About NIRS

• Nonprofit, nonpartisan research organization founded in 2007.

• Credible research and education programs regarding retirement security with focus on pensions – public and private sector.

• Reports, primers, commentary, conferences, media interviews, testimony and more.
What Do Americans Think About Retirement? Anxious

How concerned are you about current economic conditions affecting your ability to achieve a secure retirement?

Source: NIRS Pensions & Retirement Security 2013
Social Security is Major Source of Income for 75 Percent of Retiree 65+

Sources of Income of Retirees 65 and Older

- Social Security
- Retirement Income
- SSI & Disability
- Interest, Dividends and Rent
- Other

Bottom 25 | Middle 50% | Top 25%

Source: NIRS Calculations for retirees who did not work from the March 2012 CPS extract from IPUMS
Retirement Accounts Are Concentrated Among Higher-Income Households

Retirement account ownership status by household income quartile, 2010

Source: NIRS analysis of 2010 SCF. Universe is households with heads age 25-64. Households with negative earnings excluded. Household income adjusted by marital status for ranking purposes.
A typical working-age household (age 25-64) has $3,000 in retirement assets; a near-retirement household (age 55-64) has $12,000 in median retirement account balance.

- **Source:** NIRS analysis of 2010 SCF. Universe is households with heads age 25-64, with total earnings ≥ $5,000 and < $500,000 and total income < $1M.
4 out of 5 Households Have Less than One Times Their Income in Retirement Savings

Retirement account balance as a percentage of income among working households, 2010

- 25-34: 49.3% (0%), 47.1% (0-99%), 3.3% (100-399%), 0.02% (400%+)
- 35-44: 44.2% (0%), 42.0% (0-99%), 13.0% (100-399%), 0.7% (400%+)
- 45-54: 34.9% (0%), 39.4% (0-99%), 22.6% (100-399%), 3.2% (400%+)
- 55-64: 31.8% (0%), 31.8% (0-99%), 28.1% (100-399%), 8.3% (400%+)
- ALL 25-64: 40.1% (0%), 40.3% (0-99%), 16.7% (100-399%), 2.9% (400%+)

Source: NIRS analysis of 2010 SCF. Universe is households with heads age 25-64, with total earnings $5,000 and < $500,000 and total income < $1M.
Households of Color Are Less than Half as Likely As White Households to Have Retirement Savings at Least Annual Income

Source: NIRS analysis of 2010 SCF microdata. Universe is households with total earnings > $5,000 and < $500,000 and total income < $1M. Values may not add up to 100% due to rounding.
90th Percentile Household Has Nearly 100 Times the Retirement Savings of Median Household

Distribution of Baby Boomer Retirement Wealth, 2010

Percentage of Assets

- **Bottom 50% of households by net wealth**: 4%
- **Top 50% of households by net wealth**: 96%

- **Top 25%**: 83%
- **Top 10%**: 56%
- **Top 5%**: 37%

Source: NIRS analysis of 2010 Survey of Consumer Finances. Retirement wealth includes assets health in retirement accounts, e.g., 401(k)s, IRAs, and KEOGH plans.
State Financial Security Scorecard

- Scorecard evaluates relative performance on aging population's key economic dimensions – income, costs and work.
- States ranked from 1 (best) to 51 (worst) for each variable.
- Rankings converted into scores: 10 (best) to 1 (worst).
Scorecard Categories/Variables

Retirement Income
- Private workplace retirement plan participation
- Average defined contribution account balance
- Marginal tax rate on pension income

Retiree Costs
- Medicare out-of-pocket costs
- Medicaid generosity
- Housing cost burden

Labor Market
- Unemployment rate for people aged 55 years old and older
- Median hourly earnings (real) for people aged 55 years old and older

NATIONAL INSTITUTE ON Retirement Security
## Washington: Data and Scores

<table>
<thead>
<tr>
<th>Category/Variable</th>
<th>Raw Data</th>
<th>Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retirement Income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private sector retirement plan participation</td>
<td>47.8%</td>
<td>22</td>
<td>8</td>
</tr>
<tr>
<td>Estimated average DC account balance among participants</td>
<td>$35,344</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Marginal tax rate on pension income</td>
<td>0.0%</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Retiree Costs</strong></td>
<td></td>
<td></td>
<td>5</td>
</tr>
<tr>
<td>Medicare OOP Costs</td>
<td>$1,613</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Average Medicaid expenditure on aged</td>
<td>$14,147</td>
<td>31</td>
<td></td>
</tr>
<tr>
<td>% of senior households paying 30%+ income on housing</td>
<td>37.0%</td>
<td>41</td>
<td></td>
</tr>
<tr>
<td><strong>Labor Market</strong></td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td>Median hourly earnings for 55+</td>
<td>$17.50</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Unemployment rate for 55+</td>
<td>6.8%</td>
<td>42</td>
<td></td>
</tr>
<tr>
<td><strong>Overall State Score</strong></td>
<td>19.6</td>
<td>7</td>
<td></td>
</tr>
</tbody>
</table>
Labor Market Scores 2012

[Map showing labor market scores across the United States with states color-coded from 1-2 (worse than average) to 9-10 (better than average).]
Economic Efficient: DB Plans Deliver the Same Benefit for Less
DB More Economically Efficient

How $10,000 Invested Grows over 30 Years

Longevity Risk Pooling
• Manage the chance of running out of money in retirement
• Avoid the “over-saving” dilemma and do more with less

Maintenance of Portfolio Diversification
• Take advantage of enhanced investment returns from an ongoing balanced portfolio

Superior Returns
• Achieve greater investment returns vs. individual accounts

Source: Pension Trustee Advisors, 2011
DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plans

Source: A Better Bang for the Buck, NIRS, 2008
In 2010, over 23 Million Americans (60+) Received DB Pension Income, but …

Percent of Older Americans (60+) with DB Pension Income, 1998, 2003, 2006 and 2010

- 1998: 34% Own DB Pension, 52% Own or Spouse's DB Pension
- 2003: 34% Own DB Pension, 52% Own or Spouse's DB Pension
- 2006: 32% Own DB Pension, 48% Own or Spouse's DB Pension
- 2010: 28% Own DB Pension, 43% Own or Spouse's DB Pension

Source: *The Pension Factor, Table 1.*
NIRS Found Income from DB Pensions in 2010 is Associated with …

- Rates of poverty among older households *nine times lower* than those without DB pension.
- 4.7 million fewer poor and “near poor” households.
- 1.22 million fewer households receiving means-tested public assistance, *saving taxpayers $7.9 billion*.

Source: *The Pension Factor, 2012*
Gender/Race Poverty Gaps Shrink in Older Households with DB Pensions

Source: The Pension Factor 2012, Table 5.
Shifting Retirement Infrastructure Shifts Risk to Individuals

Private Sector Workers Participating in Employer Based Retirement Plan by Plan Type, 1979-2008 (all workers)

Source: DOL, PBGC, and EBRI

Working Households at Risk of Falling Short of Pre-Retirement Living Standard

Source: Center for Retirement Research at Boston College, 2012
Public Pension Stakeholders

Purpose of providing retirement plan is to achieve stakeholder objectives.

- **Employers** who seek to attract and retain qualified workers needed to perform essential public services and have orderly workforce turnover.

- **Taxpayers** who seek the provision of public services at a cost that is fair and reasonably stable and predictable; also seek to minimize dependence on public assistance.

- **Employees** who seek compensation that is competitive and a retirement benefit that promoted retirement security.
Important to Keep Focus on Retirement Policy

- Retirement security benefits everyone.
- Employer-sponsored retirement benefit is a workforce management tool, old-age poverty insurance, and stabilizing factor in the economy.
- As a stable employer, government is well-suited to sponsor pensions.
- Core elements of pension promote retirement security:
  - Mandatory participation
  - Employee-employer cost-sharing
  - Benefit adequacy
  - Pooled assets invested by professionals
  - Lifetime benefits

Pensions Are Sustainable
Lessons from Well-Funded Pensions

- Paying the full **ARC** maintains a well-funded plan with stable cost.
- Paying the normal cost rate leads to stability.
- Employee contributions help share the plan cost.
Employee contributions to help share the plan cost:

- In Idaho employees contribute 60% of the Employer rate.

Source: U.S. Census Bureau
Other Lessons Learned…

- Benefit improvements that are actuarially valued before adoption and properly funded;
- COLAs granted responsibly;
- Anti-spiking measures that ensure actuarial integrity, transparency;
- Economic, actuarial assumptions that can reasonably be expected to be achieved long term.
Investment Assumption of a 5% Real Return over 30 Years Not Exceptional

Real Returns on a Hypothetical Pension Portfolio
58% Equity/42% Fixed Income
Rolling Periods, 1926-2010

<table>
<thead>
<tr>
<th>Time Frame (Years)</th>
<th>Number of Periods</th>
<th>Average (Mean)</th>
<th>Worst Observed Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>85</td>
<td>6.28%</td>
<td>-24.60%</td>
</tr>
<tr>
<td>5</td>
<td>80</td>
<td>7.30%</td>
<td>-4.56%</td>
</tr>
<tr>
<td>10</td>
<td>75</td>
<td>6.59%</td>
<td>-1.47%</td>
</tr>
<tr>
<td>20</td>
<td>65</td>
<td>6.14%</td>
<td>1.24%</td>
</tr>
<tr>
<td>30</td>
<td>55</td>
<td>5.71%</td>
<td>3.76%</td>
</tr>
<tr>
<td>40</td>
<td>45</td>
<td>5.42%</td>
<td>3.91%</td>
</tr>
<tr>
<td>50</td>
<td>35</td>
<td>5.47%</td>
<td>4.02%</td>
</tr>
</tbody>
</table>

Source: Adapted from Stubbs 2012, p. 19, Table 3.
Switch to Individual Accounts Not a Viable Solution

- Closing/freezing DB plans and switching to individual accounts does not address underfunding, entails significant costs.
- Majority of states ensure long-term sustainability by modifying DB plans.
- Pensions balance compensation, boost retention and productivity, and enable quality services for a lower cost.
- Hurt recruitment and retention of skilled workers, or lead to higher compensation, while undermining retirement readiness.

Source: National Institute on Retirement Security, *On the Right Track*
Texas Teachers Retirement System
Benefit Design Study

- $11.7 billion/49% increase in closed DB plan liability due to a more liquid asset allocation
- Cost comparison of multiple plan design options
  - DC most expensive
  - DB least expensive
Pension Benefit Design Study

Targeted Contribution Approach

- Defined Benefit Plan
- Cash Balance
- Side by Side Hybrid
- Capped Hybrid
- Pooled DC
- Self-Directed DC

Source: Teacher Retirement System of Texas and Gabriel, Roeder, Smith & Company
Texas Teachers Retirement System Benefit Design Study

- Realistic simulations of probable worker outcomes in DC plan:
- Workers would have only a **50% chance** of reaching **60% of the benefit** provided by the DB plan, **at the same cost**.
Employer Challenges When an Individual Account is Primary Benefit

- Loss of a human resource management tool:
  - Pension is particularly helpful for retaining qualified workers to perform essential public services.
  - Retention is key for certain groups: teachers, law enforcement personnel, members of other career oriented groups.

- Pension promotes human resource management objective of orderly turnover, i.e., retirement, or ability to retire, at an appropriate age. Orderly turnover facilitates workforce management objectives.

Pensionomics 2012:
Nationally, DB pension plans expenditures in 2009…

- Provided a critical source of reliable income for 18.9 million Americans;
- Supported 6.5 million jobs that paid $314.8 billion in income;
- Created over $1 trillion in economic output
Impact of Pension Payments to Washington Public Retirees

Expenditures by government retirees provide steady economic stream to Washington and its communities. 2009 expenditures supported:

- Nearly **31,600 jobs** that paid $1.5 billion in wages.
- **$4.5 billion in total economic output**. Each dollar paid in pension benefits supported $1.59 in total economic activity.
- $590 million in federal, state, and local tax revenues.
- **Each taxpayer dollar “invested” in plans supported $8.48 in total economic activity in the state.**

Source: NIRS, *Pensionomics 2012*
Diane Oakley
202.457.8190
doakley@nirsonline.org

www.nirsonline.org