

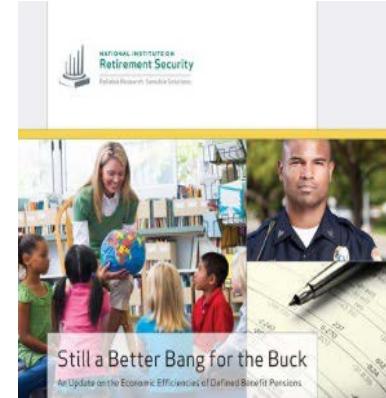
# Defined Benefit Retirement Plans and the Public Sector Workforce

**Alaska House  
Labor and Commerce Committee  
Hearing on February 16, 2018**

**Diane Oakley,  
Executive Director**

NIRS is a non-profit, nonpartisan  
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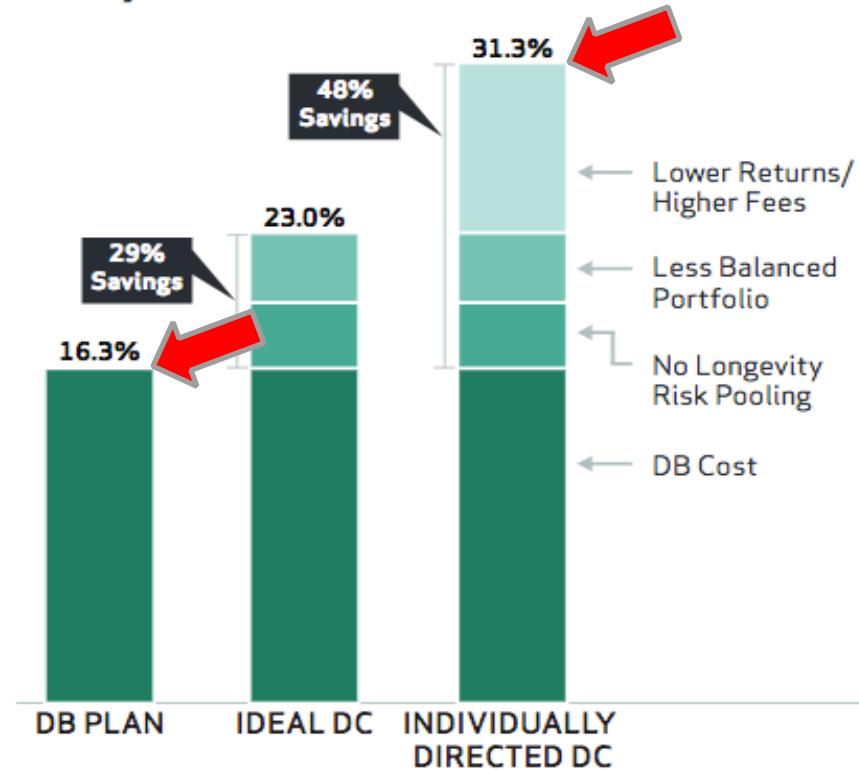
# DB Pensions Are Cost Efficient: *Still a Better Bang for the Buck*

## Cost Comparison

NIRS looked at the cost to replace 53% of final income under three retirement plan structures.

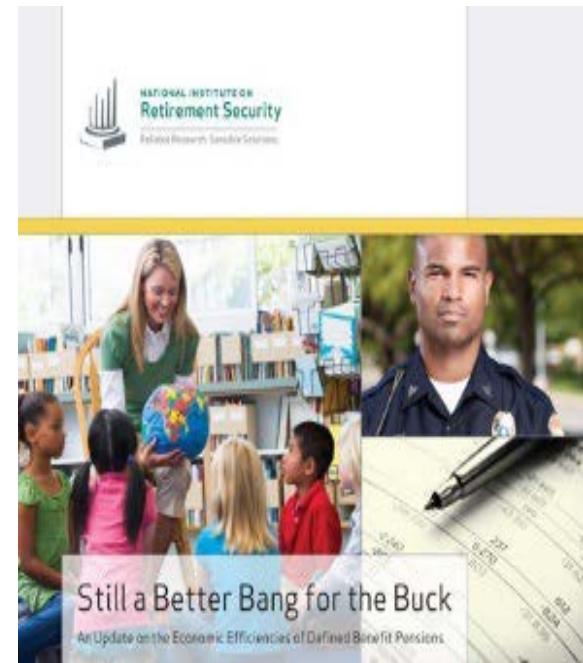
The DB pension cost 48% less than using Individual Accounts in a DC Savings Plan to provide the same amount of income.

Figure 1:  
**Cost of DB and DC Plans as a Percentage of Payroll**



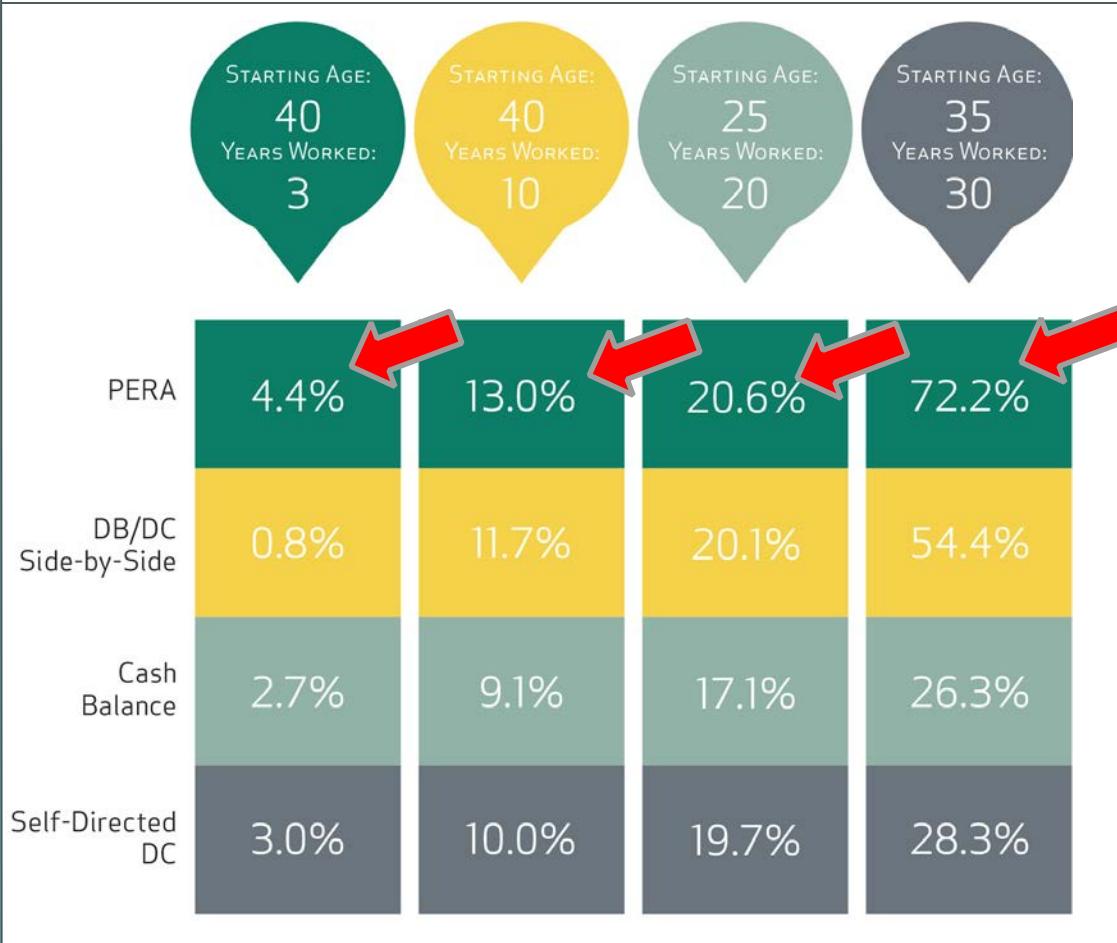
# 3 Key Reasons Why Defined Benefit Pension (DB) Plans Cost Less than Defined Contribution (DC) Plans

1. Pool the longevity risks.
2. Maintain optimally balanced investment portfolio compared to down-shifting to a lower risk/return asset allocation in DC plan.
3. DB plan have higher investment returns and lower fees compared to individual investors in DC accounts.



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# Colorado State Auditor: DB Pension Higher Income Replacement over DC



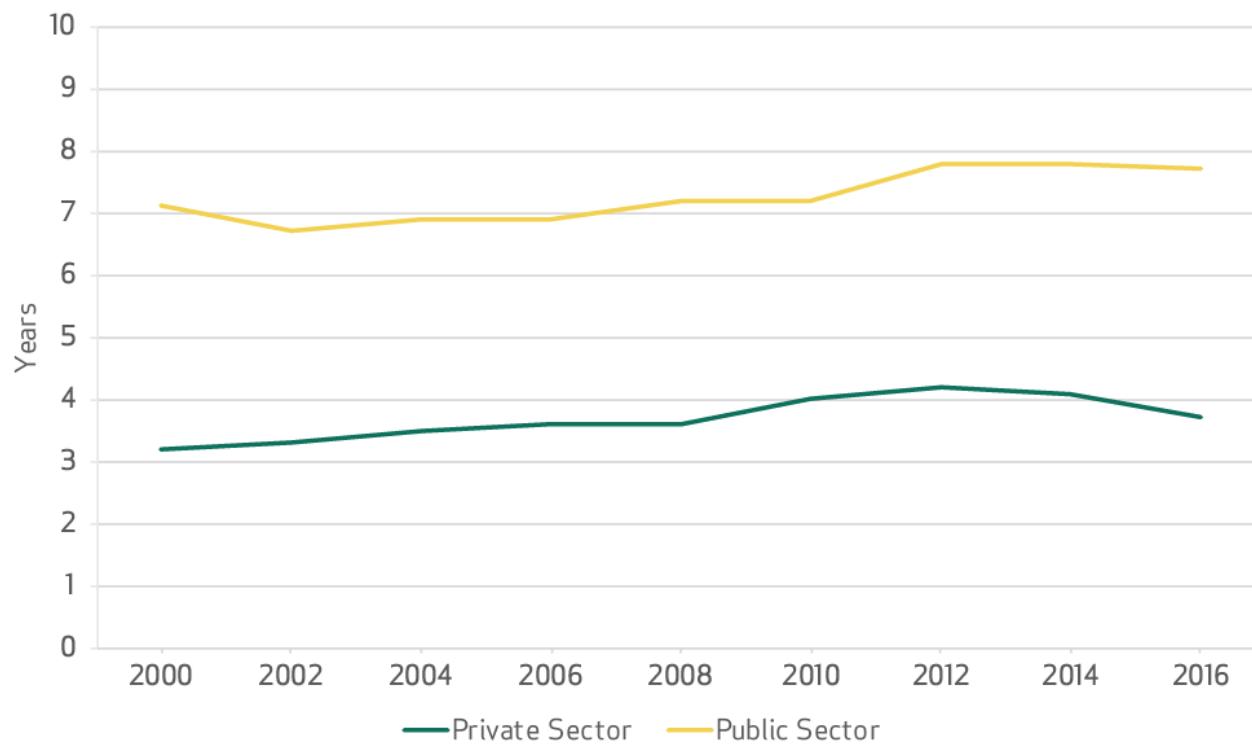
Defined Benefit Pension provides highest income replacement for the same cost as retirement accounts in a DC plan.



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# Different Workforces: Public Sector Has Job Tenure Twice that of Private Sector

**Figure 1: Median Years of Tenure with Current Employer for Private and Public Sector Employees, 2000-2016**



Authors' calculations using job tenure data from the Bureau of Labor Statistics (BLS).

# DB Plan's Role in the Public Sector: Workforce Management

- DBs improve public sector productivity:
  - Employees are more likely to value their work and tend to invest more in their skills.
- Pensions help recruit and retain quality workers. Moving to a DC design could affect recruitment, retention, and productivity.
- Teacher effectiveness increases with experience. Greater teacher retention means higher overall teacher productivity. When a mid-career teacher is replaced by an inexperienced teacher, the school as a whole sees a drop in productivity.



# Palm Beach Case Study: Costs Due to Employee Turnover Wasn't Considered

In 2012, Palm Beach closed its DB pension and opened a Combined DB/DC plan, greatly reducing benefits. During the next four years (2012-2015), a total of 109 police officers and firefighters left the forces before retirement, including 53 vested officers.

**Table 3: Palm Beach Police and Firefighter Pension Plans Withdraws and Vested Terminations (over the four-year period ending in year)**

Valuation Year (9/30)	Police		Firefighters	
	2011	2015	2011	2015
Withdrawals During Last Four Years	12	25	3	31
Departures of Vested Employees	1	24	1	29

Source: Author's calculations based on the Actuarial Valuations from 2008 to 2015.

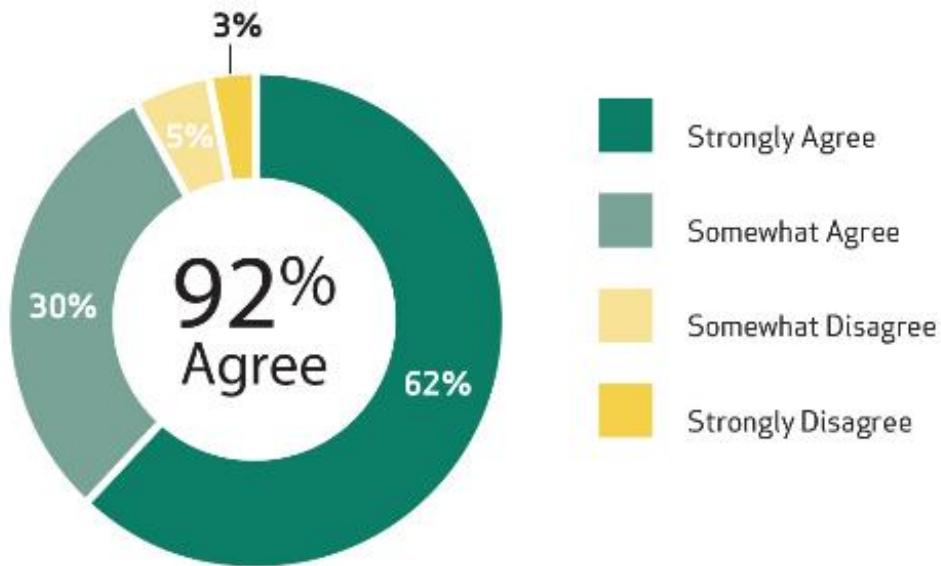


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# 92% of Americans: Public Pensions a Good Way to Recruit and Retain Employees

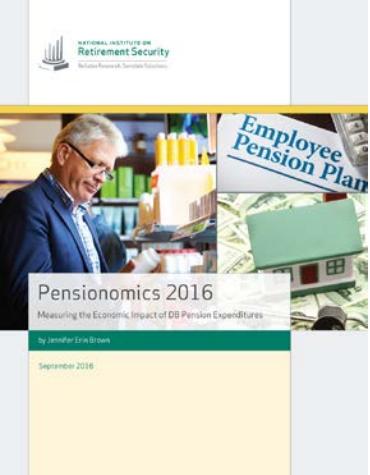
Figure 35: 92 percent of Americans say pensions help recruit and retain qualified employees.

Please tell me whether you (agree/disagree): Pensions are a good way to recruit and retain qualified teachers, police officers, and firefighters.



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# Economic Impact of Alaska's Public Retirees Spending



Expenditures by state retirees provide steady economic stream to Alaska. In 2016, these expenditures supported in Alaska:

- **Over 7,600 jobs** that paid \$400 million in wages.
- **\$1.2 billion** in total economic output. Each dollar in DB benefits supported \$1.12 in total economic activity.
- \$168 million in federal, state, and local tax revenues.
- **Each taxpayer dollar “invested” in plans supported \$4.39** in total economic activity in the state.

Source: NIRS using IMPLAN in *Pensionomics 2016*: [https://www.nirsonline.org/wp-content/uploads/2017/06/pensionomics2016\\_final.pdf](https://www.nirsonline.org/wp-content/uploads/2017/06/pensionomics2016_final.pdf).

# Questions?



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