Talking Points
Advantages of Defined Benefits Plans

Key message: Defined benefit plans are better for workers and employers; they provide workers a more secure and predicable pension and cost employers less.

Talking points

- More than 90 percent of K-12 public school teachers, education support professionals, and other public employees are covered by defined benefit (DB) pension plans, which means they have guaranteed pensions for life.

- During the past decade, various groups with a financial or political interest have worked to eliminate defined benefit plans for public sector employees and replace them with more risky defined contribution (DC) plans or cash balance plans.
- Defined benefit plans offer advantages to employees and employers
    - Advantages to employees:
        - The amount of an employee's retirement benefit is known in advance; it's usually based on factors such as age, earnings, and years of service.
        - Plan benefits are not subject to the short-term fluctuations of the stock or bond markets. The employer bears the risk, and the fund is usually managed by professional money managers.
        - DB plans are comprehensive, usually providing additional benefits to participants, such as disability benefits, death benefits, or cost-of-living adjustments.
        - DB plans earn higher investment returns for employees than defined contribution plans.
    - Advantages to employers:
        - DB plans help ensure a high performance workforce. DB plans help promote employee loyalty and retain valuable staff.
        - DB plan assets are collectively invested, which may result in higher investment returns. Because of their size, DB plans have the financial resources to hire expert advisors.
        - Defined benefit plans are less expensive for employers to administer.

- Research has found that a defined benefit plan is **more cost-effective** for government and taxpayers and better meets the retirement income needs of employees. Dollar for dollar, pensions are HALF the cost of 401(k) plans. Switching a defined benefit plan to a 401(k) system INCREASES costs. [Source: "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans," National Institute on Retirement Security. (If the link doesn't work, you can find the report, an accompanying PowerPoint, fact sheet, and frequently asked questions on the NIRS website at www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48.)]

- Defined benefit plans lower the total cost of providing retirement benefits by averaging risks over a large number of participants. Instead of requiring contributions that are large enough to provide retirement income through maximum life expectancy, defined benefit plans only need to fund benefits through the average life expectancy of the group. This lowers required contributions.

- Historically, defined benefit plans have earned higher investment returns and paid lower investment management fees, on average, than defined contribution plans.

- Most of the money paid out of defined benefit plans comes from investment earnings. Of every defined benefit pension dollar paid, about 65 to 80 cents comes from investment returns. The remainder comes from employer and employee contributions.

Younger workers value defined benefit plans

- Public pensions are the most efficient way for younger workers to save for retirement.

- Defined benefit plans are a proven tool for recruiting and retaining accomplished young professionals.

- Among the best evidence that younger workers prefer defined contribution plans is a 2008 vote in West Virginia in which 79 percent of teachers voted to switch from a defined contribution plan to a defined benefit plan. In that vote, an overwhelming number of younger teachers—more than 75 percent of those under the age of 40—decided to switch to a traditional pension system.

Talking Points

Retirement Security and Great Public Schools

Key message: Creating great public schools for every student requires accomplished education professionals. To ensure our schools have the best people to help prepare students for the future, we must guarantee them professional pay and retirement security.

Talking points

- This country demands a lot from its teachers and others who work in public schools and rightly so.

- Education professionals enter and stay in the profession, not for the money, but because they are dedicated to helping their students learn and prepare for the future.

- Education professionals don't expect to be wealthy, but they do expect and deserve a decent retirement.

- Defined plan benefits for education employees are modest.

- The pension of a full career education employee replaces only a portion of the salary earned while working and educators' salaries are so low that their pension provides only a modest living in retirement.

- Many schools districts where NEA members work do not contribute to Social Security, so their retirement pension is the only form of retirement income many educators receive.

- Unlike the vast majority of private sector pension plans, most public employee pension plans require employees to contribute a percentage of their salary to the plan. Most private pension plans are funded only by the employer.