

# ***Pensions on Offense***

## **The National Institute on Retirement Security**

***National Pension Education Association  
2008 Annual Conference***

**October 28, 2008  
San Francisco, CA**



**NATIONAL INSTITUTE ON  
Retirement Security**

# It's not going to get easier.

- Retirement security a national issue – exacerbated by economic meltdown.
- Public pensions “getting retirement right” and can weather the storm, but.....



# Growing Range of Issues

- GASB/Accounting/Financial Economics
- Investments: Private equity, hedge funds, commodities, real estate
- IRS Activities
- Ideological agendas
- DB vs. DC
- Attacks on teacher pensions



# Then throw in...

- Economic/Financial Meltdown
- Dramatic drops in funded status
- State & local governments with severe budget issues
- Pension envy “on steroids”



# Enter NIRS

Founded by  
NASRA,  
NCTR, CII

*Research &  
Education to  
Set the Record  
Straight*



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## RETIREMENT SECURITY MATTERS

Nearly half of U.S. workers do not have access to a retirement plan at work. **DO YOU?**

→ TELL US YOUR STORY

### FOCUS

#### Patience is a Virtue: Asset Allocation Patterns of DB DC Plans



Public and private retirement funds represent a considerable source of capital in the United States' financial markets. In 2007, retirement plans held close to \$9 trillion in assets.

[Read More >](#)

MORE RESEARCH >>

### NEWS

#### Experts Tell Congress Pension Funds Are Economic Engines, Provide Critical Investment Capital



July 10, 2008, Washington, D.C. – At a hearing today before the Joint Economic Committee, witnesses testified that pensions are fundamental to ensuring retirement security for Americans.

[Read More >](#)

MORE NEWS >>

### EXCHANGE

#### It's A Good Day for Pensions



At a Congressional hearing before the [Joint Economic Committee](#) yesterday, [Rep. Earl Pomeroy](#), D-N.D., declared it a good day for pensions. First, [Senator Robert Casey](#), D-Penn., has convened the hearing to examine the economic and retirement security benefits of pensions.

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MORE COMMENTARY >>

# NIRS National Plan

- External Launch – May 2008
  - [www.nirsonline.org](http://www.nirsonline.org)
- Research Program
  - Original research reports
  - Issue/policy briefs
- Communications/Education program
  - Columns, blog, op-eds, etc.
  - Media outreach
  - Educational programming



# Analysis and Commentary

Blog

Columns

Book Corner

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**LATEST NEWS**  
Public Pensions Getting Retirement Right  
*The Bureau of National Affairs* reports on the Congressional Joint Economic Committee hearing on pensions.  
[READ MORE](#)


NIRS Warns DC Plans More Vulnerable Than DB  
*Global Pensions* interviews NIRS executive director regarding the role of pensions in ensuring retirement readiness.  
[READ MORE](#)

**Blog**  
**It's A Good Day for Pensions**  
 At a Congressional hearing before the [Joint Economic Committee](#) yesterday, [Rep. Earl Pomeroy](#), D-N.D., declared it a good day for pensions. First, [Senator Robert Casey](#), D-Penn., has convened the hearing to examine the economic and retirement security benefits of pensions.  
[Read more...](#)

**Wharton Highlights NIRS Research**  
 The Wharton School's online business journal, [Knowledge@Wharton](#), has featured a research paper coauthored by Beth Almeida, NIRS executive director. The [journal](#) reports that the paper, "The New Intersection on the Road to Retirement: Public Pensions, Economics, Perceptions, Politics, and Interest Groups" examined public pension data and presented case studies from four states that recently had been under pressure to switch from traditional plans and to defined contribution individual accounts.  
[Read more...](#)

**A New Lesson From Teachers?**  
 We learned the fundamental "Three Rs" from our teachers. Maybe it's time to add two additional Rs to lessons from educators: Retirement Readiness. Nearly 80 percent of West Virginia teachers, administrators and service personnel just voted to switch back to a pension.  
[Read more...](#)

**WHAT'S YOUR STORY?**  
Nearly half of the U.S. workforce doesn't have access to a retirement plan on the job. Are you unable to retire? [Tell us the challenges you are facing >](#)

**WHAT DIFFERENCE DOES A PENSION MAKE?**  
 An adequate income can be defined as one that enables an older household to take care of its needs in retirement. [READ MORE](#)

# Original Research

ISSUE BRIEF  
May 2008



Retirement Readiness  
*What Difference Does A Difference Make?*  
By Beth Almeida

## Introduction

An adequate retirement income can be defined as one that enables an individual to take care of its own needs in retirement. Workers who retire with inadequate sources of income may face a range of unattractive choices. Continuing to work may be the first alternative, but if that is not an option due to bad health, lack of appropriate job opportunities or other factors, retirees may become dependent on family or even public assistance programs to meet financial needs.

Most Americans prefer to be able to take care of their own needs after they stop working. The question of how employees can ensure retirement income adequacy is a complex one, not just for individuals' well-being but for public policy as well. It is probably not surprising that job-based retirement plans make a difference, but the relative importance of traditional pensions, so-called defined benefit (DB) pensions, in ensuring retirement readiness may be less appreciated. DB pensions really do make a difference for working Americans in achieving an adequate standard of living in retirement as a reward for decades of hard work.

This brief reviews the evidence on the role that pensions play in ensuring that Americans have the resources they need to be self-sufficient in retirement.

It examines recent trends in pension coverage and discusses the effect these trends have had on the state of retirement readiness.

ISSUE BRIEF  
July 2008



Patience is a Virtue  
*Asset Allocation Patterns in DB and DC Plans*  
By Ilana Boivie and Beth Almeida

## Introduction

Public and private retirement funds represent a considerable source of capital in U.S. financial markets. In 2007, retirement plans held close to \$9 trillion in assets. Such retirement plans encompass traditional pension plans, also called defined benefit (DB) plans, where assets are invested and managed on a group basis, and defined contribution (DC) plans, where individuals typically direct investments on their own. This issue Brief examines how these plans invest their assets and how these investments have changed over time.

The past few decades have witnessed significant changes in retirement plan coverage, especially in the private sector. Traditional pension coverage in the private sector has decreased drastically in recent decades. Today, while 80% of state and local government workers are covered by traditional DB pension plans, only 14% of workers in the private sector are covered by DB plans. DC plans, on the other hand, are the primary retirement plan for 10% of state and local employees, but a full 64% of private employees. (Munnell, Haverstick & Soto 2007)

We examine whether the move from DB to DC plans has had an impact on the way retirement assets are invested. Individual investors, for instance, may have a shorter-term investment horizon than DB plans. This raises questions about the risk exposure and investment performance of DC plans relative to DB plans. The shift from DB plans to DC plans may have reduced the supply of patient capital over time, meaning that businesses may have a harder time than in the past getting the financing for long-term productive investment projects.

## Key Findings

Using data from the Federal Reserve's Flow of Funds database and other sources, this issue brief finds that:

- Investments of public sector pension plans and private sector DB plans closely resemble each other. In 2007, both types of plans allocated 63% of their assets to corporate stocks, compared to a direct stock allocation of only 37% for DC plans.
- Over the past decades, public sector pension plans have increased their equity allocation to catch up with their private sector counterparts. In 1985, public sector DB plans allocated only 29.9% of their assets to corporate stocks, while private sector DB plans already held 42.3% of their assets in corporate stocks. Private sector DC plans lowered their direct stock holding over the past two decades.
- Legal and regulatory obstacles to portfolio diversification have been reduced over time. This has allowed public sector plans to better balance their asset allocations with their long-term investment goals.
- Defined benefit plans are more long-term investors than DC plans. DC plans shift their allocation to and from corporate stocks more frequently than their DB plan counterparts do. This raises serious questions about the overall risk embedded in individual accounts, the consequences for retirement security and the availability of long-term financing for productive business investments.

Boettner Center for  
Pensions and Retirement Research



“The New Intersection on the Road to Retirement: Pensions, Politics and Public Perceptions”

- Study presented at Wharton's Pension Research Council
- Forthcoming book chapter



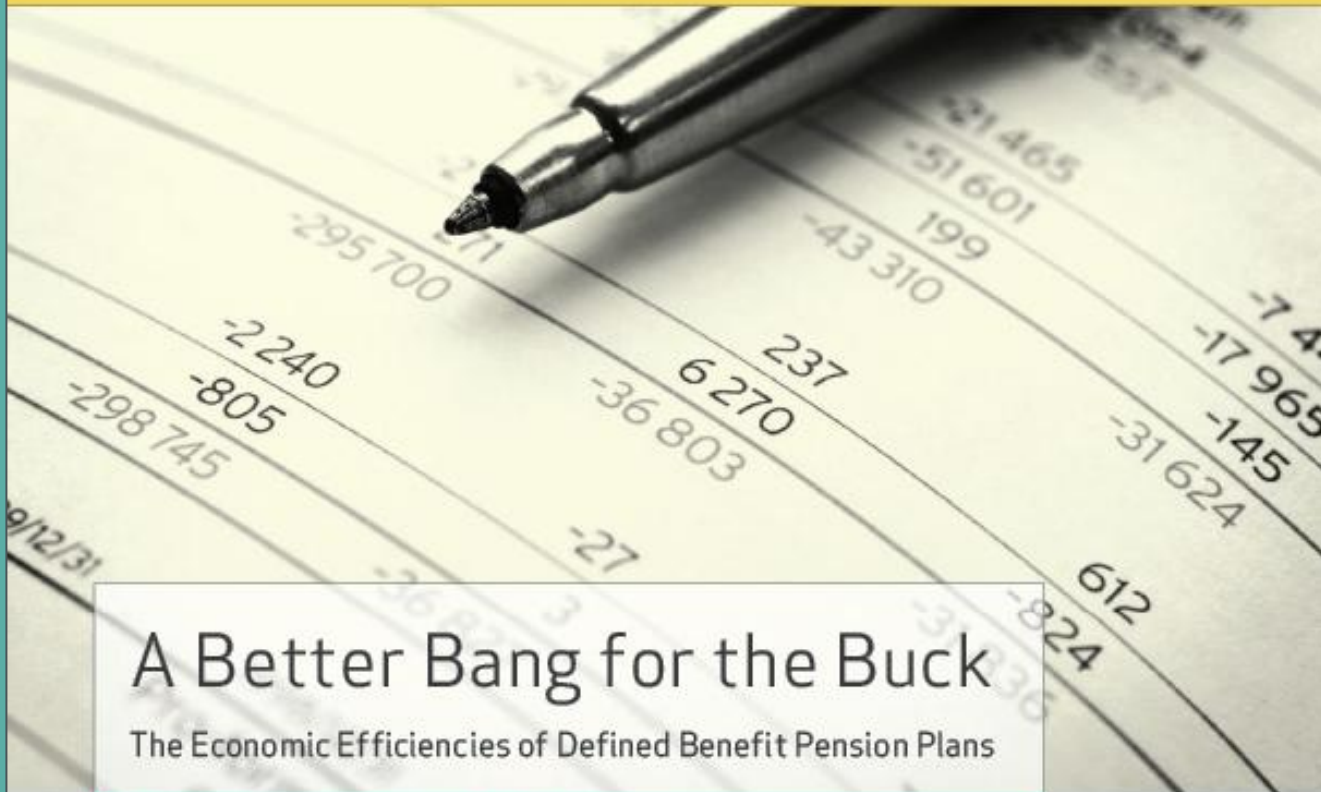
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# A Better Bang for the Buck

The Economic Efficiencies of Defined Benefit Pension Plans

by Beth Almeida and William B. Fornia, FSA

August 2008

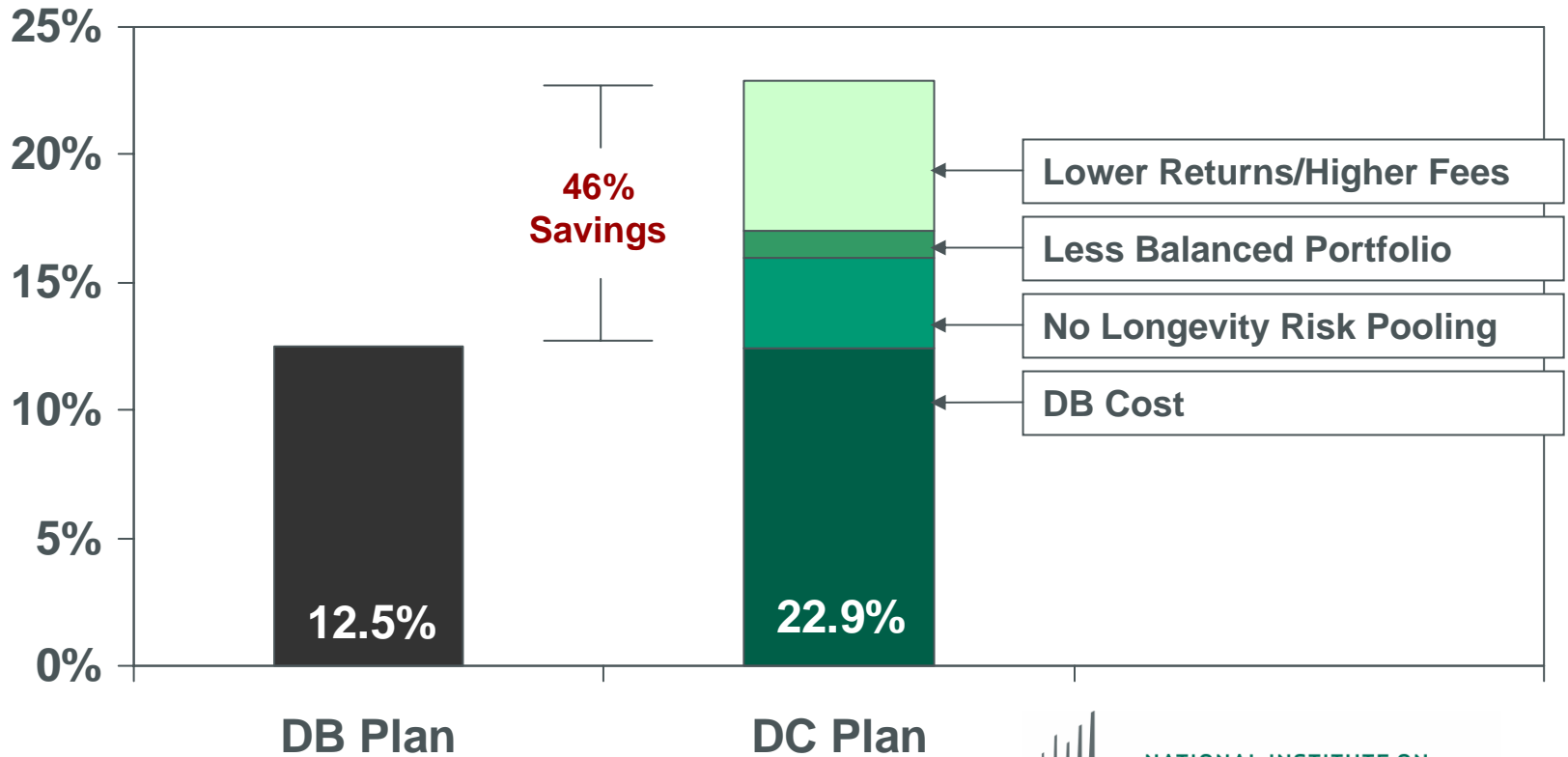
# What Report Finds

- The DB approach saves money compared to the DC approach. Three reasons ...
  1. DB pension plans pool “longevity risks”
  2. DB pension plans can maintain a better diversified portfolio because, unlike individuals, they do not age
  3. DB pension plans achieve better investment returns because of professional asset management and lower fees

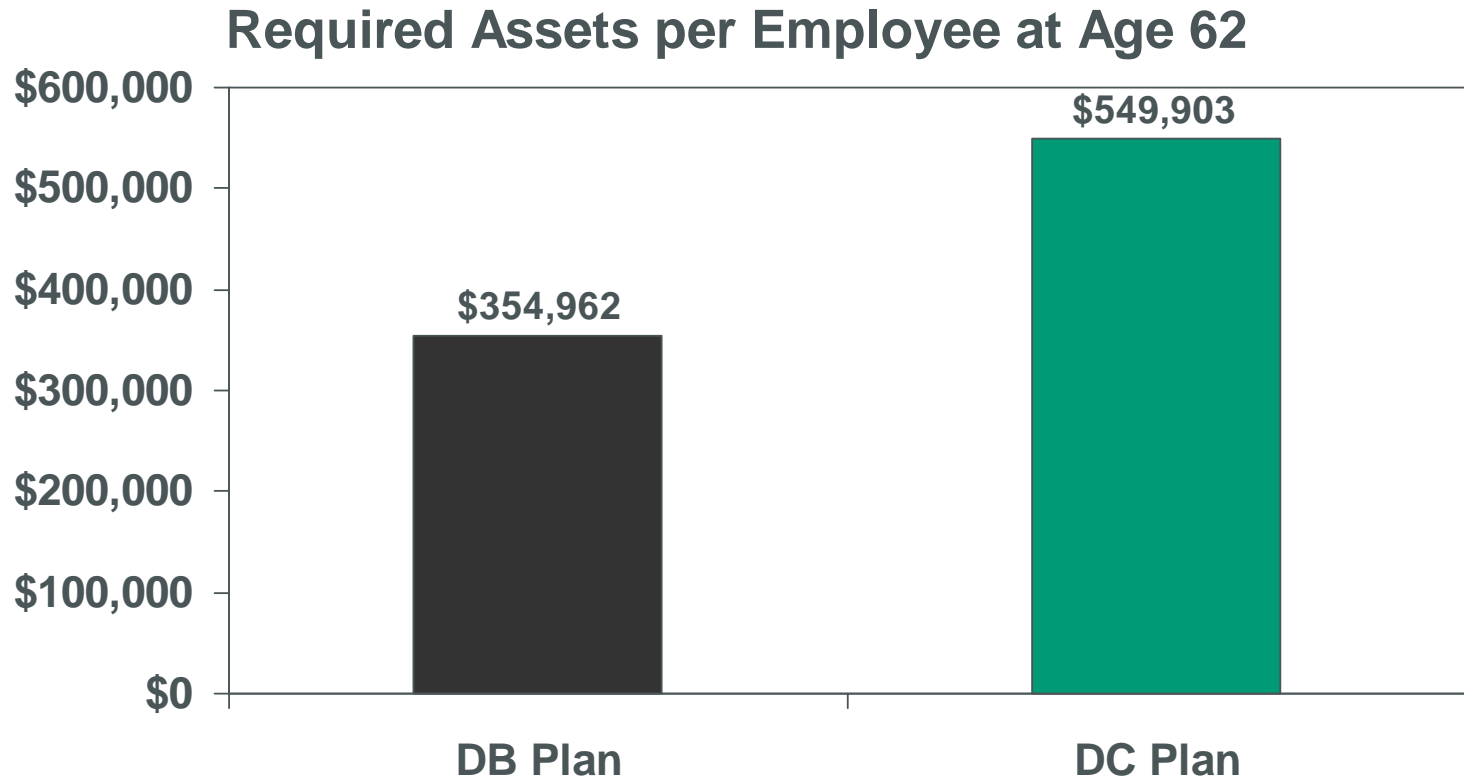


# DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plan

## Cost of DB and DC Plan as % of Payroll



# DB Plan Can Do More with Less



# Report Roll Out

- Members Only Conference Call
  - Review of report with authors
  - Review of communication “tool kit”
- Press & Interested Parties Conference Call



# What's Next ...

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- Pension “Freeze” Brief
- Accounting Issue Brief
- Public Opinion Research Report
- National Economic Impact Report
- And more ...



# Building Media Presence

THE WALL STREET JOURNAL.

Pensions & Investments PIonline.com

National Journal  
MAGAZINE

BusinessWeek

DOW JONES  
FINANCIAL NEWS Online

Forbes  
com

GLOBAL PENSIONS

The Washington Post

GOVERNING

The New York Times

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POLITICO

Atlanta Journal-Constitution

Kentucky  com™  
LEXINGTON HERALD-LEADER

USA  
TODAY



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# Inaccurate, Sensational Media

## THE WALL STREET JOURNAL.

“Pensions and Palm Greasing”  
*October 3, 2007*

## The New York Times

“Report to Senators Says Many States  
Are Lax in Funding their Pension Plans”  
*February 29, 2008*



“Public jobs see pay gains: Government  
benefits outpace private sector”  
*February 1, 2008*

## GOVERNING

“The \$3 Trillion Problem”  
*October, 2007*

## The New York Times

“Pension Fund Shortages Create  
Hard Choices”  
*December 19, 2007*

## The New York Times

“If Company Goes Bankrupt, Don’t  
Count on Your Pension”  
*October 24, 2006*



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# Reach Target Audiences



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# Word Starting to Get Out That Pensions Getting it Right

*GAO reporting generally accurate ...*



- *“Most state and local governments are on track toward full funding of their pension plans” (Sept 2007)*

- *“The funded status of state and local government pensions overall is reasonably sound” (Jan 2008)*

*Pew report led with the negative, but still acknowledged ...*

- *“To their credit, states have socked away enough to cover about 85 percent of the pension bill.” (Dec 2007)*



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# Word Starting to Get Out That Pensions Getting it Right



*“Public pensions help fuel the economy by driving investment to venture capital funds that play a critical role in nurturing American innovation. So, it is critical that we in Congress do all we can to ensure that public defined benefit pension plans are protected.”*  
Senator Charles Schumer

CENTER FOR  
RETIREMENT  
RESEARCH  
AT BOSTON COLLEGE

*“The miraculous aspect of the funding of state and local pensions is that it occurred without any national legislation. Public officials ...manage their pensions on a business-like basis.”*



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# Make An Impact

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Research + Education + Outreach

=

*IMPACT*



# Working Together

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- National/local coordination
- Dandelion strategy
- Utilize NIRS as 3<sup>rd</sup> party resource



# Questions & Comments?

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