Pensions 101 for Advocates

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What is a defined benefit pension?
A guaranteed benefit payment in retirement

Theoretical example*

*Will vary with each retirement system and tier
Other benefits

- Inflation protection
- Disability benefits
A mutual aid compact

- Plan participants outcomes are intertwined
- Each generation looks out for the next
- Employees and the plan sponsor contribute
Why does it work
# The allocation of risks

<table>
<thead>
<tr>
<th>Risk Type</th>
<th>Defined benefit pension</th>
<th>Defined contribution plan</th>
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<tbody>
<tr>
<td>Investment risk</td>
<td>Almost entirely falls on the plan sponsor</td>
<td>Falls entirely on the worker</td>
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<tr>
<td>Longevity risk</td>
<td>Falls entirely on the plan sponsor</td>
<td>Falls entirely on the worker</td>
</tr>
<tr>
<td>Inflation risk</td>
<td>Often partially covered by the plan sponsor</td>
<td>Falls entirely on the work</td>
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Cost effectiveness

- A typical defined benefit plan has a 49% cost advantage compared to a typical individually directed defined contribution plan.

Figure 1A: Cost of DB and DC Plan as Percentage of Payroll, Baseline Scenario

- 49% savings
- 22.6% Less balanced portfolios
- 3.8% No longevity pooling
- 2.3% Lower returns/higher fees
- DB cost

Source: NIRS (2022)
Given an unbiased choice between a defined benefit pension and defined contribution plan, public sector workers overwhelmingly chose a real pension.

Once an educator has vested in a pension plan, retention rates increase dramatically.
Case studies
West Virginia

- **1991**: Legislature closed the TRS defined benefit (DB) pension plan and moved new hires into a defined contribution (DC) plan.

- **Early 2000s**: Study determined that DB plans could provide benefits as 50% of the cost of the DC plan.

- **2005**: Defined benefit plan reopened.
In 2005, the legislature closed both statewide defined benefit plans (TRS and PERS).

New hires can only participate in a defined contribution plan.

Difficulties in recruiting and retaining public employees have increased.

Some school district have resorted to increasingly large signing bonuses.
Resources
NEA resources

NEA.org/pensions

- How pensions work
- Pension FAQ
- Messaging and fact sheets
- Links to our partners resources

Pensions & Retirement Security

Pensions provide a predictable, guaranteed benefit for educators when they retire and help attract and retain great educators to the profession.
National Public Pension Coalition

ProtectPensions.org

• Weekly updates on public pension news
• Pension 101 video
• One-pagers
National Institute on Retirement Security

NIRSONline.org

- Pensionomics
- Fortifying Main Street
- Better Bang for the Buck
- …and more

Pensionomics 2023
Measuring the Economic Impact of Defined Benefit Pension Expenditures

Learn More