

Retirement Security Scorecard - The Best Choice for Employers, Retirees and the Economy

ETF Joint Informational Meeting
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Madison, WI

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Executive Director
NIRS



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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.**



NIRS Research Finds That Pensions

**Are Extremely
Cost-Efficient**
[Bang for the Buck]

**Drive Public
Assistance Savings**
[The Pension Factor]

**Help Recruit & Retain
Quality Employees**
[Staying Power of Pensions]

**Pensions
Get
Retirement
Right**

**Create Jobs,
Fuel the Economy**
[Pensionomics]

**Ensure Self-
Sufficiency**
[The Pension Factor]

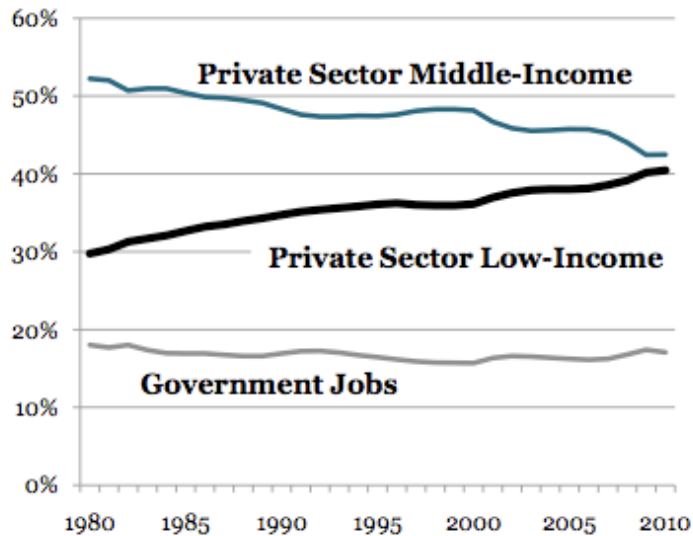
**Over Regulation
Cause of Private DB
Plan Decline**

[Who Killed Private Sector
DB Plan?]

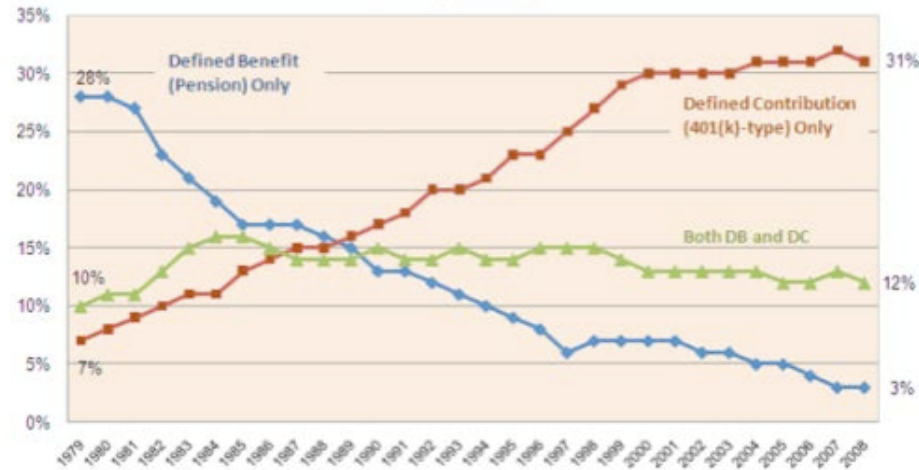
**All American Want
Pensions**
[Pensions and Retirement
Security 2011]

Shift to Lower Income Jobs – Last 30 Years, DB-DC Shift: Less Retirement Security Years to Come

Share of Total Employment



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



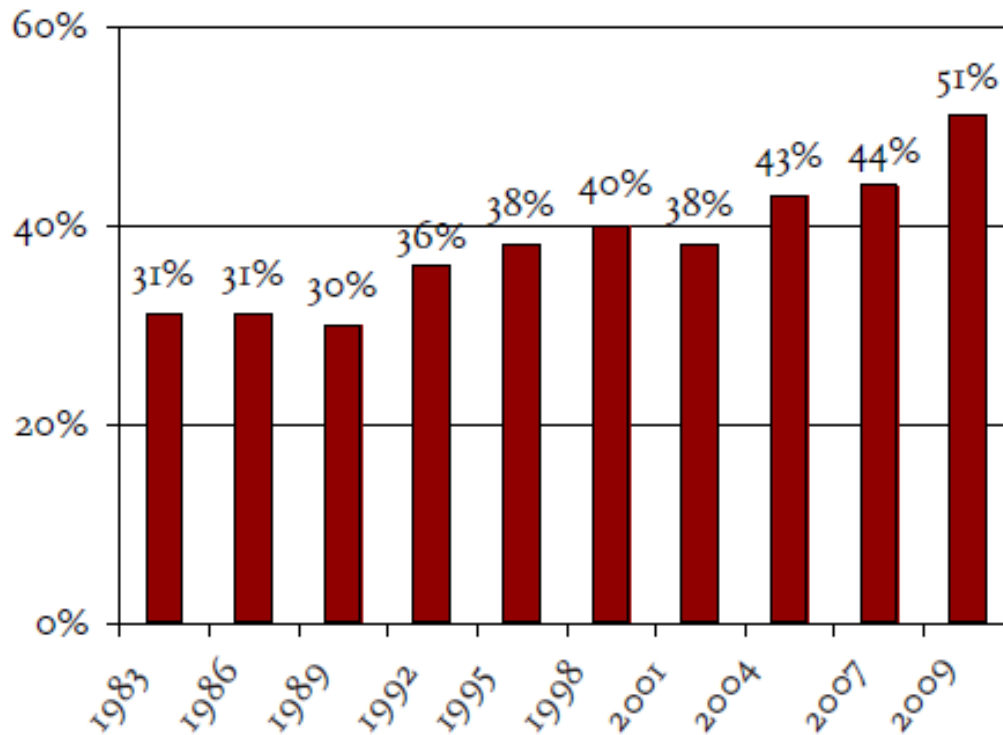
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Source: New American Foundation, Bureau of Labor Statistics, Westwood Capital

Source: New American Foundation, DOL, PBGC, EBRI

The National Retirement Risk

Percentage of Working-Age Households at Risk of Falling Short of Pre-Retirement Standard of Living in Retirement



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Impact of Freezing Pensions

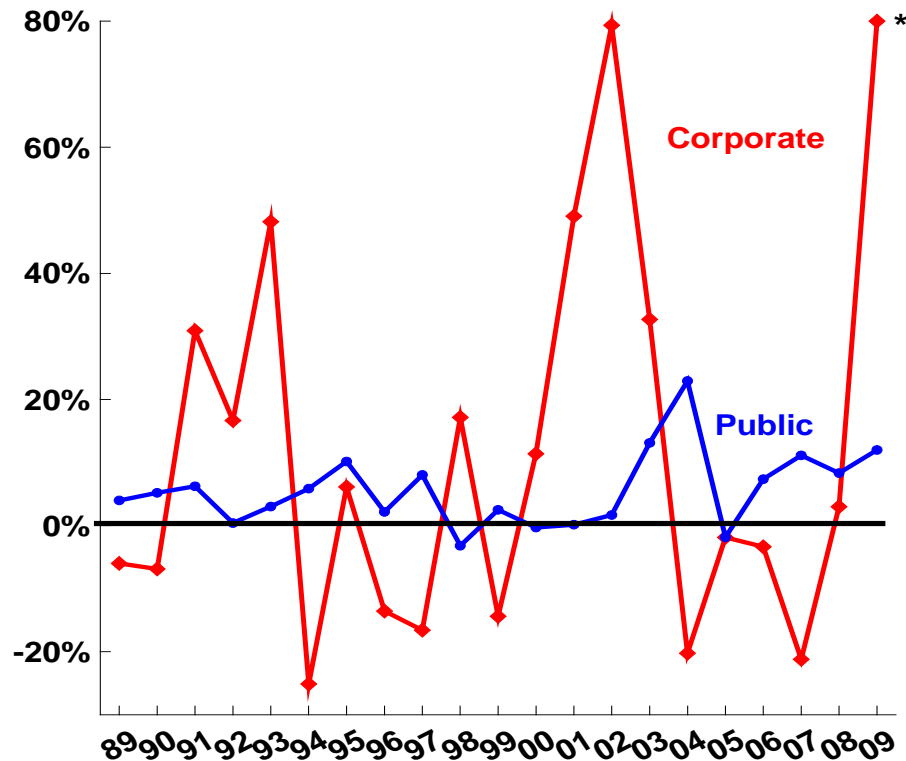
Fortune 1000 Companies with Defined Benefit Plans

Year	Companies with DBs	Have one or more frozen
2004	633	45
2010	586	208



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



US Dept of Labor,
US Census Bureau,
Milliman

* Estimate



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Median Retirement Account Balances over Last Decade

Retirement Account Balances by Householder Age

Age of Householder	2001 Median Value, all Accounts	2004 Median Value, all Accounts	2007 Median Value, all Accounts
Under 35 years old	\$ 8,180	\$ 11,000	\$ 9,600
35 to 44	\$ 33,890	\$ 30,000	\$ 37,000
45 to 54	\$ 56,090	\$ 60,000	\$ 63,000
55 to 64	\$ 64,270	\$ 88,000	\$ 100,000
65 or older	\$ 64,270	\$ 55,000	\$ 60,800
All households	\$ 35,060	\$ 36,000	\$ 45,000



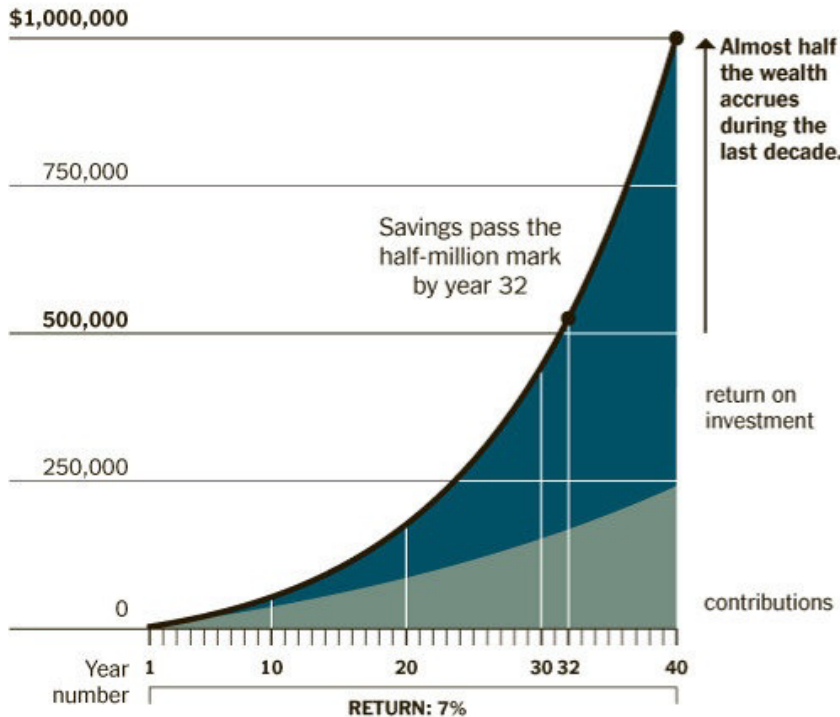
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DC Plans – Back Loaded Investment Risk Underfunded Individual Accounts

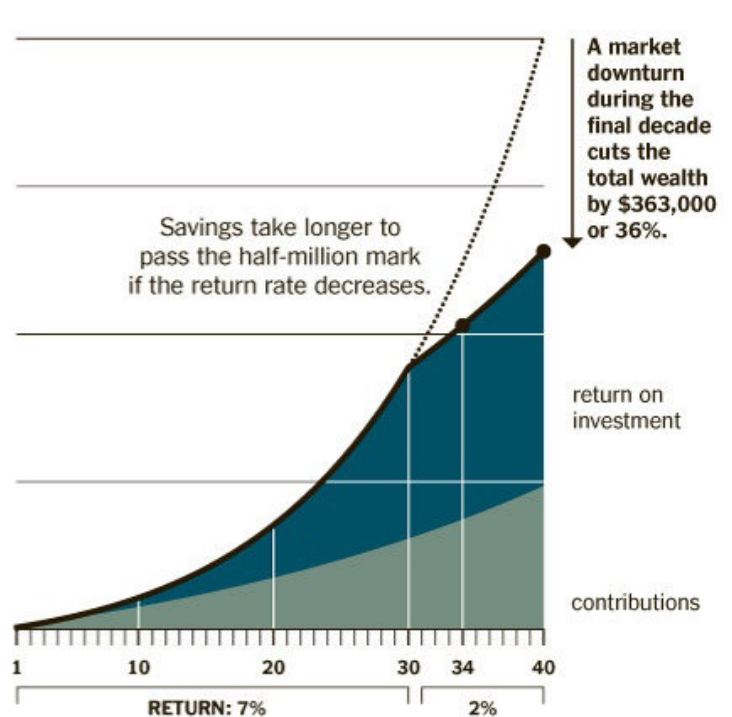
Saving for Retirement, the Homestretch Matters

How the market performs during the last years of 401(k) savings can have a considerable impact on the final retirement nest egg. These charts assume a starting salary of \$40,000 that grows by 3 percent a year and a savings rate of 8 percent.

IF INVESTMENT RETURNS ARE STEADY ...



IF INVESTMENT RETURNS SLOW ...

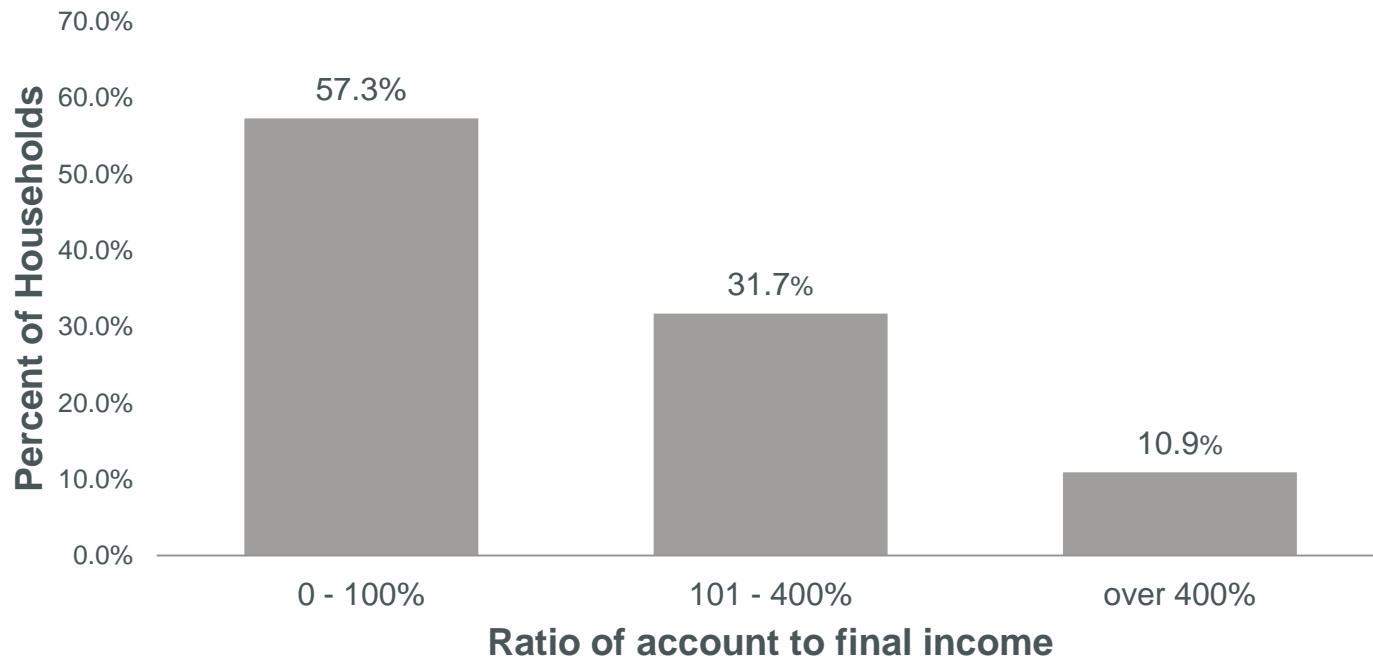


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Near-Retiree Households

Ages: 55-64

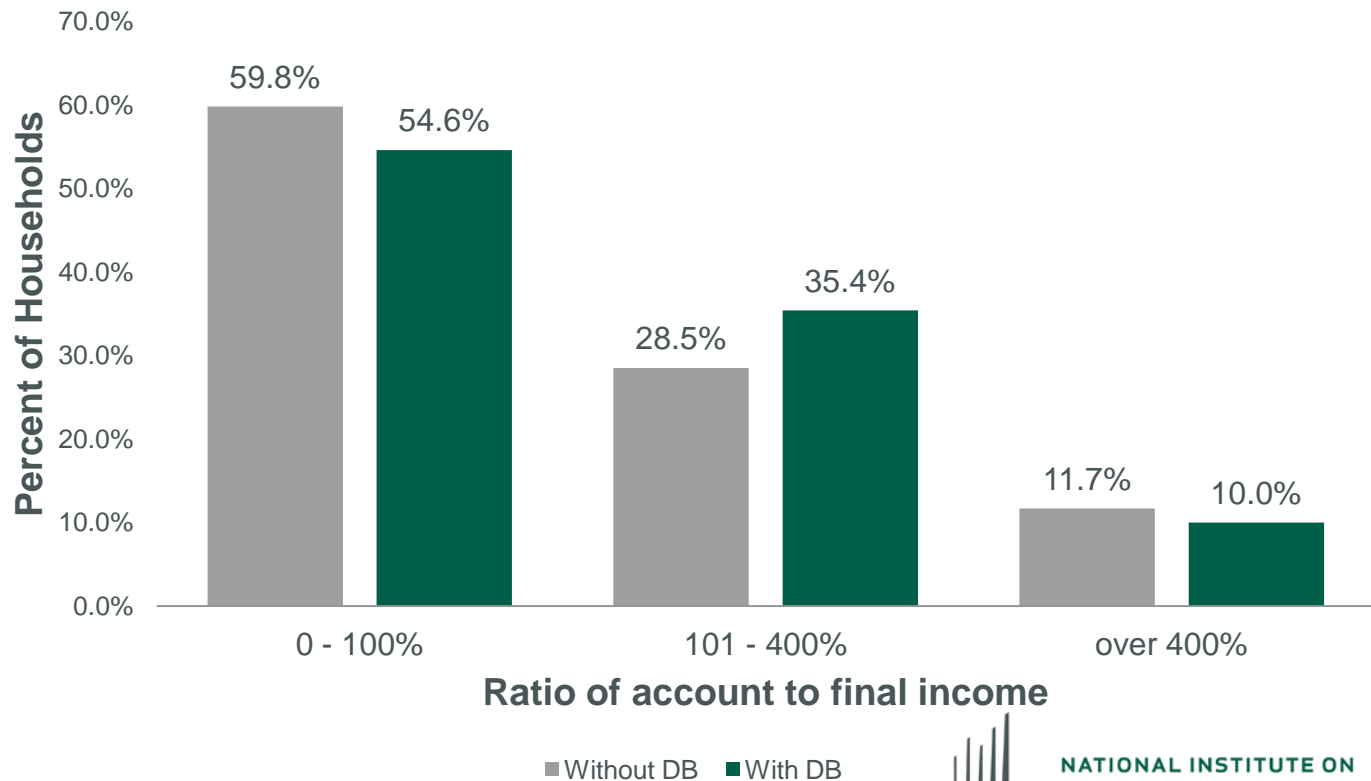
Retirement Account Balance to Earnings



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DB and non-DB Households

Retirement Account Balance to Earnings



Source: Towers Watson



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Pensions and Retirement Security, 2012

Public Opinion Research

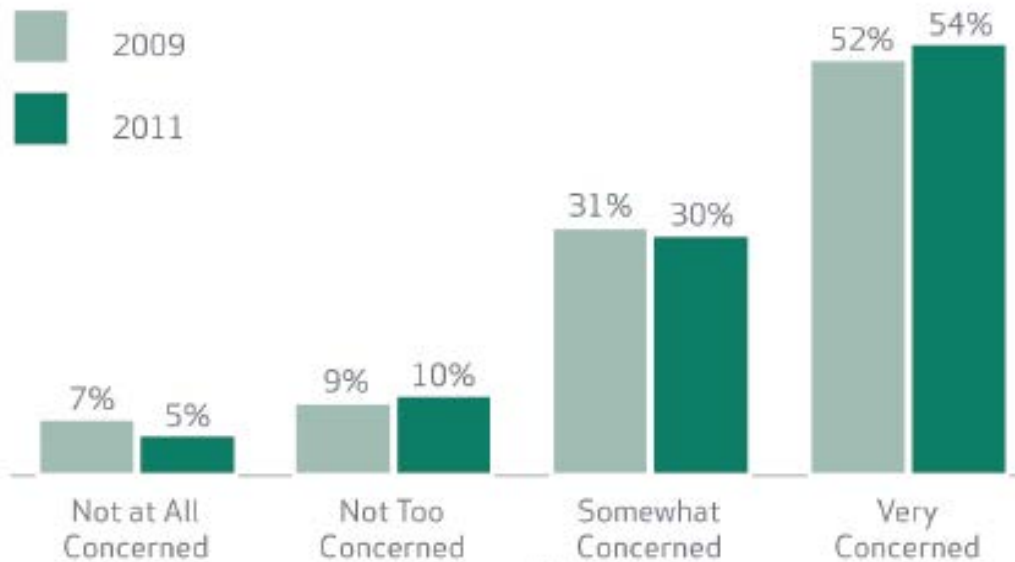


- Americans **highly anxious** about retirement.
- Americans have **low retirement expectations**.
- **U.S. retirement system stressed, needs reform.**
- **Pensions relieve anxiety, are reliable.**



84% Concerned Current Economic Conditions Hurt Retirement

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

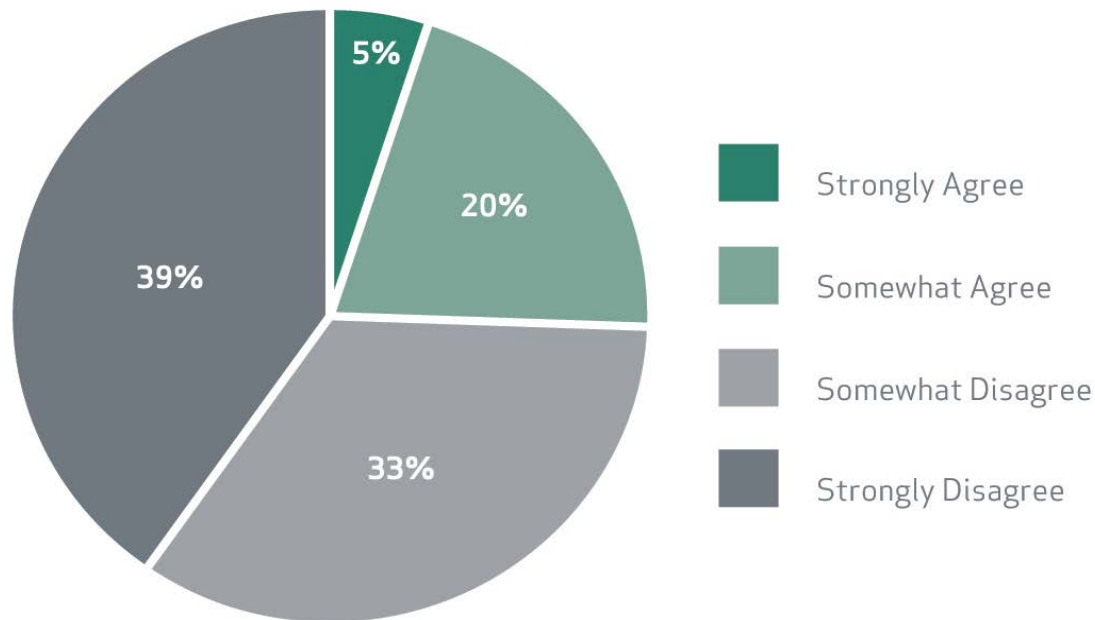


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72% Believe They Can't Make Up Financial Losses Before Retirement

72% Disagree with the Statement:

Most Americans will be able to make up any financial losses before they retire.

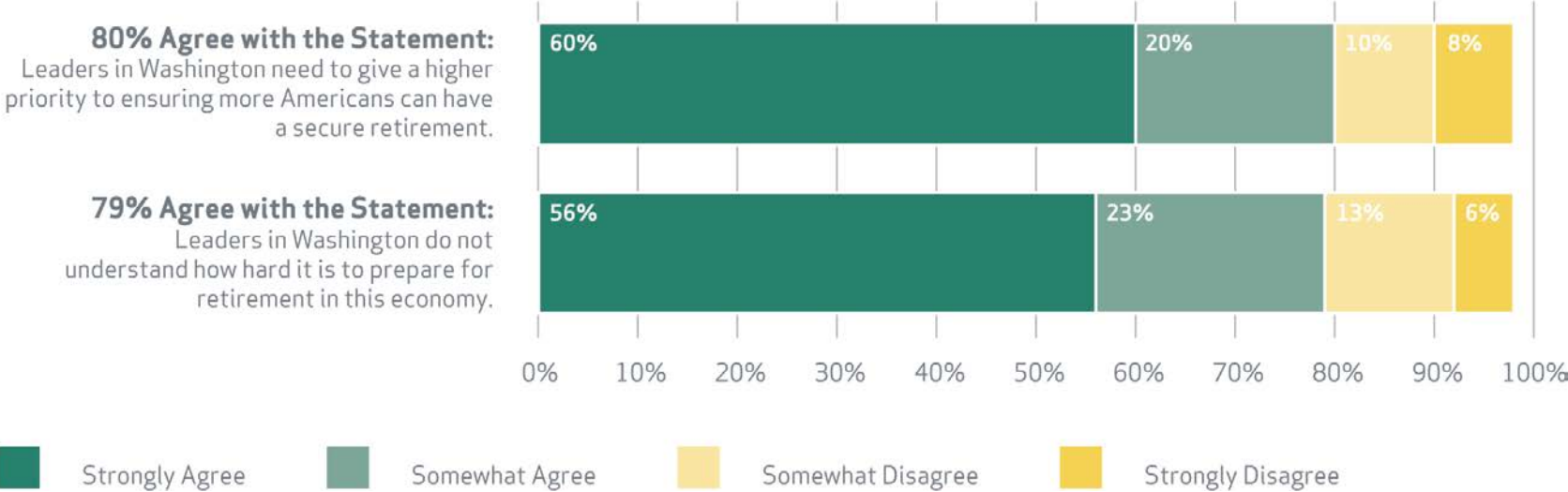


Covering Basics, Not Luxuries

- **Surviving, living comfortably (34%).**
- **Paying the bills (17%).**
- **Maintaining pre-retirement lifestyle (11%).**

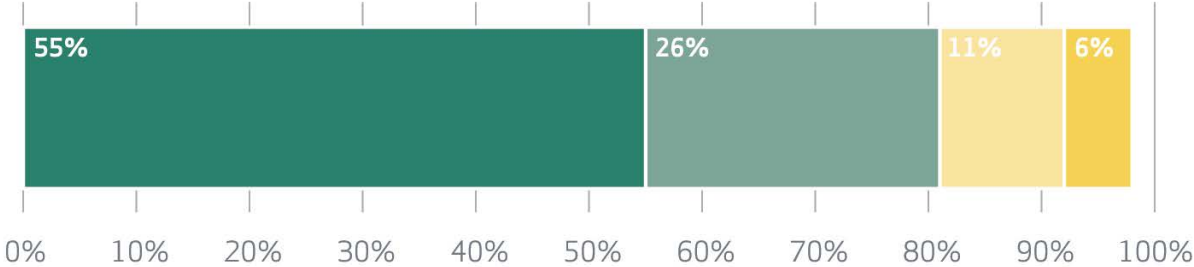


80% Agree Leaders Need to Give Retirement Higher Priority



81% Say All Americans Need Pension For Independence, Self-Reliance

81% Agree with the Statement:
I believe that all workers should have access to a pension plan so they can be independent and self-reliant in retirement.



Strongly Agree Somewhat Agree Somewhat Disagree Strongly Disagree

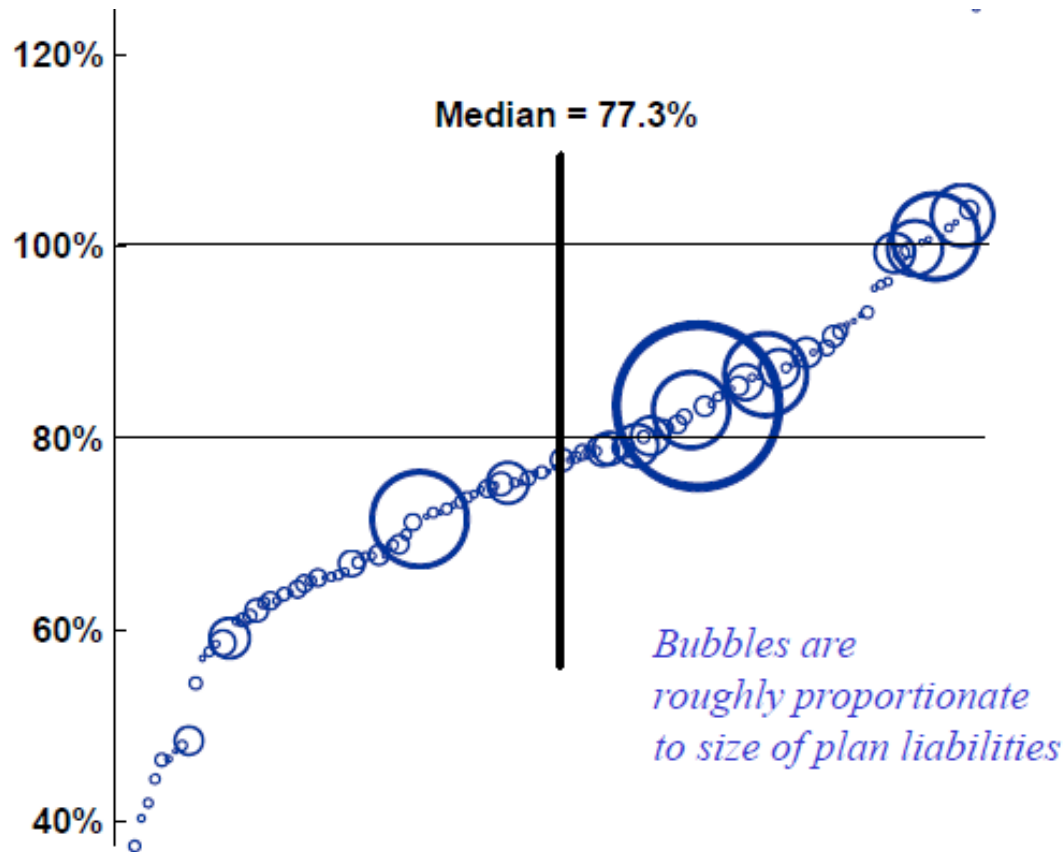
Getting out the Facts on Good Pensions

Myth Busters



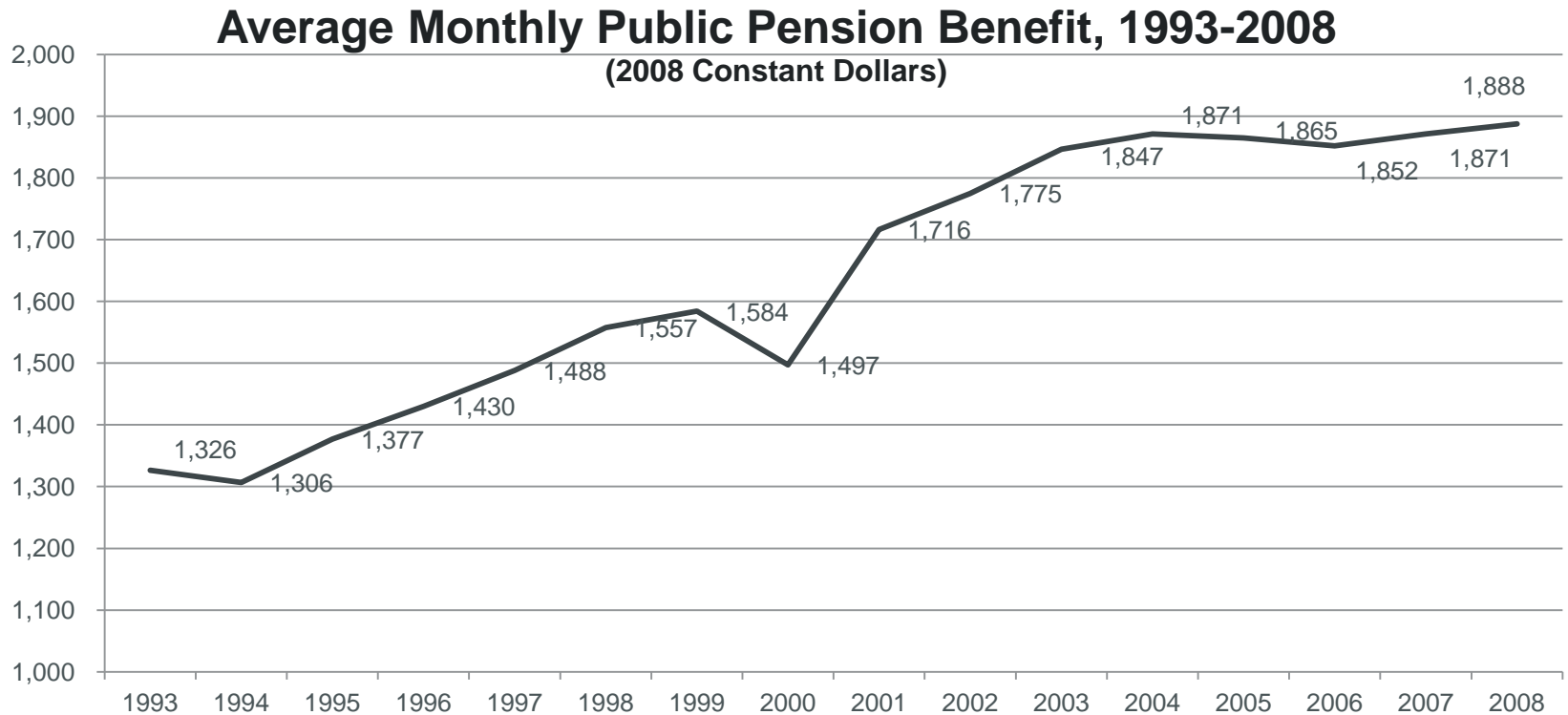
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Distribution of Public Pension Actuarial Funding Levels and Relative Size



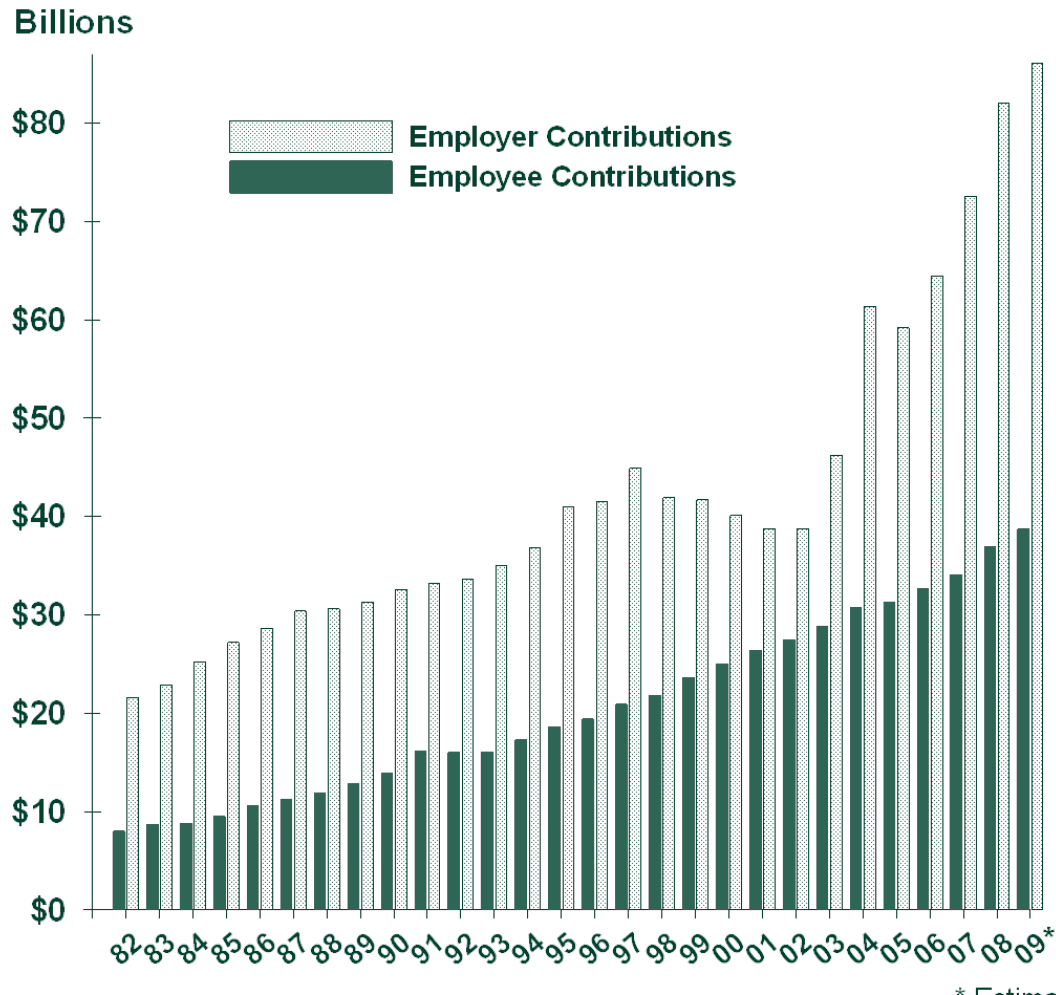
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On Average, Public Pension Benefits Modest, With 30% of Workers Not Eligible for Social Security



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Public Pensions Typically Are Shared Funding Responsibility



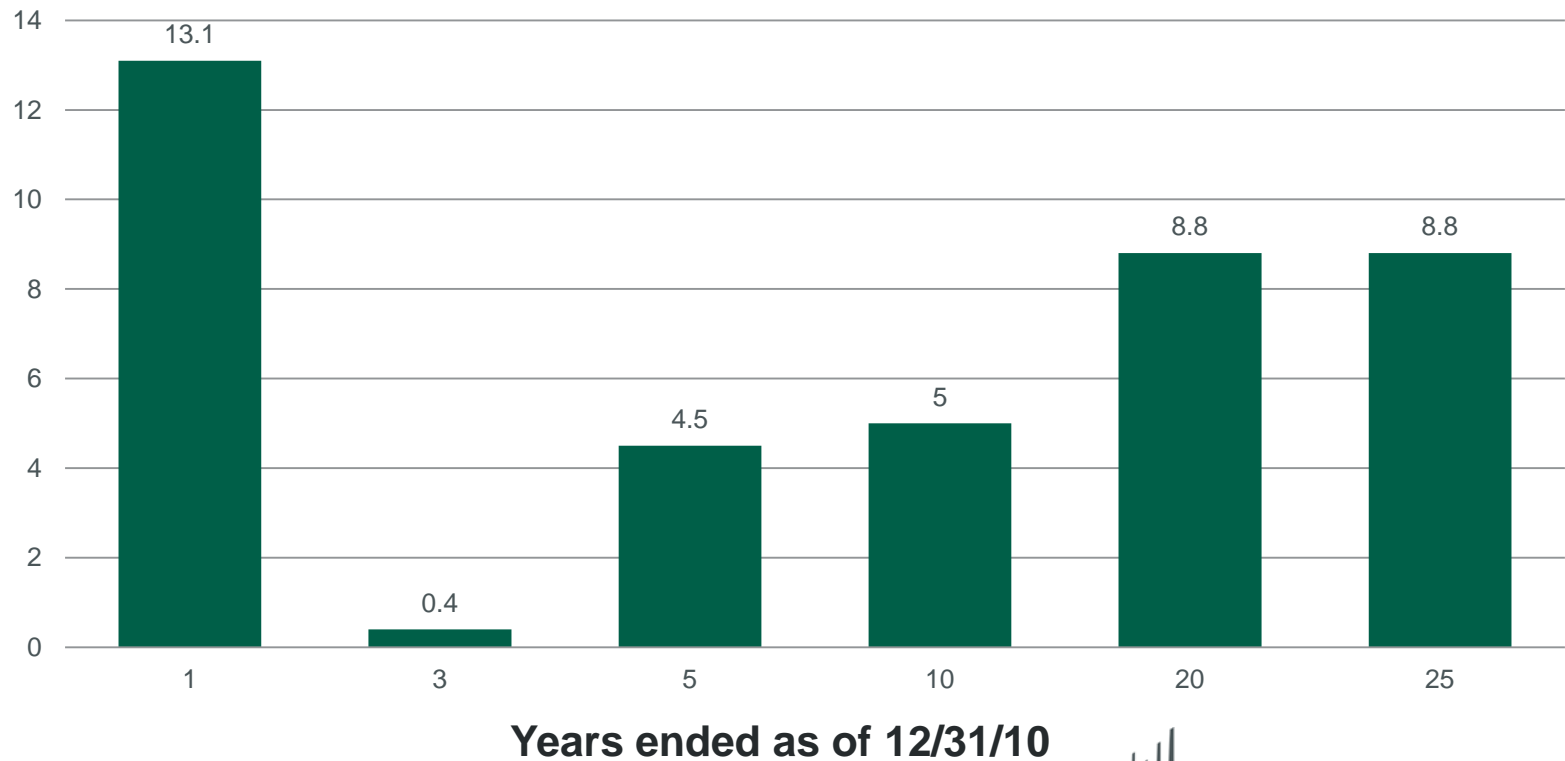
Employee and Employer Contributions, 1982 to 2009



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Strong Investment Returns: Exceed 8% Over Two Decades

Median annualized public pension fund investment returns
for periods ended 12/31/10

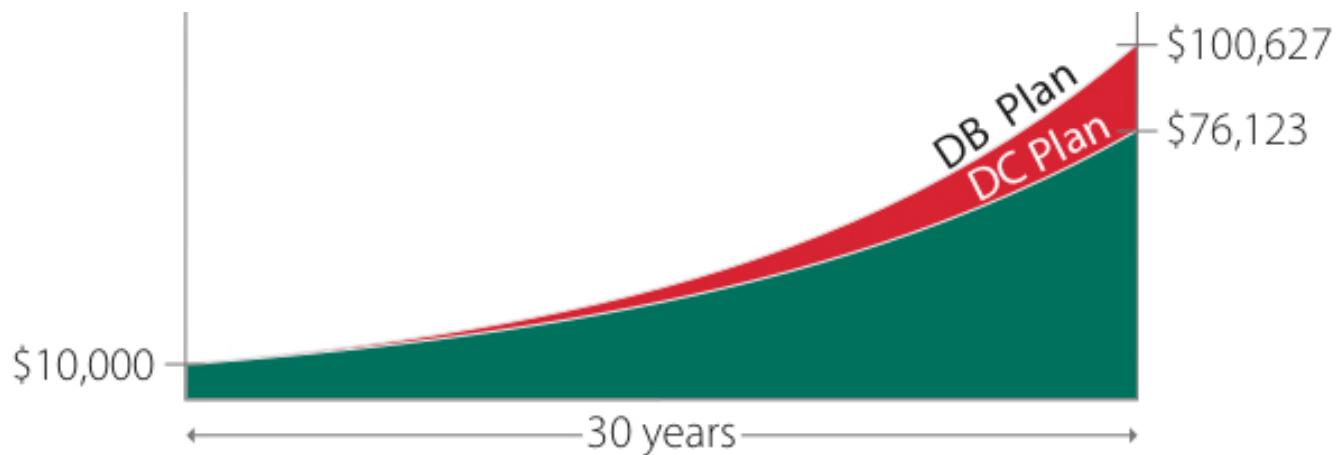


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Professional Investment Managers Achieve Higher Returns

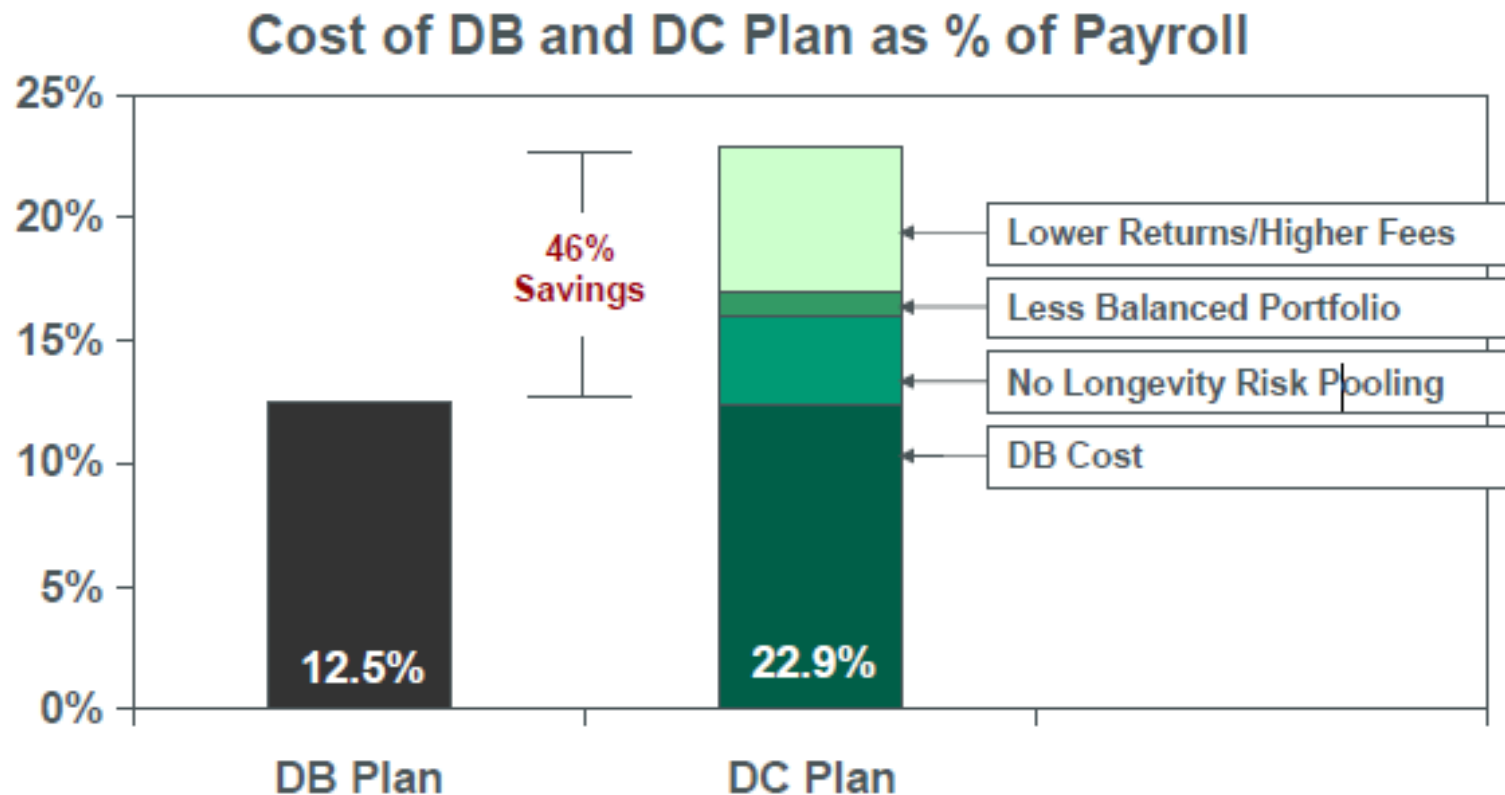
- Pensions achieve better investment returns than 401(k) type plans.
- These additional returns really add up over time.

How \$10,000 Invested Grows over 30 Years



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



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Look Before You Leap: Unintended Consequences of Pension Freezes

ISSUE BRIEF
October 2008



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Look Before You Leap
The Unintended Consequences of Pension Freezes
By Ilana Boivie and Beth Almeida

Introduction

Americans are increasingly worried about their retirement security in the face of falling home values, turmoil in the financial markets, and general economic instability. This insecurity can, at least in part, be attributed to the fact that fewer workers and retirees are able to count on a secure, predictable monthly pension, as more employers in the private sector have “frozen” participation in their pension plans. The trend away from traditional defined benefit pension plans in the private sector in favor of individual retirement savings accounts (such as those found in defined contribution plans) has left Americans especially vulnerable to the volatility in financial markets.

With the economy becoming weaker, many state and local governments will be facing fiscal challenges in the months and years ahead. These challenges will undoubtedly prompt governments to carefully examine all aspects of their budgets, including pension costs for state and local workforces. Policymakers may be wondering, “Are secure retirement benefits for our employees still affordable?” or “Should we consider shifting to a defined contribution approach?”

This brief explores important factors public employers should keep in mind when making decisions about their retirement programs. We conclude that caution should be the watchword for governments that might be tempted to follow

the trend in the private sector to abandon defined benefit (DB) pensions in favor of defined contribution (DC) plans.

Key Findings

We find that freezing DB plans can have several serious, unintended consequences.

- Freezing a DB pension and moving to a DC plan can increase costs to the employer/taxpayer at exactly the wrong time. This is because ...
 - Maintaining two plans is more costly than operating just one;
 - Forgoing and undermining the economic efficiencies of DB pensions drives up retirement plan costs; and
 - Accounting rules can require pension costs to accelerate in the wake of a freeze.
- Freezing a DB pension and moving to a DC plan can worsen retirement insecurity, potentially damaging recruitment and retention efforts.

Because of this, most states that have studied whether to freeze a DB and switch to a DC plan have found continuation of the DB plan to be in the best interests of employers/taxpayers and employees.

- By itself, freezing plan does nothing to close funding shortfall
- Freezing plan undermines the economics of the plan by starving it of new entrants
- Because of accounting regs, plan costs can actually *increase*



New Research: *Lessons Well-Funded Public Pensions*

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SENSIBLE SOLUTIONS
Lessons from Well-Funded Public Pensions:
An Analysis of Six Plans that Weathered the Financial Storm

By Jun Peng, Ph.D., and Ilana Boivie

June 2011

Lessons Learned: Why We Did This Study

- **Six pension systems that remained well-funded through the Great Recession.**
- **What led to better funding?**
 - **funding policy, benefit design, and economic assumptions**
- **Demonstrate that sustainable funding occurs within DB structure**



Lessons Learned: Key Findings

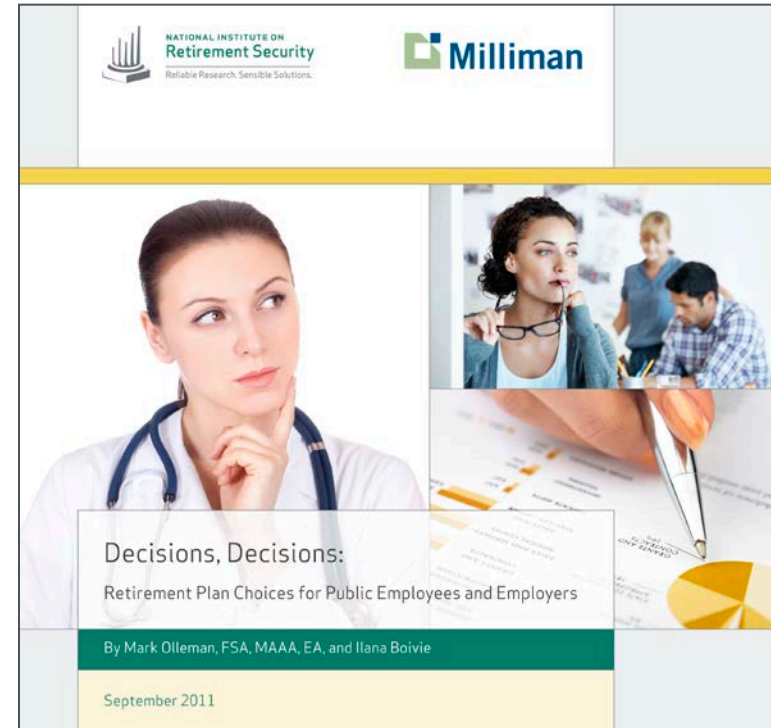
- 1. Employer pension contributions that pay the full ARC, and that at least equal the normal cost;**
- 2. Employee contributions to help share the plan cost;**
- 3. Benefit improvements that are actuarially valued before adoption and properly funded upon adoption;**
- 4. COLAs that are granted responsibly;**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



Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers

Key Findings

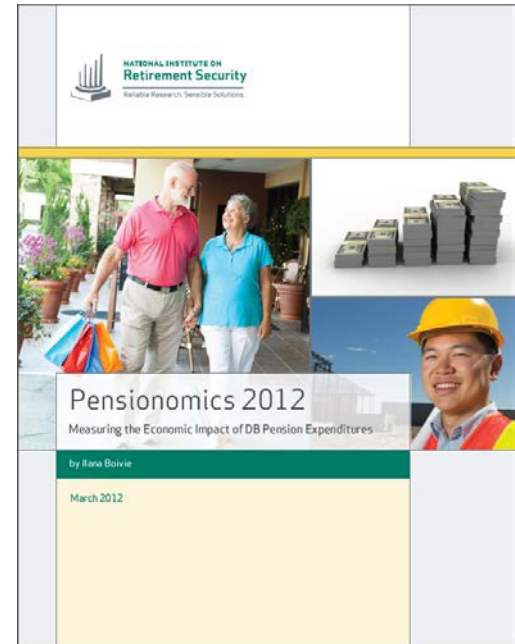
1. When given the choice between a primary DB or DC plan, public employees overwhelmingly choose the DB pension plan.
2. DB plans are more cost efficient than DC plans, due to:
 - Higher investment returns
 - Longevity risk pooling



Pensionomics 2012:

Nationally, DB pension plans expenditures in 2009...

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



Wisconsin Pensionomics

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

- **50,317 jobs that paid \$2.0 billion in wages and salaries**
- **\$6.2 billion in total economic output**
- **\$856.7 million in federal, state, and local tax revenues**



Wisconsin Pensionomics

In 2009, Wisconsin state and local pensions expenditures:

- **Each dollar paid out in pension benefits supported \$1.49 in total economic activity in Wisconsin**
- **Each dollar “invested” by Wisconsin taxpayers in these plans supported \$6.22 in total economic activity in the state.**



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