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DEFINED-BENEFIT PENSIONS

The best path for states to provide retirement security to public employees and their families.

WHAT IS A DEFINED-BENEFIT PENSION?

After a lifetime of hard work and service in their communities, public employees have earned financial security in retirement. Defined-benefit pensions are the most cost-effective way to allow teachers, firefighters, nurses, librarians, and other public servants to retire with dignity. Cities and states have provided pensions to public employees for more than 100 years because they ensure a dignified and secure retirement.

DID YOU KNOW?

The first public pension plans were established in New York in 1857.

Defined-benefit pensions provide modest monthly payments for life to retired employees. Pension plans offer low fees, asset diversification, longevity risk pooling, and professional management. Because of these advantages, pensions are able to provide better retirement benefits for about half the cost of 401(k)-style defined-contribution plans.

Most pension plans calculate pension benefits using a formula that involves three factors: the number of years of service of the employee, the final average salary of the employee, and a benefit multiplier. The multiplier is a percentage, often ranging from 1% - 2.5%, that determines the size of the benefit amount. The formula can be adjusted to make pensions more or less generous.

Years of Service* X *Final Average Salary* X *Benefit Multiplier* = *Pension Benefit

WHO PAYS FOR PUBLIC PENSIONS?

Most plans receive money from three sources: employers, employees, and investment earnings. On average, $0.75 of each dollar in a pension fund comes from employee contributions and investment earnings - not from taxpayers. Most public employees contribute a portion of their salary to their pension - and never miss a payment.

PENSION FACT

In 2018, the average public employee earned a yearly benefit of $28,019, a modest amount that allows retired public employees to support themselves, their families, and their communities.*

***Source: National Institute on Retirement Security**

AMERICANS WANT RETIREMENT SECURITY AND PUBLIC EMPLOYEES WANT PENSIONS

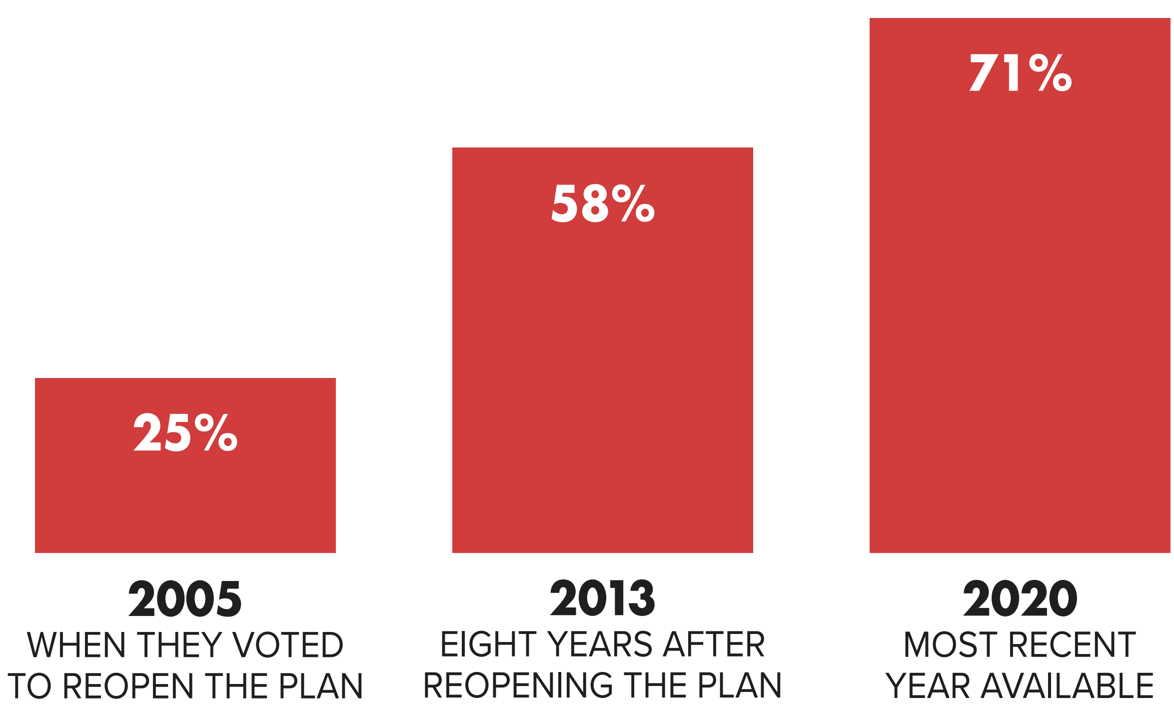
Our communities are healthier when working people have good-paying jobs and secure retirements. Ninety-four percent of state and local employees say offering a pension is an effective tool for retaining employees. Additionally, 73% of state and local employees say they would be more likely to leave a job if their benefits were cut.*

In most cities and states across the nation, public employees still have access to a defined-benefit pension. In certain states, public employees have a choice between a defined-benefit pension and a 401(k)-style defined-contribution plan. When faced with this choice, public employees overwhelmingly choose pensions.

In seven states that offer a choice between a defined-benefit pension and a 401(k) defined-contribution plan, more than 75% of public employees chose the pension plan.

CASE STUDY: WEST VIRGINIA

Defined-benefit pensions are the most cost-effective retirement plan for a state to provide. Unfortunately, there is a common misperception that switching to a 401(k)-style defined-contribution plan is cheaper and can reduce an unfunded liability in a public pension plan. Neither are true, which West Virginia learned the hard way. In 1991 West Virginia, struggling with an unfunded liability, switched its teachers from a defined-benefit pension to a 401(k)-style plan. After the funded status dropped to 25% and spending on the plan doubled, the state reopened the defined-benefit plan in 2005 and committed to a more stringent funding policy. Over the following years, funding levels rebounded.



FUNDING DISCIPLINE MATTERS MOST

The states that have experienced the most success with their public pension plans are the ones that consistently fully fund their pension plans each year. No changes to plan design can make up for the losses if the funding is not adequate.

After experiencing severe losses during the Great Recession, public pension funds are recouping their losses and returning to healthy funding levels. According to the National Conference on Public Employee Retirement Systems, the **average funded level in 2020 was 75.1%.**

State and local pension funds collectively manage more than $5.14 trillion in assets and they play an important role in the economies of states and local communities. In 2018, retiree spending of pension benefits generated $1.3 trillion in total economic output, supporting some 6.8 million jobs across the U.S. This is a significant return on investment for taxpayers.

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NATIONAL PUBLIC PENSION COALITION

Our mission is to effectively defend defined benefit plans for public employees, and to take the initiative to ensure that these plans continue to provide the foundation of a secure retirement.

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