

Are We Ready to Respond?

Defending the Value of Defined Benefit Plans and Retirement Security

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Public Pensions Under Attack

- “The unions have a stranglehold on this state...to engage them you need your biggest strategy. It’s like trying to topple a communist government.”
- Marcia Fritz, *California Foundation for Fiscal Responsibility*
- “The point of this is to smoke the rats out of their holes...What is the total amount of pension debt? No one really knows.”
- Representative Devin Nunes, *California*
- The current public pension structure is unsustainable and unfair. Switching to defined contribution pension plans... would preserve workers' retirements and alleviate the government’s burden on taxpayers.
- Grover Norquist, *Americans for Tax Reform*

Public Pensions Under Attack



We Are at a Tipping Point

“More states have enacted significant pension legislation in 2010 than in any other year in recent memory”

Ron Snell, National Conference of State Legislatures

Changes made in 2010 alone:

- 10 states increased employee contributions (including CA)
- 13 states changed eligibility or the benefit formula (including CA)
- 8 states reduced COLAs
- 2 states offered a defined contribution and/or hybrid plan

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Pension Reform Around the Country

- Nebraska – 16 percent of pay for State patrol
- Oklahoma – 16.5 percent of pay for county employees
- California/Colorado – 10 percent of pay for state employees
- Arizona/Mississippi – 9 percent of pay for state employees
- Illinois/Missouri – Retirement age raised to 67 for new hires
- Other common themes:
 - 5-year final compensation average
 - Increased vesting periods
 - Closing DB plans to new hires and opening new lower tiers

The Rise of Defined Contribution/Hybrid Plans

- States with DC plans:
 - Alaska
 - Montana
 - North Dakota
- States with Hybrid plans:



The Fall of Private-Sector Pension Plans

- Private-sector DB plans have decreased significantly
 - 88 percent of private sector workers covered by DB plans in 1975
 - 33 percent covered by DB plans in 2005
- Primary reasons for closing private sector DB plans
 - Increased regulation
 - Fewer unionized jobs; fewer industries using DB plans
 - Lack of understanding of employee preferences to DB plans
- General Motors – pensions in peril or lost

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Challenge Assumptions That Prevent Action

“We are just the administrators.”

“It’s between the unions and employers.”

“This is a political and ideological fight.”

“I have enough to deal with in my own state let alone a national debate.”

 CalPERS

What We Can Do

- Educate stakeholders about the cost effectiveness of DB plans and public pensions
- Correct the misinformation – separate fact from fiction
- Influence the policy debate
- Disseminate data and research

What We Can't Do

- Use trust funds to influence the electorate, or support or fight a political campaign or initiative

The Wisdom and Power of Joint Action

- Mothers Against Drunk Driving (MADD)
- Amber Alert: America's Missing Broadcast Emergency Response
- Go Green Initiative – grassroots environmental program uniting teachers, students and parents
- Susan G. Komen – breast cancer awareness

Strong Data Tells Our Story

Fact – Government spending on pensions is reasonable

- State and local spending on pensions is approximately 3 percent nationwide
- Employer contributions toward pensions nationally have remained steady – between 1.9 percent and 3 percent

Common Myth:

Public pensions are excessive and a drain on state and local budgets

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Strong Data Tells Our Story

Fact – DB plans are more cost effective

- DB plans provide the same benefit income at nearly half the cost – 46% less than individual DC type plans

Common Myth:

DB plans are too expensive, DC plans are cheaper

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Strong Data Tells Our Story

Fact – Public pensions are reasonable

- Average annual pension is \$22,600 nationally
- Nearly half of all teachers and two-thirds of firefighters don't get Social Security
- Studies conclude that state/local salaries that serve as the basis of pensions are lower than those in the private sector
- About 2 percent of CalPERS members earn \$100k+

Common Myth:

Public pensions are too generous

Strong Data Tells Our Story

Fact – Pensions are a shared responsibility

- Majority of public employees pay 5-10 percent of pay toward pensions
- According to the U.S. Census Bureau, 72 percent of state and federal pension income came from employee contributions and investment earnings from 1982 – 2008

Common Myth:

Public employees don't contribute to their pensions; taxpayers are on the hook for those costs

Economic Impact of Pensions

Pensionomics: National Institute for Retirement Security

•\$151.7 billion paid in annual benefits nationally

- Created more than 2.5 million jobs
- \$92 billion in total compensation
- \$186 billion in value added to the economy; for each pension

dollar paid, \$2.36 of value was created

- Created \$57 billion in federal, state, and local tax revenue

Investments Are Secure Over Long-Term

- State and local pension plan assets totaled \$2.93 trillion at the end of 2010 – a 35 percent increase in value since March 31, 2009
- Median investment return in 2010 was 13 percent
- CalPERS 20-year long-term return is 7.9 percent

Strength in Numbers

- We have the collective data...our national associations...and our allies.

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FACTS ON STATE AND LOCAL GOVERNMENT PENSIONS

Retirement systems remain a small portion of state and local government budgets. State and local government pensions are not paid out of general operating revenues, but instead, a trust that public retirees and their employers contributed to while they were working. The portion of state and local government spending dedicated to retirement system contributions is about three percent.¹ While some pension trusts are fully funded (they have enough assets in the trust now for all pension obligations), following the recent market decline, plans will need to increase their contribution levels to five percent on average to return to full funding.² The unprecedented number of benefit and financing changes in public plans over the last few years will help to keep any required increases to a minimum.



The Risk of Inaction

- DB plans could be phased out; public employees would lose retirement security
- Citizen initiatives or courts could jeopardize vested rights
- Federal legislation: Public Employee Pension Transparency Act (Rep. Nunes) would:
 - Establish reporting requirements for state and local plans
 - Require calculation of liabilities using conservative discount rates
 - Prohibit federal bailouts of state and local plans
 - Failure to adhere to the Act would cost plans tax-exempt status
- Gingrich seeks legislation to allow state bankruptcies; escape benefit obligations.

It's Time to Act

- Strengthen and forge new relationships for academic research
- Launch a Public Pension Communicators Network to share data and information, tips, media leads, ideas and experience
- Support and organize a national education campaign led by our associations leveraging our collective data, allies and resources