FAST FACTS
House Appropriations Committee (D)

JOE MARKOSEK, DEMOCRATIC CHAIRMAN June 17, 2015

Key Takeaways from Public Hearing with National Experts on Retirement Security

On June 4, 2015, five national experts testified before the PA House Democratic Policy Committee about retirement security and how pension system changes could impact Pennsylvania. The experts cautioned lawmakers about making changes to the retirement systems, especially moving from a defined benefit (DB) plan to a defined contribution (DC)/cash balance plan as proposed in Senate Bill 1.

Testifiers included: Diane Oakley, executive director, National Institute on Retirement Security; Hank Kim, executive director and counsel, National Conference on Public Employee Retirement Systems; Cathie Eitelberg, senior vice president and national public sector market director, The Segal Group; Leigh Snell, director of federal relations, National Council on Teacher Retirement; and Monique Morrissey, economist, Economic Policy Institute. The hearing testimony is available on the Policy Committee's website.

Diane Oakley, Executive Director, National Institute on Retirement Security

- "Some states have experimented with shifting employees from DB pensions to individual DC accounts. *Case Studies of State Pension Plans that Switched to Defined Contribution Plans*, presents summaries of changes in three states – Alaska, Michigan, and West Virginia – that made such a switch."
- "The **three states in the case study report that shifted retirement plans from DB pension plans to DC individual accounts experienced higher costs.** Moreover, the current financial data indicate that the **DB to DC switch in fact worsened the pension underfunding issues**."
- "The analysis finds that **pension plans are a far more cost-efficient means of providing retirement income as compared to individual DC accounts** because of the unique economic efficiencies embedded in pensions. **A pensions plan can deliver the same retirement benefit as an individual account at half the cost**…".
- "Our research finds that the best path forward for states in situations similar to Pennsylvania has been to implement and stick to a disciplined funding plan to close the unfunded liability. **The experience in other states clearly shows that switching from a pension to individual accounts doesn't just magically close funding shortfalls**."

Hank Kim, Executive Director and Counsel, National Conference on Public Employee Retirement Systems

- "NCPERS has recently released a research paper entitled *Income Inequality: Hidden Economic Cost of Prevailing Approaches to Pension Reforms* that examines the relationship between pension reforms and the economy. **Based on the analysis of empirical data on pension reforms over the past 30 years, the NCPERS study suggests that the kind of reforms proposed in SB 1 in Pennsylvania, will be harmful to the Pennsylvania Economy.** In the end everyone in Pennsylvania will suffer, not just public employees."
- "SB 1 proposes to reform pensions further in several adverse ways, including proposing to convert DB pensions into DC plans, in the hope of saving money. **If we apply the model developed in the NCPERS study (based on the experience of 50 states), our preliminary estimate is that the proposed changes are likely to result in a loss of about $110 billion to Pennsylvania economy during the same period.** We urge Pennsylvania to

investigate this matter thoroughly and conduct a study on the likely economic impact of the pension changes proposed in SB 1."

- "**Policymakers should pay serious attention to income inequality and its hidden economic cost to taxpayers before they make the changes that diminish pensions**."

Cathie Eitelberg, Senior Vice President and National Public Sector Market Director, The Segal Group

- "**There will be transition costs - definitely**."
- "Recent estimates indicate that switching from a DB to a DC plan will reduce investment returns from 1% to 2% per year. As DC plans mature, this difference may grow, placing additional burdens on plan participants."
- "**DC plans do not provide meaningful death and disability benefits during a working career**."
- "**DC plans are not expected to provide the same level of benefit as a DB plan thus encouraging employees to work beyond normal retirement**."
- "**Transitioning to a DC plan is not the panacea some tout them to be.** Care must be taken to assure that all aspects have been considered."

Leigh Snell, Director of Federal Relations, National Council on Teacher Retirement

- "According to the National Institute on Retirement Security (NIRS), **86 percent of Americans believe that the nation faces a retirement crisis**; a recent PBS survey put the number at 92 percent."
- "In 2013, the typical working household approaching retirement with a 401(k) plan had only $111,000 in combined 401(k) and IRA balances. **This amount translates into less than $400 per month, adjusted for inflation**. (Alicia Munnell, Director, Center for Retirement Research at Boston College)"
- "When all households are included - not just households nearing retirement with retirement accounts - **the median retirement account balance is $2,500**, which is $500 less than the comparable number from 2013, and **nearly 40 million working-age households (45 percent) have nothing at all set aside for retirement**. (NIRS)"
- "Furthermore, when workers have not saved enough to meet their retirement needs, many will simply have to continue at their current jobs. This can have a serious impact on employers, who will be paying higher salaries to these longer-tenured workers."
- "**NCTR is therefore hopeful that, as the Pennsylvania legislature considers possible changes to the existing retirement security model for Pennsylvania's public employees, it will "do no harm"** in its work on pensions, particularly with regard to the important need to provide Pennsylvania's children with the best quality education by continuing to attract and retain the best possible teachers."
- "**Without clear and convincing evidence to the contrary, we would urge policymakers to be very cautious in abandoning a tried and tested model**, when properly implemented, in favor of a new design that may promise to cap costs, but in practice will only cut benefits and, in doing so, ultimately diminish the overall quality of public services."

Monique Morrissey, Economist, Economic Policy Institute

- "With insufficient time for a thorough analysis, a quick reading of the actuarial valuations suggests serious problems with the proposed legislation. Most of these points are elaborated in a recent EPI briefing paper, *Will Switching Government Workers to Account-type Plans Save Taxpayers Money?*."
- **"Switching government workers to account-type plans does not save taxpayers money.** Traditional DB pensions are more efficient than DC plans and most hybrid plans, including the proposed DC-CB plan, due to economies of scale and risk pooling. Changing plan types introduces transition costs, including the cost of administering more than one plan."
- **"It is irresponsible to put off paying down the unfunded liability.** Though the principle of intergenerational fairness is sometimes invoked to justify measures that make all generations worse off, **it is nevertheless irresponsible to saddle future generations with debts incurred by taxpayers who benefited indirectly from a failure to fully fund pension obligations."**