

Pensions 101 for Advocates

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NEA Collective Bargaining And Member Advocacy

February 23, 2023

What is a defined benefit pension?

A guaranteed benefit payment in retirement

Theoretical example*

$$\text{Years of Service} \times \text{Final Average Salary} \times \text{Benefit Multiplier} = \text{Pension Benefit}$$

*Will vary with each retirement system and tier

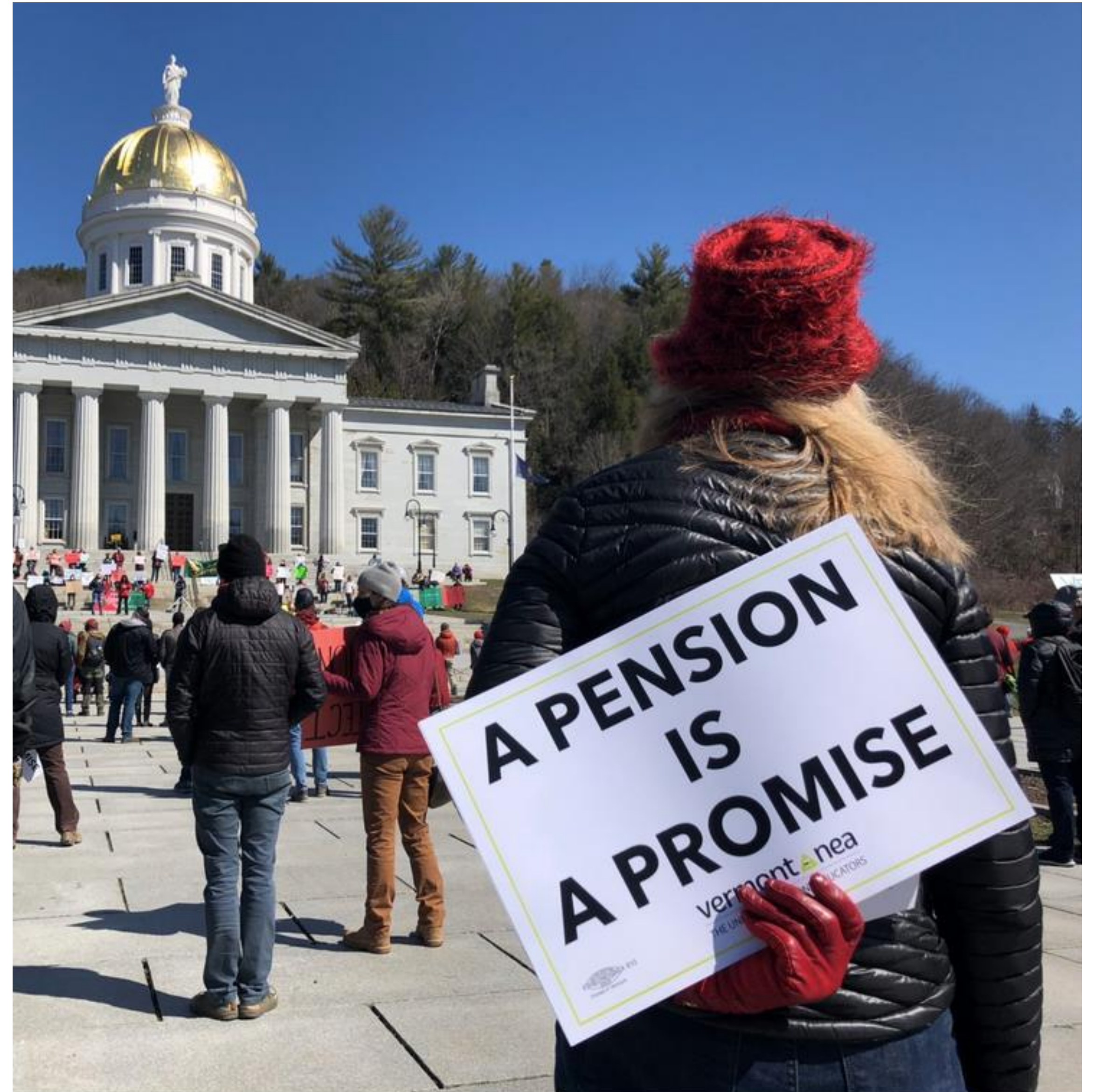
Other benefits

- 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

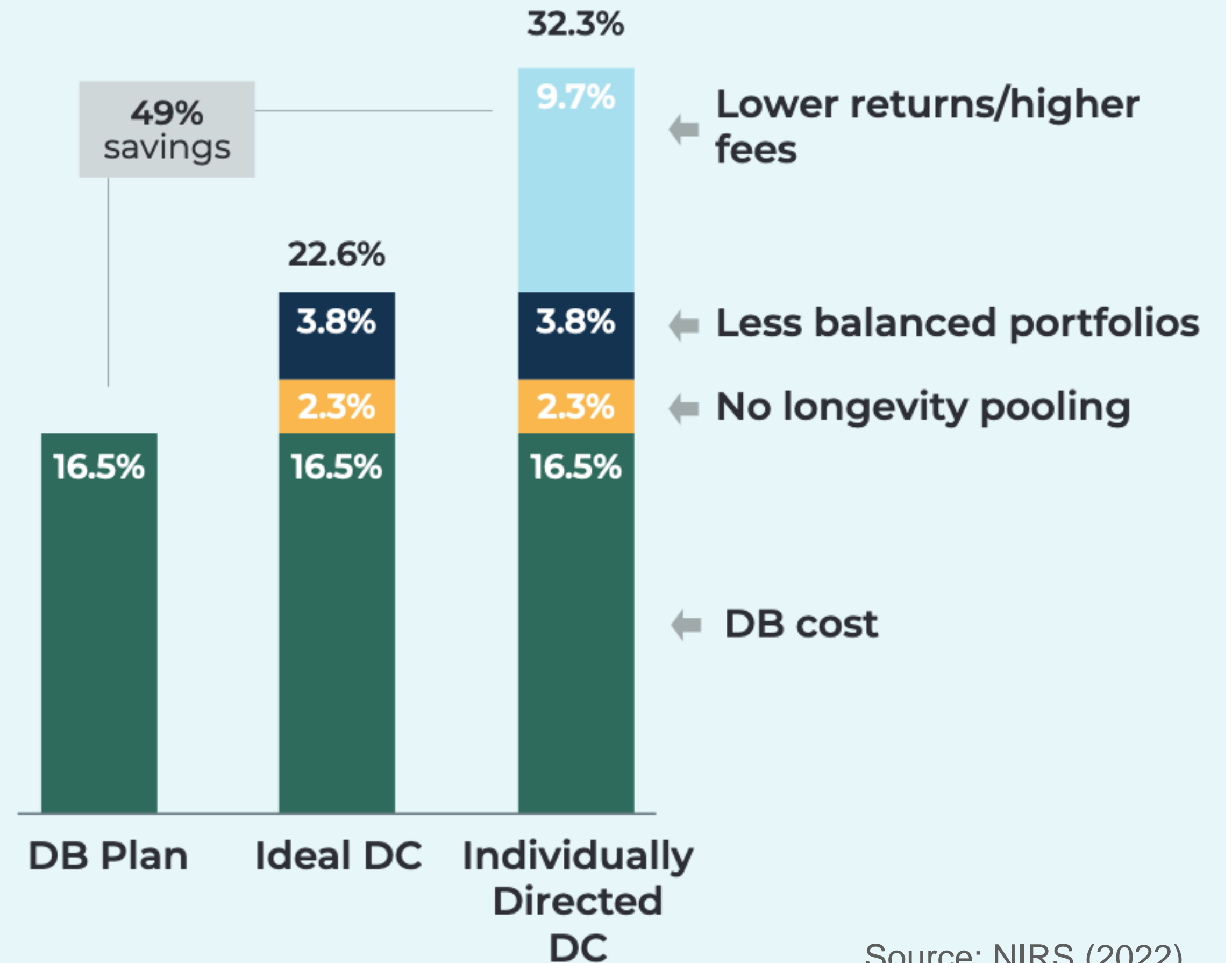
The allocation of risks

	Defined benefit pension	Defined contribution plan
Investment risk	Almost entirely falls on the plan sponsor	Falls entirely on the worker
Longevity risk	Falls entirely on the plan sponsor	Falls entirely on the worker
Inflation risk	Often partially covered by the plans sponsor	Falls entirely on the work

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



Source: NIRS (2022)

Recruitment & retention

- 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 re-opened.

Enduring Challenges

Examining the Experiences of States that Closed Pension Plans

By Tyler Bond and Dan Doonan

August 2019



Alaska

- 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.

Alaska has a teacher retention problem. The state is ready to pay someone to help solve it.

October 20, 2021 by Claire Stremple, KT00

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Second grade teacher Jenna Nadine works in her empty classroom on the first day of school at Mikelnguut Elitnaurviat. (Katie Basile/KYUK)

Resources

NEA resources

[NEA.org/pensions](https://www.nea.org/pensions)

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

nea



Pensions & Retirement Security

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



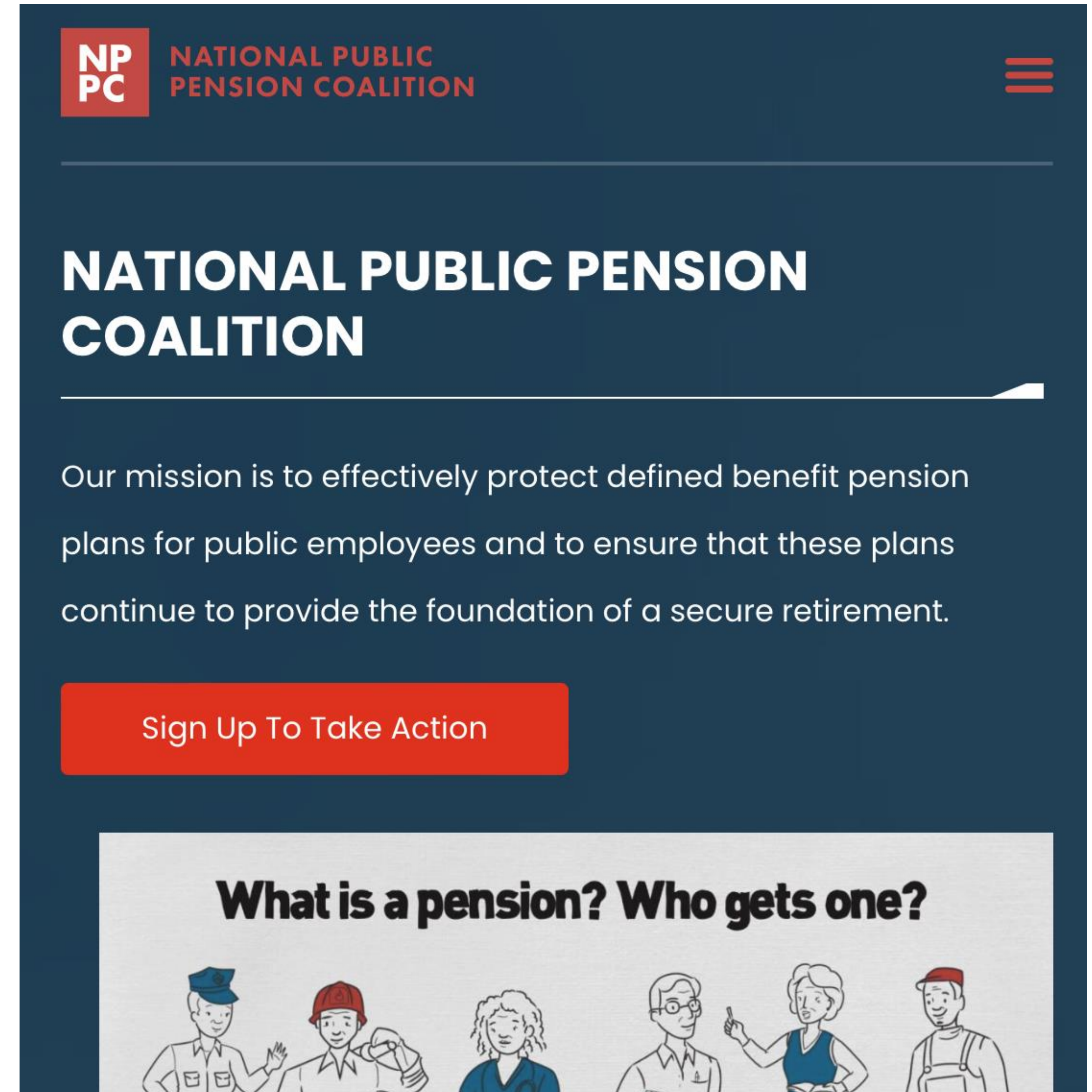
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National Public Pension Coalition

ProtectPensions.org

- Weekly updates on public pension news
- Pension 101 video
- One-pagers



The screenshot shows the top portion of the National Public Pension Coalition website. At the top left is the logo, which consists of a red square containing the white letters 'NP' stacked above 'PC', followed by the text 'NATIONAL PUBLIC PENSION COALITION' in red. To the right of the logo is a red hamburger menu icon. Below the logo and menu is a dark blue horizontal bar with the text 'NATIONAL PUBLIC PENSION COALITION' in white, bold, uppercase letters. Underneath this bar is a white horizontal line. The main content area has a dark blue background and contains the text: 'Our mission is to effectively protect defined benefit pension plans for public employees and to ensure that these plans continue to provide the foundation of a secure retirement.' Below this text is a red button with the white text 'Sign Up To Take Action'. At the bottom of the screenshot is a white banner with the text 'What is a pension? Who gets one?' in bold black font. Below the text is a row of six line-art illustrations of diverse people in various professions: a police officer, a construction worker, a nurse, a man with glasses, a woman pointing, and a construction worker in overalls.

National Institute on Retirement Security

[NIRSONline.org](https://www.nirsonline.org)

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



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Pensionomics 2023

Measuring the Economic Impact of Defined Benefit Pension Expenditures

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