Pension Plans: Their Value, and Impact on Retirement Readiness and the Economy

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Retirement Security

Reliable Research. Sensible Solutions.

About NIRS

- Nonprofit, nonpartisan research organization founded in 2007.
- Credible research and education programs regarding retirement security with focus on pensions – public and private sector.
- Reports, primers, commentary, conferences, media interviews, testimony and more.

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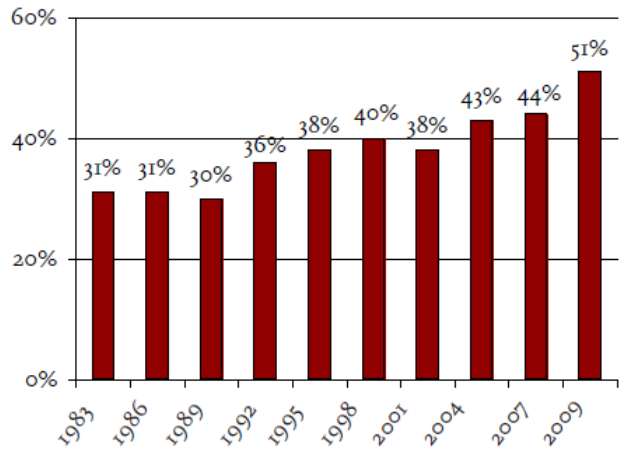
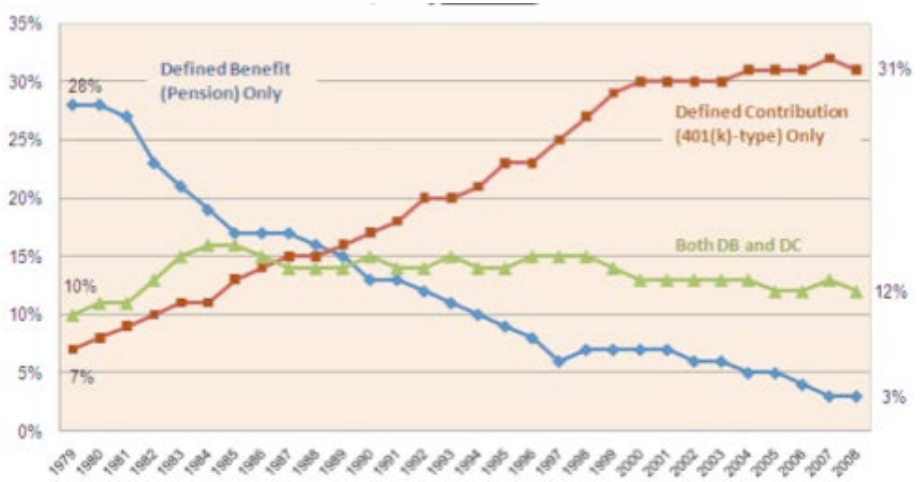
Private Sector: Trend From DB to DC Growth in Retirement Risk

National Retirement Risk Index
Working Households at Risk of Falling Short of Pre-Retirement Living Standard



Source: Center for Retirement Research at Boston College, 2009

Private Sector Workers Participating in Employer Based Retirement Plan
by Plan Type, 1979-2008 (all workers)



Source:, DOL, PBGC, EBRI

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DB Pensions Still an Important Source of Income to Middle Class Retirees

DB Pension Income Received by Persons Age 60 or Older (from Own or Spouse's Former Employer)				
	# of Persons (millions)	% of Persons	Mean Pension Amount	Median Pension Amount
All Persons	**55.2**	**42.8%**	**$20,943**	**$14,403**
Lowest Quintile	11.0	16.9%	$3,349	$1,920
2nd Quintile	13.8	40.3%	$8,680	$6,996
3rd Quintile	12.9	**55.4%**	$18,446	$17,296
4th Quintile	10.4	**54.5%**	$31,264	$30,516
Highest Quintile	7.1	42.0%	$42,668	$36,000

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Source: The Pension Factor, Table 2.

Prevalence of DB Pensions by Region

Geographic Area	Number of Persons (in 1,000s)	Percent of persons with DB pension income from own or spouses' former employer
United States	55,160	42.8%
Northeast	10,690	43.7%
Midwest	12,470	47.2%
South	20,360	41.1%
West	11,640	40.1%

Top 5 States

1. **Michigan**
2. **Indiana**
3. **Ohio**
4. **Maryland**
5. **Pennsylvania & Virginia**

Lowest 5 States

1. **Florida**
2. **California**
3. **Texas**
4. **Alabama**
5. **Georgia**

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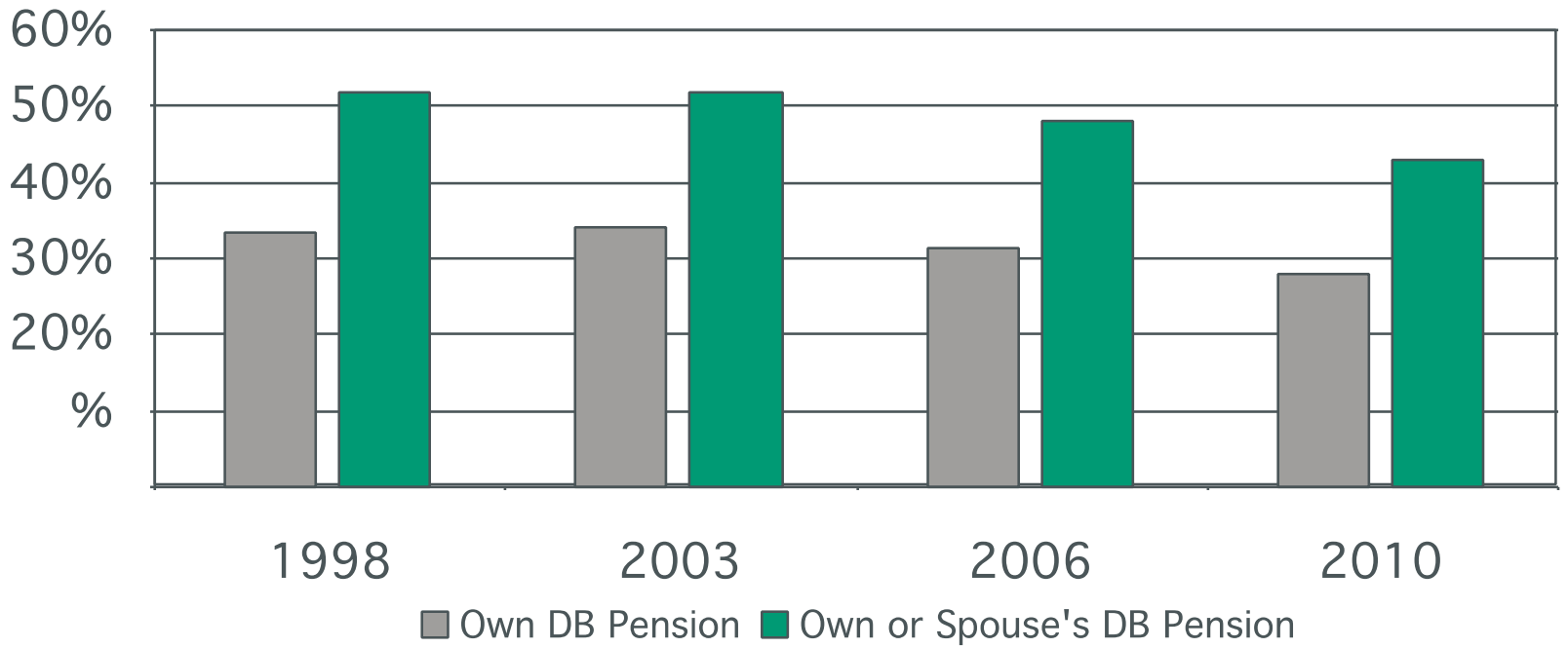
Source: The Pension Factor Table 3

More Than 23 Million Older Americans Received DB Income in 2010, but …



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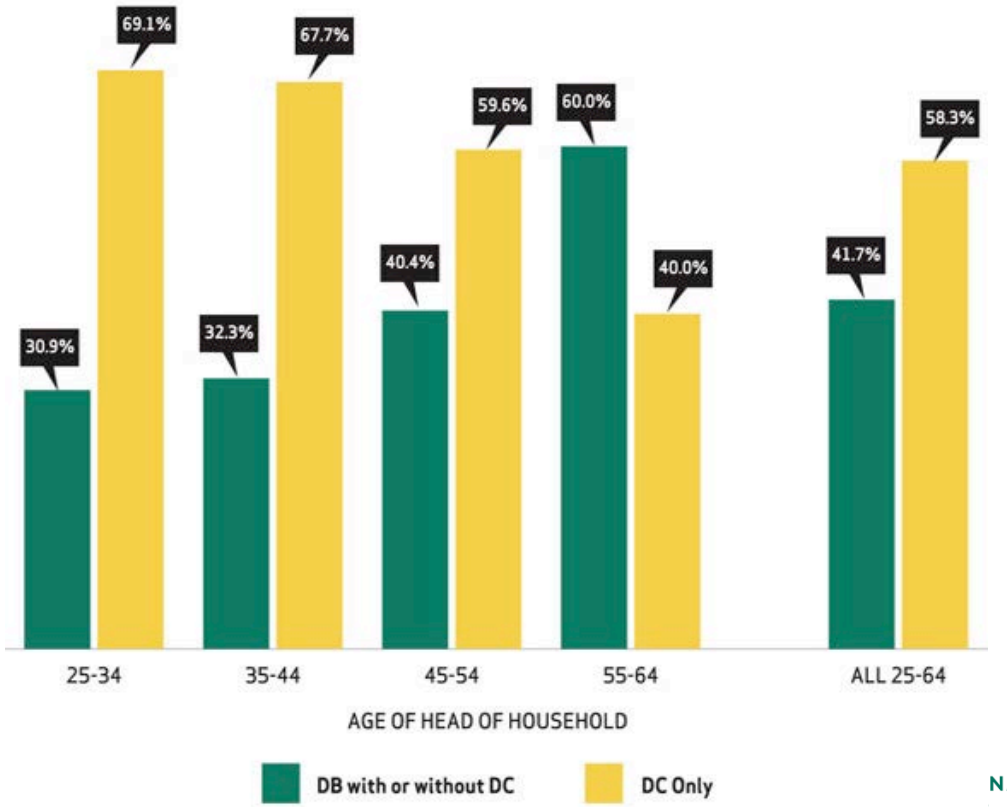
Source: The Pension Factor, Table 1.

Young Households Half as Likely to have DB Pensions as Households Age 55-64

DB and DC plan participation among households covered by an employer-sponsored retirement plan, by age of head of household



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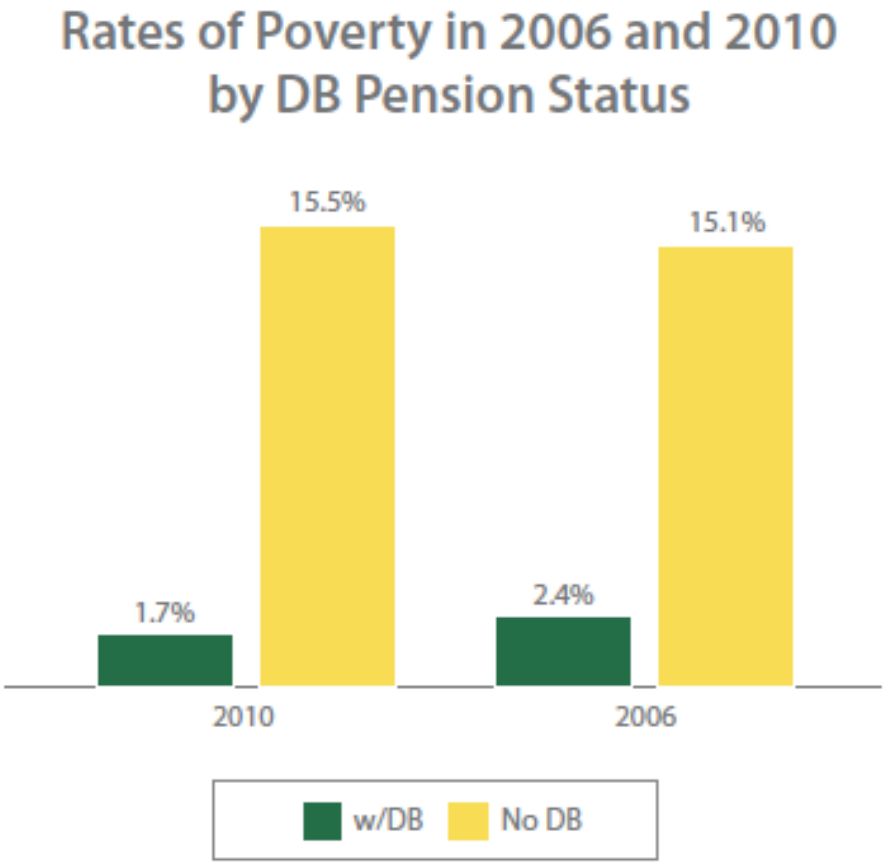
Source: Author's analysis of 2010 SCF. Universe is households with heads age 25-64. Households with negative earnings excluded. Household income adjusted by marital status for ranking purposes.

Pension Factor 2012 Found Income from DB Pensions is Associated with …



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

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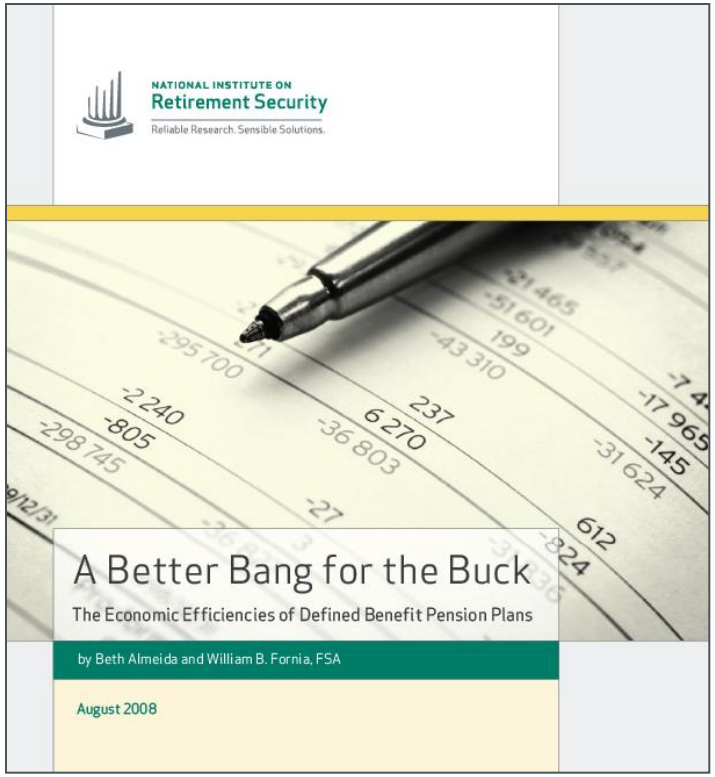
Source: The Pension Factor, 2012

Economic Efficient: DB Plans Deliver the Same Benefit for Less



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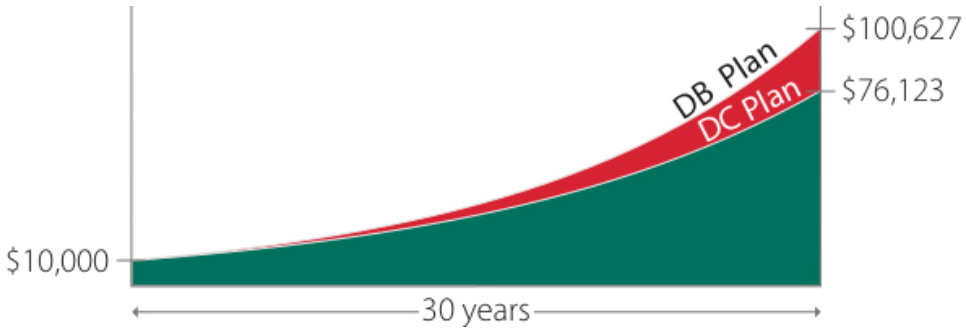
DB More Economically Efficient

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

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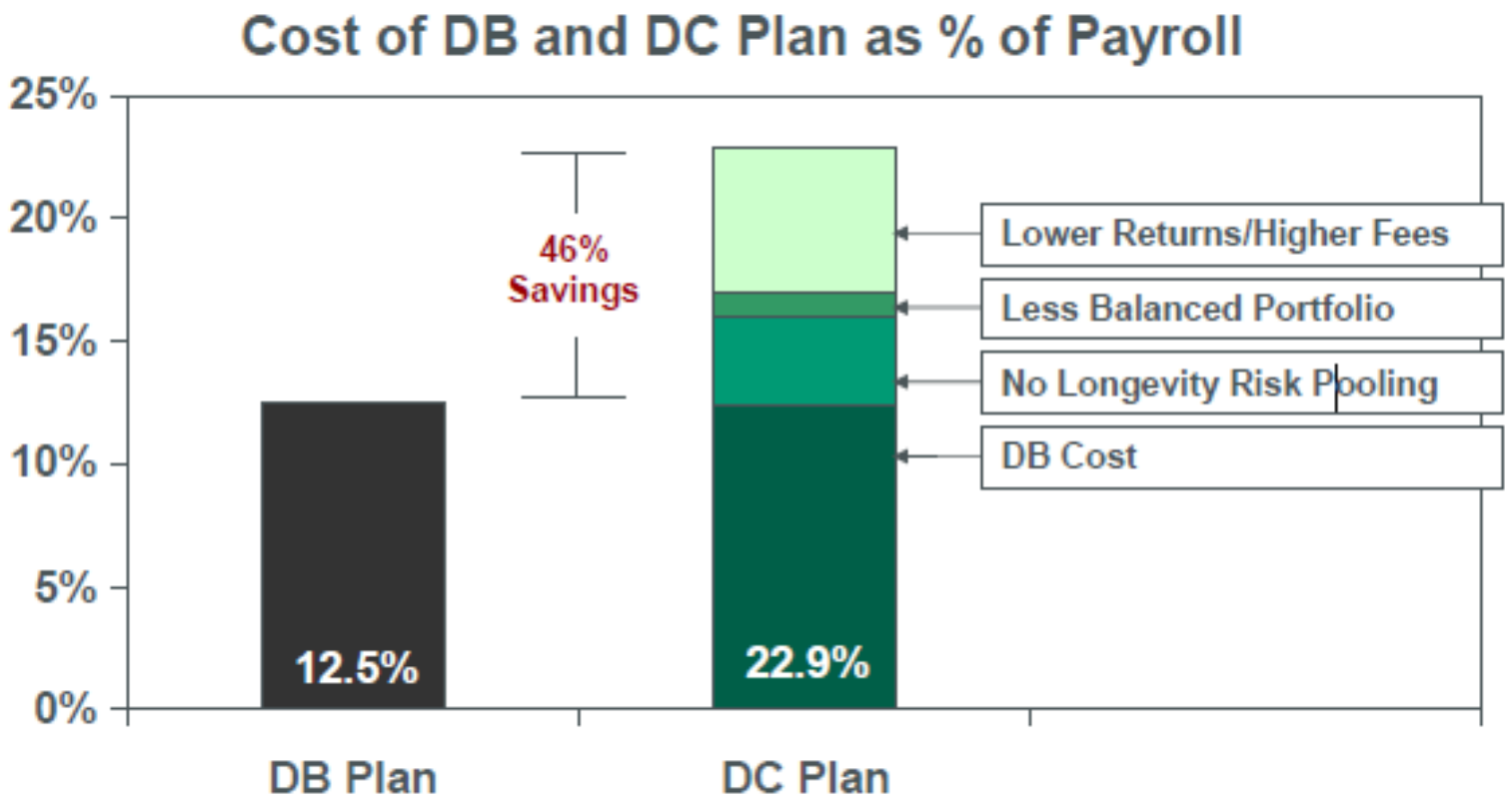
Source: Pension Trustee Advisors, 2011

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



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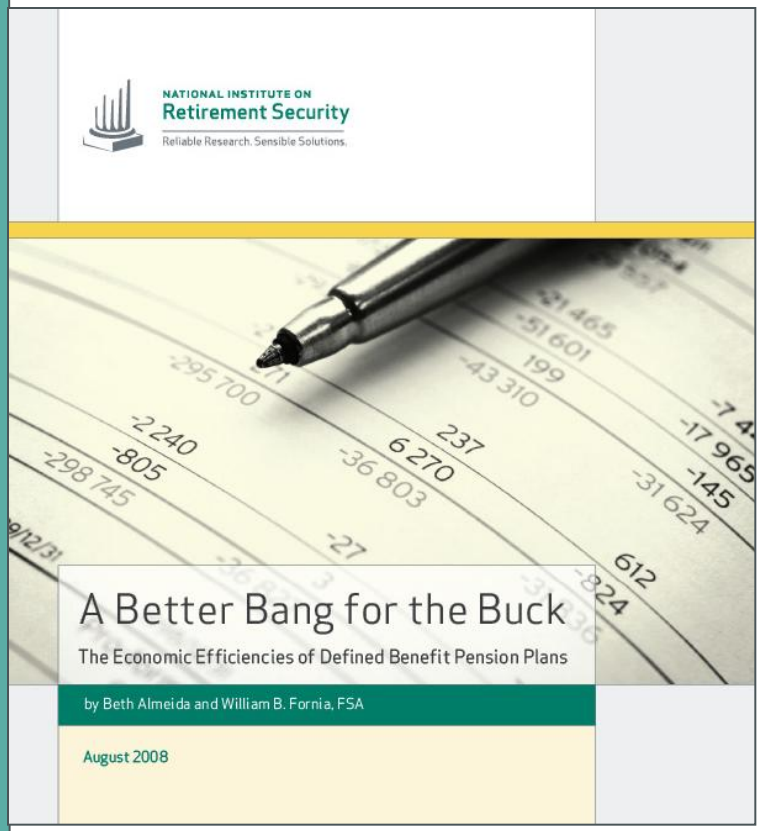
Source: A Better Bang for the Buck, NIRS, 2008

Pensions Fiscally Responsible



laura and john arnold foundation

Equivalent Cost for Equivalent Benefits: Primary DC Plans in the Public Sector

Josh B. McGee, Ph.D.
Vice President of Public Accountability
Laura and John Arnold Foundation

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Fact Check on LJAF: NIRS Better Bang for a Buck Valid

More than fair in modeling a typical DC

•Paper uses a model that does not exist in the real world. "The idea that everyone will manage their 401(k) plan optimally is really not right." Robert Shiller

•Individual annuity take-up rates in DC are 6%, costs are high, and often not paid for life, so DB plans maintain the longevity advantage.

•NIRS conservative assumption of 100 basis points advantage for DB plans based on both professional asset management and lower expenses remains valid.

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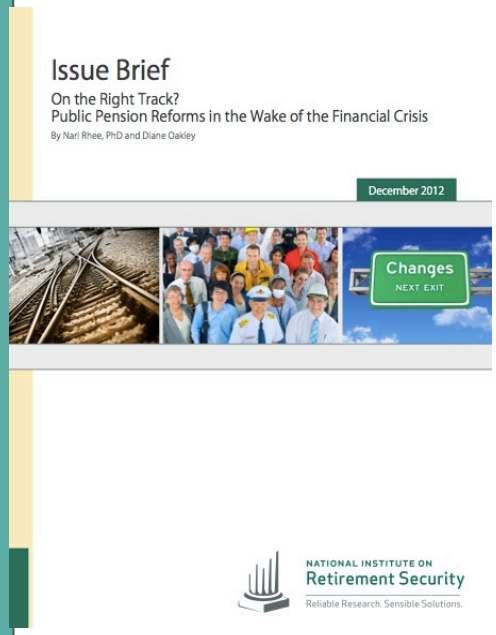
Switch to Individual Accounts Not a Viable Solution



- Closing/freezing DB plans and switching to individual accounts does not address underfunding, entails significant costs.
- Majority of states ensure long-term sustainability by modifying DB plans.
- Pensions balance compensation, boost retention and productivity, and enable quality services for a lower cost.
- Hurt recruitment and retention of skilled workers, or lead to higher compensation, while undermining retirement readiness.

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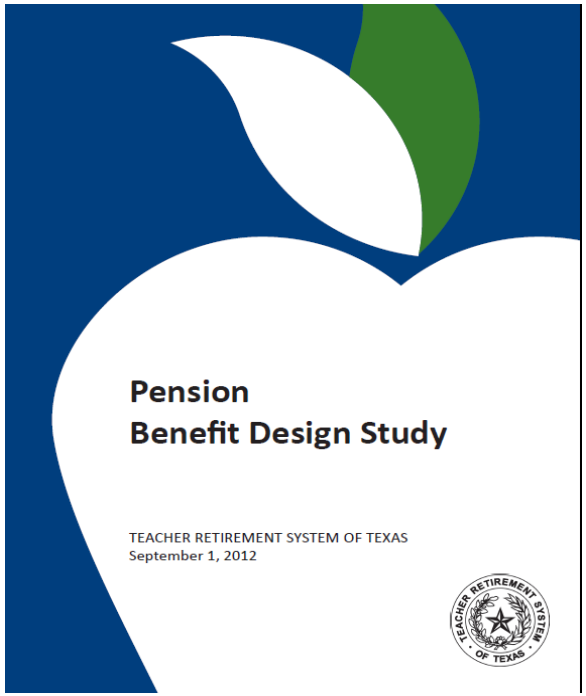
Source: National Institute on Retirement Security, *On the Right Track*

Texas Teachers Retirement System Benefit Design Study

- $11.7 billion/49% increase in closed DB plan liability due to a more liquid asset allocation
- Cost comparison of multiple plan design options
  - DC most expensive
  - DB least expensive



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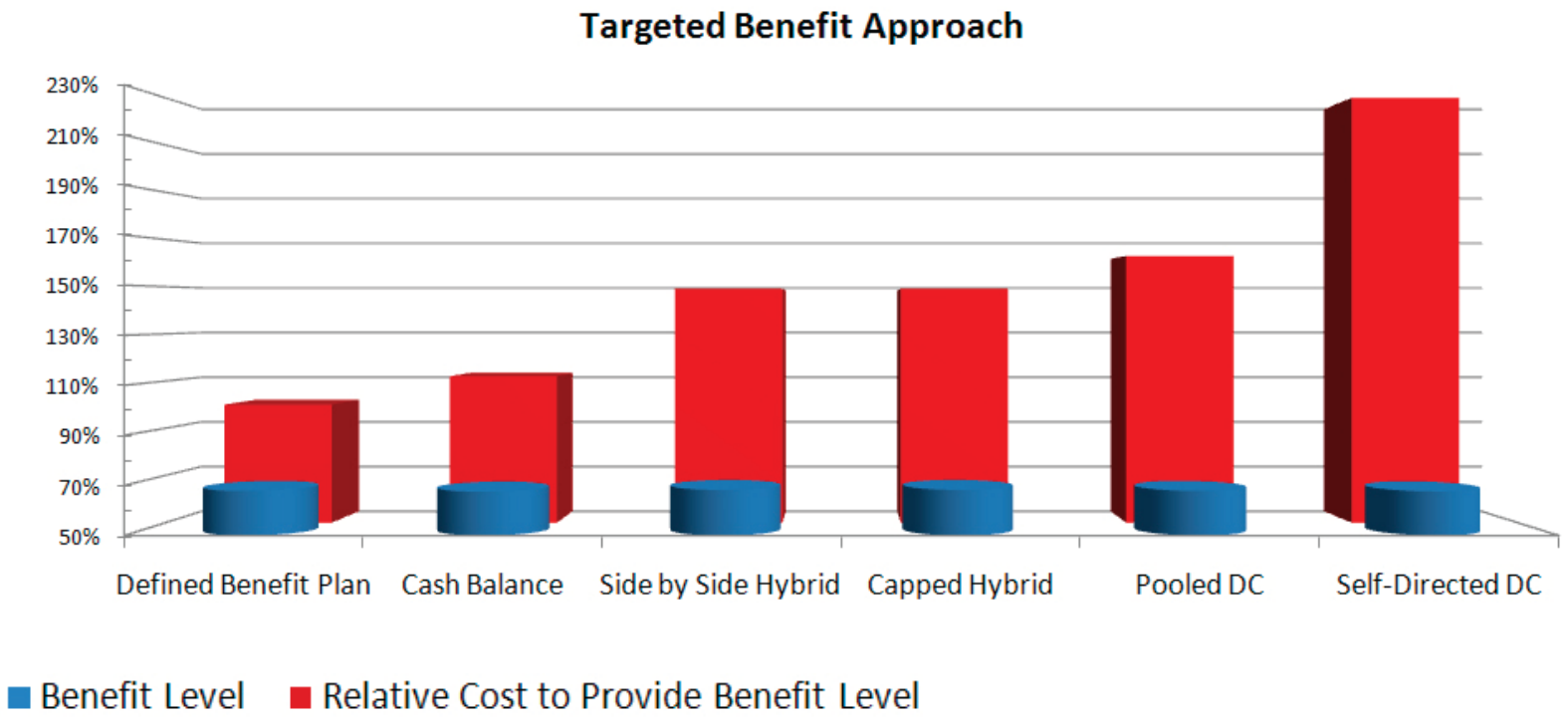
Pension Benefit Design Study



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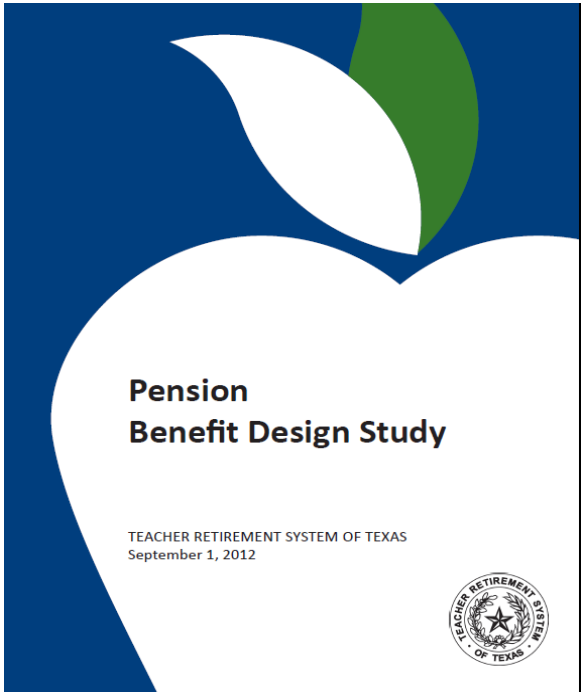
Source: Teacher Retirement System of Texas and Gabriel, Roeder, Smith & Company

Texas Teachers Retirement System Benefit Design Study

- Simulations to realistically measure probable outcomes for workers in DC system:
  - lower returns
  - higher fees
  - market volatility
- Workers would have only a **50% chance** of reaching **60% of the benefit** provided by the DB plan, **at the same cost.**



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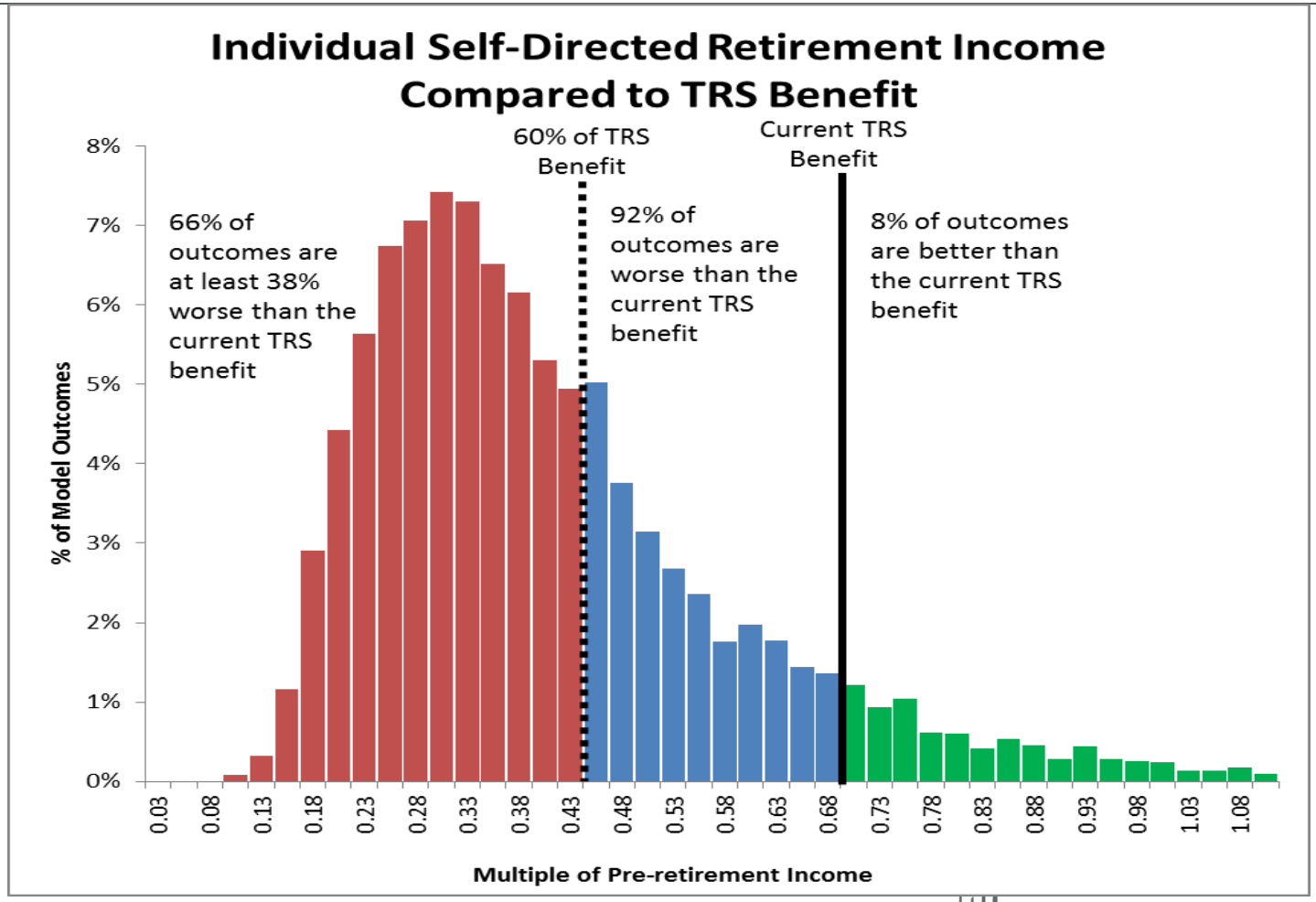
Pension Benefit Design Study



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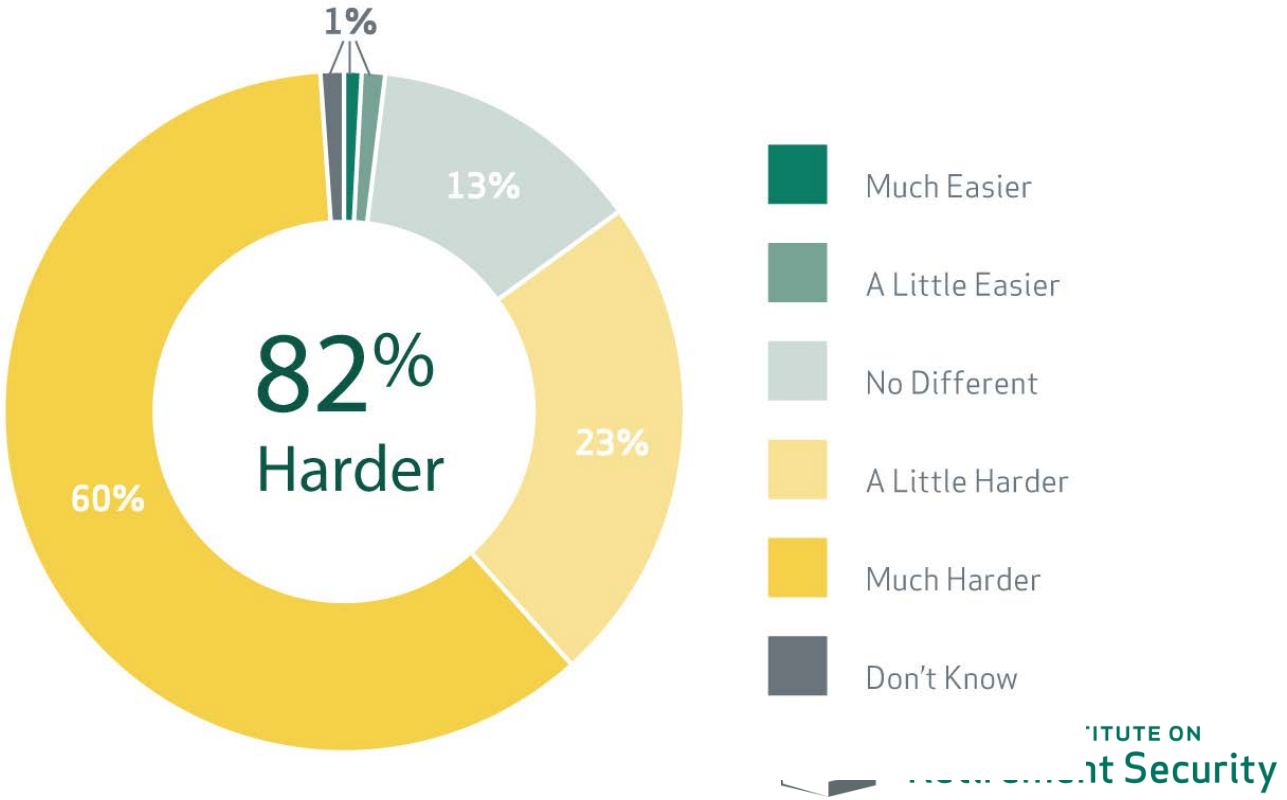
Source: Teacher Retirement System of Texas

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

QUESTION?

What do the following dollar amounts have in common?

A. $328,537
B. $208,892
C. $100,000
D. $ 12,000

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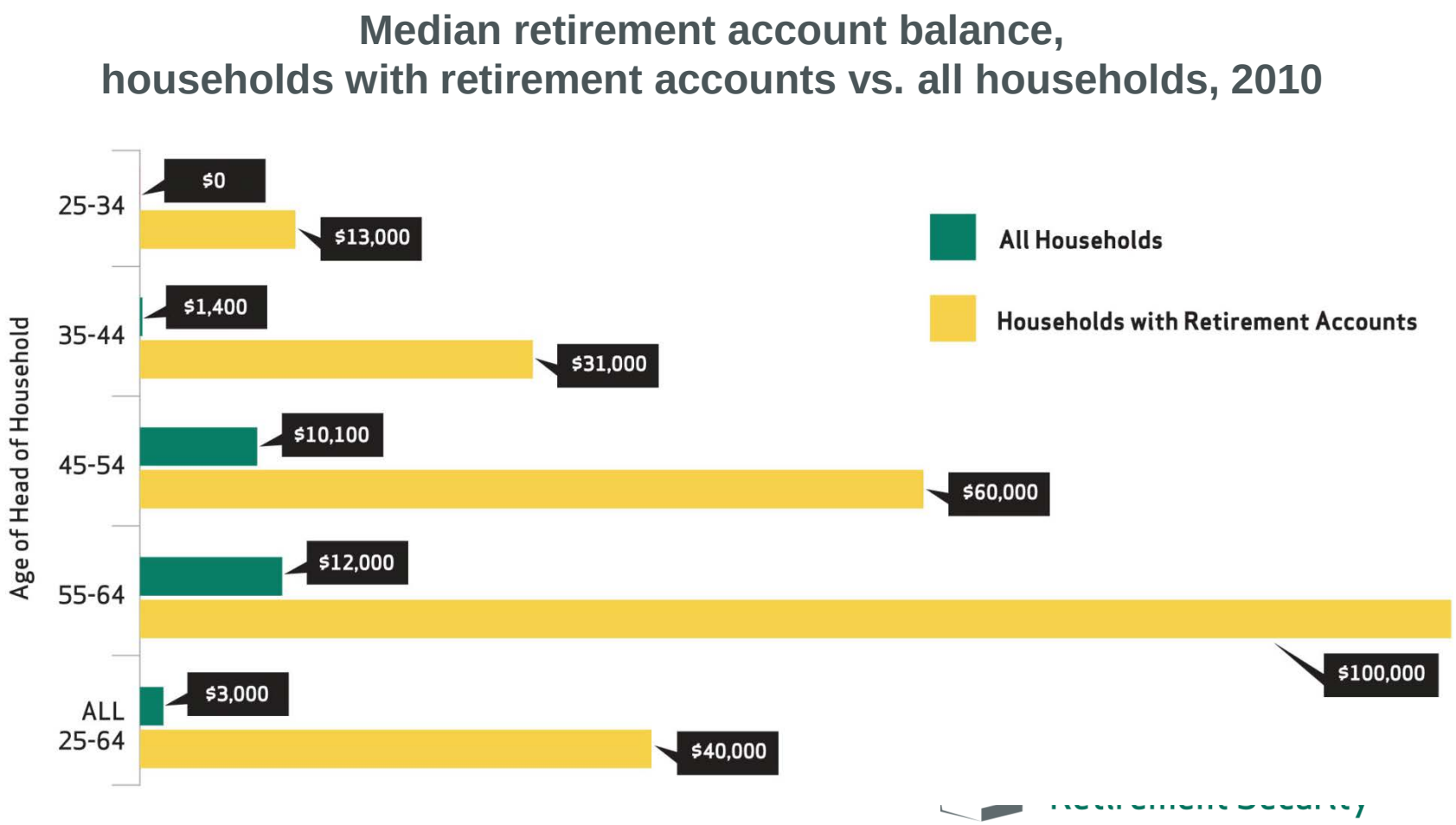
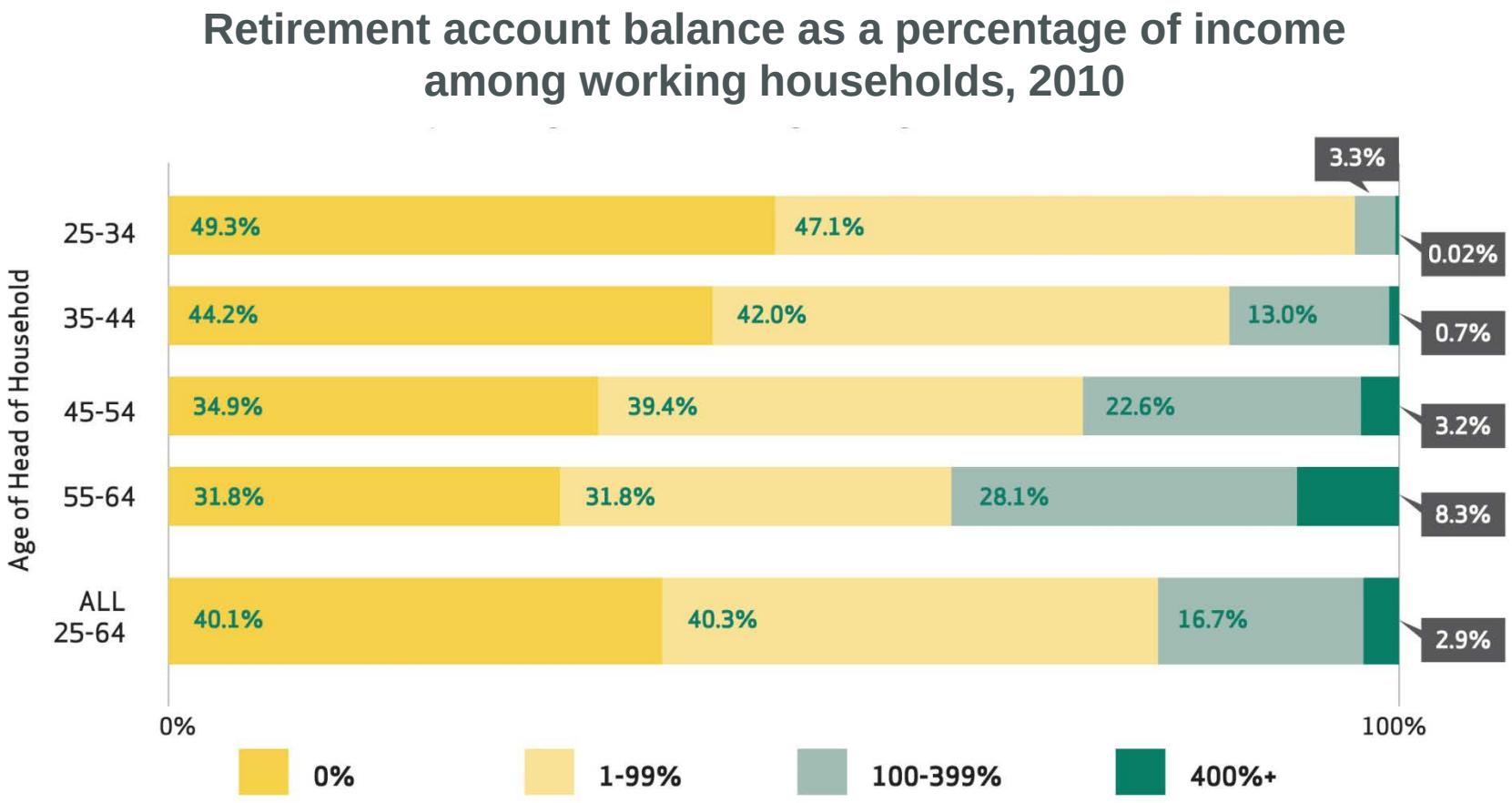
Amounts American workers nearing retirement have saved in retirement accounts

Typical Working-Age Household Has $3,000 in Retirement Assets



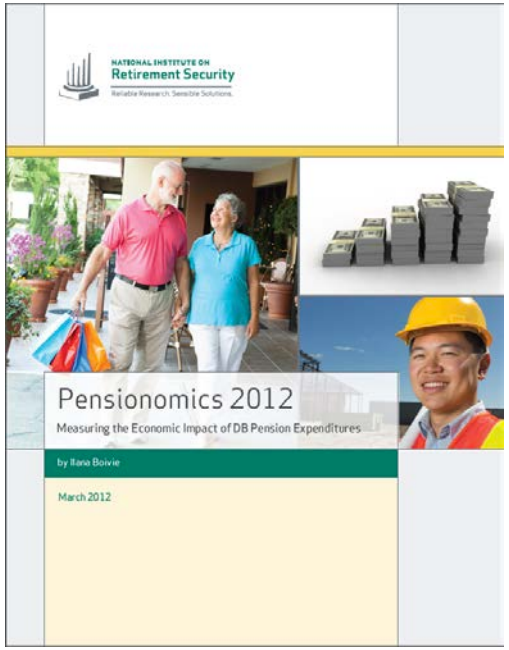
4 out of 5 Households Have Less than One Times Their Income in Retirement Savings



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

Pensionomics 2012:
Nationally, DB pension plans expenditures

- **Provided a critical source of reliable income for 18.9 million Americans;**
- **Created over $1 trillion in economic output with $553 billion in value added; and**
- **Supported 6.5 million jobs that paid $314.8 billion in income.**



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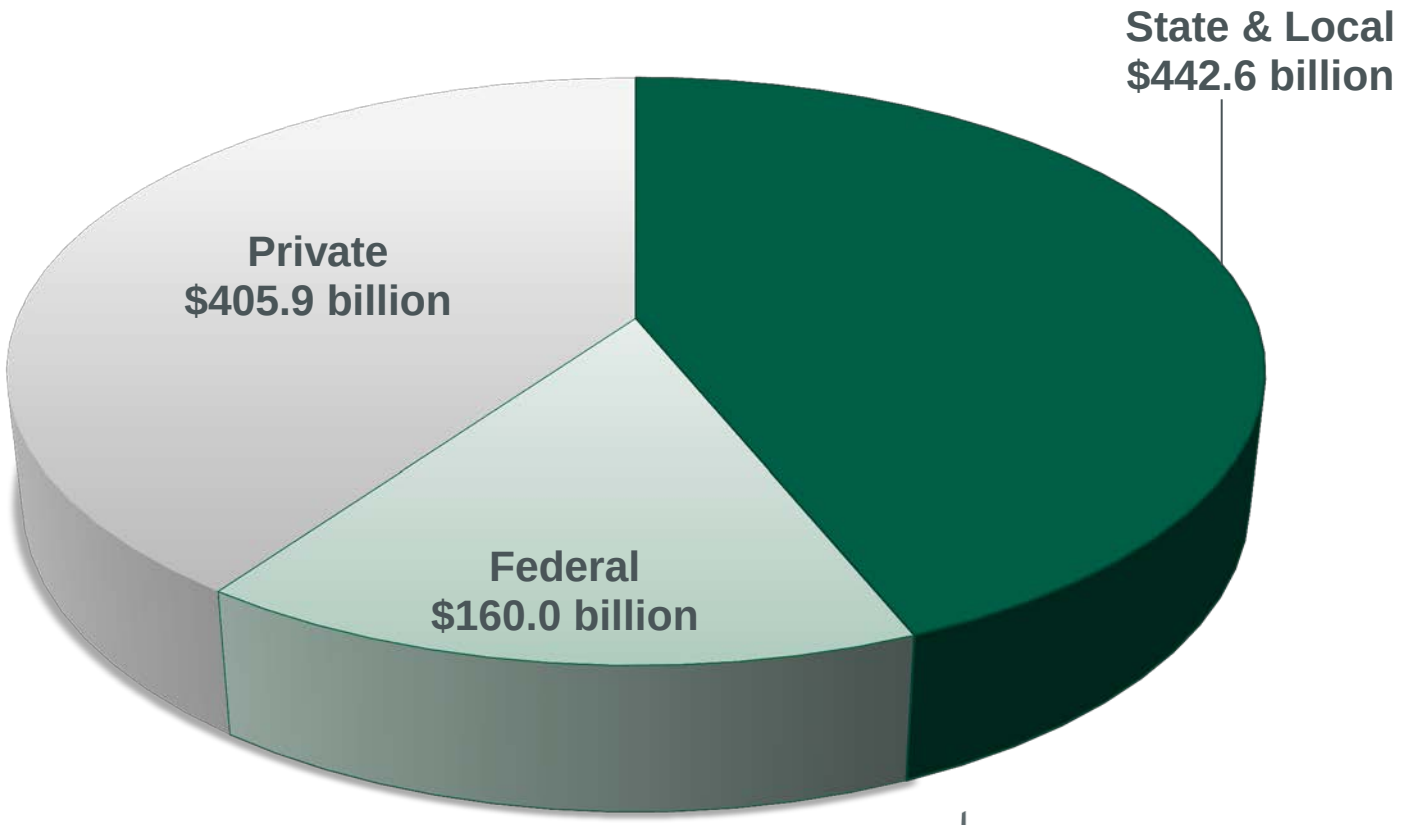
Results: DB Pensions Support $1 Trillion in Economic Activity



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PENSION BENEFIT

DIRECT IMPACT

INDIRECT IMPACT

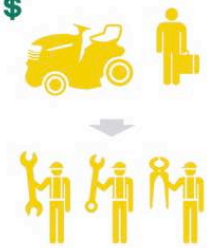
INDUCED IMPACT

A retired firefighter...

$

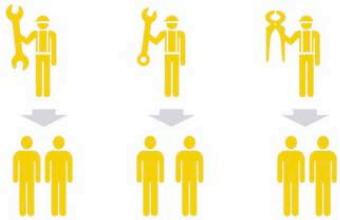
...uses his pension money to buy a new lawnmower.

$ $



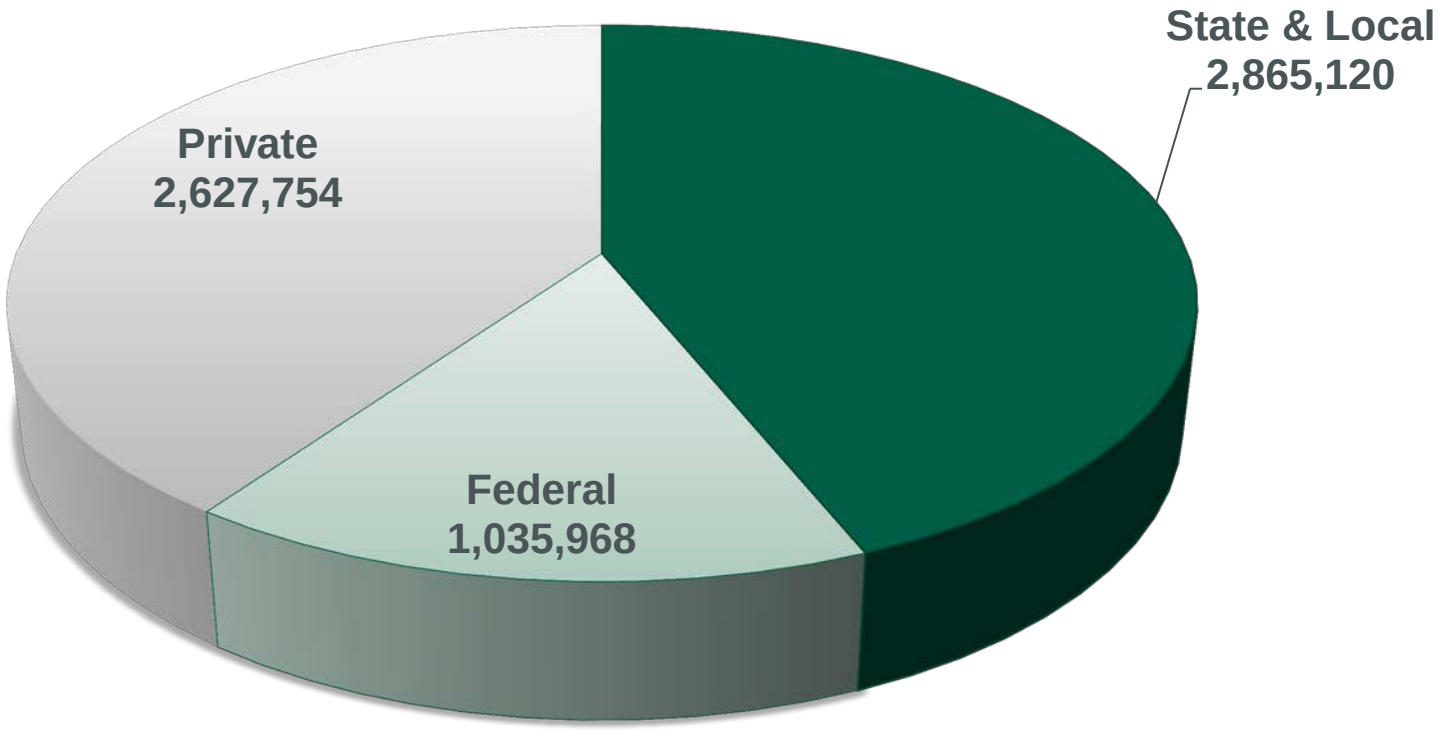
As a result of that purchase, the owner of the hardware store, the lawnmower salesman, and each of the companies involved in the production of the lawnmower **all see an increase in income, and spend that additional income.**

$ $ $



These companies hire additional employees as a result of this increased business, **and those new employees spend their paychecks in the local economy.**

Results: DB Pensions Support 6.5 Million American Jobs



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Results: DB Pensions Support $315 Billion in Labor Income

	From State and Local Pensions	From Federal Pensions	From Private Pensions	Total Labor Income Supported*
Direct Impact	$49.7 billion	$19.6 billion	$54.2 billion	$123.6 billion
Indirect Impact	33.7 billion	13.3 billion	36.7 billion	83.6 billion
Induced Impact	43.3 billion	17.1 billion	47.2 billion	107.6 billion
Total Labor Income Impact	**$126.7 billion**	**$50.0 billion**	**$138.2 billion**	**$314.8 billion**

*Totals may not add up exactly due to rounding.

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Results:
Economic Impacts by Industry

- Industries with most jobs supported:
  - Private hospitals/offices of physicians, dentists, etc
    604,000 jobs
    $88.6 billion in output
  - Food service and drinking places
    535,000 jobs
    $33.3 billion in output
  - Real estate establishments
    419,000 jobs
    $66.7 billion in output

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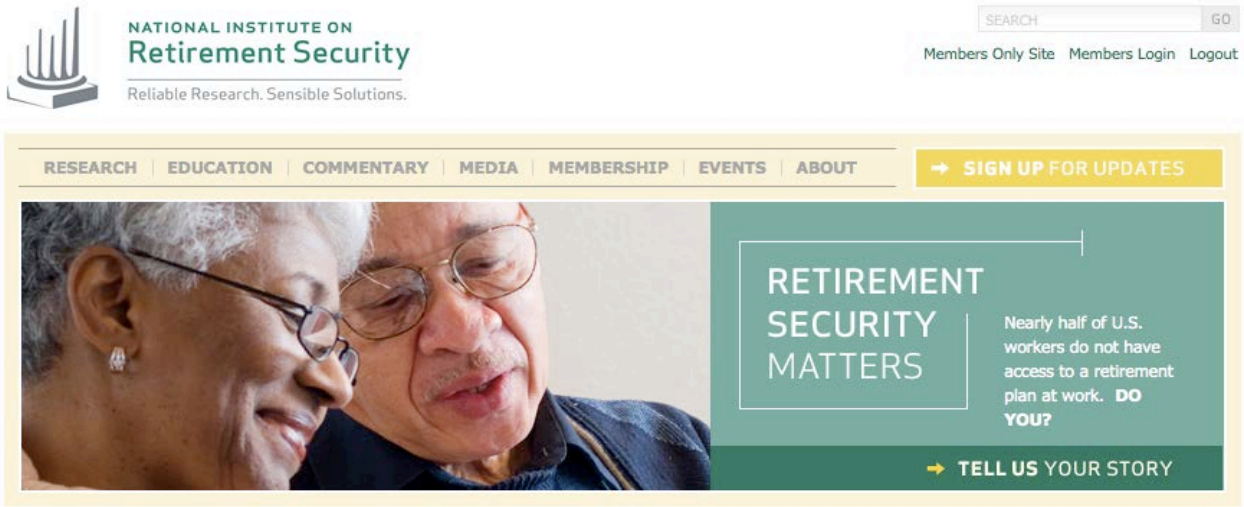

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