Testimony to the Alaska House Finance Committee

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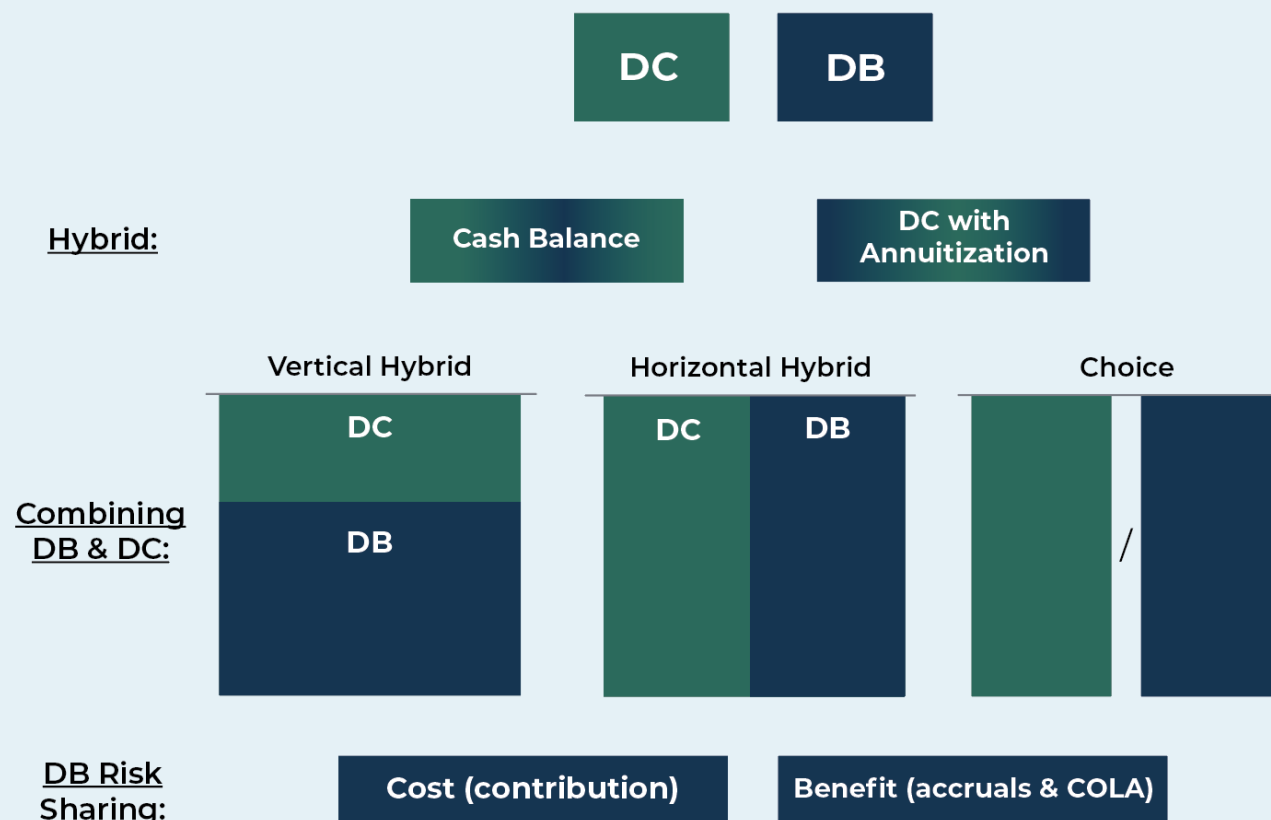**March 8, 2022**

NATIONAL INSTITUTE ON
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Variety of Plan Designs in Public Sector

Figure 1: Overview of Hybrid Retirement Systems

NASRA Resources on Risk-Sharing and State Reforms

https://www.nasra.org/sharedriskpaper


https://www.nasra.org/reforms

Better Bang for the Buck 3.0:
3 Reasons Why DB Plans Save Money

1. Pooling the longevity risks of large numbers of individuals, providing each the security of a lifetime pension without the risk of outliving their savings.

2. Are "ageless" and therefore can perpetually maintain an optimally balanced investment portfolio rather than the typical individual strategy of down-shifting over time to a lower risk/return asset allocation.

3. Achieve higher investment returns as compared to individual investors because of professional asset management and lower fees.
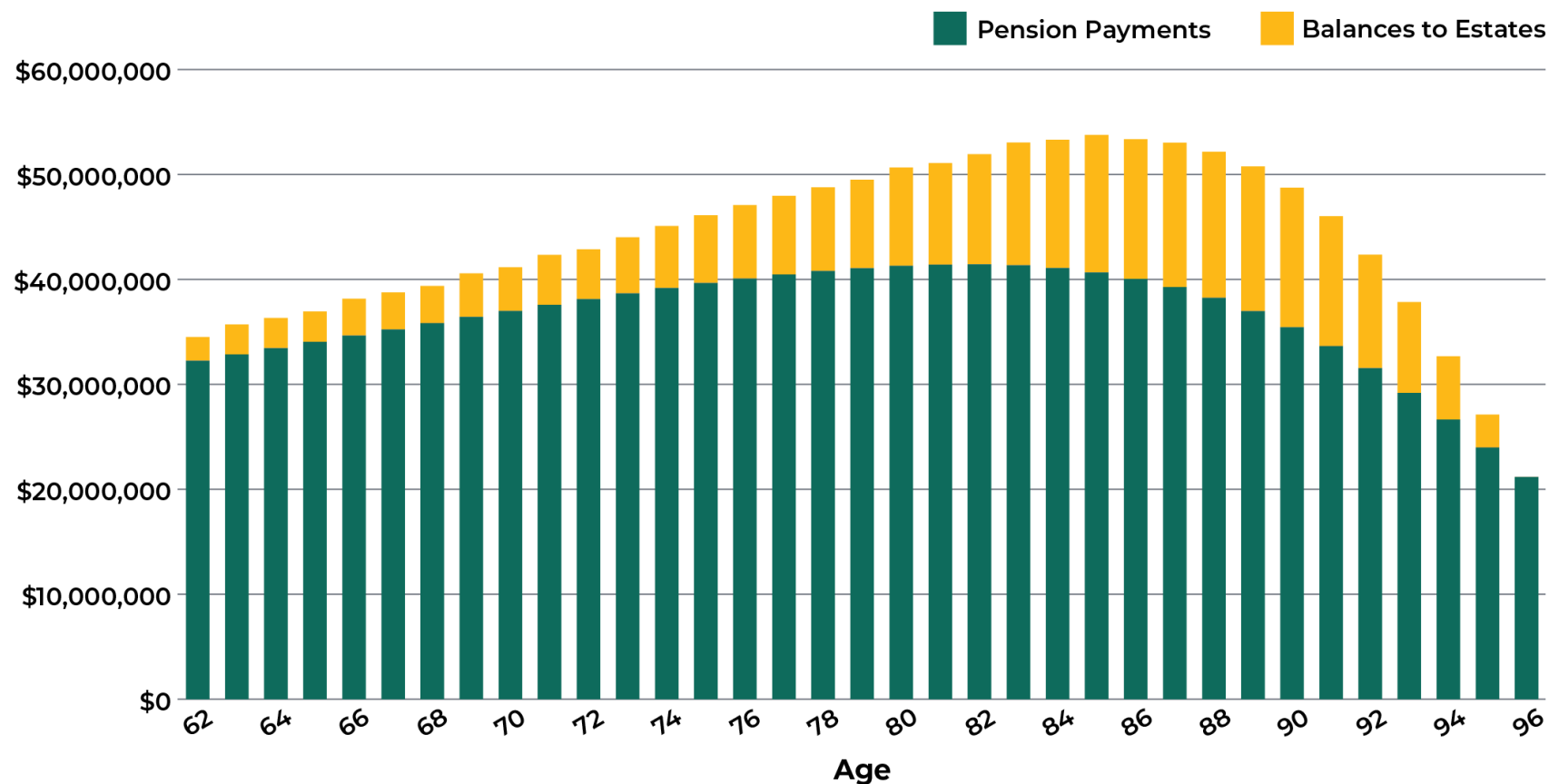
Source: https://www.nirsonline.org/reports/betterbang3/

Life Expectancy for 1,000 Teachers

Figure 2: Longevity of 1,000 Retired Female Teachers
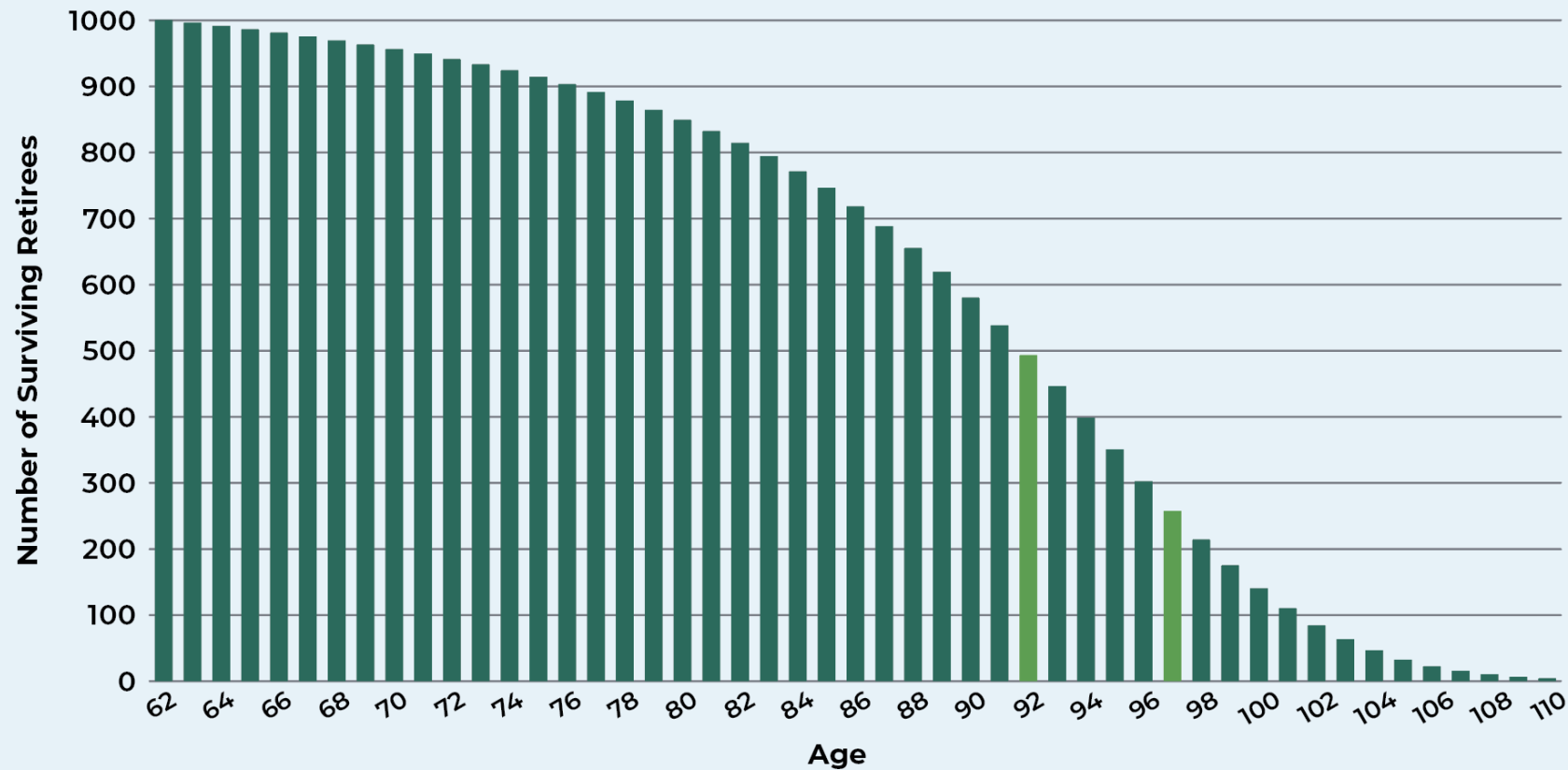
# UNDER THE DC PLAN, 15% OF ASSETS ARE NOT USED FOR RETIREMENT

Figure 5: Total Benefit and Estate Payments Under the DC Plan

Legend: Pension Payments (green), Balances to Estates (yellow)

X-axis: Age (62 to 96)
Y-axis: $0 to $60,000,000

15% of DC assets are not used for retirement benefits
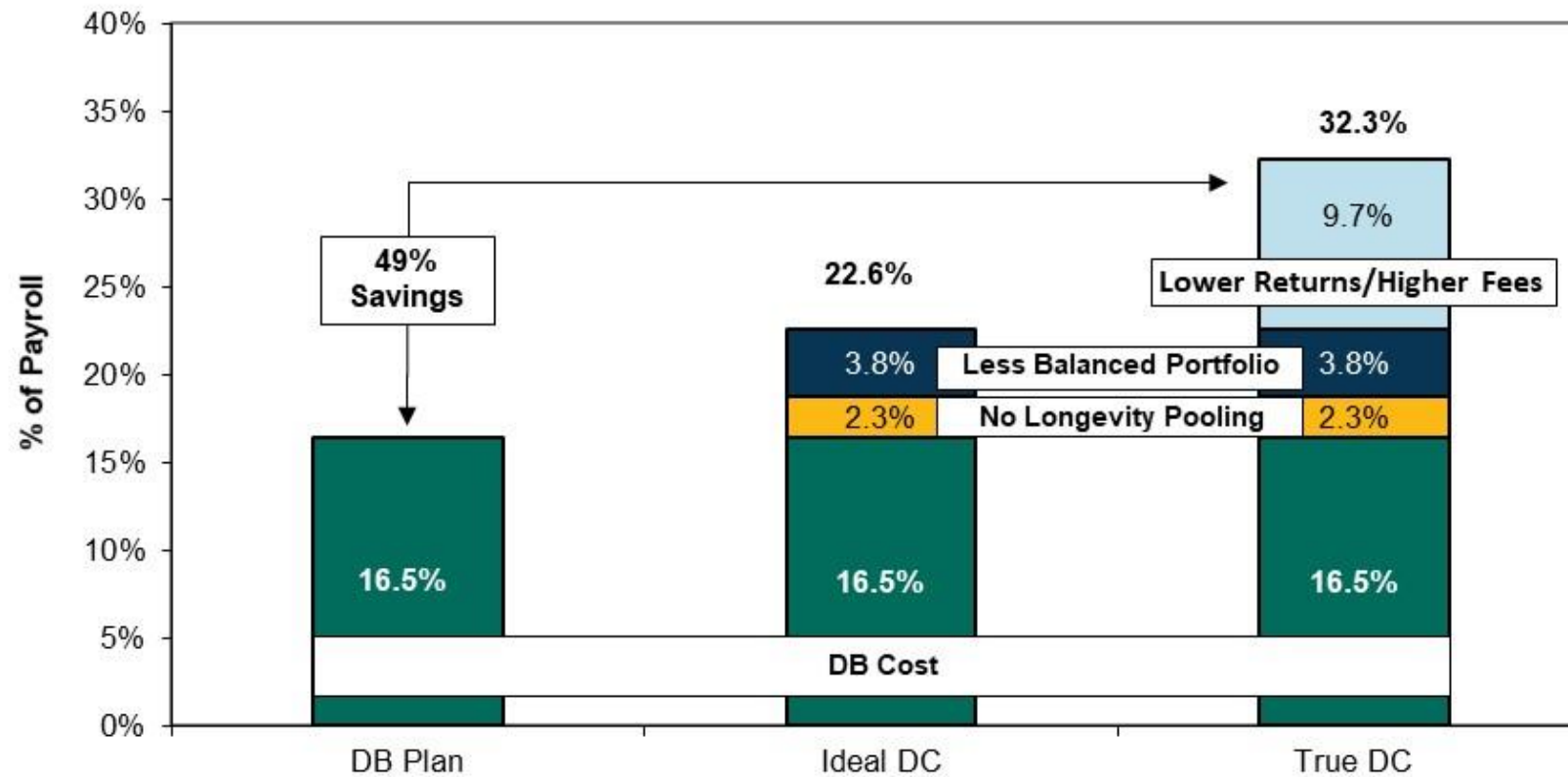&
25% of people outlive savings

Baseline Scenario: As Individuals Shift DC Portfolio Allocation, Expected Return Reduced

Figure 6A: Expected Annual Investment Return, Baseline Scenario (net of fees)

Legend: DB Return, Ideal DC Return, Individually Directed DC
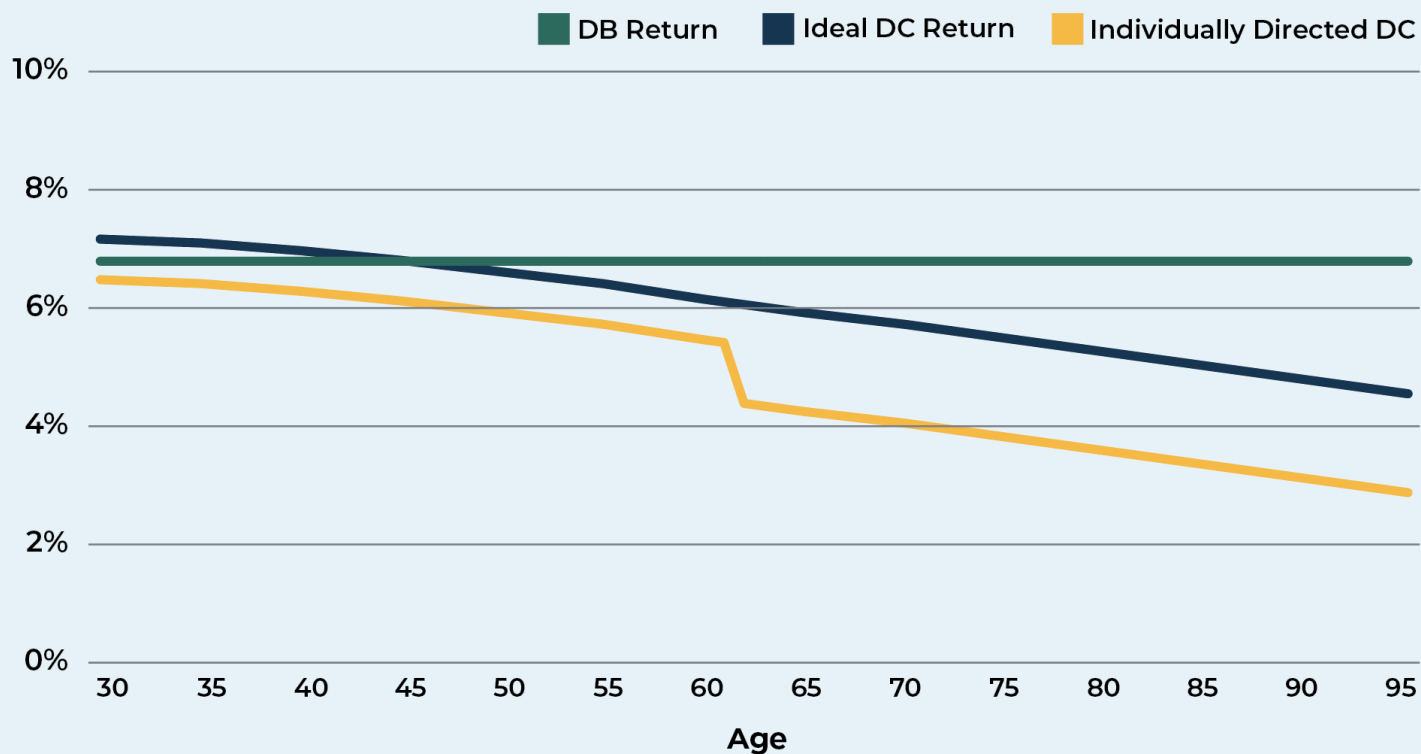
DC PLAN COSTS ALMOST TWICE AS MUCH FOR SAME BENEFITS

Figure 1a: Cost of DB and DC Plan as % of Payroll

DC Plan Inefficiency Primarily Occurs Post-Retirement

Table 2: DC Plan Efficiency Gap

	Baseline Scenario	Mid-Career Hire	Low Return Environment
Post-Retirement Inefficiency	40%	40%	45%
Pre-Retirement Inefficiency	9%	6%	7%
Total Inefficiency	49%	46%	52%

Change in Enrollment: Traditional Programs 2009-10 through 2017-18
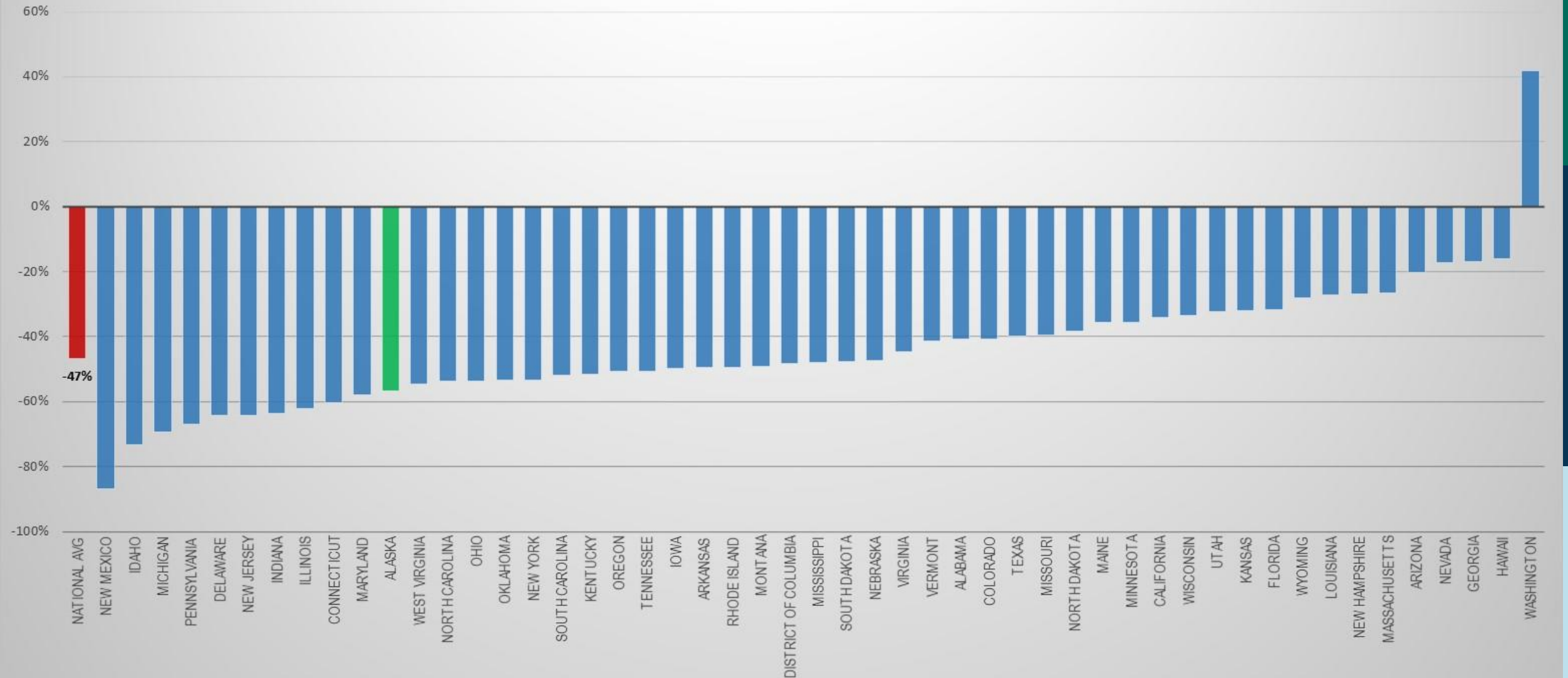
Pensions Help Deliver Strong Mid-career Retention

Figure 3
Annual Turnover Rates for Teachers Hired at Age 25

Source: Teacher Pensions Vs. 401k's in Six States:
https://www.nirsonline.org/reports/teacher-pensions-vs-401k/

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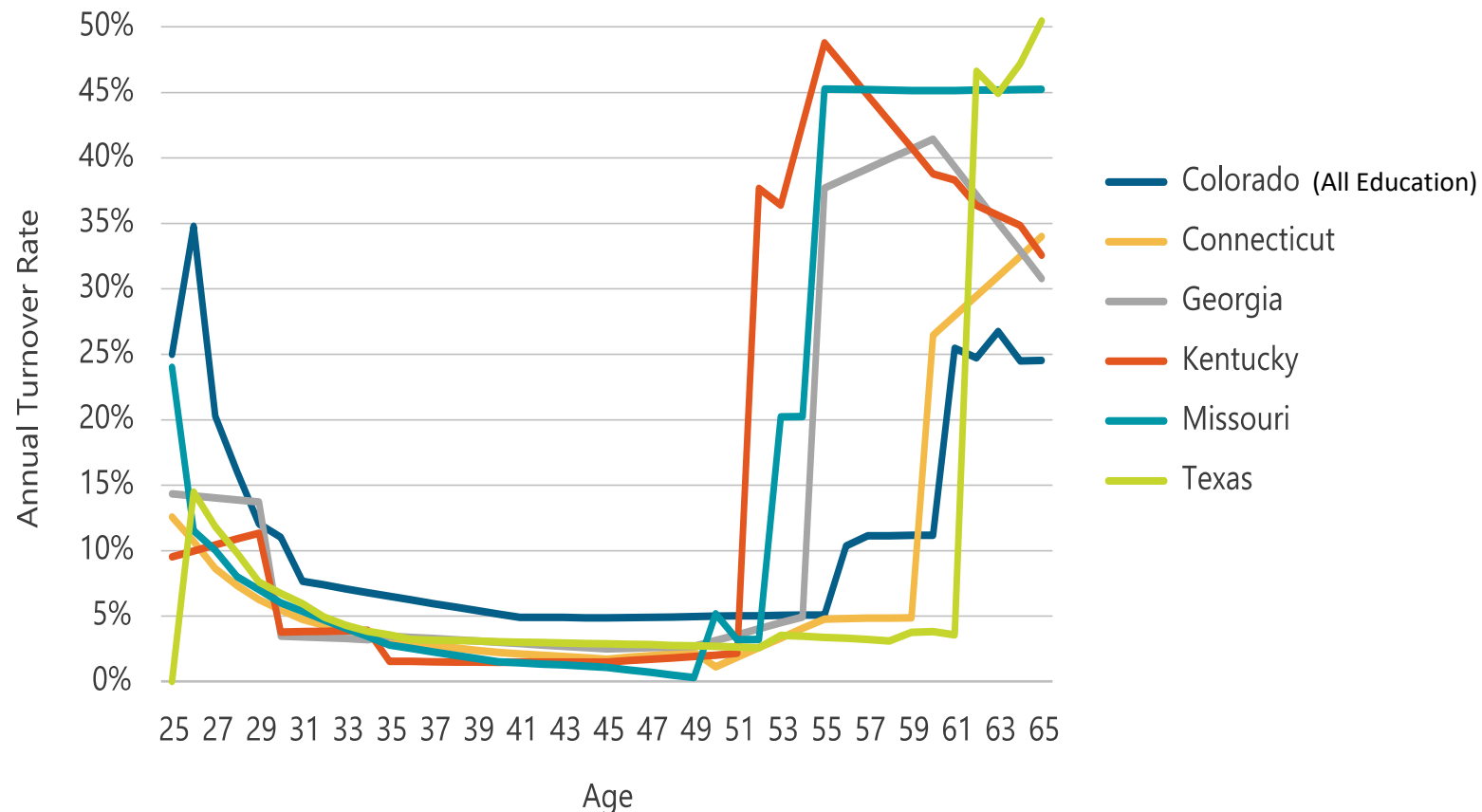
Result: Career Employment Becomes Commonplace

Table 4
Projected Teacher Age and Service Years at Exit

Teacher Pension Plans	Median Service Years	Median Age	% with 20+ Service Years
Colorado	17	57	43%
Connecticut	28	60	76%
Georgia	23	57	59%
Kentucky	26	54	63%
Missouri	27	55	73%
Texas	26	62	67%
6-State Average	**25**	**58**	**65%**

Note: Authors' analysis based on retirement system active membership data and actuarial assumptions as of FY 2017. 6-state averages are weighted by teacher membership count.

Michigan SERS Offers Warning

Contributions 5% of Asset Base

MI SERS

Benefits 12%

Investment Returns 7%