Why Pensions Matter More Than Ever

Annual Delegates Meeting
Cori Bichteman
November 6, 2022
Pensions make retirement possible for average Americans.
A supplemental retirement plan for all Americans.
The rise of the Defined Benefit (DB) plan.
A traditional Defined Benefit (DB) retirement plan pays participant employees a lifetime annuity, typically based on years of service and final salary.
3-Legged Stool of Retirement Security

“... a three-legged stool affording solid and well-rounded protection for the citizen.”

–Reinhard A. Hohaus
3-Legged Stool of Retirement Security

**SOCIAL SECURITY**
Beginning Age
62 - 70

**PERSONAL SAVINGS**
Savings and Investments

**PENSION BENEFIT**
Guaranteed Monthly Income
3-Legged Stool of Retirement Security

<table>
<thead>
<tr>
<th>SOCIAL SECURITY</th>
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<tr>
<td>• REDUCED BENEFIT AT 62</td>
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<tr>
<td>• FULL RETIREMENT AGE 65 – 70</td>
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<td>• MONTHLY BENEFIT</td>
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<td>• LIFETIME PROTECTION</td>
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3-Legged Stool of Retirement Security

DEFINED BENEFIT PENSION

- DEPENDABLE INCOME
- OPTIONS TO PROTECT BENEFICIARIES
- LIFETIME PROTECTION
3-Legged Stool of Retirement Security

PERSONAL SAVINGS

- SUPPLEMENTAL RETIREMENT ACCOUNTS
- REGULAR DEPOSIT ACCOUNTS
- MONEY MARKET ACCOUNTS
- CERTIFICATE OF DEPOSIT ACCOUNTS (CD)
- MUTUAL FUNDS
- SAVINGS BONDS
- TREASURY BILLS
Private Sector Workers With Defined Benefit Pensions

Source: U.S. Bureau of Labor Statistics
Private Sector Workers With Defined Benefit Pensions

Source: U.S. Bureau of Labor Statistics
NYS Pensions: Protected by a Constitutional Guarantee

New York State Constitution - Article 5, Section 7: “... membership in any [state] retirement system... shall be contractual..., the benefits of which shall not be diminished or impaired.”
The birth of the Defined Contribution (DC) plan.
Fourth Quarter 2019

- 129 million private-sector workers
- 95 million participate in a DC plan
- 12 million employees actively working with a DB plan

Assumes 8% growth compounded annually at the end of the year.
Average Annual Salary
$60,000

$1,150  Gross Weekly
- $  50  DC Contribution
- $  163  Federal Tax
- $  61  State Tax
$  876  Weekly

Average Starting Salary
$41,163

$  792 Gross Weekly
- $  50 DC Contribution
- $  85 Federal Tax
- $  20 State Tax
$  637 Weekly

National Average for Starting Teachers
$41,163

<table>
<thead>
<tr>
<th>Age</th>
<th>Savings Goal</th>
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<tbody>
<tr>
<td>30</td>
<td>1X annual salary</td>
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<tr>
<td>40</td>
<td>3X annual salary</td>
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<tr>
<td>50</td>
<td>6X annual salary</td>
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<tr>
<td>60</td>
<td>8X annual salary</td>
</tr>
<tr>
<td>67</td>
<td>10X annual salary</td>
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The median employee, aged 60 has $134,000 in retirement savings.

According to the Federal Reserve, by age 60, the worker should have 8X their annual salary in savings to be on track for retirement.

2021 Survey of Consumer Finances (SCF) by the Federal Reserve
Without a DB pension, how much savings is enough?
The average maximum pension of a NYSTRS retiree is $48,724 per year.

NYSTRS actuarially plans to pay benefits to members retiring at age 55 for over 30 years.

$48,724 \times 30 = $1,461,720

$4,060 per month
If the goal is $4,060 per month for 30 years assuming:

- 3.5% long term inflation
- 5% annual rate of return

$1,195,686.00

https://smartasset.com/retirement/retirement-calculator
If the goal is $4,060 per month for 30 years assuming:

- 3.5% long term inflation
- 5% annual rate of return
- collecting Social Security (average $18,504 year)
- withdrawing $2,518 monthly

$1,195,686.00

$540,000

https://smartasset.com/retirement/retirement-calculator
It takes money to make money.
It takes money time to make money.
It takes money and time to make money.
Investment Insecurity
Investment Security
Mismanagement  Poor Investment Returns  Bankruptcy
It takes MONEY and TIME to make money.

Assumes a $50 weekly contribution over 30 years and an 8% return on investment compounded annually.
NYSTRS relies on a comprehensive actuarial review to determine the appropriate Employer Contribution Rate (ECR) each year.

These contributions in full have been collected without fail throughout the System’s history, keeping NYSTRS among the most secure plans in the nation.
In many other state pension systems, their actuary also carefully determines the annual funding needed, but it is legislators and governors that ultimately decide on annual funding levels.

Some have even taken “pension holidays” in favor of funding other projects and programs.
Multi-Employer Pension Plans
The Emergency Pension Plan Relief Act (EPPRA)

The Relief Act employs the Pension Benefit Guaranty Corporation (PBGC) insurance program employer to supplement certain struggling plans so that those plans can stay solvent.

PBGC will receive federal funding to cover the cost of the program.

In exchange for financial assistance, each plan would have to comply with certain conditions, including filing regular comprehensive reports.
Are public pensions safe?
2022 ESTIMATED AGGREGATE STATE FUNDED RATIOS BASED ON ESTIMATED ASSETS FOR STATE & LOCAL PENSION PLANS

Source: Equable Institute forecast based on investment returns as of June 30, 2022 and reported asset allocation levels for each plan. For plans with fiscal year end dates after June 2022 the change in funded ratio shown is based only on the part of their fiscal year complete as of the measurement date. See methodology section for complete details.
• 1997 - The State of Michigan closed the Michigan State Employees Retirement System (MSERS) defined benefit plan to new members.

• 1997 - The MSERS was funded at 109% ($734 million in excess assets).

• 2019 - Only 8,000 active members and 60,000 beneficiaries remained in the defined benefit plan.

• 2019 - The MSERS defined benefit plan was funded at 64.7% ($6.6 billion in unfunded liabilities).
1991 - The State of West Virginia closed their Teachers’ Retirement System (TRS) defined benefit plan to all new members. Members continued to make contributions while West Virginia did not.

2005 - Only 18,000 active teachers were contributing to the plan, supporting 27,000 retirees.

2005 - Funding status dropped to 25%. West Virginia studied the impact of the DB-DC switch.

2005 - West Virginia offered participants in the DC plan the opportunity to switch back to the DB plan and 78% did.

2020 - TRS now covers 41,000 active and 36,000 retired members with a 79% funded plan.
Teachers in the State of Alaska are not eligible for Social Security

• 2006 - Lawmakers abolished the Alaska State Pensions for new employees.

• 2017 - Study concluded that every teacher who left the state cost their district more than $20,000:
  the cost to recruit, hire and train a replacement.

• 2020 - Governor’s administration studied teacher turnover and recommended restructuring the pension.

• 2022 - Multiple bills put forth in recent years to re-establish the pension system for public employees
to address the “desperate situation” in recruiting and keeping essential staff.
Teachers in the State of Kentucky are not eligible for Social Security

• 2014 - Legislators closed the Public Employees Retirement System defined benefit plan and moved to a hybrid DB/DC plan for all new hires. TRS of Kentucky was not included in that legislation.

• 2018 - Kentucky passed legislation that would have changed TRS of Kentucky into a hybrid DB/DC plan. This legislation was thrown out after a court case.

• 2021 - House Bill 258 is passed forcing all newly hired teachers to be placed into a hybrid DB/DC plan. Governor Beshear vetoes the HB 258. Lawmakers override the veto.

• 2022 - Governor Beshear proposes Education First Plan to include restoring the DB pension.
• 2022 - After a long court battle, the City of San Diego will retroactively place thousands of employees hired after 2012 who were provided with DC plans, into DB pensions after the California Supreme Court determined that 2012’s Proposition B was illegally placed on the ballot.

• 2022 - The Mayor of Memphis, Tennessee announced that he would seek to restore the DB pension option to all commissioned police officers, firefighters and dispatchers hired after July 1, 2016.
Pension Finance

myths    facts
A new risk/cost analysis conducted by the National Institute on Retirement Security (NIRS) published in early 2022 found that defined benefit (DB) pension plans offered substantial cost advantages over 401(k)-style defined contribution (DC) accounts.

- A typical pension has a 49% cost advantage as compared to a typical DC account.
- The cost advantages come from longevity risk pooling, higher investment returns, and optimally balanced investment portfolios.
• Nationwide, an average of $0.75 of every dollar in a pension fund comes from a combination of employee contributions and investment returns. As the “employer,” taxpayers are only contributing a quarter of every dollar in a pension fund.

• For NYSTRS, it’s only 15 cents!

• Public pension plans create more tax revenue than what is contributed to the plan by the taxpayer because of pension asset investments and the spending of pension dollars.
Measuring the Economic Impact of DB Pension Expenditures

Over 578 billion in pension benefits were paid to nearly 24 million retired Americans.
Expenditures made from those payments collectively supported:

- 6.9 million American jobs that paid nearly 394 billion in labor income
- 1.3 trillion dollars in total economic output nationwide
- 703 billion dollars in value added (GDP) gross domestic product
- Nearly 192 billion dollars in federal, state and local tax revenue
Pension expenditures have large multiplier effects.

- Each dollar paid out in pension benefits supported $2.19 in total economic output nationally.

- Each taxpayer dollar contributed to state and local pensions supported $8.80 in total output nationally.
The Fear Driving Pension Envy
Public employees are essential workers in our communities.

Essential workers are in the news every day.

How Bad Is the Teacher Shortage? What Two New Studies Say

Police departments struggle with staffing shortages

Widespread State and Local Shortages

Government Worker Shortages Worsen Crisis Response


NIRS – American’s Views on State and Local Employee Retirement Plans (2021)
Americans want to stabilize Social Security.
Retirement Accounts by Percentile of Net Worth (1989—2019)

Mean retirement account in thousands

Note: Authors’ calculations. Retirement account balances exclude accrued benefits on defined benefit plans.
Many cities and states are beginning to take meaningful action to provide access to retirement plans.

**State-backed Retirement Initiatives**
Thirteen states and two cities have enacted private-sector retirement savings programs since 2012.

- **Other voluntary program**
- **No program**
- **Mandatory auto-IRA**

**New York State**

May 2021- NYC Mayor signed a bill creating an auto-IRA retirement plan to be administered by the city.

October 2021- NYS Governor signed a new law providing 2.5 million private sector workers in New York an automatic enrollment, payroll-deduction retirement plan.

Many cities and states are beginning to take meaningful action to provide access to retirement plans.

Source: Georgetown University Center for Retirement Initiatives
Note: New York City and Seattle also have enacted legislation

Bloomberg Law
SECURE ACT

SECURE ACT 2.0
Coming 2022?
RMD
Required
Minimum
Distribution

TAX TIME
Why do pensions matter more now than ever?
How does a DB Pension impact recruitment and retention?
The public pension is the reason you chose public work. 70% YES 74% YES

Does the public pension keep you working in public work? 84% YES 84% YES

Boomers whose ages range from 58-76 understand that value of reliable retirement funds.

- 93% say that pensions incentivize public workers to have long careers
- 94% believe they are an important tool for retention
- 94% have favorable views of their defined benefit plan
- 89% say they will stay with their employer until retirement age or no longer able to work

National Institute on Retirement Security (NIRS)
NYSUT’s “Take A Look at Teaching” Initiative (2021)
Retirement Accounts by Race and Ethnicity

Mean retirement account in thousands


Note: Authors’ calculations. Retirement account balances include defined contribution plans and IRAs but exclude defined benefit plans.
Supporting pensions means supporting “communities and the economy overall.”
Thank You!