

# How Washington Rates on Retirement Security and Defined Benefit Plan Issues

**National Institute on Retirement Security**  
**Diane Oakley, Executive Director**

April 8, 2014

[www.nirsonline.org](http://www.nirsonline.org)



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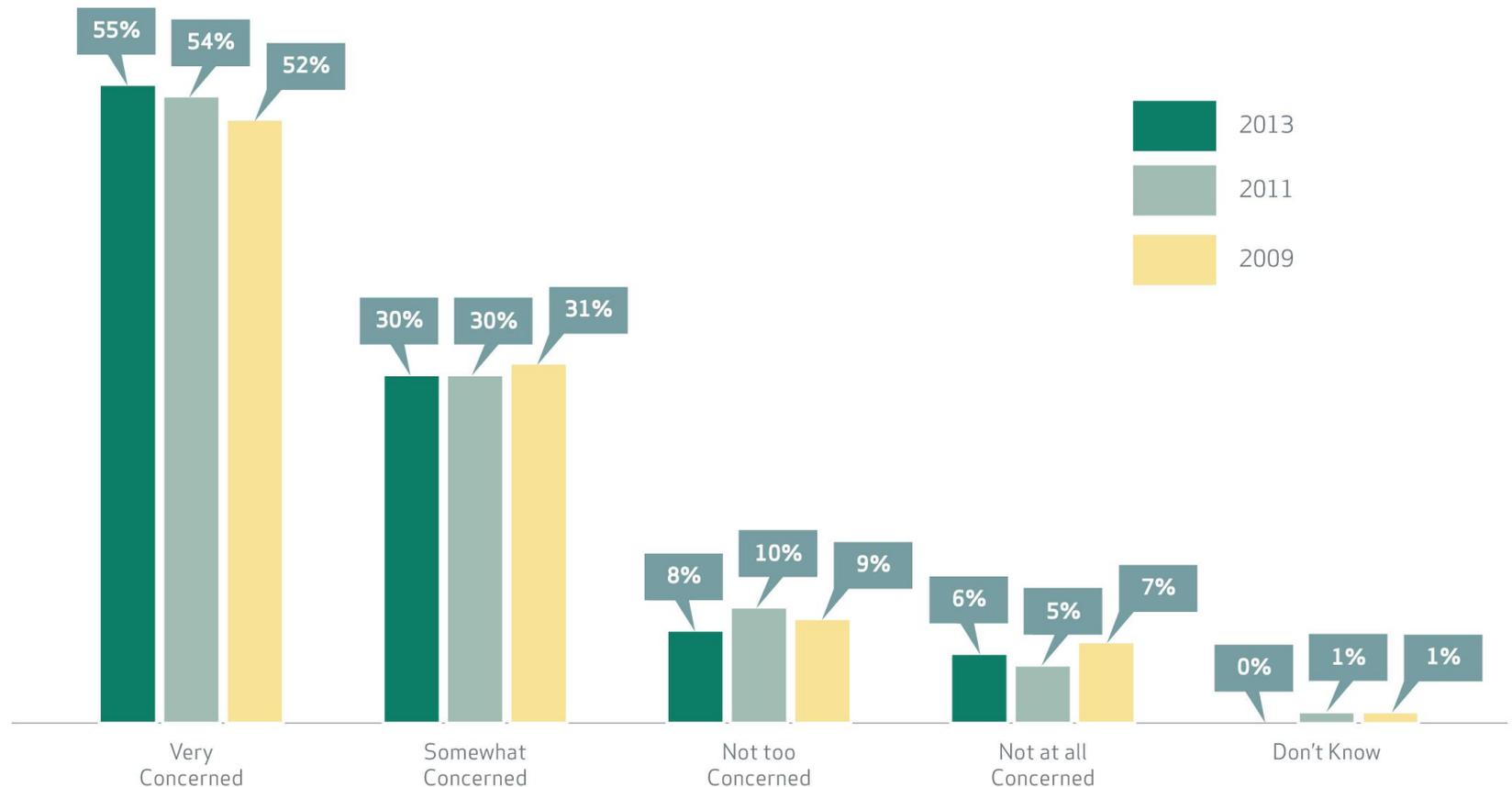
# About NIRS

- 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

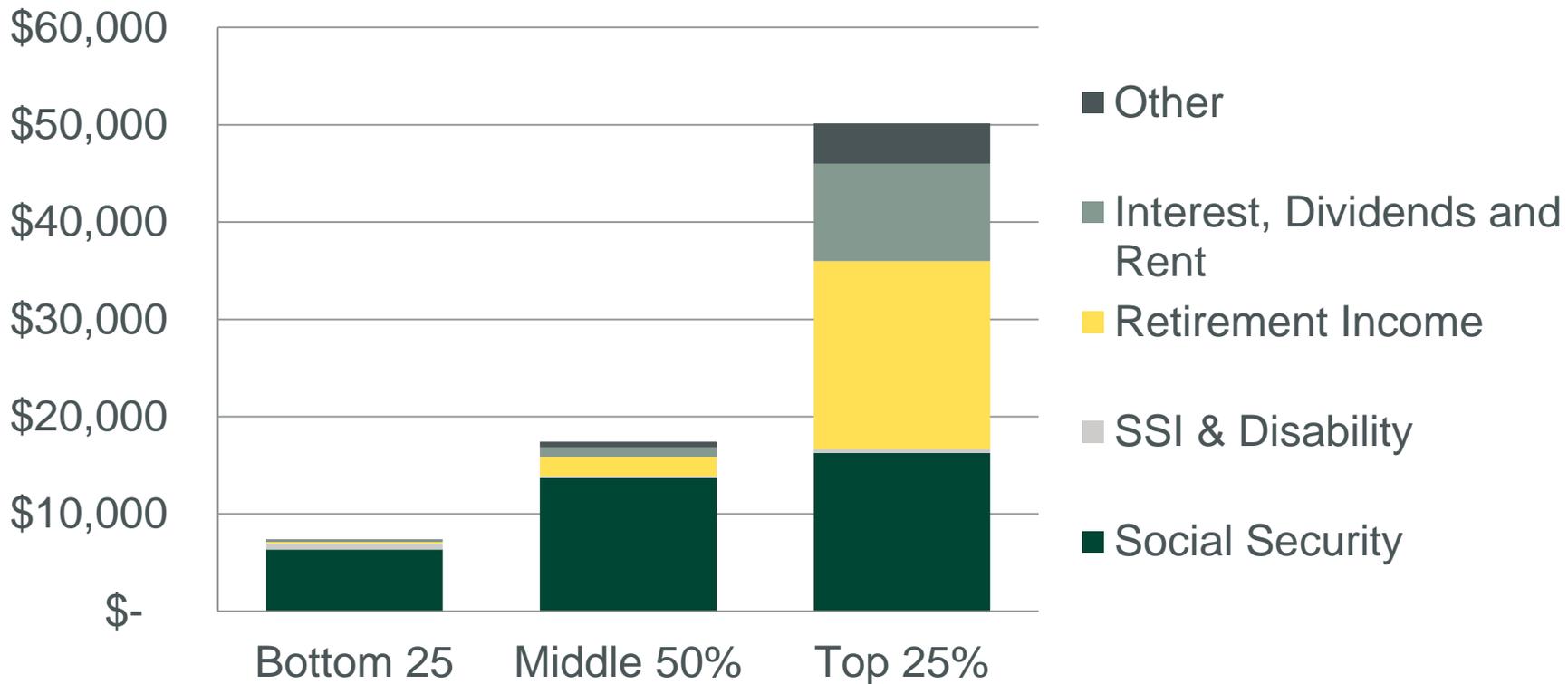
How concerned are you about current economic conditions affecting your ability to achieve a secure retirement?



Source: NIRS Pensions & Retirement Security 2013

# Social Security is Major Source of Income for 75 Percent of Retiree 65+

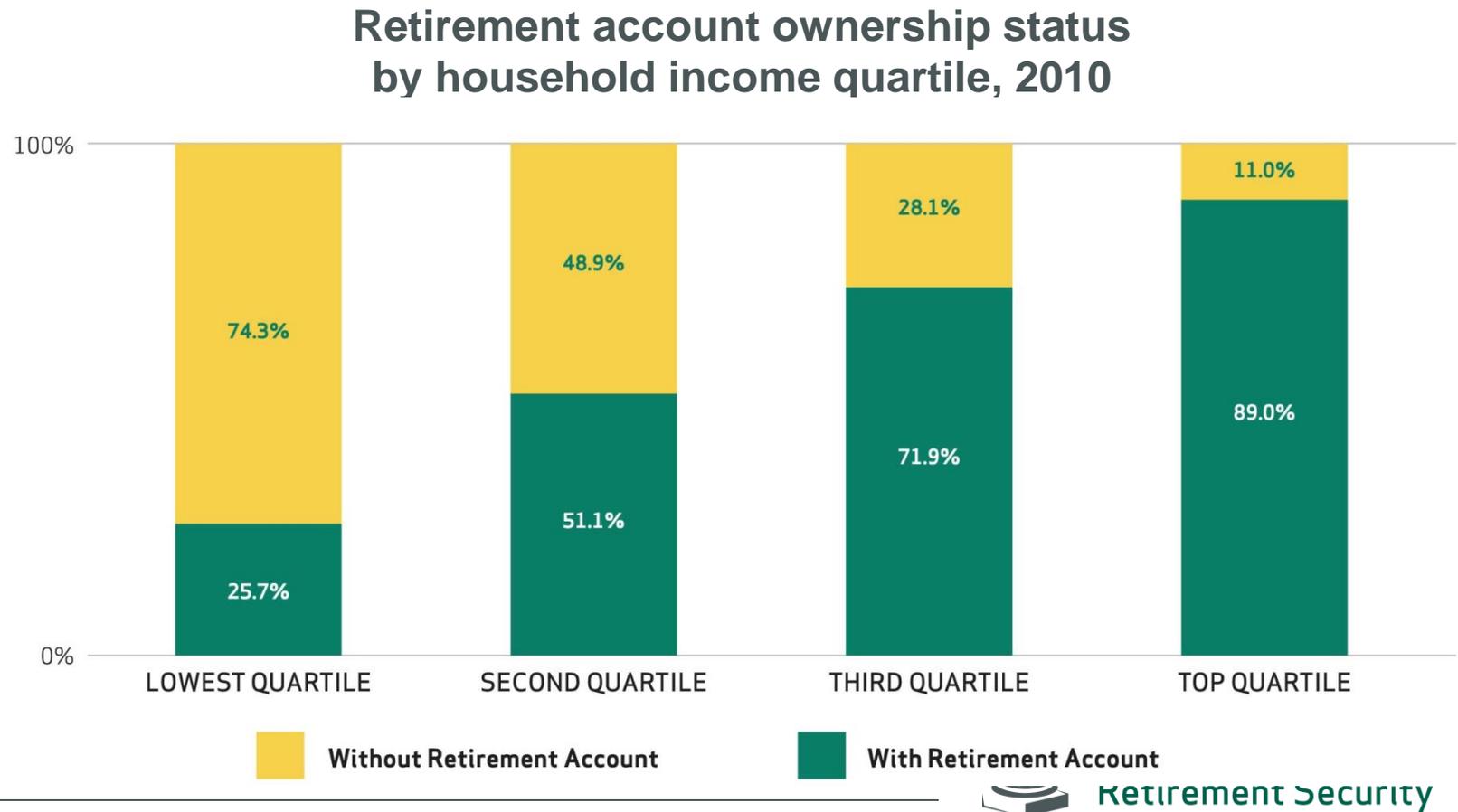
## Sources of Income of Retirees 65 and Older



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Source: NIRS Calculations for retirees who did not work from the March 2012 CPS extract from IPUMS

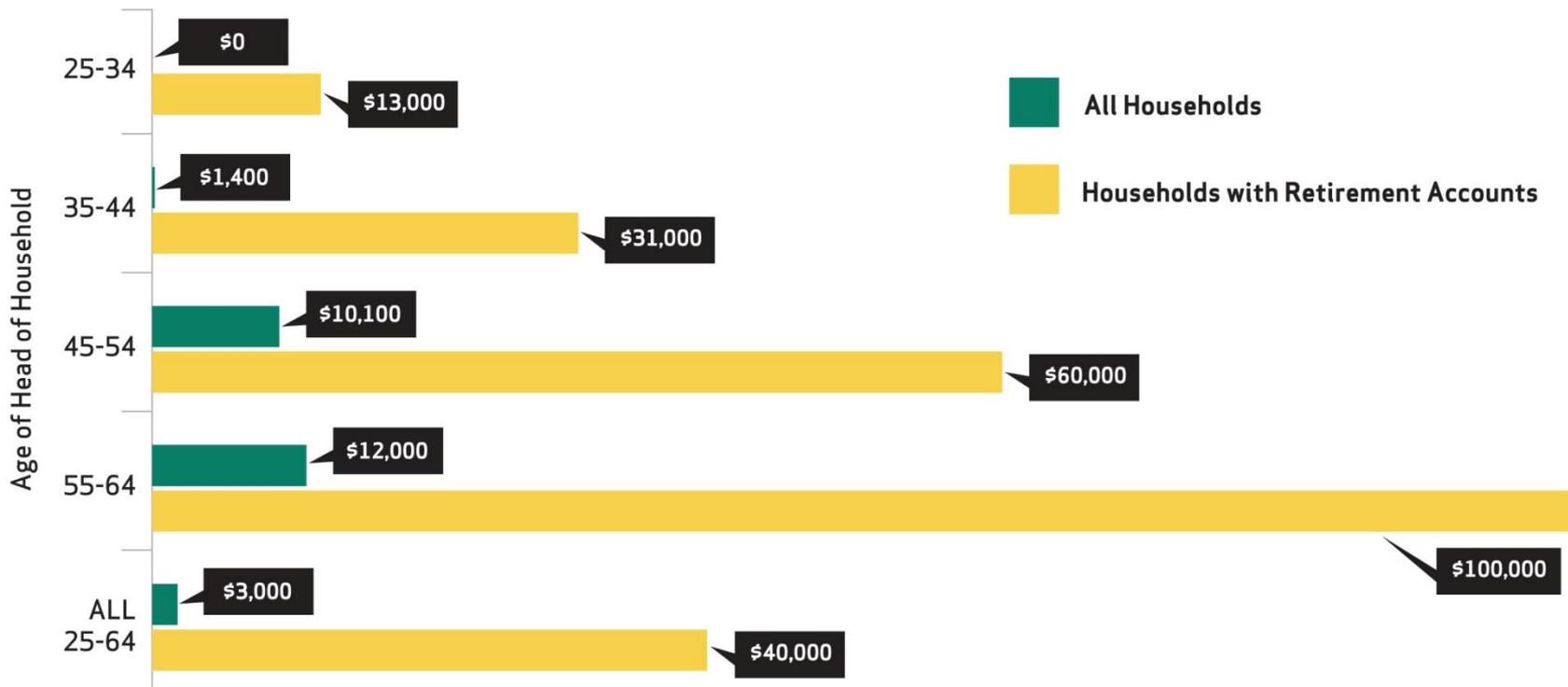
# Retirement Accounts Are Concentrated Among Higher-Income Households



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.

# Typical Working-Age Household Has \$3,000 in Retirement Assets; Near-Retirement Household Has \$12,000

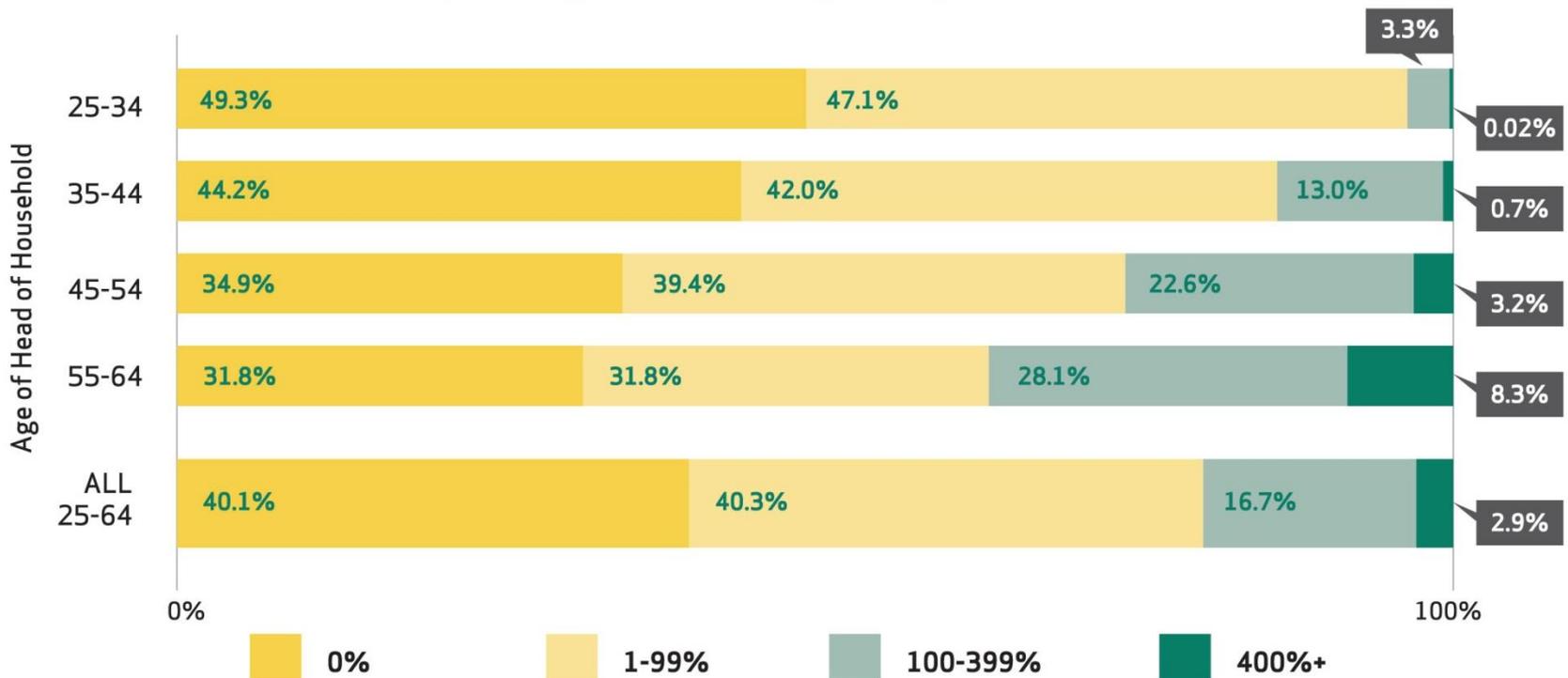
Median retirement account balance, households with retirement accounts vs. all households, 2010



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



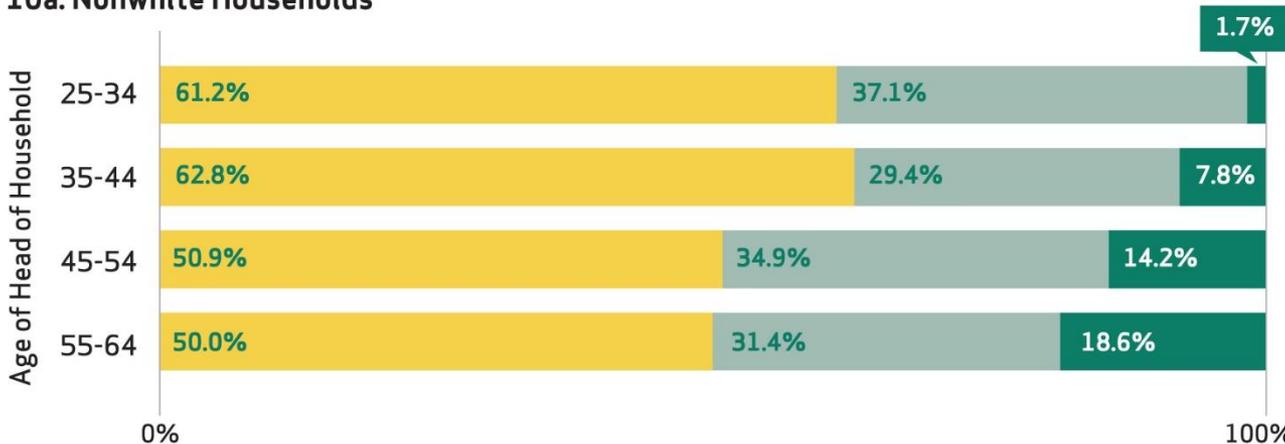
Source: NIRS analysis of 2010 SCF. Universe is households with heads age 25-64, with total earnings  $\geq$  \$5,000 and  $<$  \$500,000 and total income  $<$  \$1M.



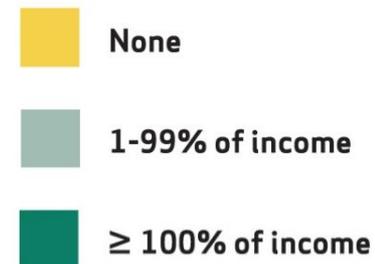
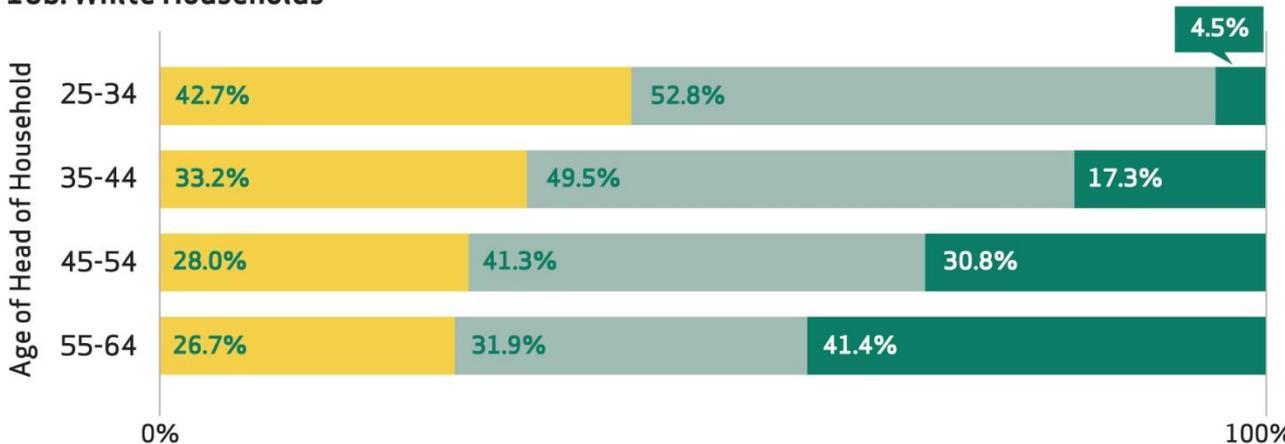
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# Households of Color Are Less than Half as Likely As White Households to Have Retirement Savings at Least Annual Income

10a. Nonwhite Households



10b. White Households

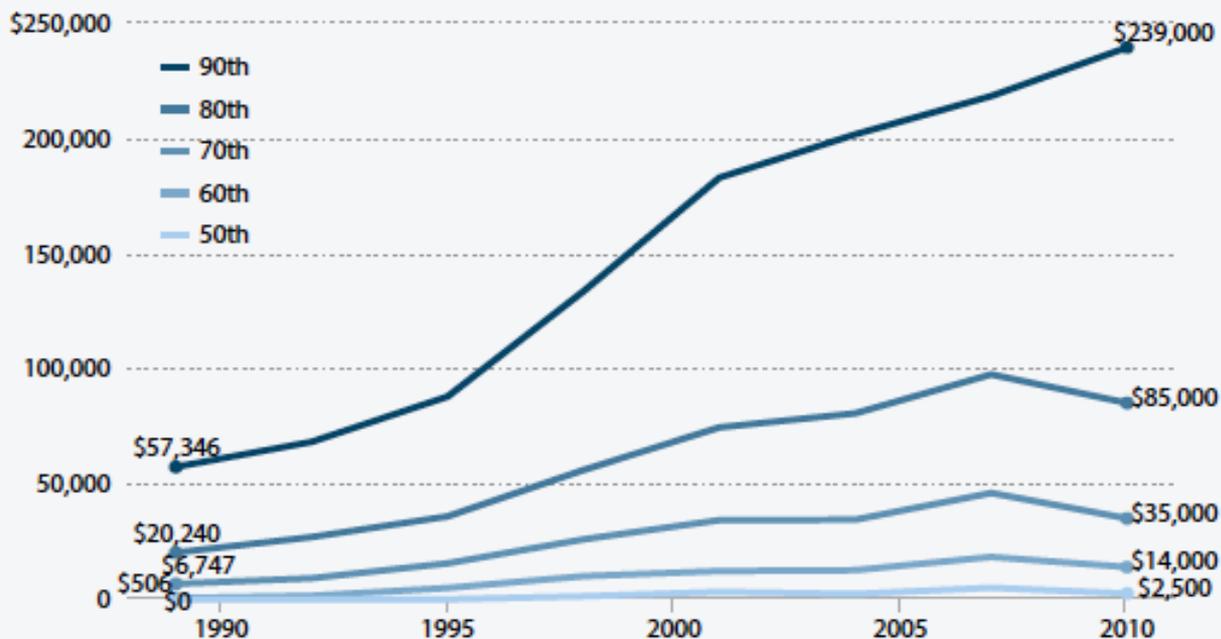


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Source: NIRS analysis of 2010 SCF microdata. Universe is households with total earnings > \$5,000 and < \$500,000 and total income < \$1M. Values may not add up to 100% due to rounding.

# 90th Percentile Household Has Nearly 100 Times the Retirement Savings of Median Household

Savings in retirement accounts of households age 26–79, by percentile, 1989–2010 (2010 dollars)



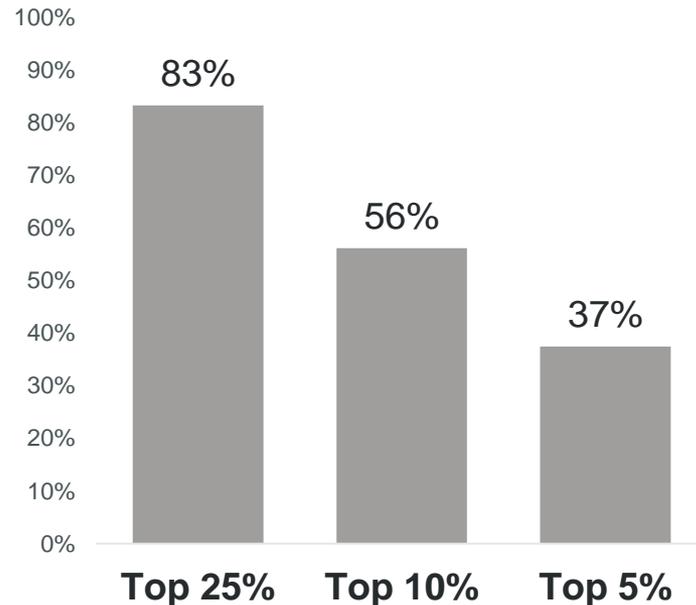
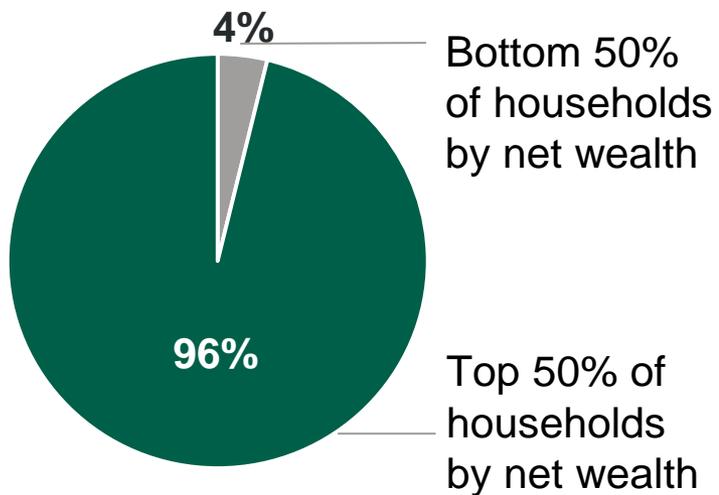
Note: Retirement account savings include savings in 401(k) and other defined-contribution plans, IRAs (including employer-sponsored SEP IRAs and SIMPLE IRAs) and Keogh plans for small businesses.



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# Distribution of Baby Boomer Retirement Wealth, 2010

## Percentage of Assets



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Source: NIRS analysis of 2010 Survey of Consumer Finances. Retirement wealth includes assets held 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).

Table 3. **STATE FINANCIAL SECURITY SCORECARD**  
*Overall scores based on potential economic pressures facing future retirees—retirement income, retiree costs and labor market conditions for older adults*

SCORE	2000	2007	2012
10	-	-	-
9	-	-	Wyoming
8	New Hampshire   Wyoming	West Virginia   Wyoming	Alaska   Minnesota North Dakota
7	Connecticut   Delaware, Indiana   Iowa   Michigan North Dakota   Ohio Wisconsin	Alaska   Delaware Idaho   Iowa   Maryland Minnesota New Hampshire North Dakota South Dakota   Washington	Iowa   New Hampshire South Dakota Washington West Virginia
6	Alaska   Colorado Hawaii   Illinois   Kansas Maryland   Massachusetts Minnesota   Missouri Nebraska   New Jersey Pennsylvania Rhode Island   South Dakota Virginia   Washington	Alabama   Hawaii   Indiana Kentucky   Montana Oklahoma   Pennsylvania Tennessee   Utah   Virginia Wisconsin	Alabama   Colorado Delaware   Hawaii Indiana   Kentucky Maryland   Missouri Nebraska   Pennsylvania Tennessee   Virginia Wisconsin
5	Alabama   Arizona   Idaho Kentucky   Maine Montana   Nevada New Mexico   New York Oklahoma   South Carolina Tennessee   Utah Vermont   West Virginia	Colorado   Connecticut District of Columbia Illinois   Kansas   Louisiana Maine   Michigan Mississippi   Missouri Nebraska   New Jersey New Mexico   New York Ohio   Oregon	Arkansas   Connecticut Idaho   Illinois   Kansas Louisiana   Massachusetts Mississippi   Montana New York   Ohio Oklahoma   Oregon Rhode Island   Texas Utah   Vermont
4	Arkansas District of Columbia Florida   Georgia Louisiana   North Carolina Oregon   Texas	Arizona   Arkansas Florida   Georgia Massachusetts   Nevada North Carolina Rhode Island   Texas Vermont	Arizona District of Columbia Georgia   Maine   Michigan Nevada   New Jersey New Mexico North Carolina
3	California   Mississippi	California   South Carolina	California   Florida South Carolina
2	-	-	-
1	-	-	-



# 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



# Washington: Data and Scores

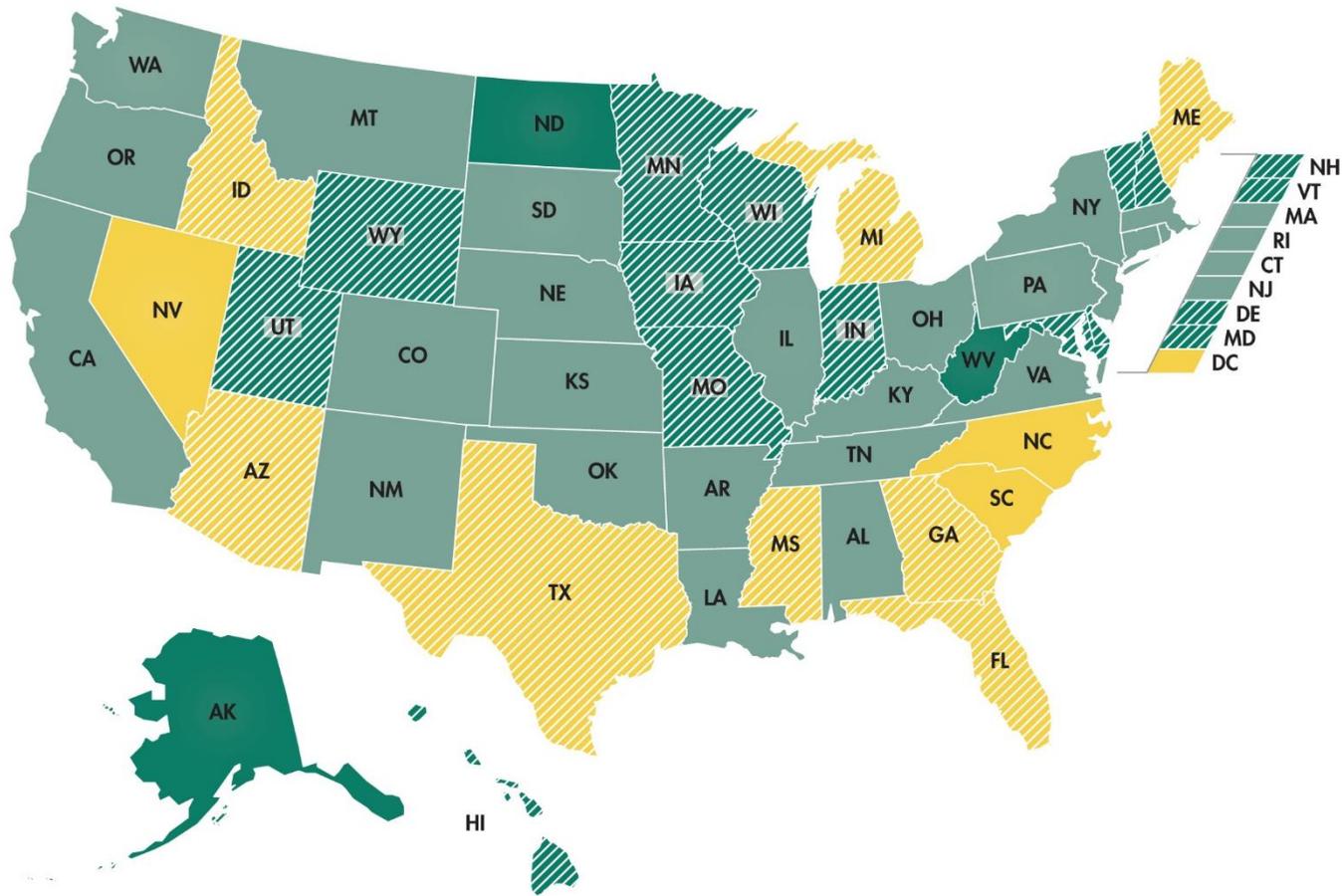
Category/Variable	Raw Data	Rank	Score
<b>Retirement Income</b>			<b>8</b>
Private Sector Retirement Plan Participation	47.8%	22	
Estimated Average DC Account Balance among participants	\$35,344	10	
Marginal Tax Rate on Pension Income	0.0%	1	
<b>Retiree Costs</b>			<b>5</b>
Medicare DOP Costs	\$1,613	8	
Average Medicaid Expenditure on Aged	\$14,147	31	
% of Senior Households Paying 30%+ Income on housing	37.0%	41	
<b>Labor Market</b>			<b>6</b>
Median Hourly Earnings for 55+	\$17.50	2	
Unemployment Rate for 55+	6.8%	42	
<b>Overall State Score</b>		<b>19.6</b>	<b>7</b>





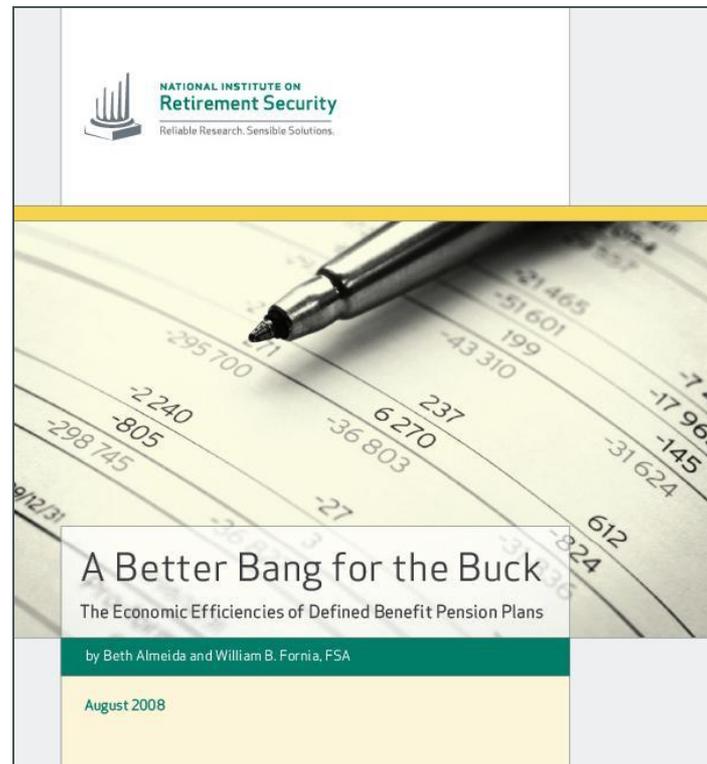


# Labor Market Scores 2012





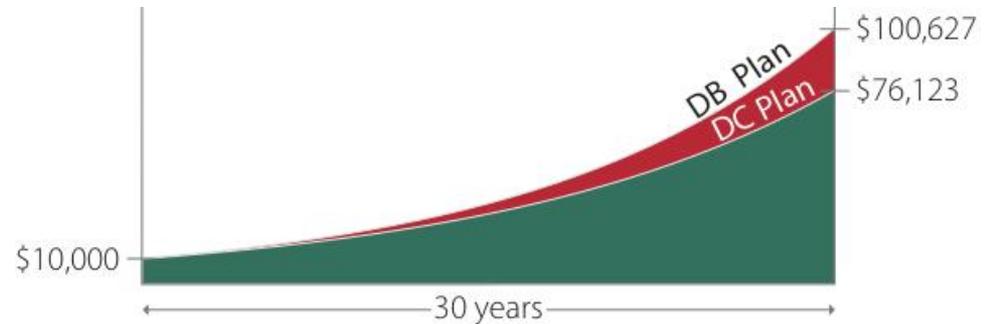
# Economic Efficient: DB Plans Deliver the Same Benefit for Less



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# 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

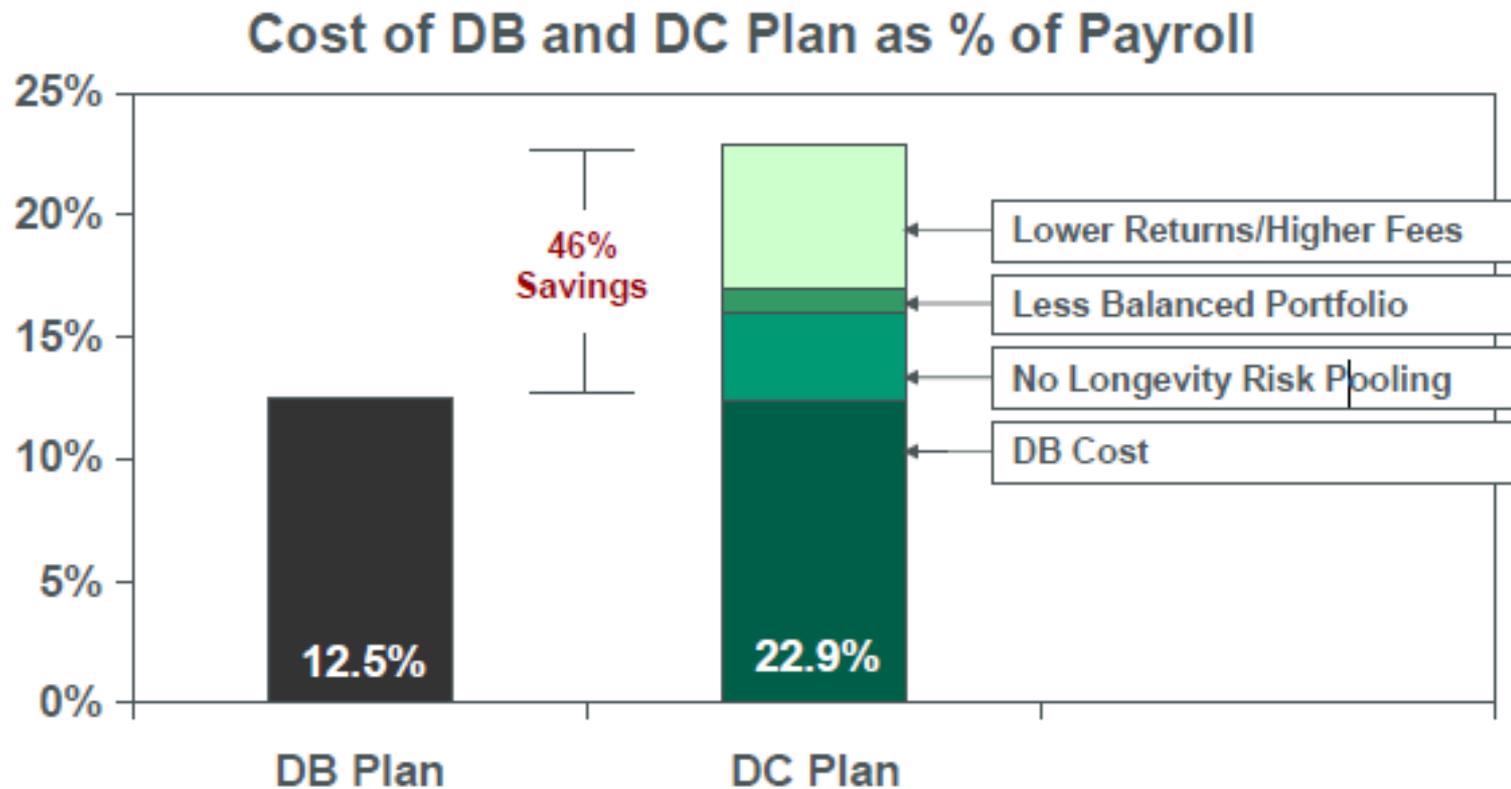
## ***Superior Returns***

- Achieve greater investment returns vs. individual accounts

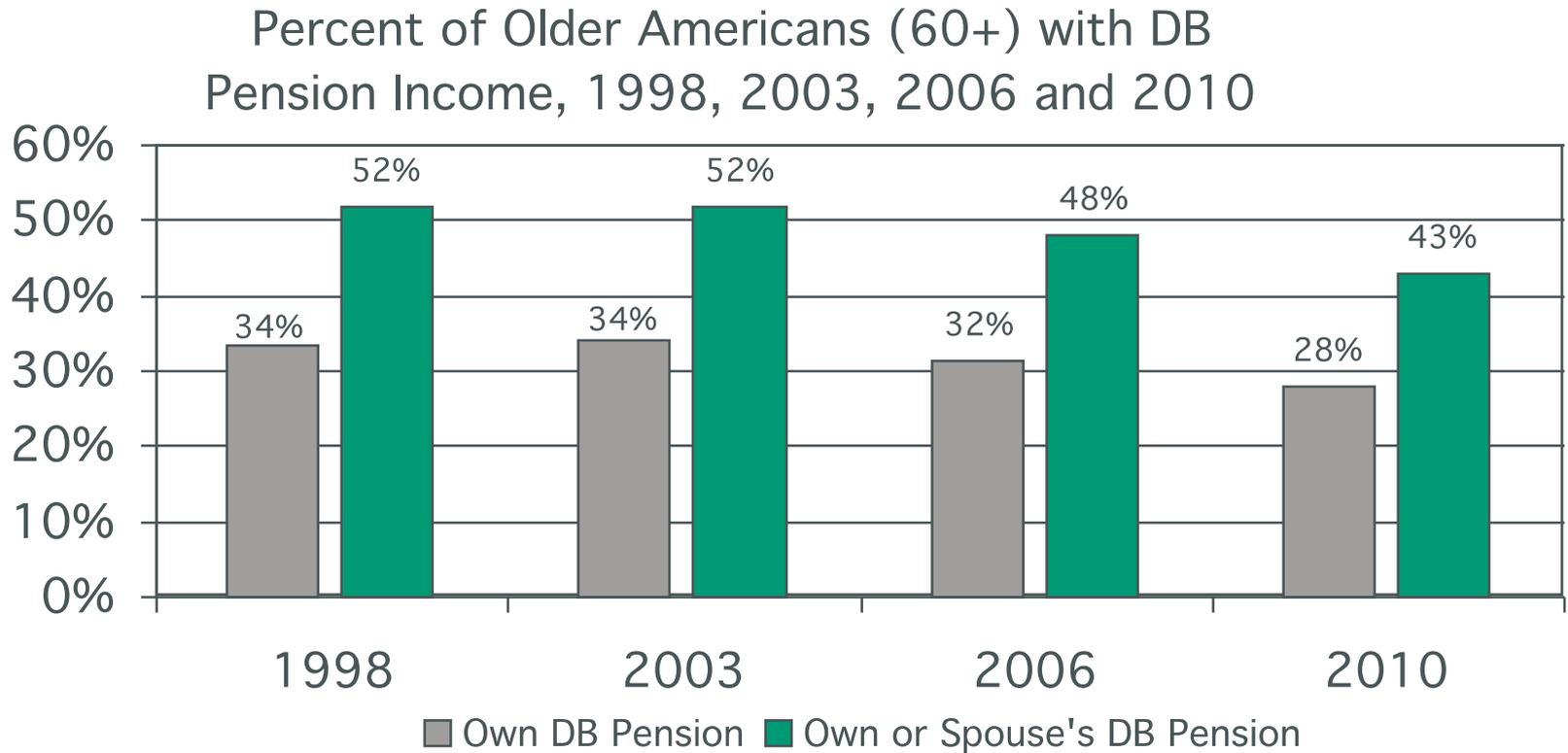


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# DB Plan Can Deliver Same Benefit at About Half the Cost of DC Plans



# In 2010, over 23 Million Americans (60+) Received DB Pension Income, but ...



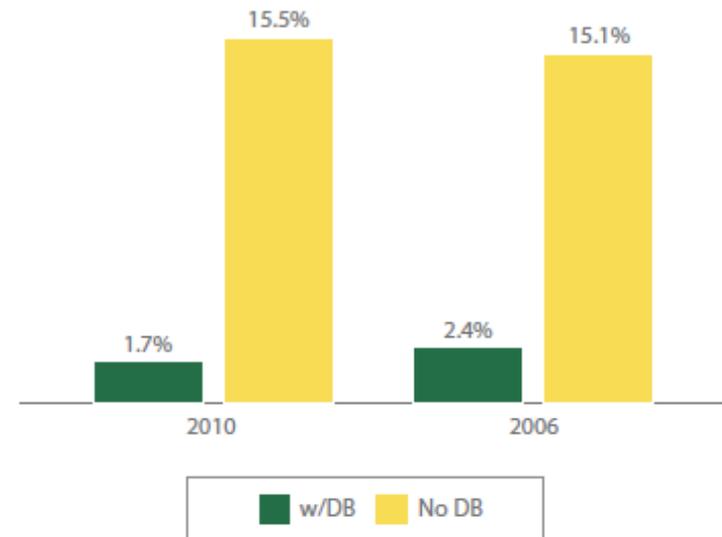
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Source: *The Pension Factor, Table 1.*

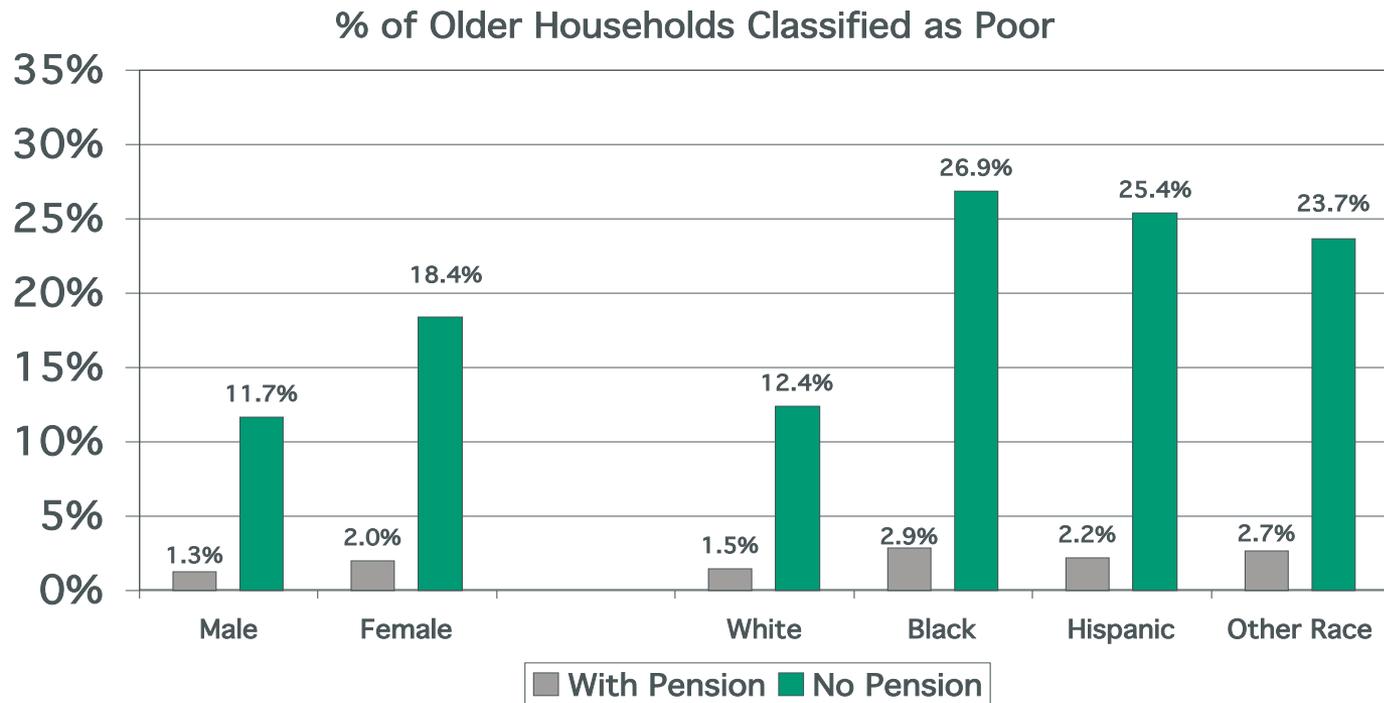
# NIRS Found Income from DB Pensions in 2010 is Associated with ...

- 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.*

Rates of Poverty in 2006 and 2010 by DB Pension Status



# Gender/Race Poverty Gaps Shrink in Older Households with DB Pensions



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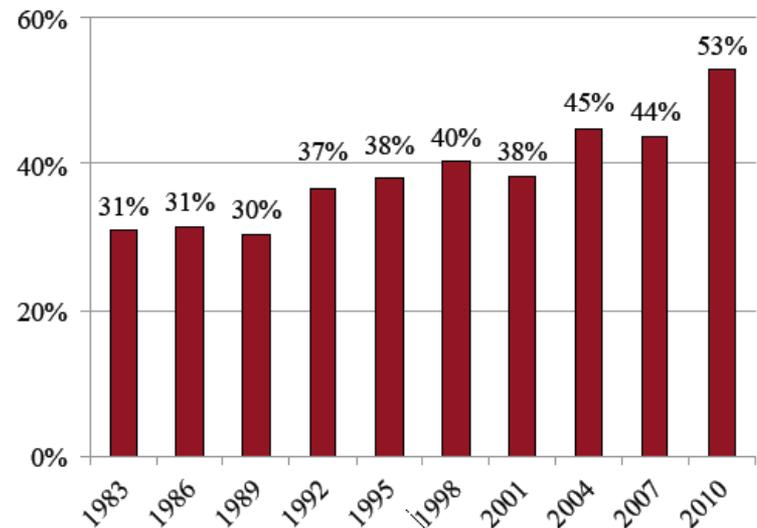
# Shifting Retirement Infrastructure Shifts Risk to Individuals

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



Source: DOL, PBGC and EBRI

**National Retirement Risk Index (1983 – 2010)  
Working Households at Risk of Falling Short of Pre-Retirement Living Standard**



Source: Center for Retirement Research at Boston College, 2012



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# 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.

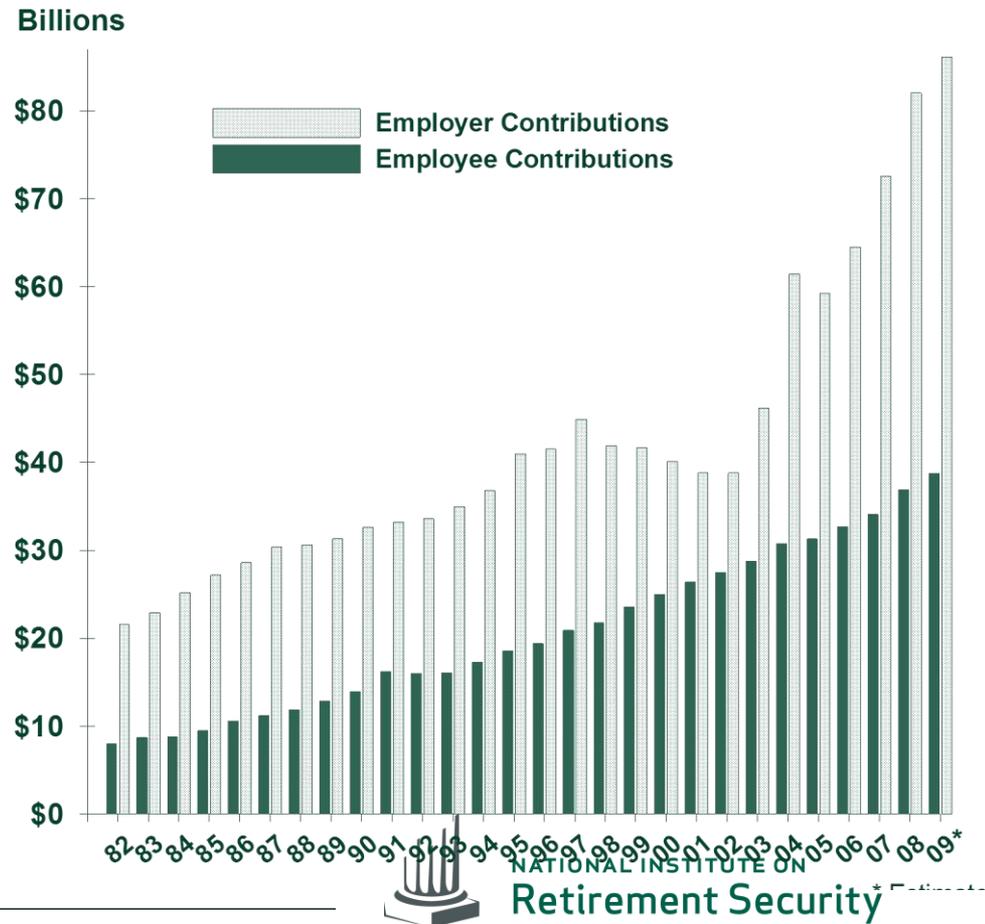


# Lessons from Well-Funded Pensions: Shared Responsibility Improves Funding

**Employee contributions to help share the plan cost:**

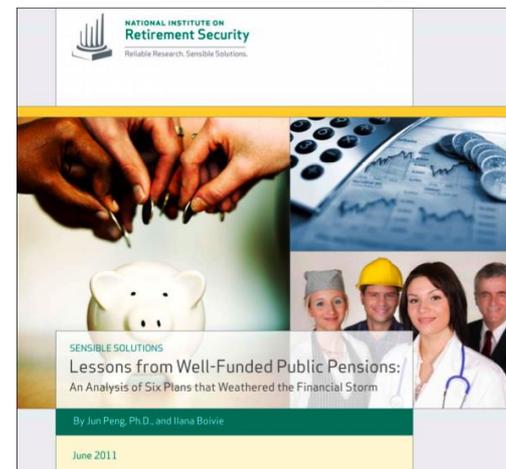
**- In Idaho employees contribute 60% of the Employer rate.**

Employee and Employer Pension Contributions, 1982 to 2009



# 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

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



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# Switch to Individual Accounts Not a Viable Solution

## Issue Brief

On the Right Track?  
Public Pension Reforms in the Wake of the Financial Crisis  
By Nari Rhee, PhD and Diane Oakley

December 2012



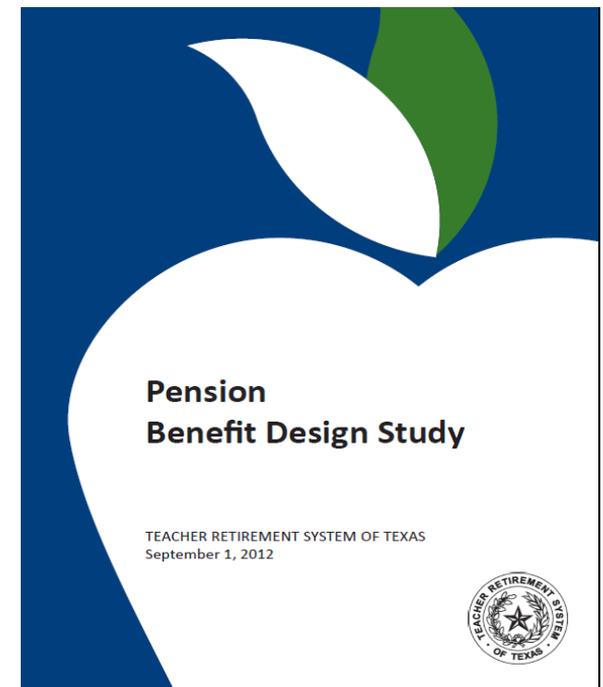
- Closing/freezing DB plans and switching to individual accounts does not address underfunding, entails significant costs.
- Majority of states ensure long-term sustainability by modifying DB plans.
- Pensions balance compensation, boost retention and productivity, and enable quality services for a lower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



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# Texas Teachers Retirement System Benefit Design Study

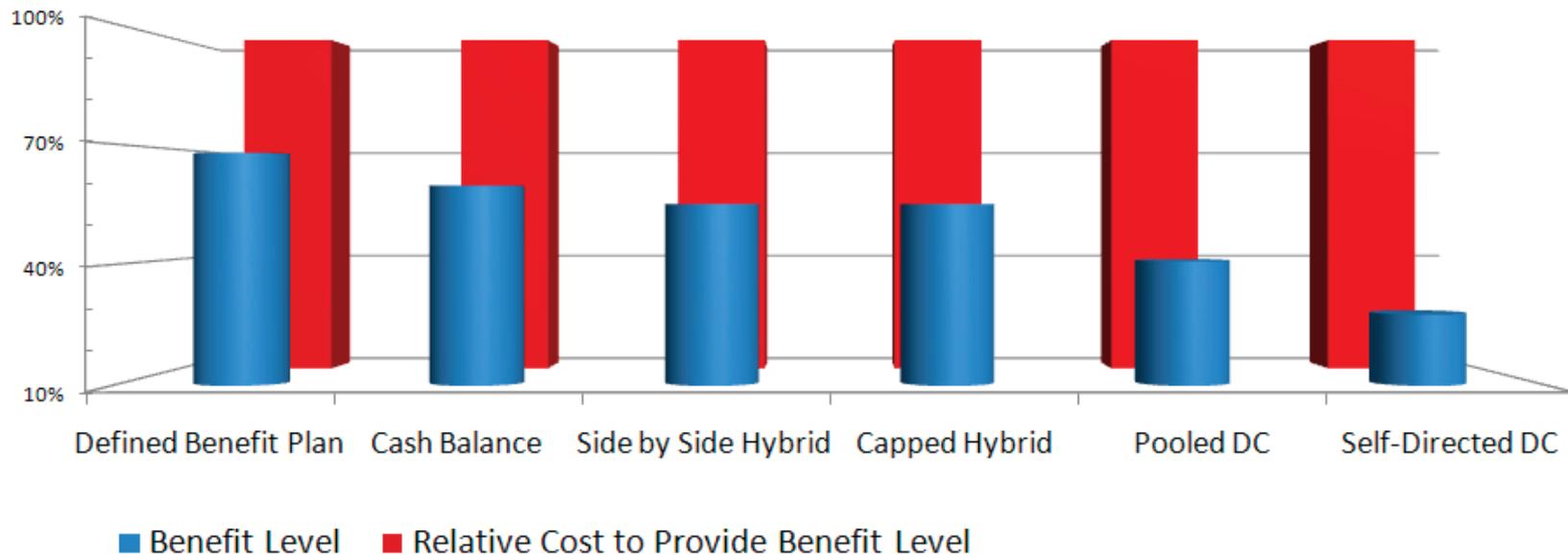
- \$11.7 billion/49% increase in closed DB plan liability due to a more liquid asset allocation
- Cost comparison of multiple plan design options
  - DC most expensive
  - DB least expensive



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# Pension Benefit Design Study

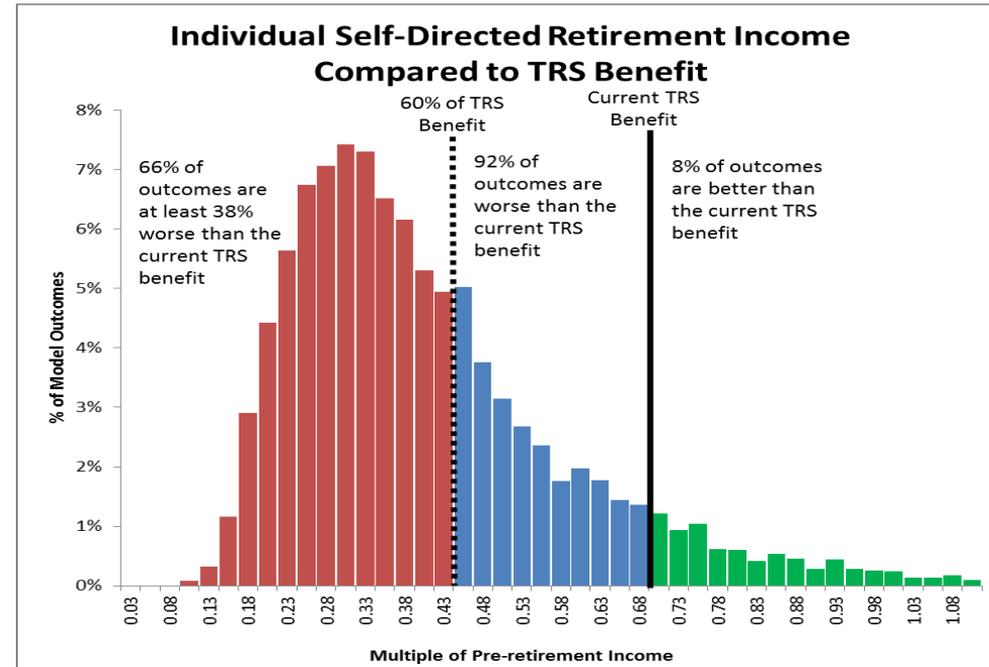
## Targeted Contribution Approach



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# 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

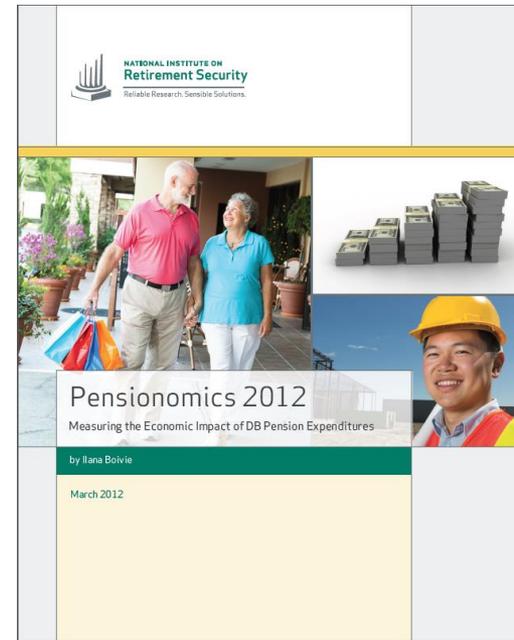
- Loss of a human resource management tool:
  - Pension is particularly helpful for retaining qualified workers to perform essential public services.
  - Retention is key for certain groups: teachers, law enforcement personnel, members of other career oriented groups.
- Pension promotes human resource management objective of orderly turnover, i.e., retirement, or ability to retire, at an appropriate age. Orderly turnover facilitates workforce management objectives.



# Pensionomics 2012:

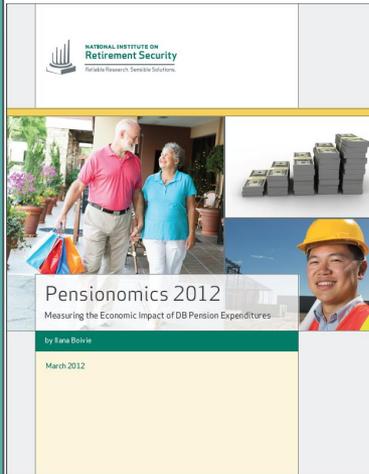
Nationally, DB pension plans expenditures in 2009...

- 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



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# 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.



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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

#### Pensions and Retirement Security 2011: A Roadmap for Policymakers



Public opinion research finds an overwhelming majority of Americans believe the nation's retirement infrastructure is crumbling and stock market volatility makes it impossible to predict retirement savings.

[Read More >](#)

### NEWS

#### Washington Post Compares Pensions



May 22, 2011 -- In a story regarding efforts to curb retirement benefits of federal workers, *The Washington Post* features a NIRS chart comparing pensions. The article also quotes the NIRS executive director Diane Oakley on the benefits of pension plans.

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### EXCHANGE

#### Retirement Panic Attack?



Americans are in a state of near panic about their retirement prospects. This is according to NIRS' national [public opinion poll](#) that finds 84% of Americans are concerned that economic conditions are impacting their ability to achieve a secure retirement.

[Read More >](#)

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