



FISCAL RESPONSIBILITY AND 401(K)S

Why Converting Public Employees to Defined-Contribution Retirement Plans Is Wrong For Your State



Summary

Throughout the country, state policymakers are tasked with formulating a state budget. Whether it is a time of financial hardship or pursuing an ideological agenda, too often, those in power will explore the option of converting their defined-benefit pension plans to defined-contribution 401(k) plans for state and local government workers. In 2021, lawmakers around the country will face the stark challenge of balancing their state budgets amid the coronavirus pandemic-induced economic recession. According to the Wall Street Journal, Moody's Analytics predicts that without aid from the federal government, state and local governments could face a shortfall of \$500 billion over the next two fiscal years.¹

This report explores the potential impact states will face should lawmakers decide to convert new public employees from a defined-benefit pension plan to a defined-contribution 401(k) retirement plan as a budget-saving measure.

This report seeks to answer the following questions:

- Has the emergence of defined-contribution plans contributed to the retirement savings crisis in the country?
- Does converting a defined-benefit pension plan to a defined-contribution plan impact the overall cost to the state?
- What are the consequences of converting a defined-benefit pension plan to a defined-contribution plan?
- Does conversion to a defined-contribution plan impact recruitment and retention of public employees?

¹ Davidson, Kate and David Harrison, "Coronavirus-Hit State Budgets Create a Drag on U.S. Recovery," *Wall Street Journal*, August 12, 2020, <https://www.wsj.com/articles/coronavirus-hit-state-budgets-create-a-drag-on-u-s-recovery-11597224600>.

History of Employer-Sponsored Retirement Plans

Since the 1980s, defined-contribution 401(k) retirement plans have become the predominant plan offered to private-sector employees in the United States. In 2018, 51% of private-sector employees were offered a defined-contribution plan, 13% were offered a defined-contribution and a defined-benefit pension plan, and 4% were offered a defined-benefit pension plan solely.² In 2018, 86% of state and local public sector employees had access to a defined-benefit pension plan, and of those workers 77% participated in a defined-benefit pension plan.³

Defined-contribution 401(k) retirement plans were established with the passage of the 1978 Revenue Act. The initial intent of the 401(k) was to provide another vehicle for the wealthy to save money on their taxes.⁴ It wasn't until the 1980s that U.S. corporations saw the 401(k) as a replacement retirement product, creating an opportunity to move away from providing a defined-benefit pension to their employees. The defined-benefit pension plan, which continues to be the standard-bearer in the public sector, is a retirement plan that pools workers' assets and offers a monthly retirement benefit for life after a career of service.

Defined-Contribution Retirement Plans and the Retirement Savings Crisis

Economists and researchers agree that the U.S. is on the precipice of a retirement savings crisis because Americans can not save enough using defined-contribution 401(k)-style plans or they are not saving at all. The Economic Policy Institute found that nearly half of families have no retirement account savings. Additionally, the median defined-contribution retirement account balance ranges from \$1,000 for families headed by people in their mid-30s to \$21,000 for near-retirement households - which is not enough to retire with security.⁵

Workers currently participating in defined-contribution plans in the private sector have experienced two major economic downturns in 12 years: the Great Recession and the recession caused by the coronavirus pandemic. These downturns have hurt everyday Americans' retirement savings. With the coronavirus pandemic-induced recession specifically, the jobless rate has increased mainly for low-income workers, while wealthy earners have remained relatively unscathed. CNBC cites a "two-track" economy, where wealthy Americans weather financial storms and low-income workers are forced to withdraw from their retirement savings

² "51 Percent of Private Industry Workers Had Access to Only Defined Contribution Retirement Plans," U.S. Bureau of Labor Statistics, U.S. Department of Labor, last modified October 2, 2018, <https://www.bls.gov/opub/ted/2018/51-percent-of-private-industry-workers-had-access-to-only-defined-contributi-on-retirement-plans-march-2018.htm>.

³ "Retirement Benefits: Access, Participation, and Take-up Rates," U.S. Bureau of Labor Statistics, U.S. Department of Labor, last modified March 2018, <https://www.bls.gov/ncs/ebs/benefits/2018/ownership/govt/table02a.htm>.

⁴ Olshan, Jeremy, "The inventor of the 401(k) says he created a monster," *MarketWatch*, September 26, 2016, <https://www.marketwatch.com/story/the-inventor-of-the-401k-says-he-created-a-monster-2016-05-16>.

⁵ Morrissey, Monique, "The State of American Retirement Savings: How the Shift to 401(k)s Has Increased Gaps in Retirement Preparedness Based on Income, Race, Ethnicity, Education, and Marital Status," Economic Policy Institute, December 10, 2019, <https://www.epi.org/publication/the-state-of-american-retirement-savings/>.

accounts to get by.⁶ The lack of retirement savings and the two-track economy that prevents lower-income workers from saving enough for retirement directly correlates with the obstacles that are already in place for older and younger workers trying to save.

One of these obstacles is the student debt crisis. The current total U.S. student loan debt is \$1.53 trillion, and 1 in 4 Americans under age 60 have this debt. The average student loan debt in America is \$37,172, and the average student loan payment is \$393 per month.⁷ For younger workers entering the workforce, this presents a significant barrier to properly saving for retirement. According to TIAA, 84% of working Americans cite student loan debt as an obstacle to saving for retirement. Seventy-three percent of borrowers are putting off maximizing their retirement savings while 26% are not saving for retirement at all because of their student loans.⁸

Millennials, who are the generation born between 1981-1996,⁹ have faced the brunt of the recent economic downturns. Many struggled to find adequate employment when finishing their education due to the Great Recession. Compounding the burden of student loan debt with underemployment, wage stagnation, and other factors have led millennials to drastically under-save for their retirement. That's why two-thirds of working millennials have nothing saved for retirement.¹⁰

For older workers, many are concerned about their ability to retire securely and with dignity. In July 2020, the U.S. Government Accountability Office (GAO) released a report entitled *Retirement Security: Older Women Report Facing a Financially Uncertain Future*, which cited the increasing cost of healthcare and housing as two of the primary reasons women 70 years and older are concerned about retirement.¹¹

Overall, the reliance on defined-contribution plans paired with Social Security to provide a secure retirement can be faulty. Due to the aforementioned obstacles, the vast majority of workers are not saving enough in defined-contribution accounts, regardless of how hard they

⁶ Iacurci, Greg, "Americans are raiding retirement savings during the coronavirus pandemic," *CNBC*, September 14, 2020,

<https://www.cnbc.com/2020/09/14/americans-are-forced-to-raid-retirement-savings-during-the-pandemic.html>.

⁷ Nitro College, "Student Loan Debt," accessed January 8, 2021,

<https://www.nitrocollege.com/research/average-student-loan-debt>.

⁸ TIAA-MIT AgeLab, "TIAA-MIT AgeLab Study Finds Student Loan Debt Significantly Impacts Retirement Savings, Longevity Planning and Family Relationships," *TIAA-MIT AgeLab*, July 30, 2019, <https://tiaa.new-media-release.com/mit-agemlab/>.

⁹ CNN Editorial Research, "American Generation Fast Facts," *CNN*, September 1, 2020, <https://www.cnn.com/2013/11/06/us/baby-boomer-generation-fast-facts/index.html>.

¹⁰ Brown, Jennifer Erin, "Millennials and Retirement: Already Falling Short," National Institute on Retirement Security, February 2018, <https://www.nirsonline.org/reports/millennials-and-retirement-already-falling-short/>.

¹¹ Bonvissuto, Kimberly, "Pandemic hurting retirement security; older women face unique challenges, GAO comptroller tells Senate committee," *McKnight's Senior Living*, September 25, 2020, <https://www.mcknightsseniorliving.com/home/news/pandemic-hurting-retirement-security-older-women-face-unique-challenges-gao-comptroller-tells-senate-committee/>.

may try. Additionally, many retired workers are relying solely on Social Security, which does not provide financial security in retirement.

The National Institute on Retirement Security (NIRS) released a report in January 2020 that found 40% of retired workers rely solely on Social Security income in retirement. Financial planners advocate for a 70% income replacement rate for retirees in order to maintain their current level of financial security.¹² In 2020, Fidelity Investments published these commonly agreed upon multiples that are used across the financial services industry:¹³

- *Age 30: 1x your salary*
- *Age 35: 2x your salary*
- *Age 40: 3x your salary*
- *Age 45: 4x your salary*
- *Age 50: 6x your salary*
- *Age 55: 7x your salary*
- *Age 60: 8x your salary*
- *Age 67: 10x your salary*

A study by Bankrate found that 52% of Americans have stated that they were behind on their own savings goals for retirement, and only 16% said they were right on track.¹⁴

Recently, amid the coronavirus pandemic, many workers have stopped investing in their retirement, deepening the retirement savings gap. In August 2020, Finance Buzz released its second annual retirement survey and found that “27% of Americans have decreased or stopped contributing to retirement savings due to COVID-19.”¹⁵

Defined-contribution 401(k) retirement plans have eroded the American worker's path to a stable retirement and contributed heavily to the retirement savings crisis. With so many younger workers having nothing saved for retirement and the economic weariness of older workers who are about to retire or are already retired, it's clear that the U.S. has a major crisis on its hands. The path to a secure retirement has eroded for workers since the private sector moved away from defined-benefit pensions in the 1980s.

¹²Porell, Frank and Tyler Bond, “Examining the Nest Egg: The Sources of Retirement Income for Older Americans,” National Institute on Retirement Security, January 2020, <https://www.nirsonline.org/reports/examining-the-nest-egg/>.

¹³ Fidelity, “How Much Do I Need to Retire?,” July 21, 2020, <https://www.fidelity.com/viewpoints/retirement/how-much-do-i-need-to-retire>.

¹⁴ Royal, James, “Survey: More than half of American workers say they are behind in saving for retirement,” *Bankrate*, November 21, 2019, <https://www.bankrate.com/surveys/financial-security-poll-november-2019/>.

¹⁵ Alterman, Liz, “What Would You Sacrifice to Retire Early? Survey Says Kids, Pets, and Shopping,” *Finance Buzz*, September 30, 2020, <https://financebuzz.com/retire-early-survey>.

The Negative Financial Consequences of Closing a Pension Plan

Closing a defined-benefit pension plan can be costly for a state. A few states have chosen to close pension plans for future hires in an attempt to reduce their pension plans' unfunded liabilities or reduce short-term budget deficits, but the opposite occurred.

It is important to note that when a state closes a pension plan, the state is not absolved of their liabilities to those already participating in the system. Meaning, current and future pension benefits still need to be paid to those retirees and future retirees who are guaranteed pension benefits. Plus, by removing new and future employees from the system, their contributions are no longer sustaining the fund. Without new employees paying into the plan, liabilities increase while the state provides new employees with a different type of retirement benefits. The experiences of Michigan and West Virginia provide historical context for these changes.

Michigan

In 1997, Michigan lawmakers closed their state employee pension plan, the Michigan State Employees' Retirement System (SERS). At the time, the plan was 109% funded and had tens of thousands of beneficiaries. Although the system was well-funded, without new employees participating in the fund the funding status has dropped significantly since the plan's closure. When the plan was closed, SERS had \$734 million in excess assets since it was 109% funded.¹⁶ As of September 2019, with only 8,107 active participants and 60,501 beneficiaries, the plan was \$6.6 billion underfunded and had a funded status of 64.7%.¹⁷ This large increase in unfunded liabilities can be traced back to the large difference in active and retired employees. With fewer workers participating in the defined-benefit retirement plan and more beneficiaries, the unfunded liability has increased, putting more strain on the state's budget.

West Virginia

After years of underfunding the state's Teacher Retirement System (TRS), lawmakers in West Virginia closed the plan to newly hired teachers in 1991 and moved all future hires into a defined-contribution 401(k) plan. For years, public employees contributed to their pensions with every single paycheck, while the state legislature did not. Fourteen years after the plan's closure, only 18,000 active teachers were contributing to TRS and its 27,000 retirees. With lopsided pension funding, the funded status of the plan dropped to 25%.¹⁸

¹⁶Bond, Tyler and Dan Doonan, "Enduring Challenges: Examining the Experiences of States that Closed Pension Plans, National Institute on Retirement Security, August 2019, <https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf>.

¹⁷Michigan State Employees' Retirement System, "Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2019," September 30, 2019, <https://audgen.michigan.gov/wp-content/uploads/2020/02/CAFR-FY19-SERS-Final.pdf>.

¹⁸ Watkins, Jennifer, "Three States That Abandoned Their Pensions - And Suffered the Consequences," National Public Pension Coalition, February 24, 2017, https://protectpensions.org/2017/02/24/abandoned_pensions_consequences/.

With so many newly hired teachers in an inadequate 401(k) retirement plan and the pension plan's funded status plummeting, West Virginia began studying the conversion. The state then realized that if they re-opened the defined-benefit plan provided by TRS to new teachers and gave current teachers participating in the 401(k) plan a choice to switch back, they could provide equivalent benefits at half of the cost. In 2005, state lawmakers re-opened the plan and more than 78% of current teachers made the switch to the defined-benefit pension plan. TRS now covers approximately 41,594 members and 36,394 retirees¹⁹ and, as of 2019, has a funded ratio of over 70%.²⁰

Economic Benefits of Pensions Nationwide

Closing pension plans comes at a cost and can ultimately strain future budgets. Still, the consequences of losing out on pension-generated economic activity can cause even more strain on local communities. Public pension spending has a profound impact on the country's economy. In 2018, the expenditures of 23.8 million retired Americans from their monthly pension payments supported nearly 7 million jobs and \$1.3 trillion in total economic output nationwide.²¹ A report from the National Council on Public Employee Retirement Systems (NCPERS) found that the economy grows by \$1,362 for each \$1,000 of pension funds invested. Taking into account that in 2018, there were \$4.3 trillion in public pension assets, those investments contributed roughly \$872.4 billion to state economies.²²

These are real dollars being spent in rural and urban areas around the country. Eliminate this spending by retirees, and many "Main Streets" may struggle to keep up in the future.

Recruitment and Retention

Closing a pension plan and moving all newly hired public employees into a defined-contribution plan such as a 401(k) can have adverse effects on the recruitment and retention of employees for state and local governments. Several historical examples show these negative effects on small and large municipalities, and even states. Many governments have eventually re-opened their defined-benefit plans or are currently sounding the alarm about the difficulties they are facing.

¹⁹ "Teachers' Retirement System (TRS)," West Virginia Consolidated Public Retirement Board, accessed January 8, 2021, <https://www.wvretirement.com/TRS.html>.

²⁰ Center for Retirement Research at Boston College, "State and Local Pension Plans," accessed November 18, 2020, <https://publicplansdata.org/public-plans-database/browse-data/>.

²¹ Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

²² Kahn, Michael, "Unintended Consequences: How Scaling Back Public Pensions Puts Government Revenues at Risk," National Conference on Public Employee Retirement Systems, May 2020, https://www.ncpers.org/files/NCPERS%20Unintended%20Consequences_2020_Update_WEB_FINAL.pdf.

The Town of Palm Beach, Florida

In 2012, the Town of Palm Beach, Florida closed its pension system to newly hired public safety officers, including police officers and firefighters. All newly hired public safety officers were provided with a hybrid retirement plan consisting of defined-contribution and defined-benefit components. This new plan did not provide an adequate retirement. According to the Florida Public Pension Trustee Association, Palm Beach lost 24 public safety officers in 2012. The following year, the town lost 24 more. In a short time after, more than 60% of the town's employees had less than three years of experience in their jobs.²³ The cost incurred by the town ballooned to almost \$20 million based on the \$240,000 price tag to train a new police officer.²⁴ With surrounding cities and municipalities still offering a pension plan, police officers and firefighters would train in the Town of Palm Beach and leave for other jurisdictions to earn a better retirement benefit. In 2016, after four years of retention issues, the town reopened its pension plan for public safety officers.

The Town of Branford, Connecticut

The Town of Branford, Connecticut, encountered the same issue in 2019: their police officers weren't staying on the job. In 2011, the Town of Branford moved all of its newly hired police officers into a defined-contribution 401(k) retirement plan. After years of losing police officers to neighboring departments that offered a defined-benefit pension, the Representative Town Meeting unanimously approved a new contract that moved all police officers back into the defined-benefit pension plan.²⁵

The State of Alaska

In 2005, a unique set of circumstances unfolded in Alaska. After the state's actuary made inaccurate projections about the state's pension assets, lawmakers faced a combined \$4.1 billion unfunded liability for their Public Employees Retirement System (PERS) and their Teachers Retirement System (TRS). In response, lawmakers made the ill-informed decision to close their defined-benefit pension plan to newly hired public employees and switched them to a defined-contribution 401(k)-only plan.²⁶ This policy differs from other states that made this

²³ Ryals, Kimberlie, "City's move to 401(k) pensions is big mistake as Palm Beach showed," *The Florida Times-Union*, February 22, 2017, <https://www.jacksonville.com/opinion/columnists/2017-02-22/guest-column-city-s-move-401k-pensions-big-mistake-palm-beach-showed>.

²⁴ Oakley, Diane, "Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions," National Institute on Retirement Security, February 2018, <https://www.nirsonline.org/wp-content/uploads/2018/02/Final-Palm-Beach-Feb-2018.pdf>.

²⁵ Zaretsky, Mark, "Branford RTM approves PD switch back to traditional defined-benefit police pensions," *New Haven Register*, May 15, 2019, <https://www.nhregister.com/metro/article/Branford-Police-Department-switching-back-to-13848213.php>.

²⁶ Bond, Tyler and Dan Doonan, "NIRS, Case Study: Alaska faces mounting challenges thirteen years after closing pension plans," National Institute on Retirement Security, August 2019, <https://www.nirsonline.org/wp-content/uploads/2019/08/Enduring-Challenges-Final.pdf>.

change because in Alaska public employees are not eligible for Social Security benefits, making their 401(k) the only retirement vehicle at their disposal.

Since then, Alaskan government agencies have had their fair share of recruitment and retention issues. The Institute of Social and Economic Research at the University of Alaska (ISER) found that the cost of teacher recruitment and turnover became too high, and some rural school districts had trouble keeping up. ISER research has shown that it costs the state roughly \$20 million a year, or \$20,431 for every teacher turnover.²⁷ Some superintendents have offered up to \$3,000 signing bonuses for teachers to entice recent college graduates to their school districts.²⁸

Recruitment troubles aren't only found in the teaching profession. In 2018, the Alaska State Troopers had to undergo a rebranding effort to entice recruits to the state. The Alaska Department of Public Safety Recruitment and Retention Plan Overview for 2018-2023 found that the department was drastically understaffed. The report stated, "The budget climate, reduced resources, inadequate wages and the inability to provide a defined benefits retirement system have placed the department at critically low staffing levels. Low staff and reduced funding are detrimental to the department's ability to effectively deliver core public safety services. (emphasis added)"²⁹ With multiple government agencies having issues with recruitment and retention, the misguided decision to eliminate the defined-benefit pension plans is a direct cause of their troubles.

Teachers and Public Pensions

In a study conducted by NIRS, it was found that although attrition is high in the first five years of employment, the number of teachers that leave the profession drops dramatically after those years and stays low through the middle of their career. This can be attributed to one thing: Pensions. Sixty-five percent of teachers from the states of Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas will serve for at least 20 years. Additionally, NIRS found that retaining experienced teachers lowers teacher turnover, which can help school districts that are facing staffing shortages.³⁰ Eliminating pensions for future employees would harm teacher retention and there would be no incentive for experienced teachers to stay on the job.

²⁷ "This is what teacher turnover looks like in Alaska," *Anchorage Daily News*, February 3, 2020, <https://www.adn.com/sponsored-content/2020/02/01/this-is-what-teacher-turnover-looks-like-in-alaska/>.

²⁸ Petersen, Victoria, "A Perennial Challenge in Rural Alaska: Getting and Keeping Teachers," *Education Week*, September 10, 2019, <https://www.edweek.org/ew/projects/letters-from-alaska/a-perennial-challenge-in-rural-alaska-getting.html>.

²⁹ "Alaska State Troopers Stepping Up Recruitment Efforts," *Associated Press*, August 25, 2018, <https://apnews.com/article/0fb7d3516a6e470895fe19ad9ae797df>.

³⁰ Rhee, Nari and Leon F. "Rocky" Joyner, Jr, "Teacher Pensions vs. 401(k)s in Six States: Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas," National Institute on Retirement Security, January 2019, https://www.nirsonline.org/wp-content/uploads/2019/01/Teacher-Pension-vs-401ks-in-Six-States_FINAL.pdf.

Public Employees Views

In 2019, a NIRS poll of current public employees found that pensions remain one of the best recruitment and retention tools available for municipalities, cities, and states. For millennial public employees, 74% cited their pension benefit as a major reason why they chose public service. Additionally, 94% of state and local employees polled said that pensions are a useful tool for retention, and 73% said they would be likely to leave their job if their pensions are cut.³¹

³¹Kenneally, Kelly and Tyler Bond, “State and Local Employees Views on Their Jobs, Pay and Benefits,” National Institute on Retirement Security, November 2019, <https://www.nirsonline.org/reports/state-and-local-employees-views-their-jobs-pay-and-benefits/>.

WYOMING BY THE NUMBERS

PENSIONOMICS IN WYOMING

Total Economic Output: \$891.5 million
Total Jobs Supported: 5,121
Pension Benefit Multiplier: \$1.00 = \$1.12
total output
Total Federal, State, Local Taxes Revenue
Generated: \$129.4 million

Boivie, Ilana and Dan Doonan, "Pensionomics State Data 2021," National Institute on Retirement Security, January 6, 2021, <https://www.nirsonline.org/wp-content/uploads/2020/12/Pensionomics-2021-Report-Final-V6.pdf>.

WYOMING RETIREMENT SYSTEM

Active Members: 41,061
Deferred Vested: 7,977
Deferred Non-Vested: 27,763
Current Beneficiaries: 32,486
Total with a Direct Financial Interest:
109,287

Wyoming Retirement System, "Summary of Results as of January 1, 2020," January 1, 2020.

Created in 1953, the Wyoming Retirement System (WRS) has provided pension benefits to retired public employees across the state for more than half a century. Made up of several different funds under the umbrella of WRS, the system provides pensions to nearly 80,000 active and retired public employees across Wyoming. The different funds include:

- Public Employee Pension Plan (Including Pre K - 12 Education)
- Law Enforcement Pension Plan
- Warden, Patrol, and DCI Pension Plan
- Paid Fire A Pension Plan
- Paid Fire B Pension Plan
- Judicial Pension Plan
- Air Guard Firefighter Pension Plan
- Volunteer Firefighter & EMT & SAR Pension Plan

Over the last decade, the Wyoming legislature has considered and adopted policies aimed at WRS. Several successful efforts have been made to increase funding to WRS, including boosting funding from the state and increasing employee contributions to the plan. Since funding to the system has increased over the years, the unfunded liability of the public employee plan, which comprises the largest portion of WRS, now stands at 73.2%.³² According to WRS's 2020 annual report, Wyoming has the lowest contribution rate in the nation at 1.98% of state and local budget expenses, compared to the national average of 5.2%.³³ With such a small cost to state and

³² Wyoming Retirement System, "Summary Report 2020," January 1, 2021, <https://retirement.wyo.gov/-/media/Files/Admin/Summary-Reports/2020SummaryReport.ashx>.

³³ "NASRA Issue Brief: State and Local Government Spending on Public Employee Retirement Systems," NASRA, Updated December 2020, <https://www.nasra.org/files/Issue%20Briefs/NASRACostsBrief.pdf>.

local governments, WRS provides a secure retirement to thousands of retired public employees at a fraction of the cost of state and local budget expenses.

In addition to increased funding, legislation that would have moved all future public employees from the defined-benefit pension plan into a defined-contribution plan failed to pass.

Financial planners used a "the three-legged stool" as a way to describe how to adequately save for retirement. The three-legged stool includes a pension, personal savings, and Social Security. WRS assists public employees in their quest for a fiscally sound retirement by offering a 457(b) deferred compensation plan. This 457(b) plan, established in 2001, allows public employees to save their own money for retirement, along with their pension and Social Security benefits.

Conclusion

History has shown that closing a defined-benefit pension plan for future public employees and converting them to a defined-contribution 401(k)-style plan only creates more issues for governments and lawmakers. States will see increased costs of funding their pension plans in the future, as the plans cannot keep up with the disparity between active and retired public employees. Additionally, eliminating defined-benefit pensions can create recruitment and retention issues for all levels of government.

Lawmakers who favor conversion will point to short-term savings as a reason why their state should consider it. As described throughout this report, this idea is short-sighted and fails to acknowledge the real long-term fiscal impact. Lawmakers should notice trends in the private sector as to why they should not strip future public employees of a defined-benefit pension, especially those who dedicate their lives in service to their communities.

Defined-contribution 401(k) retirement plans were also never meant to be a primary retirement vehicle for any worker, either in the private or public sector. Ted Benna, who is widely regarded as the “father of the 401(k),” has called the creation of the 401(k) “a monster.”³⁴

With a defined-benefit pension plan, workers and employers do not stop contributing during an economic downturn. Since workers’ assets are pooled in the pension fund, they can weather financial storms, such as the Great Recession and the coronavirus pandemic-induced economic downturn. Also, with a pension, retired workers do not have to worry about running out of money in retirement - their retirement benefits are earned and paid every month for the rest of their lives.

Observing the wealth of evidence in this report and the examples provided by other local and state governments, lawmakers should strongly consider this research and evaluate the adverse outcomes of passing 401(k) conversion legislation to the detriment of their governments’ budgets and public employees. 401(k) conversion is not the answer. Instead, maintaining their defined-benefit pensions and practicing fiscal discipline by ensuring that systems are fully funded each year is the better course of action.

³⁴ CBS News, “401(k) Founder: My Creation is ‘a Monster,’” November 29, 2011, *CBS News*, <https://www.cbsnews.com/news/401k-founder-my-creation-is-a-monster/>.