pooling

- Manage the chance of running out of money in retirement.
- Avoid the “over-saving” dilemma and do more with less.

Maintenance of Portfolio Diversification

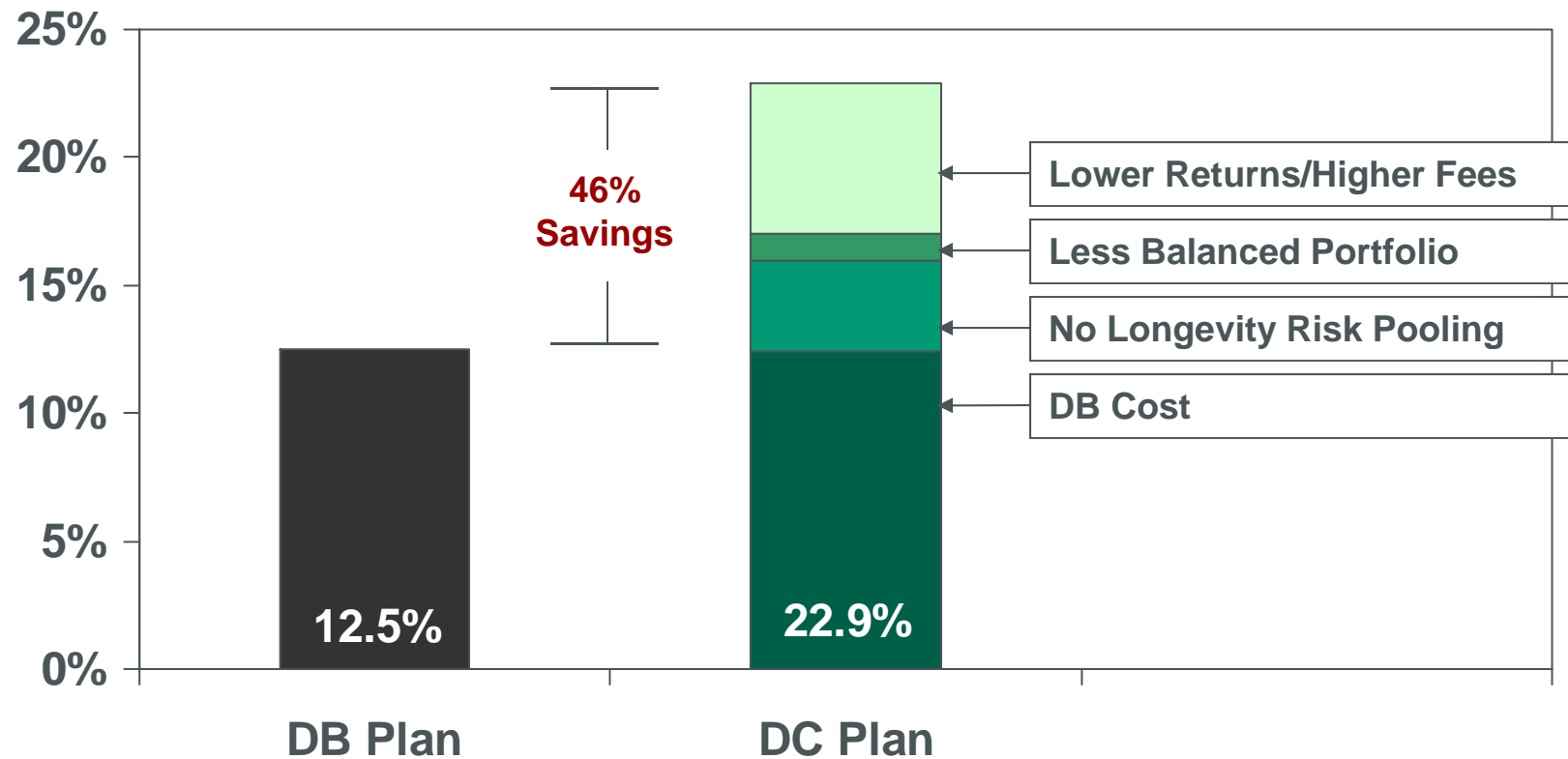
- Take advantage of enhanced investment returns from an ongoing balanced portfolio.

Superior Returns

- Achieve greater investment returns vs. individual accounts.

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

Cost of DB and DC Plan as % of Payroll



KEY FACT: Pensions Sustainable

Lessons from Well-Funded Pensions

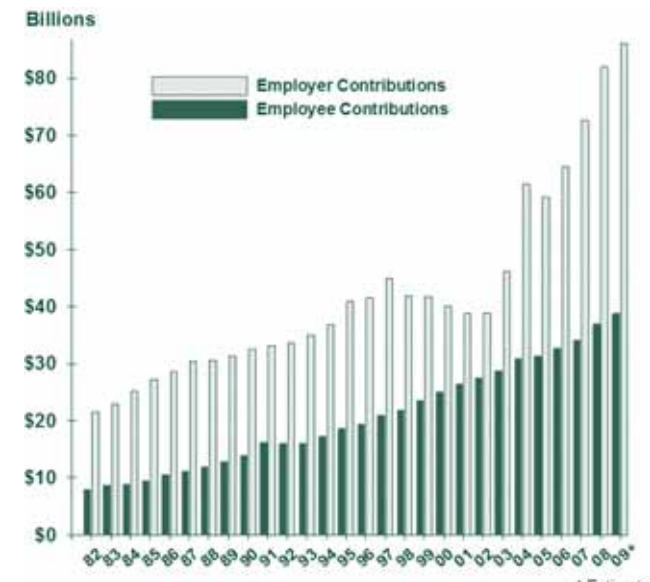
**Studied Six
Well-Funded
Public
Pension Plans
Including the
New York
State
Teachers'
Retirement
System**



Lessons Learned Study

1. Employer pension contributions that pay the full ARC, and that at least equal the normal cost;
2. Employee contributions to help share the plan cost;
3. Benefit improvements that are actuarially valued before adoption and properly funded upon adoption;
4. COLAs granted responsibly;
5. Anti-spiking measures that ensure actuarial integrity, transparency;
6. Economic actuarial assumptions that can reasonably be expected to be achieved long term.

Employee and Employer Pension Contributions, 1982 to 2009



ON THE RIGHT TRACK? State Pension Reforms in the Aftermath of the Financial Crisis

Issue Brief

On the Right Track?
Public Pension Reforms in the Wake of the Financial Crisis

By Nari Rhee, PhD and Diane Oakley

December 2012



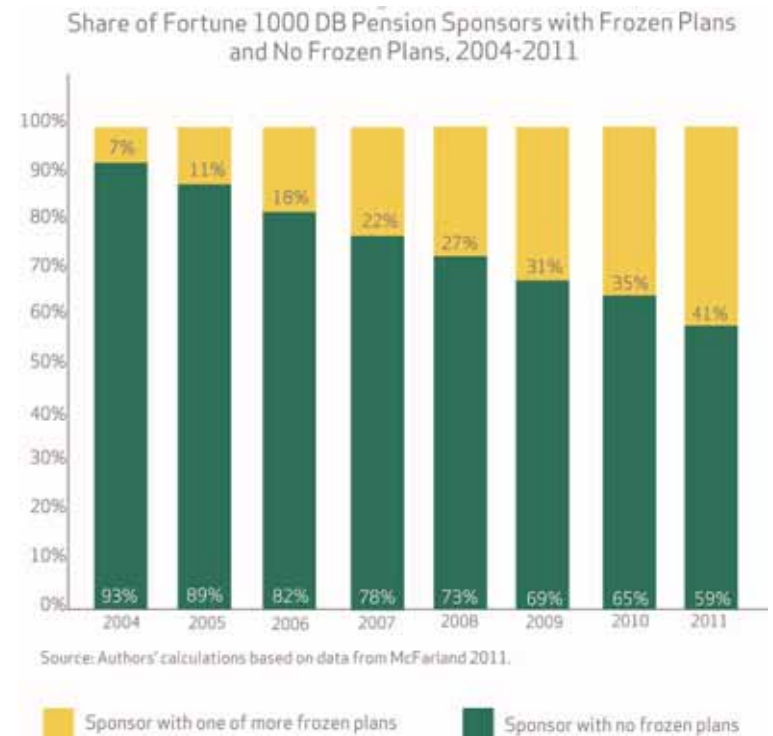


Why Private Employers Froze DB Pensions and Shifted to 401(k)s

- Onerous funding regulations on private pensions and FASB accounting rules caused funding volatility.
- Changes in technology and industrial makeup of economy.
- Shift from internal labor markets to flexible labor markets, insecure employment.
- Corporate objective to maximize shareholder value.

Many Private Sector Employers Remain Committed to DB Plans

- “Many employers remain committed to providing these plans as an important part of their compensation package.”
(U.S. Chamber of Commerce: *Retirement Benefits in the 21st Century*)
- Three-fourths of active DB pensions report “DB plan aligns with our total rewards philosophy.” (AonHewitt: “Global Pension Risk Survey 2011: US Survey Findings”)





ON THE RIGHT TRACK?

Public Sector Difference

- Commitment to stable employment relations and internal labor markets.
- Greater ability to smooth out the effects of business cycles on funding requirements.
- Public interest mission: DB pensions help provide high quality public services in a cost effective manner, while also providing retirement security.
- Public employers have more in common with the largest private employers, who have maintained DBs.



After 2008 Financial Crisis: 48 States Make Pension Reforms

- No state has shifted to a DC-only plan since 2005.
- Four new mandatory hybrid arrangements with a DC component, most for new hires only.
- Three Cash Balance Plans for new hires.
- Only one state, Rhode Island, enacted a “Hard Freeze” for current employees.

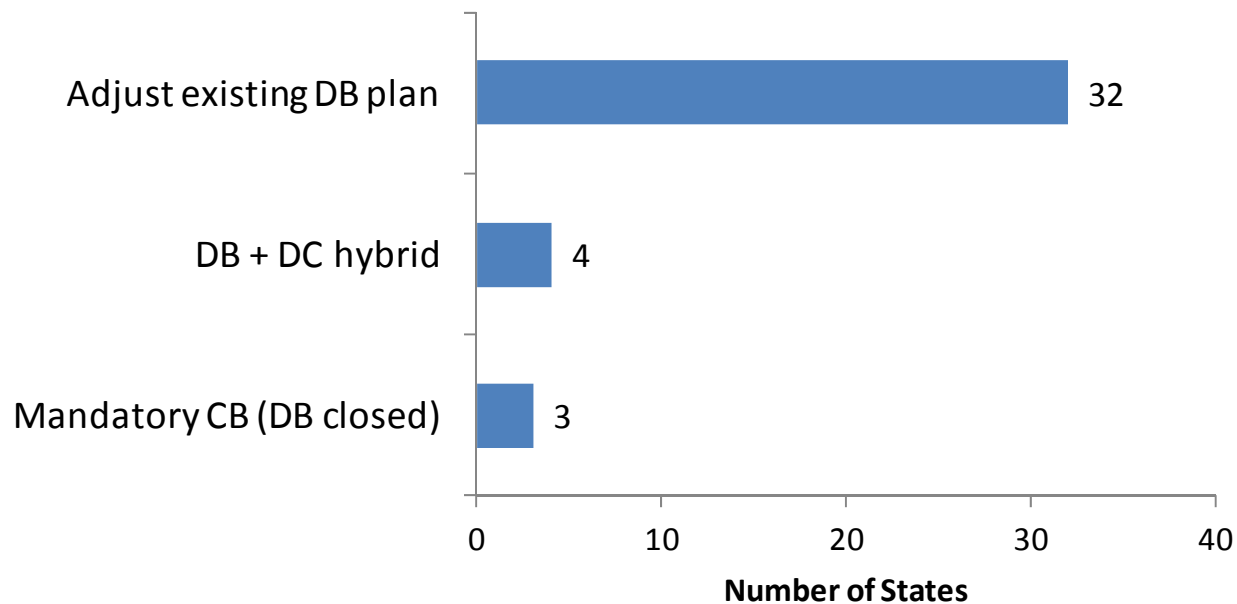


Public Pension Reforms After 2008 Financial Crisis

- Vast majority have modified their existing pension plans. Most common:
 - Increased employee contributions;
 - Reduced DB benefits for new hires, including higher retirement age;
 - Cost of Living Adjustment (COLA) reductions for retirees and existing workers.

Most States Stay with DB; Some Switch to Hybrid

Types of Changes to New Hire Benefits



Four states enacted optional DC-only benefits for new hires.

Source: Author's analysis of NCSL data. Changes affect some or all members of state-run plans in each state.

2013 Public Pension Reforms

Tennessee Hybrid

- Apply: State employees, teachers and Higher Ed hired after July 1, 2014.
- Reduced DB: New 1% multiplier (1.575%) and NRA 65 or rule of 90.
- Contributions:
 - Employee: 5% for DB and 2% for DC.
 - Employer: 4% for DB and 4% for DC.

2013 Public Pension Reforms

Kentucky Cash Balance Plan

- Apply: State employees and County employees hired after July 1, 2013.
- Contributions (vest in 5 years):
 - Employee: 7.5% for hazardous & 4% for non.
 - Employer: 8% for hazardous & 5% for non.
- Guaranteed Interest Credit: 4% annually with additional credits equal to 75% of return in excess.

Texas Teacher Retirement System Study on Plan Options

- \$11.7 billion/49% increase in closed DB plan liability due to a more liquid asset allocation.
- Cost comparison
 - DC: most expensive.
 - DB: least expensive.
- Workers would have only a 50% chance of reaching 60% of the benefit provided by the DB plan, at the same cost.



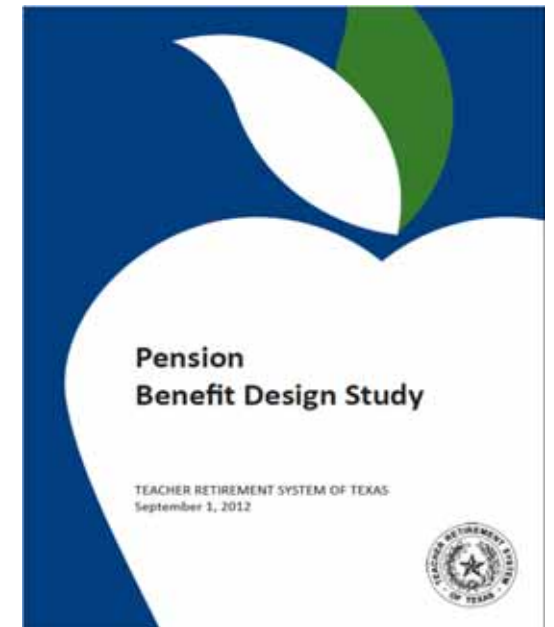
2013 Public Pension Reforms

Texas Teacher Retirement System

Contributions:

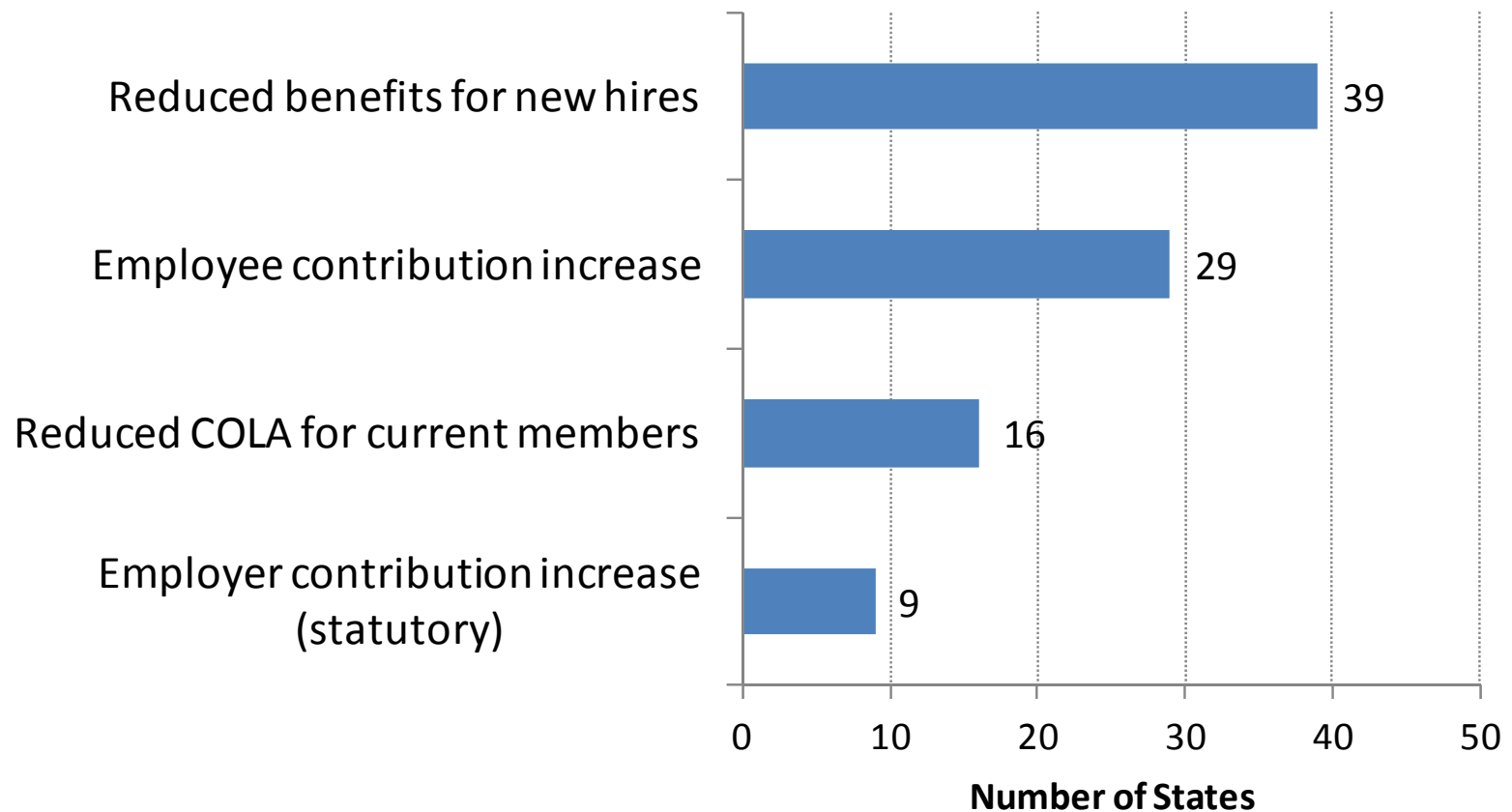
- Employee: 6.4% currently; increases to 7.7% by 2017.
- State: from 6.4% to 6.8%.
- Non-Social Security SD: contribute 1.5% of payroll.

3% COLA – Because actuarially sound, first retiree COLA since 2001.



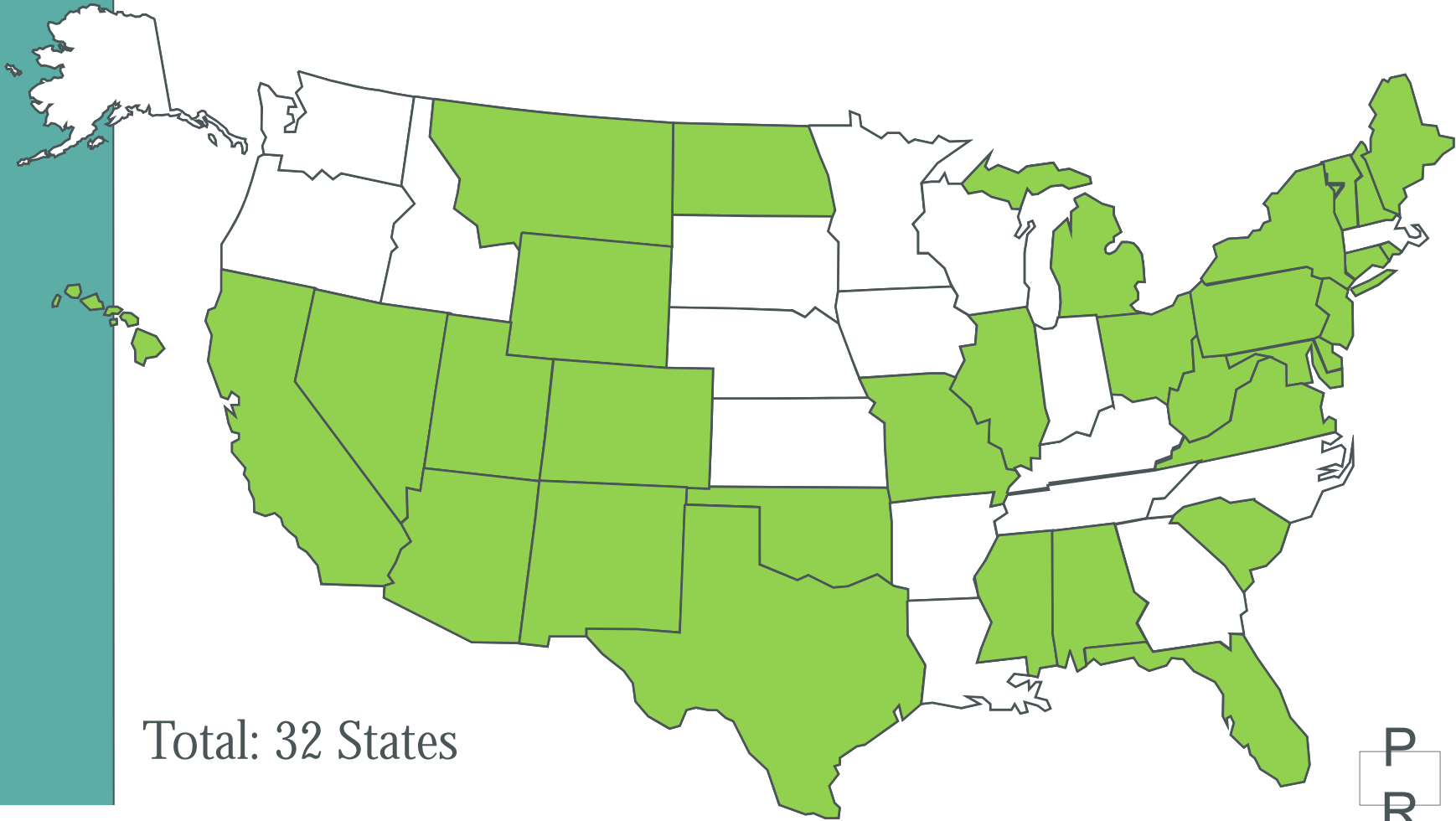
Aggressive Reforms In Virtually All States to Ensure Sustainability of Public Pensions

Types of Changes Enacted



Source: Author's analysis of NCSL data. Changes affect some or all members of state-run plans in each state.

Higher Age and Service Requirements for New Members 2009–2012



Total: 32 States

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Employee Contribution Increases, 2009-2013 (NCSL Update)

Employee Contribution Increases:

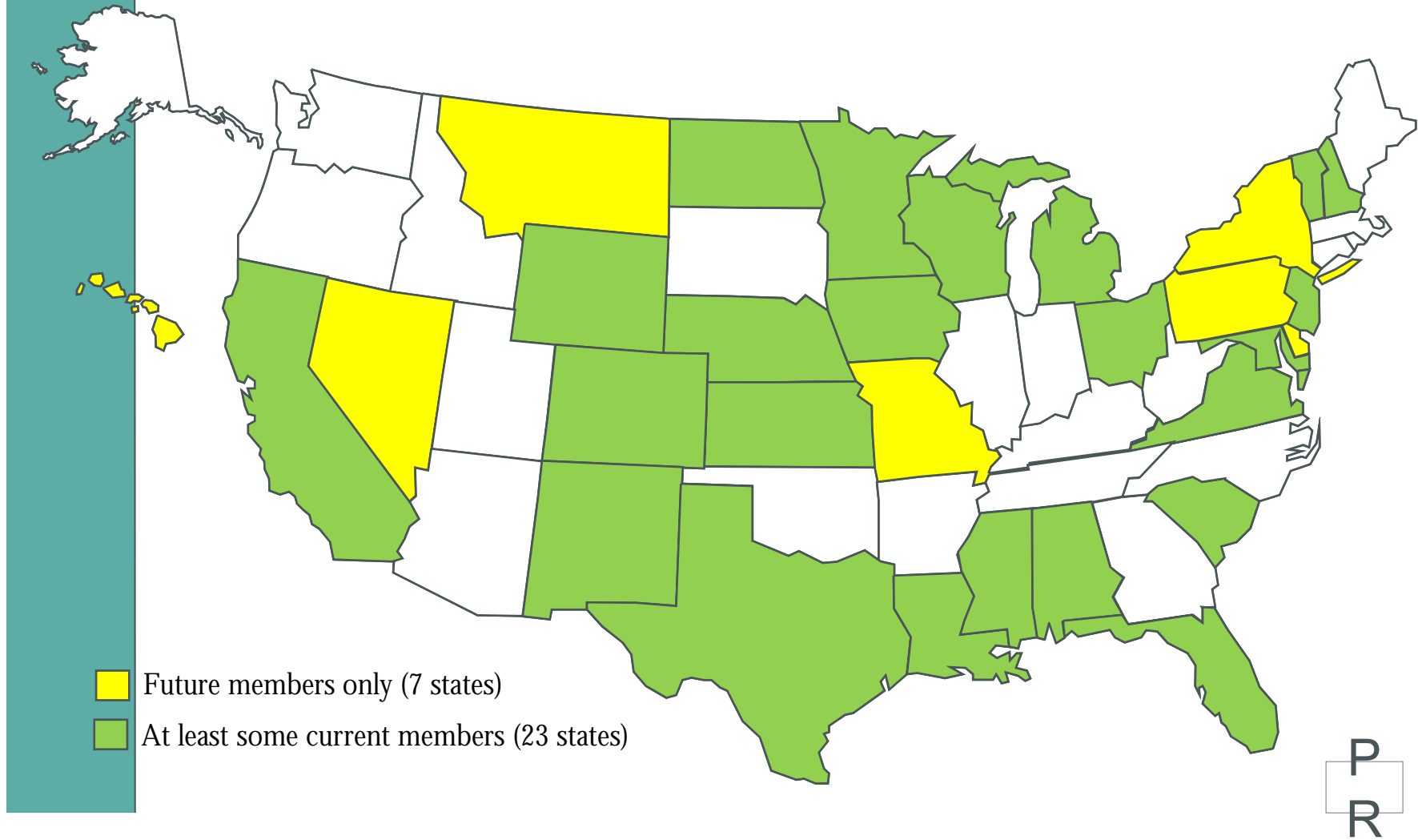
- 6 States – Increased contributions for future members;
- 24 States – Increased contributions for at least some current members.

Source: The National Conference of State Legislatures



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Increases in Employee Contributions 2009–2012



Reductions in Post-Retirement Benefits, 2009-2013

Post-Retirement Cost of Living Adjustments (COLAs):

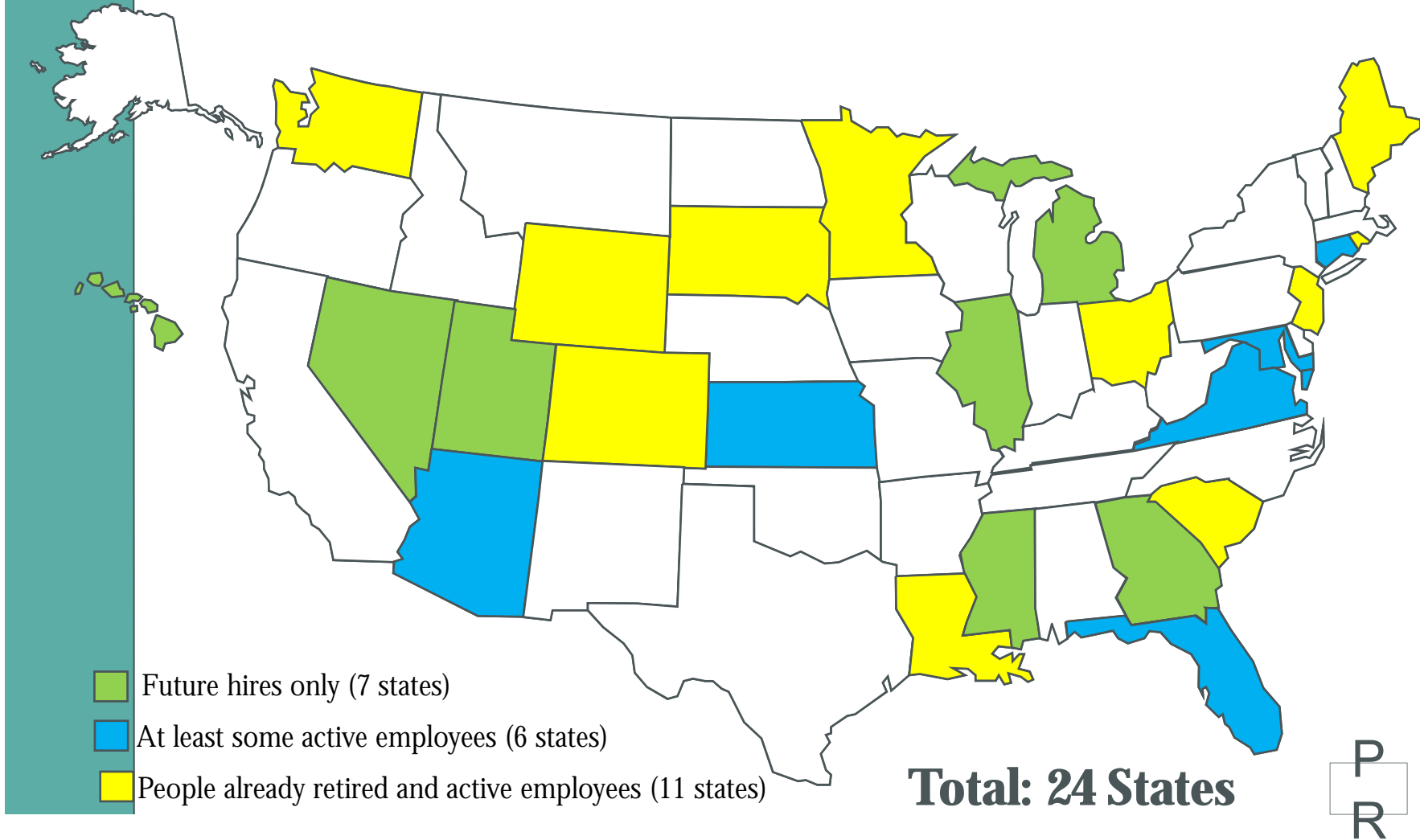
- 8 States – Reduced COLAs for future members;
- 6 States – Reduced COLAs for some active members;
- 15 States – Reduced COLAs for already retired and active employees.

Source: The National Conference of State Legislatures



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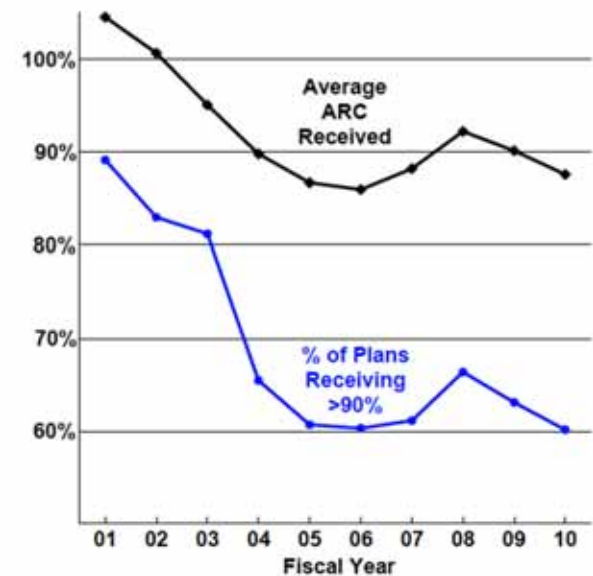
Reductions in Post-Retirement Benefit Increases 2009–2012



GASB ARC Is Out and Funding Is Always a Policy Decision, but...

- Accepted actuarial and investment practices still hold.
- Funding principles adopted by National Governors Association and others.
 - Timely and responsible funding of pension obligations.
 - Annual contributions should be reasonably related to the cost of each year of service.

Figure L: Average Annual Required Contribution received and percentage of plans receiving at least 90 percent of their ARC, FY 01 to 10

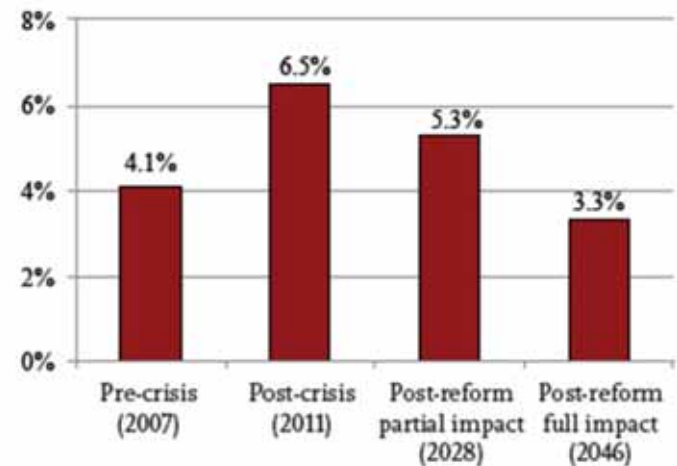


Recent Reforms Projected to Work

Center for Retirement Research:

- For most plans, reforms “fully offset or more than offset the impact of the financial crisis on the sponsors’ costs.”
- Normal cost for employer will be halved, from 8.2% to 4.5% of payroll.
- Pension costs as a share of state-local budgets will fall below pre-crisis levels over long run.

FIGURE 8. PENSION COSTS AS PERCENT OF STATE-LOCAL BUDGETS, SAMPLE AVERAGE, PRE-CRISIS THROUGH POST-REFORM

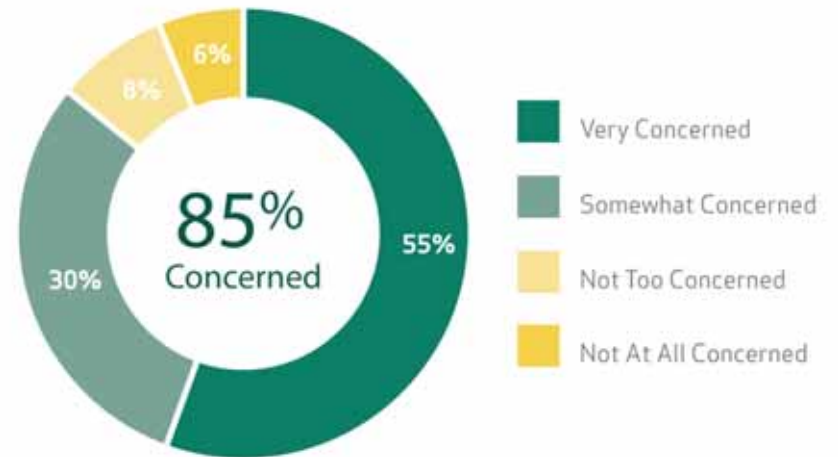


Source: Authors' calculations and actuarial valuations.

Munnell et al., Feb 2013.

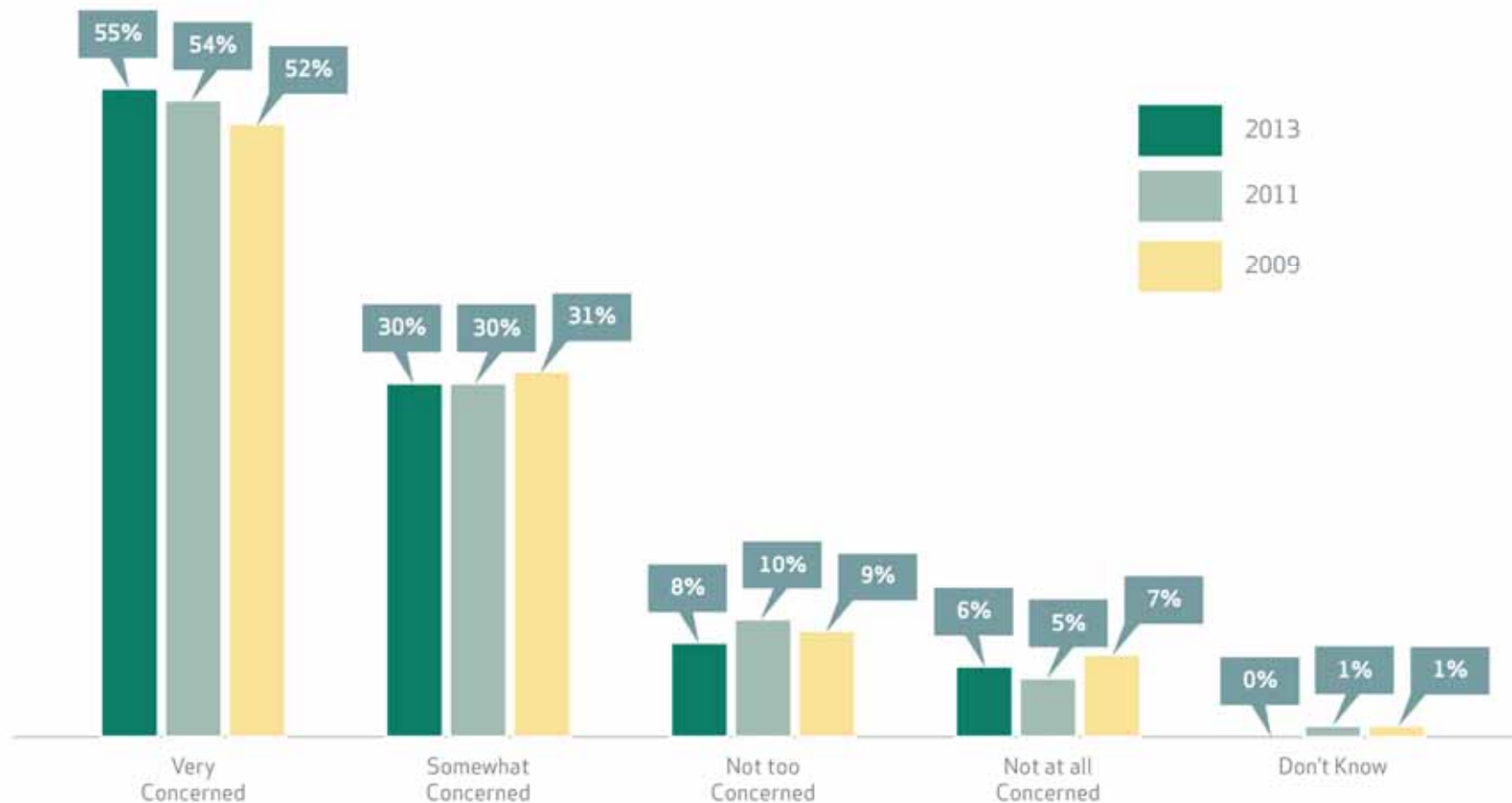
KEY FACT

All Americans Want Pensions



How Do Americans Feel About Retirement? Anxious!

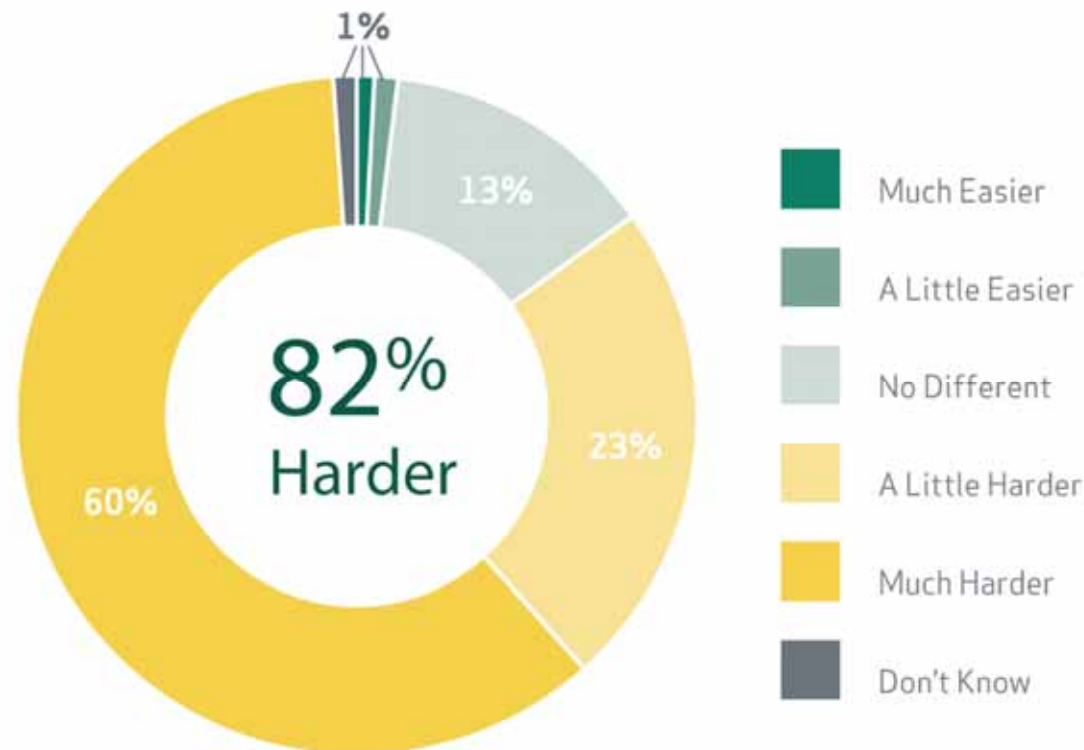
How concerned are you about current economic conditions affecting your ability to achieve a secure retirement?



Source: NIRS Pensions & Retirement Security 2013

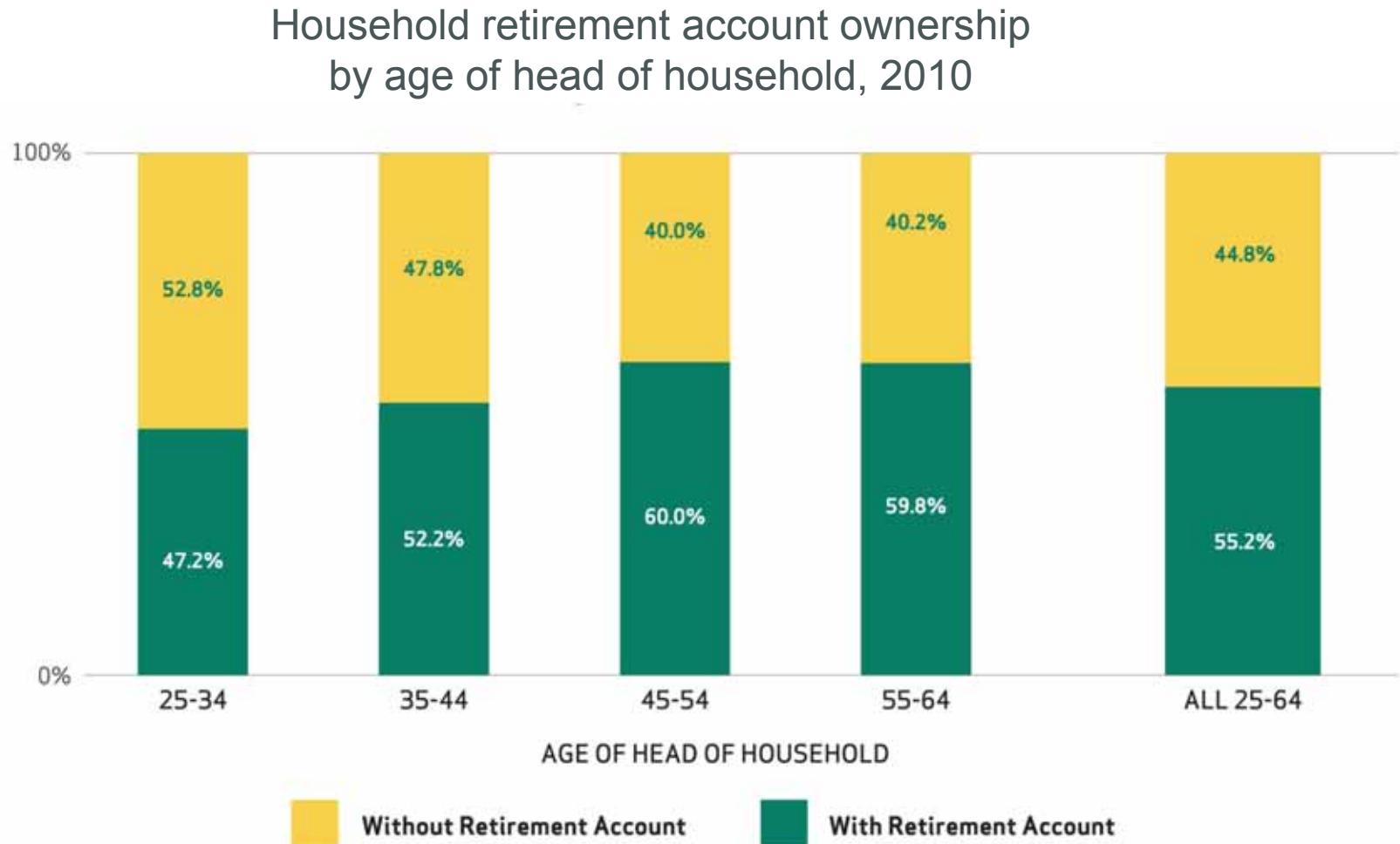
It's Only Getting Harder to Prepare for Retirement

Do you feel that – compared to today – it will be easier or harder for Americans to prepare for retirement in the future, or will there be no difference?



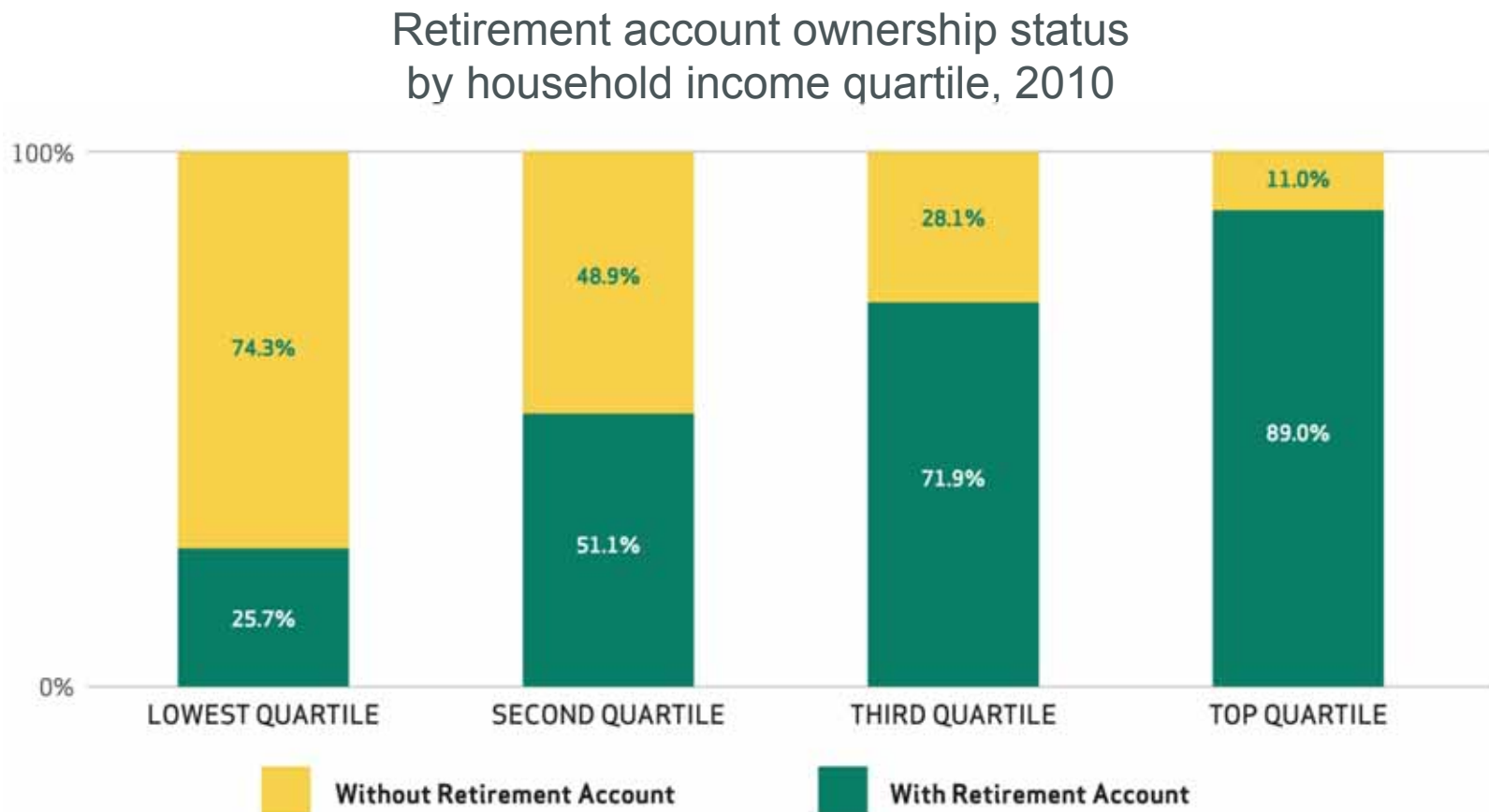
Source: NIRS Pensions & Retirement Security 2013

45% of All Working-Age Households Have No Assets in Retirement Accounts



Source: Author's analysis of 2010 SCF.

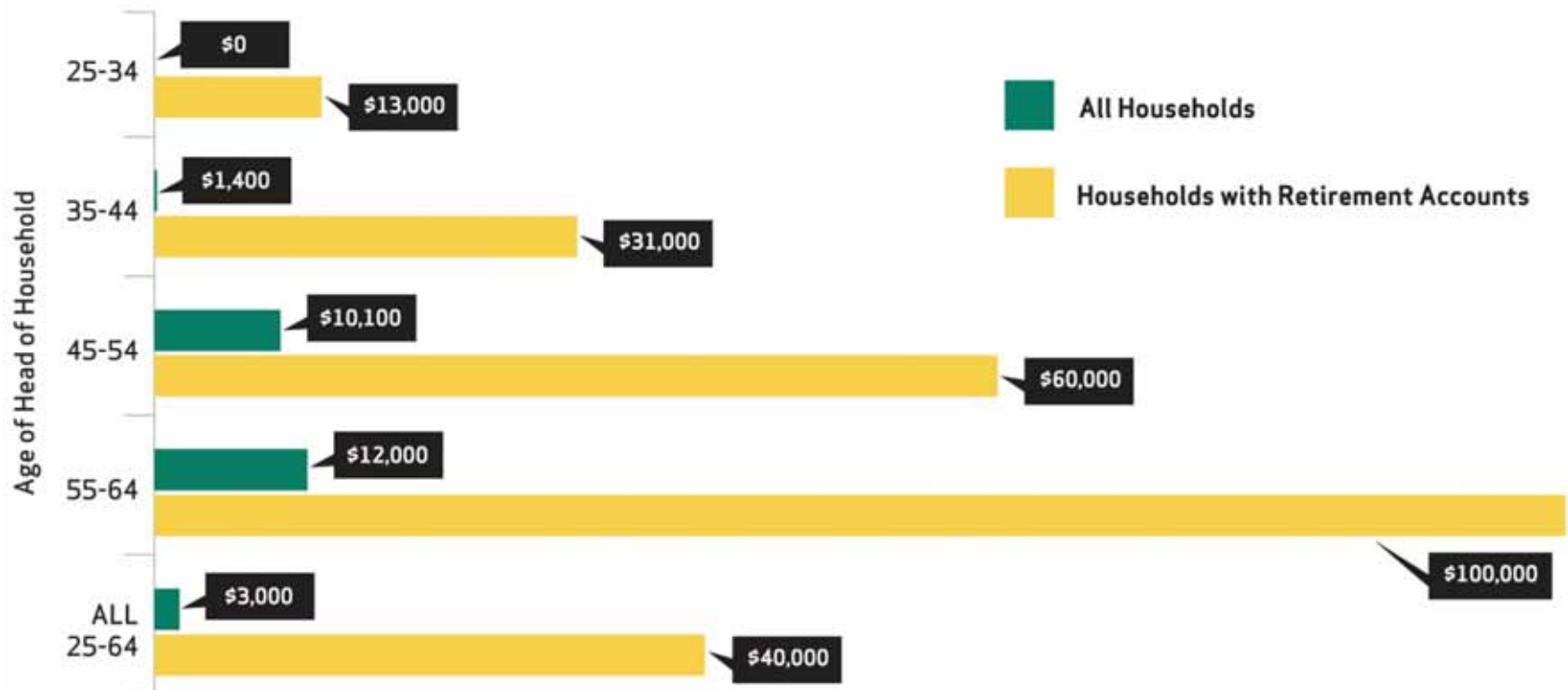
Retirement Accounts Are Concentrated Among Higher-Income Households



Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64. Households with negative earnings excluded. Household income adjusted by marital status for ranking purposes.

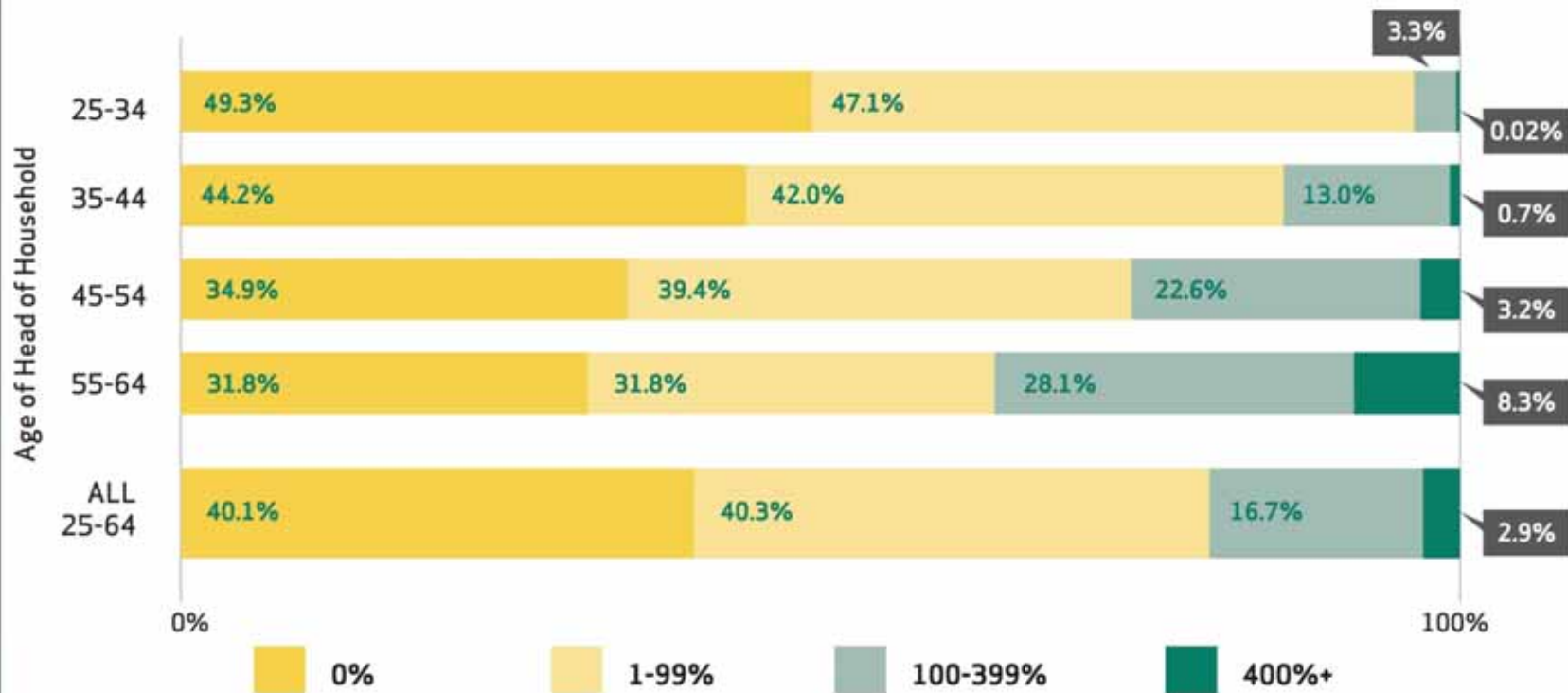
Typical Working-Age Household Has \$3,000 in Retirement Assets; Near-Retirement Household Has \$12,000

Median retirement account balance,
households with retirement accounts vs. all households, 2010



4 out of 5 Households Have Less than One Times Their Income in Retirement Savings

Retirement account balance as a percentage of income among working households, 2010



Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M.

Retirement Benchmarks from Financial Firms: Accumulate 8-11 Times Income

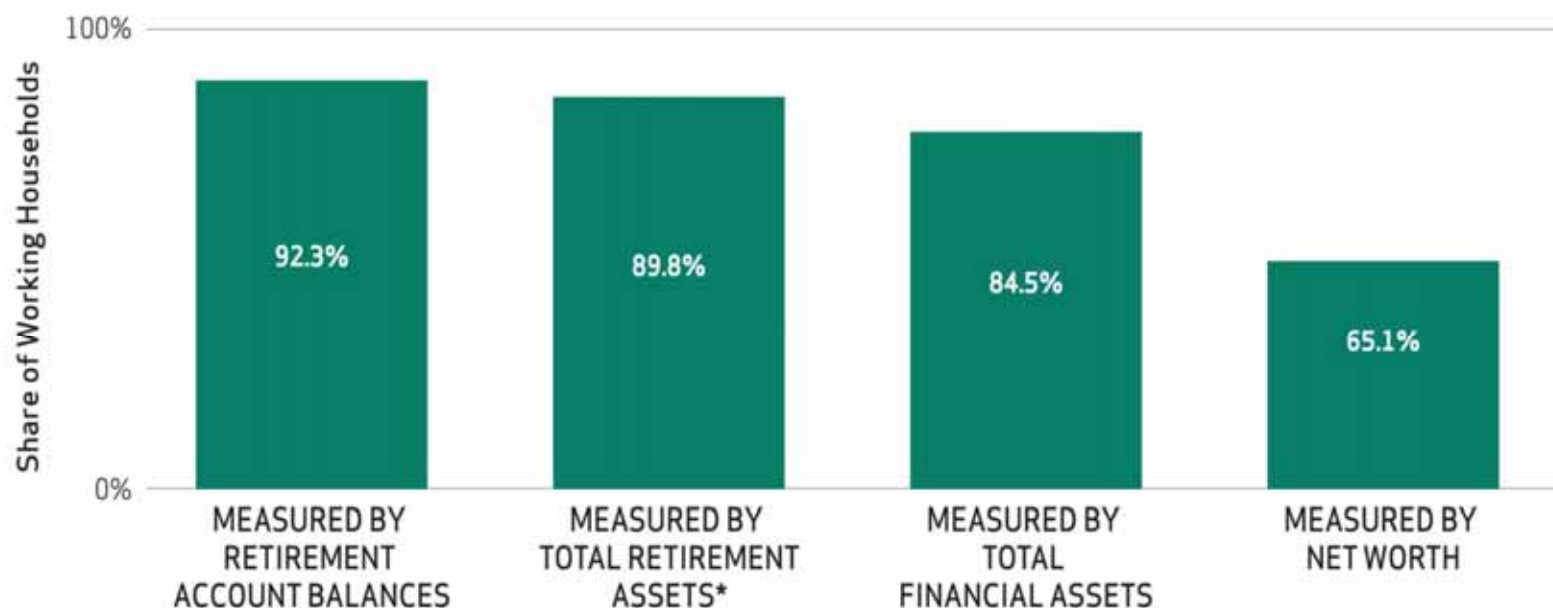
- **Fidelity:**
 - Retire @ 67.
 - Contribute over 42-year career.
 - 15% contribution rate over most of career, incl. employer match.
 - 85% income replacement.
- **Aon Hewitt:**
 - Retire @ 65.
 - Contribute over 40-year career.
 - 15% contribution rate, incl. employer match.
 - 85% income replacement.

Age	Savings Target as Multiple of Current Income	
	Fidelity (retire @ 67)	Aon Hewitt (retire @ 65)
25	0x	
30	.5x	
35	1x	
40	2x	
45	3x	
50	4x	
55	5x	
60	6x	
65	7x	11x
67	8x	

Source: Fidelity (2012) and Aon Hewitt (2012)

Retirement Savings Benchmarks: Large Majority of Working Households Fall Short

Share of working households that do not meet retirement savings targets for their age, by type of measure, 2010.

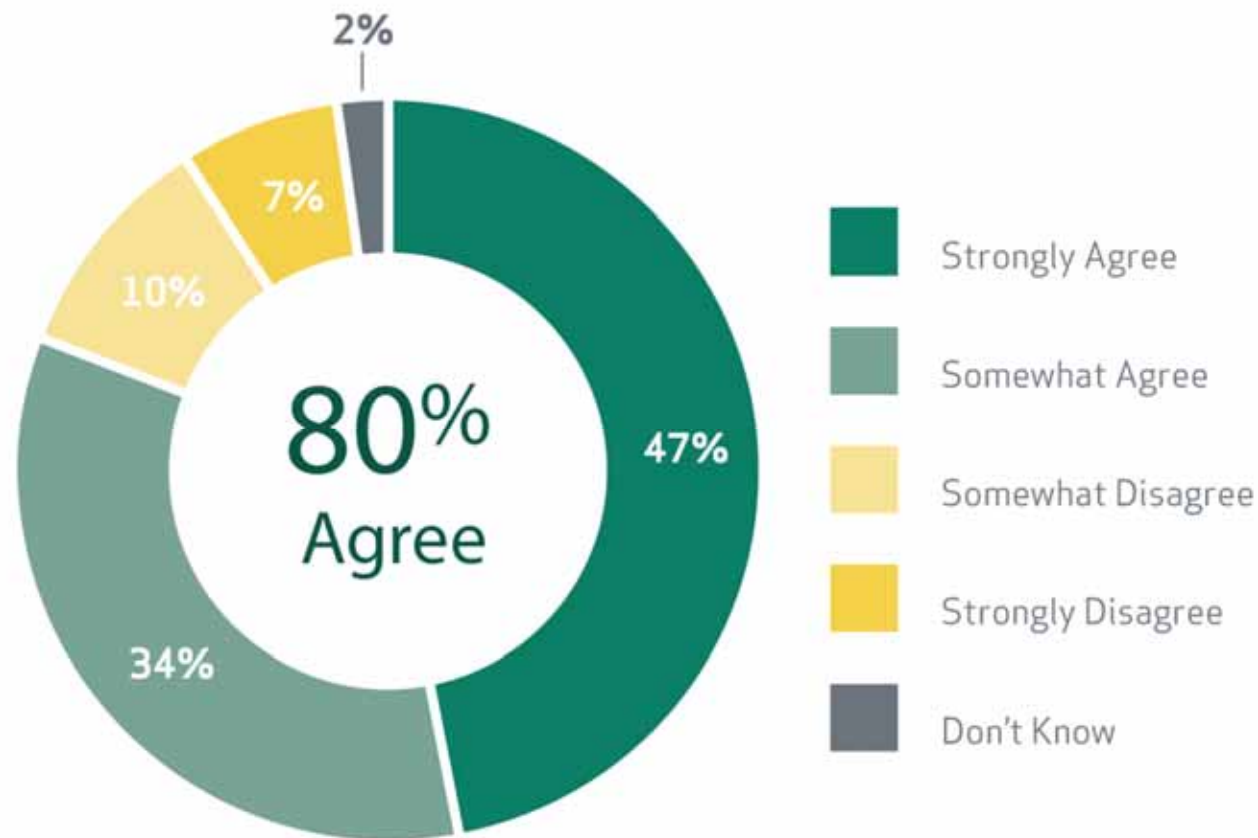


Source: Author's analysis of 2010 SCF based on retirement savings targets adapted from Fidelity (2012). Universe is households with heads age 25-64, with total earnings \geq \$5,000 and $<$ \$500,000 and total income $<$ \$1M.

* "Total Retirement Assets" measure includes retirement account balances reported in SCF and DB pension assets imputed by author.

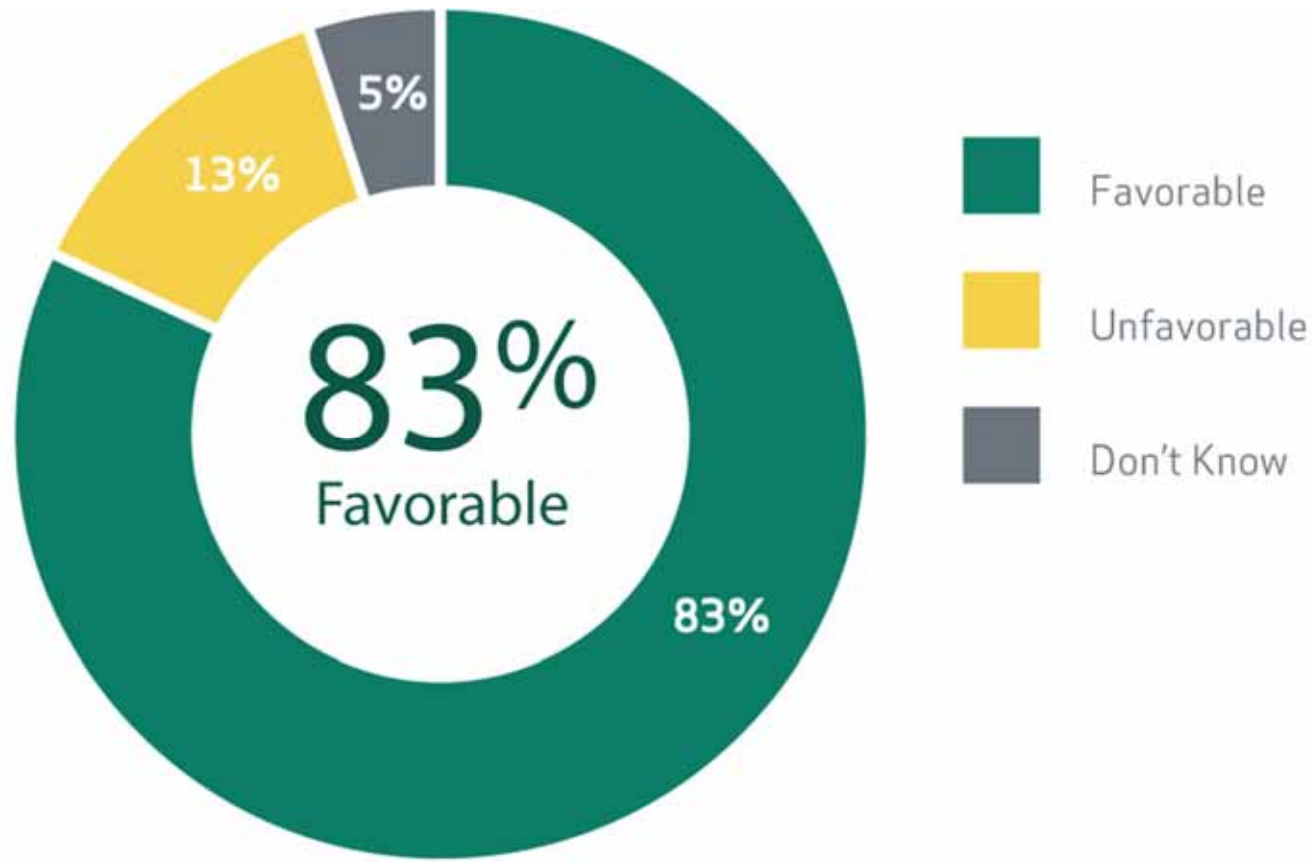
Disappearance of Pensions an Impediment to “American Dream”

To what extent do you agree/disagree that the disappearance of pensions has made it harder for workers to achieve the “American Dream?”



High Support for Pensions

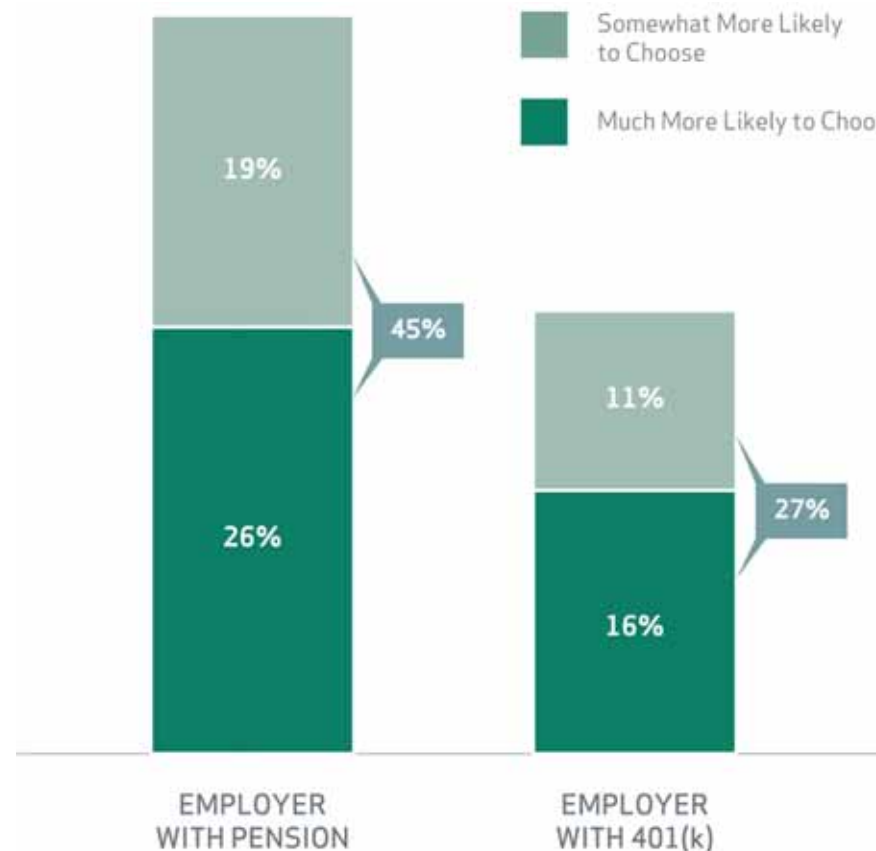
How would you describe your overall view of a pension?



Source: NIRS Pensions & Retirement Security 2013

Pension Bigger Employer Draw Than 401(k) Accounts

Let's say you're taking a new job and considering two employers – one offered a pension and the other a 401(k). How likely would you be to choose the employer with the pension or 401(k)?



Source: NIRS Pensions & Retirement Security 2013

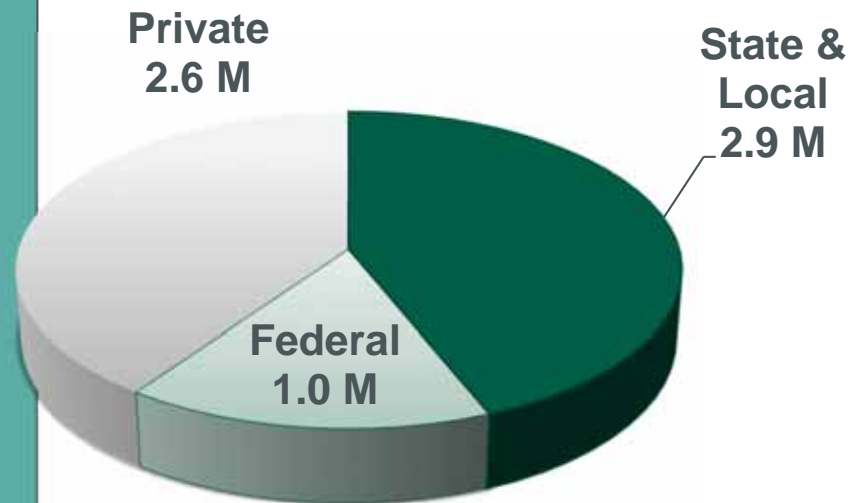
KEY FACT

Pension Spending Fuels State and Local Economies



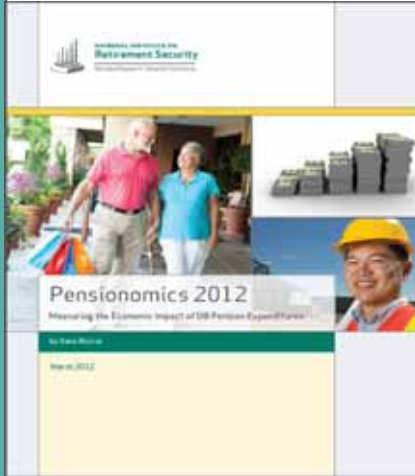
Pensionomics 2012: What We Found

In 2009, expenditures from public and private pension benefits supported...



- **\$1 trillion** in economic output nationwide.
- **6.5 million jobs** that paid **\$315 billion** in income.
- **\$553 billion** in value added nationally.
- **\$134 billion** in federal, state, and local tax revenue.

Impact of Pension Payments to New York Public Retirees



Expenditures by government retirees provide steady economic stream to **New York** and its communities. 2009 expenditures supported:

- **Over 200,000 jobs** that paid \$12 billion in wages.
- **\$33.2 billion** in total economic output. Each dollar in DB benefits supported \$1.62 in total economic activity.
- \$5 billion in federal, state, and local tax revenues.
- **Each taxpayer dollar “invested” in plans supported \$6.87** in total economic activity in the state.

KEY FACT

Pensions Keep Americans Out of Poverty

4.7 million fewer
poor and “near
poor” households.

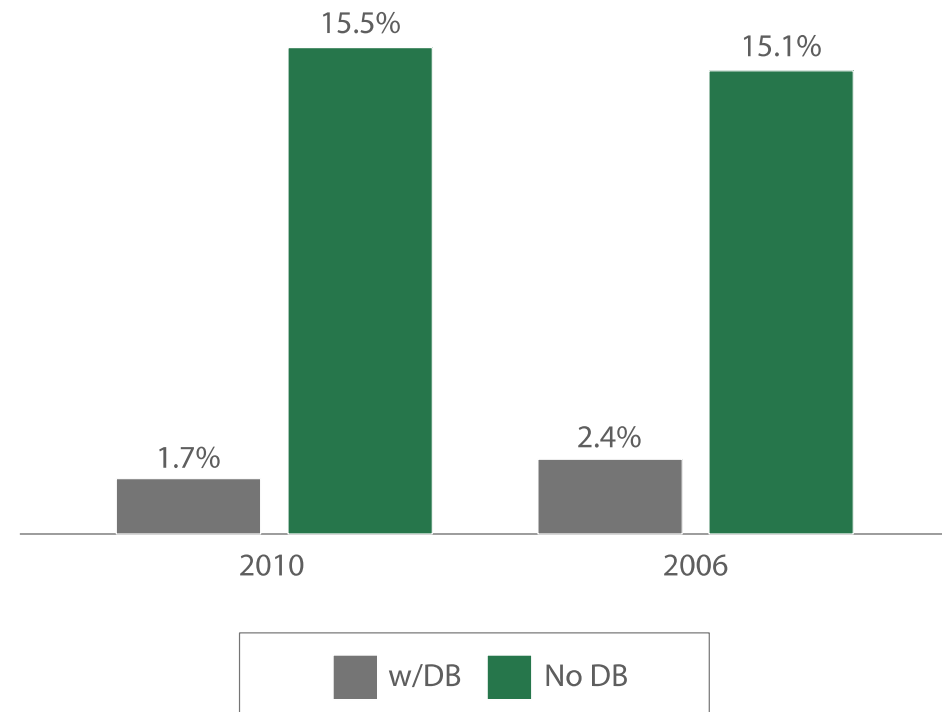


In 2010 We Found: Income from DB Pensions is Associated with ...

Rates of poverty among older households **nine times lower** than households without DB pension.

1.22 million fewer households receiving means-tested public assistance, saving taxpayers **\$7.9 billion**.

Rates of Poverty in 2006 and 2010 by DB Pension Status



KEY TAKE AWAY: Value of DB Pensions

**Are Extremely
Cost-Efficient**

**Drive Public
Assistance Savings**

**Help Recruit & Retain
Quality Employees**

**Pensions
Get
Retirement
Right**

**Ensure Self-
Sufficiency**

**Create Jobs,
Fuel the Economy**

**Over Regulation
Cause of Private DB
Plan Decline**

**All Americans Want
Pensions**

NIRS Can Help You Bring Out the Facts



www.nirsonline.org