



Don't Destroy a Proven System

The traditional pension system works—and has for more than 100 years. It is flexible and provides vital services to taxpayers at a low cost. Further, it provides a modest and stable retirement income for workers who have dedicated their career serving the public.

It's a system that works.

- For 100 years, the traditional pension system has provided a **modest, stable** retirement income for workers who provide **vital services** at a **low cost** to taxpayers.
- The system is a proven tool **for recruiting and retaining workers** for critical and often hazardous public sector positions.
- The traditional pension system is a **financially sound** approach. These plans **create value** by pooling investment risk and reducing expenses. These benefits—**reducing investment risk** and **administrative costs**—are lost with a system of millions of private accounts.
- The system provides the **flexibility** needed by state and local governments to meet the changing needs and demands for public services.
- The traditional system provides important **death and disability benefits** for public employees in hazardous occupations—such as police officers and firefighters—who risk death and disability in the line of duty. Private accounts do not provide disability benefits or death benefits to survivors. This is unfair to workers and an added cost to taxpayers.

The private sector also relies on traditional pension plans.

- 81 of the Fortune 100 companies offer a traditional pension plan, as do 360 of the Fortune 500 companies.
- The private sector utilizes traditional pension plans to efficiently manage a large workforce, as well as recruit and retain skilled workers.

Dismantling traditional plans is a costly failure.

- States that have experimented with private accounts as workers' primary retirement benefit have found that **a traditional pension plan is a better option**. These states recognized that traditional pension plans are cost effective, efficient, create value, and help workers attain a modest, stable retirement.
- For example, **West Virginia** moved from a traditional pension plan to private accounts—and then recently right back to a traditional plan. **Florida, Nebraska** and **North Dakota** also found that a new system of private accounts was not a success.

- In the end, taxpayers foot the bill for these failed bureaucratic experiments. In California, the projected cost to citizens for switching to a system of private accounts is **\$7.6 billion**. Florida spent **\$89 million** to set up these accounts, but fewer than 5 percent of the workers moved.

Fix issues rather than discard a solid system.

- States have recognized that the traditional pension system is sound. As with any program or system, issues can arise. When necessary, states have taken steps to modify the design of their plans, or to accommodate issues, changing circumstances, and needs.
- **If your car has a flat tire, repair the tire. Don't waste money on a new car.**
- **If your kitchen sink is clogged, unclog the sink. Don't tear down the whole house.**
- States are prudent to fix any issues with the traditional system rather than completely dismantling a sound, proven pension system.
- Some states have experienced issues with funding shortfalls because they fail to make the required level of contributions to the pension fund. **States and local governments should not be surprised when they have to make “catch-up” contributions—just like missing a mortgage payment.** This is the case in states such as California and Illinois. Workers are required to regularly contribute to their pension plans—but employers are not.

To learn more about traditional pension systems, contact the NEA Collective Bargaining & Member Advocacy Department at 202-822-7080 or <mailto:collectivebargaining@nea.org>.

April 2006