1201 16th St., N.W. | Washington, DC 20036 | Phone: (202) 833-4000

Pensions Work Best for Our Schools, Communities and Educators

Today, 89% of public school educators have access to a guaranteed, defined benefit (DB) pension for life. Unfortunately, DB plans have been under attack in recent years.

Better for Educators

- Pensions are better at providing retirement security with a defined, guaranteed benefit for life. Not only is the benefit more predictable; it is based upon your standard of living.
- In states where teachers have a choice between a pension and a savings plan (like a 401k), they overwhelmingly choose a pension after learning the details.
- Pension plans are also comprehensive, providing disability benefits, death benefits, and often cost-of-living adjustments.
- The short-timers who leave their profession before reaching vesting still get their contributions back with interest just like in a 401k.

Better for Schools and Students

- Those trying to take pensions away from future educators seem to believe education is all about numbers, but the impacts of these decisions will affect students and their communities. Here's what we know:
  - Having experienced teachers in our nation's K-12 classrooms is a key to providing our children a quality education.
  - Pensions are a big part of that story, providing both a push and pull, in regard to the Three R's of managing a school's staffing: recruiting, retaining, and retiring.
  - Communities have enjoyed the outcomes of the current system, where it remains common for teachers to spend decades involved in their communities.
  - Yet, powerful, moneyed interests continue pushing for plans that reward educators who stay for just a few years and disadvantage career educators. Put simply, make teaching more of a drive-thru service model.
  - Thanks partly to pensions; teachers do not typically act like free agents – constantly hopping to new jobs. The privatizers' goal of making teaching a revolving door job is simply misguided.

- Pensions are more efficient than 401k plans, providing about twice the value per dollar invested, with higher returns, lower fees, and utilizing basic insurance concepts like pooling investment and longevity risks. Offering new educators a 401k-type plan with similar benefit levels would increase costs significantly.

Better for Communities and Tax Payers

- Pensions are simply much more efficient than self-directed plans, providing nearly double the benefit for the same cost.
- Beyond providing economic security to retirees, pensions also support our economy in numerous ways: generating $1.2 Trillion in economic activity, supporting 7.1 million jobs, and increasing GDP by $627 billion. In fact, each dollar of benefits supports $2.21 in economic activity in retirees' communities.
- In the same study, we also see that only 24.1% of pension revenues came from taxpayers between 1993-20014, since much of the financial support comes from investment returns and employee contributions.

Meanwhile, 401k's are Failing

America's 401k experiment is failing, and the dilemma is likely to get worse. A partial list of problems with 401k's including: poor returns, high fees to Wall Street, and leakage (participants cashing out their funds prematurely). Beyond these drawbacks, it is also tremendously difficult just to know what your proper savings target should be and what level of savings will get you there. Pensions measure progress toward funding goals and make adjustments each year in a systemic way, but 401k's have no such planning mechanism. Simple questions like, "How much annual income could I have with $500,000, what would it be worth in tomorrow's dollars, and will I run out of money?" become very difficult barriers to sound planning.

All these problems led directly to our retirement crisis, as the median 55-to-64 year-old has only put aside about $14,500, which might provide around $580 in *annual* income during retirement. Even when looking only at households with retirement accounts, the $104,000 amounts to only about $4,160 in annual income (conversions based upon the 4% rule).

Knowing all of this, claims that teachers would be better served in 401k's is simply not credible, with the only winner being Wall Street interests who collect higher fees through 401k-type plans.

To learn more about retirement security, contact the NEA Collective Bargaining and Member Advocacy Department at mhairston@nea.org or jkane@nea.org.

July 2019