

# Defined Benefit Retirement Plans and the Public Sector Workforce

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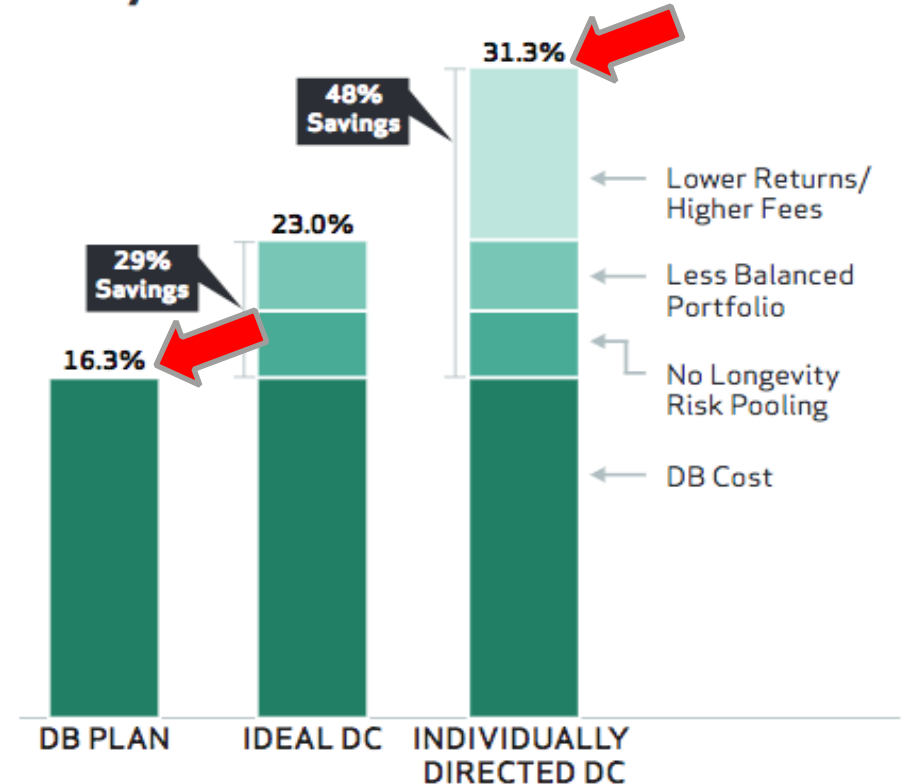
# DB Pensions Are Cost Efficient: *Still a Better Bang for the Buck*

## 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

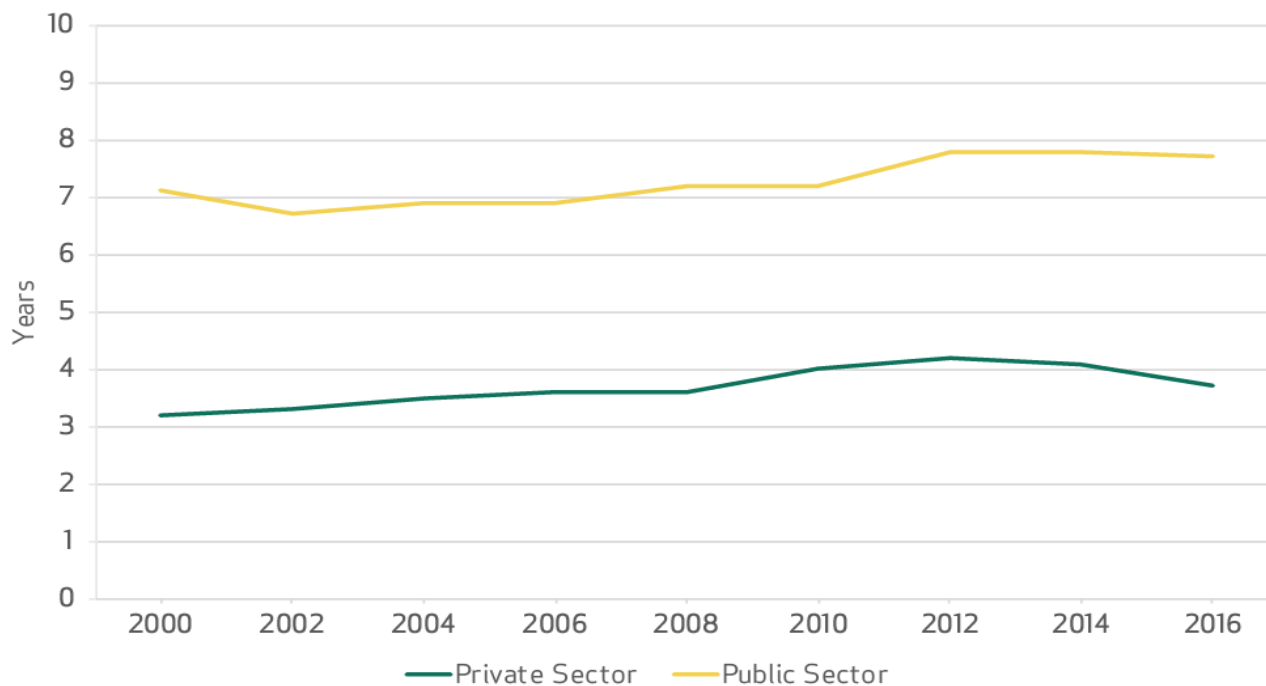
1. Pool the longevity risks.
2. Maintain optimally balanced investment portfolio, avoid need to down-shift (risk/return) as nearing retirement.
3. DB plans have higher investment returns and lower fees compared to individual investors in DC accounts.



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

Improve public sector productivity, help recruit and retain quality workers, address teacher shortage.

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

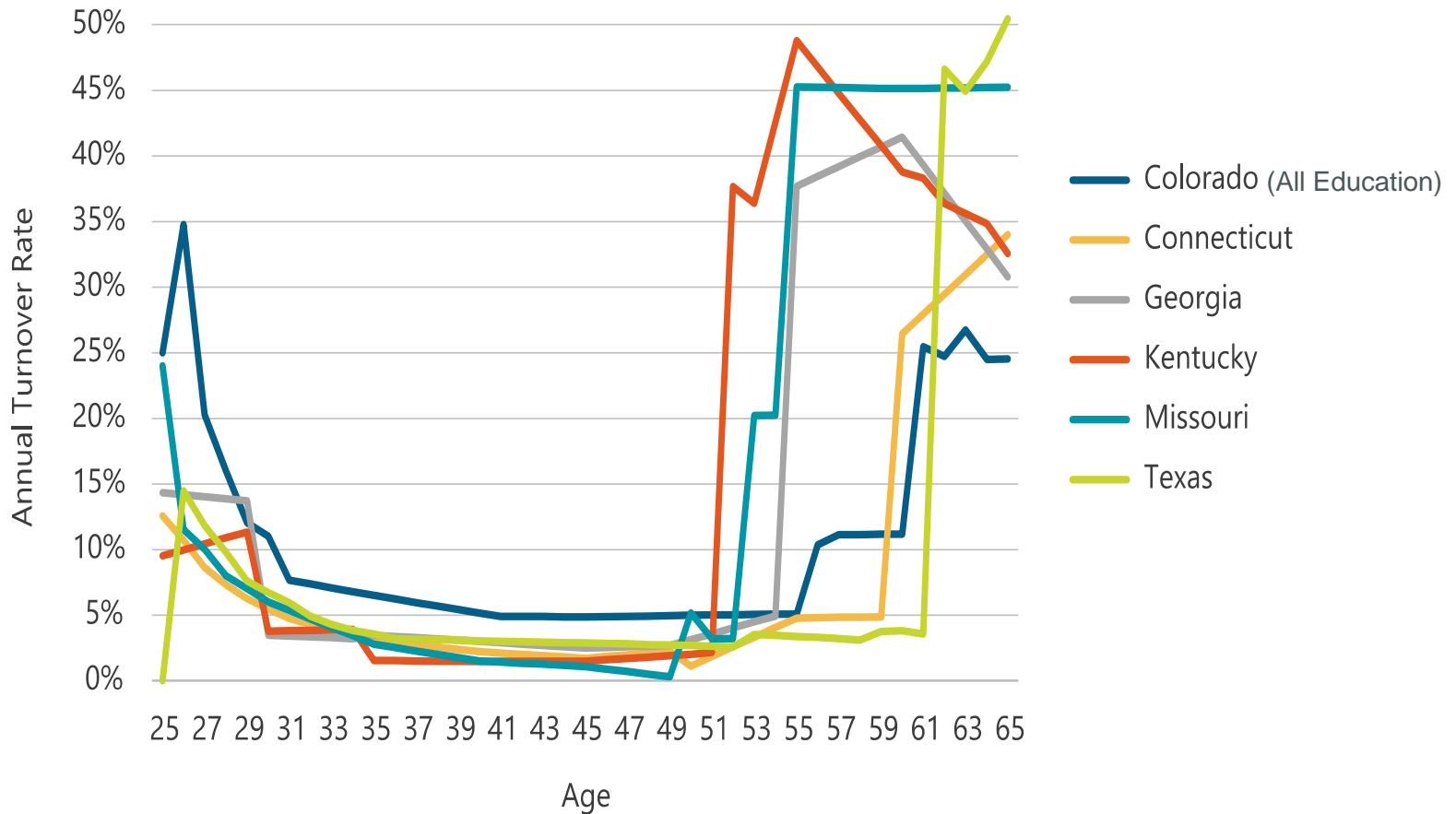


Authors' calculations using job tenure data from the Bureau of Labor Statistics (BLS).



# Pensions Help Deliver strong Mid-career Retention

Figure 3  
Annual Turnover Rates for Teachers Hired at Age 25



# 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%
<b>6-State Average</b>	<b>25</b>	<b>58</b>	<b>65%</b>

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.

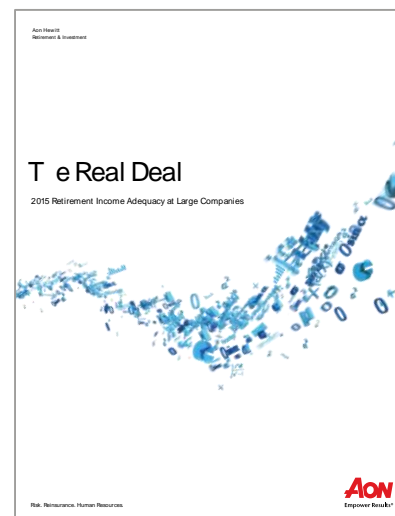
# Case Studies: Risk-Sharing

- Variable Employee Contribution Rates
- Contingent or Limited Cost-of-Living Adjustments
- Cash Balance Hybrid Plans
- DB-DC Hybrid Plans



# What Resources are Needed to Maintain your Standard of Living?

<i>Age 67 Retirement</i>	<b>Multiple of Pay</b>
Total needs	16.4x
Social Security resources	5.3x
<b>Private needs</b>	<b>11.1x</b>

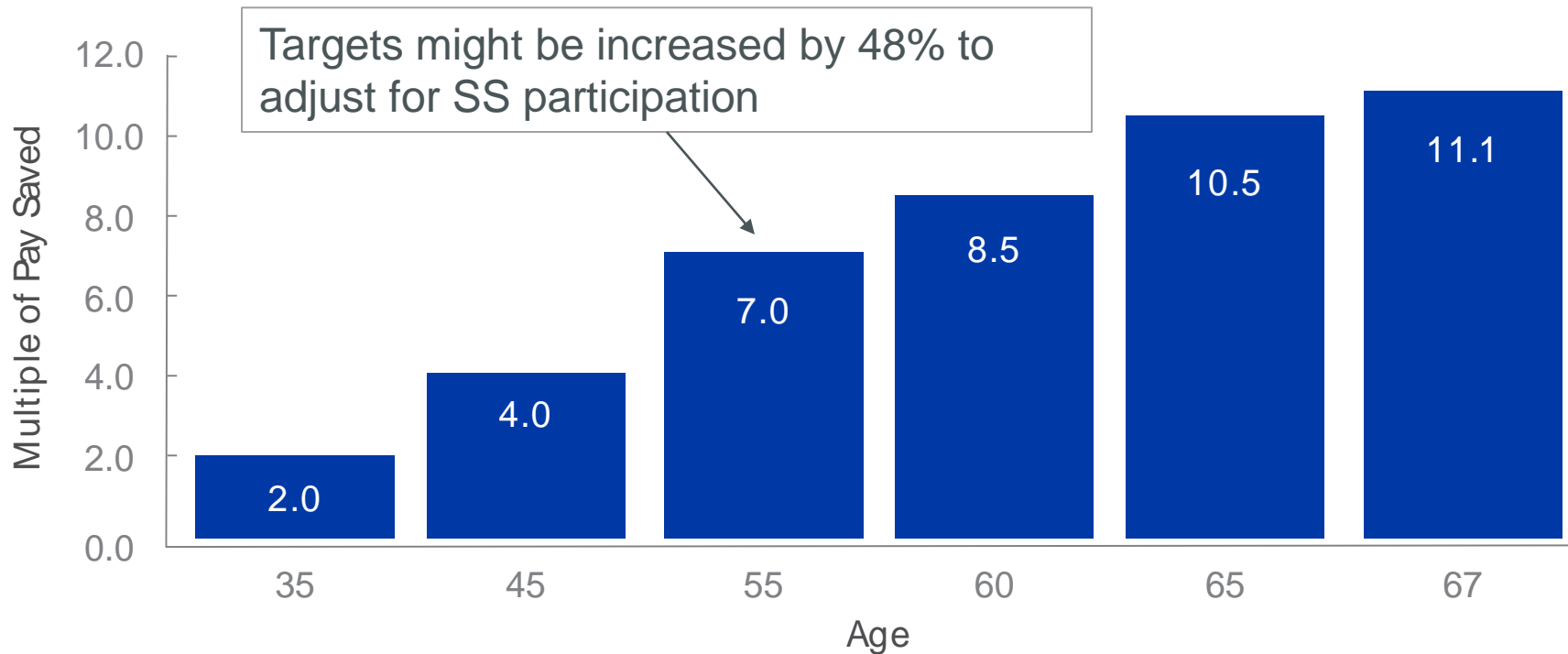




# Retirement Readiness Checkpoints

Get on Track!

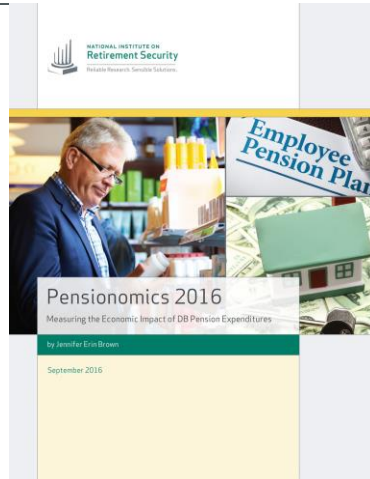
*The average employee needs to accumulate 11.1 times pay by age 67 to maintain their preretirement standard of living throughout retirement (after Social Security). It is helpful to show employees savings milestones throughout their career.*



Source: AON's The Real Deal Research at:

<https://www.aon.com/getmedia/59c14111-6414-46a4-adbb-0dba9e0e8676/Aon-Retirement-Solutions-The-Real-Deal-Full-Report-US-2018.aspx>

# Economic Impact of Alaska's Public Retirees Spending



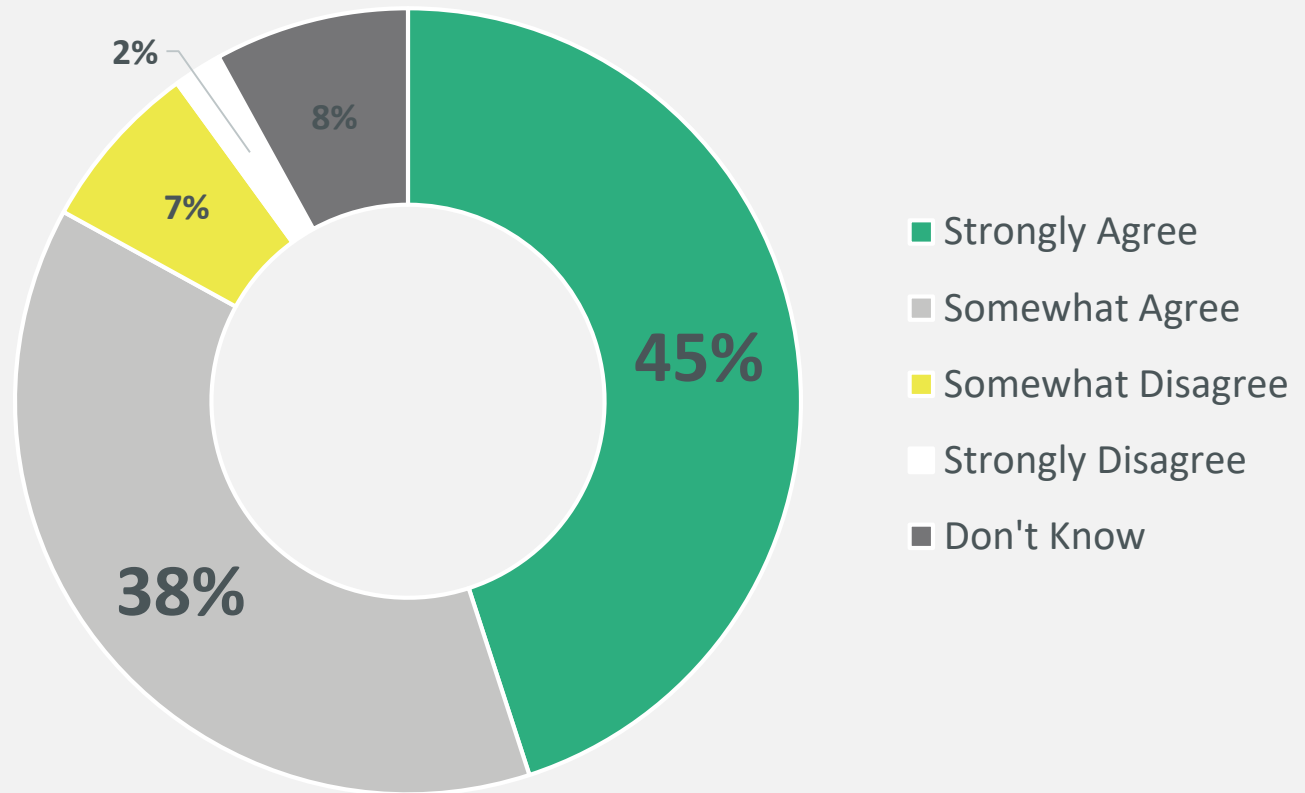
Expenditures by public sector retirees' DB pensions provide steady economic stream to Alaska. In 2016, these expenditures supported in Alaska:

- **Over 11,791 jobs** that paid \$580 million in wages.
- **\$1.89 billion** in total economic output. Each dollar in DB benefits supported \$1.25 in total economic activity.
- \$319 million in federal, state and local tax revenues.
- **Each taxpayer dollar “invested” in plans supported \$4.77** in total economic activity in the state.

Source: NIRS using IMPLAN in *Pensionomics 2018*:

[https://www.nirsonline.org/wp-content/uploads/2019/01/Pensionomics2018\\_final.pdf](https://www.nirsonline.org/wp-content/uploads/2019/01/Pensionomics2018_final.pdf).

# 83% of Americans: Public Pensions a Good Way to Recruit and Retain Employees



# Questions?



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