

# Ohio PERS Message Triangle

## PENSIONS WORK

1. TRADITIONAL PENSIONS ARE THE MOST ECONOMICAL WAY TO PROVIDE RELIABLE RETIREMENT SECURITY
  1. Economies of scale
  2. Mandatory participation
  3. Pooled risk
  4. Lifetime payouts
2. IT'S NOT A RACE TO THE BOTTOM
  1. Too many Americans have already had their benefit coverage, adequacy and security deteriorated
3. BOTH THE COST AND BENEFIT OF PUBLIC PENSIONS ARE SHARED:
  1. Public employees contribute to the cost of their pensions
  2. The local economy and financial markets benefit from pension investments/distributions
  3. Pensions assist in attracting and retaining qualified personnel to provide essential public services
  4. Pensions lessen dependence on public assistance programs
4. PUBLIC DB PLANS ARE IN IT FOR THE LONG-TERM
  1. Positioned to continue paying benefits for the foreseeable future
  2. Have time to rebuild reserves
5. ONLY TRADITIONAL PENSIONS PROVIDE FOR FAMILIES OF THOSE KILLED/DISABLED IN THE LINE OF DUTY
5. DEFINED BENEFIT PLANS GET YOU MORE FOR LESS
  1. Conversions are costly; traditional pension plans are more likely to retain quality public employees and prevent poverty/reliance on public assistance
6. LIFETIME BENEFITS PROMOTE BOTH INDIVIDUAL RETIREMENT SECURITY AND LONG-TERM PENSION FUND FINANCING
7. PUBLIC PLANS ARE TRANSPARENT AND ACCOUNTABLE

**Retirement  
Security  
Benefits  
Everyone**

## PENSION POLICIES HAVE LONG-TERM IMPACTS

1. OUR RESPONSE SHOULD BE MEASURED; TURNING THE WHEEL SLIGHTLY CAN RIGHT THE SHIP MILES AHEAD
2. WE DON'T NEED TO BREAK IT TO FIX IT
  1. Measured steps can ensure these programs will continue to flourish
3. PEOPLE'S LIVES/RETIREMENT SECURITY ARE TOO IMPORTANT FOR POLITICS
4. WE SHOULD FOCUS ON LONG-TERM SOLUTIONS, NOT BAND-AIDS
5. ADEQUATE FUNDING TODAY MINIMIZES LIABILITIES TOMORROW
6. DB PLANS ARE RESILIENT AND DESIGNED TO WITHSTAND MARKET VOLATILITY
7. WE SHOULD HONOR OUR COMMITMENTS, ON-TIME AND IN FULL
8. WE NEED TO CORRECT—NOT COVER UP—PAST MISTAKES
9. ABUSES, NO MATTER HOW LIMITED IN NUMBER, SHOULD BE ELIMINATED
10. MARKETS ARE IMPROVING
11. REMOVING RETIREMENT BENEFITS FOR OTHERS DOESN'T HELP YOU

## PENSIONS SUPPORT OUR LOCAL ECONOMY

1. THE BUCK STAYS HERE
  1. This is what neighbors and friends live on and spend here
  2. Most retirees and their dependents remain in the state, reinvesting their retirement dollars on housing, goods and services
2. RETIREES VOLUNTEER HERE
  1. They support our communities by volunteering, mentoring and by donating their time in this state
3. DB PLANS HELP RETIREES MAKE IT
  1. Defined benefit plans provide retirees with a lifetime income stream, so they are less likely to require public assistance and social services
4. PUBLIC PENSION BENEFITS LEAVE A SIZEABLE ECONOMIC FOOTPRINT, SUPPORT AND SUSTAIN JOBS AND TAX BASES
5. PUBLIC PENSIONS ARE A GOOD RETURN
  1. Send over 2 times the amount of contributions from members and employers back into the local economy
6. PENSIONS PROVIDE MAIN STREET BENEFITS
  1. The average annual pension is \$20,522—received and spent on Main Street
7. BENEFIT IS VITAL TO NON-SOCIAL SECURITY PARTICIPANTS - THIS MAY BE THEIR ONLY RETIREMENT

**Retirement  
Security  
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**Pension  
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**Pensions  
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## 4. PUBLIC PENSION BENEFITS LEAVE A SIZEABLE ECONOMIC FOOTPRINT, SUPPORT AND SUSTAIN JOBS AND TAX BASES.

- Defined benefit plan assets promote national saving, economic efficiency, and economic growth. Their size, diversification, and focus on long-term investment returns help them stabilize and add liquidity to American and foreign financial markets alike (Anderson, Gary and Keith Brainard. Profitable Prudence: The Case for Public Employer Defined Benefit Plans, Pension Research Council, 2004, p. 213).

- As shareholders, defined benefit plans promote better corporate performance, reducing the cost of providing plan benefits. For example, defined benefit plans fund the real estate sector, and other less liquid, hard-to-value assets that generally are not invested in by defined contribution plans (American Academy of Actuaries, The Value of Defined Benefit Plans, July 2006, National Association of State Retirement Administrators, p. 4).

- In the last decade, many public retirement systems have established target allocations to venture capital projects within their own state. This innovative, efficient way to finance emerging companies goes a long way in supporting a state's long-term economic growth (Anderson, Gary and Keith Brainard. Profitable Prudence: The Case for Public Employer Defined Benefit Plans, Pension Research Council, 2004, p. 215).

## 5. PUBLIC PENSIONS ARE A GOOD RETURN

### 1. Send over 2 times the amount of contributions from members and employers back into the local economy

- Taxpayer Contribution Factor: Each \$1 in taxpayer contributions to Ohio's state and local pension plans supports \$5.73 in total output in the state ("Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," National Institute on Retirement Security, February 2009, [http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=189&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48)).

- Pension Benefit Multiplier: Each \$1 in state and local pension benefits paid to Ohio residents ultimately supports \$1.33 in total output in the state. This "multiplier" incorporates direct and indirect impacts of retiree spending throughout the state's economy ("Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," National Institute on Retirement Security, February 2009, [http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=189&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48)).

## 6. PENSIONS PROVIDE MAIN STREET BENEFITS

### 1. The average annual pension is \$20,522-received and spent on Main Street

- This modest benefit provides those who served the public during their working careers with income to meet basic needs in retirement ("Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," National Institute on Retirement Security, February 2009, [http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=189&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48)).

## 7. BENEFIT IS VITAL TO NON-SOCIAL SECURITY PARTICIPANTS - THIS MAY BE THEIR ONLY RETIREMENT

## PENSIONS SUPPORT OUR LOCAL ECONOMY

### 1. THE BUCK STAYS HERE

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#### 2. Most retirees and their dependents remain in the state, reinvesting their retirement dollars on housing, goods and services

- In 2006, state and local pension funds in Ohio and other states paid a total of \$8.41 billion in benefits to Ohio residents. Retirees' expenditures from these benefits supported a total of \$11.2 billion in total economic output in the state, and \$4.7 billion in value added in the state ("Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," National Institute on Retirement Security, February 2009, [http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=189&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48)).

- \$8.0 billion in direct economic impacts were supported by retirees' expenditures on goods and services from businesses in the state. An additional \$1.6 billion in indirect economic impact resulted when these businesses purchased additional goods and services, generating additional income in the local economy. \$1.6 billion in induced impacts occurred when employees hired by businesses as a result of the direct and indirect impacts made expenditures, supporting even more additional income ("Pensionomics: Measuring the Economic Impact of State and Local Pension Plans," National Institute on Retirement Security, February 2009, [http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=189&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=189&Itemid=48)).

### 2. RETIREES VOLUNTEER HERE

#### 1. They support our communities by volunteering, mentoring and by donating their time in this state

- Each year, older Ohioans spend more than 350,000 hours of their time helping people of all ages ("Ohio Department of Aging Volunteer Opportunities," April 2010).

- Participants in the Volunteer Ombudsman Associate Program regularly volunteer in nursing homes and other long-term care facilities.
- Ohio Senior Health Insurance Information Program Volunteers provide information and health insurance services to Ohioans covered by Medicare.
- More than 16,000 retired Ohioans age 55 and older volunteer for a number of nonprofit organizations benefiting children, the elderly and community improvement.
- Through the Foster Grandparent Program, volunteers age 60 and over tutor, mentor and provide emotional support to children, young people and single mothers.
- The Senior Companion Program offers volunteers age 60 and over the opportunity to provide companionship to frail older adults in their community who need extra assistance to live independently.
- Other volunteer opportunities for older Ohioans include the Ohio Citizen Corps (offering neighborhood watch programs, community emergency response teams, and terrorism awareness and prevention), the Ohio Community Service Council (AmeriCorps, service learning, and youth leadership development), and On the Ohio Homefront (connecting families of deployed military personnel with local volunteer services)

### 3. DB PLANS HELP RETIREES MAKE IT

#### 1. Defined benefit plans provide retirees with a lifetime income stream, so they are less likely to require public assistance and social services

- A defined benefit system is the only system that can ensure that people remain off of welfare. If a generational cohort retires under a defined contribution system with inadequate income, then society is going to have to subsidize these retirees. This "insurance" turns defined contribution plans into a particularly expensive form of defined benefit plan (Peskin, Michael. "Asset/Liability Management in the Public Sector." Pensions in the Public Sector. Eds. Olivia S. Mitchell and Edwin C. Husted. Philadelphia: University of Pennsylvania Press, 2001. p. 215).

## PENSIONS WORK

### 1. TRADITIONAL PENSIONS ARE THE MOST ECONOMICAL WAY TO PROVIDE RELIABLE RETIREMENT SECURITY

#### 1. Economies of scale

#### 2. Mandatory participation

#### 3. Pooled risk

#### 4. Lifetime payouts

- Defined benefit pension plans efficiently provide a modest, stable income for retirees at nearly half the cost of a defined contribution plan. A defined benefit plan stretches each dollar further by pooling longevity risks, holding assets in a common trust, and achieving higher returns through professional management of investments and lower investment and administrative service fees. As a result, the cost for employers to fund retirement benefits using a defined benefit plan is 12.5 percent of the annual payroll, compared with 22.9 percent of the payroll in a defined contribution plan. (A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans, National Institute on Retirement Security, August 2008, [http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=121&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48))

- Because defined benefit plans are so large, total investment management and plan administration fees are typically lower than in defined contribution plans. Also, defined benefit plans do not provide some services that increase defined contribution costs, such as updating participant accounts on a daily basis and distributing quarterly statements (Brainard, Keith. Myths and Misperceptions of Defined Benefit and Defined Contribution Plans. National Association of State Retirement Administrators. November 2002; updated February 2005. National Association of State Retirement Administrators, p. 16).

- Many of the perceived disadvantages of defined benefit plans can be remedied with discipline. If these problems can be overcome, defined benefit plans become more efficient for providing retirement income for several reasons. Benefit levels can be set to provide desired living standards, with little or no risk of a cohort of retirees needing public assistance. Defined benefit plan sponsors have longer time horizons and utility for returns over risk than individuals and are therefore willing to take more risk. Over long periods, risk capital tends to produce higher returns, lowering the cost of the deferred income and producing increased risk capital, which helps the economy. Therefore, efficiently run defined benefit plans are probably more economical (Peskin, Michael. "Asset/Liability Management in the Public Sector." Pensions in the Public Sector. Eds. Olivia S. Mitchell and Edwin C. Husted. Philadelphia: University of Pennsylvania Press, 2001, pp. 215-216).

### 2. IT'S NOT A RACE TO THE BOTTOM

#### 1. Too many Americans have already had their benefit coverage, adequacy and security deteriorated

- "2010 Retirement Confidence Survey," Employee Benefits Research Institute (<http://www.ebri.org/pdf/PR.868.9Mar10.RCS-10.Final.pdf>)

- "Frozen Defined Benefit Plans," U.S. Bureau of Labor Statistics ([http://www.bls.gov/opub/perspectives/program\\_perspectives\\_vol2\\_issue3.pdf](http://www.bls.gov/opub/perspectives/program_perspectives_vol2_issue3.pdf))

- "Retirement Benefits: Access, Participation, and Take-Up Rates," Bureau of Labor Statistics (<http://www.bls.gov/news.release/ebs2.t01.htm>)

### **3. BOTH THE COST AND BENEFIT OF PUBLIC PENSIONS ARE SHARED:**

- 1. Public employees contribute to the cost of their pensions**
- 2. The local economy and financial markets benefit from pension investments/distributions**
- 3. Pensions assist in attracting and retaining qualified personnel to provide essential public services**
- 4. Pensions lessen dependence on public assistance programs**
- 5. Only traditional pensions provide for families of those killed/disabled in the line of duty**

- “The Economic Effects of Public Pensions,” National Association of State Retirement Administrators (<http://www.nasra.org/resources/economic.htm>)

- While both defined benefit and defined contribution plans reduce dependence on Social Security and government assistance programs, defined benefit plans are more effective because participants are more likely to receive a stable, secure and predictable benefit for life. Low-income workers who might not elect to participate in a defined contribution plan because of ineligibility or the financial challenge of being able to afford to make a contribution are much more likely to receive a retirement benefit and are less likely to depend on government assistance in retirement if they participate in a defined benefit plan. These benefits are more likely to help reduce poverty rates where they are the highest, especially among very elderly women. Furthermore, most public defined benefit plans provide joint and survivor annuity options, ensuring that spouses and other named beneficiaries will continue to receive a benefit even in the event of the retiree’s death. (American Academy of Actuaries. The Value of Defined Benefit Plans. July 2006. National Association of State Retirement Administrators, p. 4).

### **4. PUBLIC DB PLANS ARE IN IT FOR THE LONG-TERM**

- 1. Positioned to continue paying benefits for the foreseeable future**
- 2. Have time to rebuild reserves**

- “In It For the Long Haul: The Investment Behavior of Public Pensions,” National Institute on Retirement Security ([http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=159&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=159&Itemid=48))

### **5. DEFINED BENEFIT PLANS GET YOU MORE FOR LESS**

- 1. Conversions are costly; traditional pension plans are more likely to retain quality public employees and prevent poverty/reliance on public assistance**

- Economists find strong evidence that defined benefit pensions help attract and retain skilled workers. Turnover rates for workers with pensions are about half of those without pensions. Employee productivity is also enhanced by the commitment that defined benefit plans instill in their participants (Almeida, Beth and Ilana Boivie, “The Staying Power of Pensions in the Public Sector,” CPER Journal (May 2009), page 6).

- “A Better Bang for the Buck: The Economic Efficiencies of Pensions,” National Institute on Retirement Security ([http://www.nirsonline.org/index.php?option=com\\_content&task=view&id=121&Itemid=48](http://www.nirsonline.org/index.php?option=com_content&task=view&id=121&Itemid=48))

### **6. LIFETIME BENEFITS PROMOTE BOTH INDIVIDUAL RETIREMENT SECURITY AND LONG-TERM PENSION FUND FINANCING**

- Retirement plan coverage is declining in the private sector, personal savings are non-existent for most households, and six in 10 Americans are at risk of being unable to sustain their standard of living in retirement. However, public sector employees participating in defined benefit plans are generally well-positioned for a secure retirement (Almeida, Beth, Kelly Kenneally, and David Madland. “The New Intersection on the Road to Retirement: Public Pensions, Economics, Perceptions, Politics, and Interest Groups. The Future of Public Employee Retirement Systems. Ed. Olivia S. Mitchell and Gary Anderson. Oxford: Oxford University Press, 2009, pp. 294-295).

### **7. PUBLIC PLANS ARE TRANSPARENT AND ACCOUNTABLE**

## **PENSION POLICIES HAVE LONG-TERM IMPACT**

### **1. OUR RESPONSE SHOULD BE MEASURED; TURNING THE WHEEL SLIGHTLY CAN RIGHT THE SHIP MILES AHEAD**

### **2. WE DON'T NEED TO BREAK IT TO FIX IT**

- 1. Measured steps can ensure these programs will continue to flourish**

### **3. PEOPLE'S LIVES/RETIREMENT SECURITY ARE TOO IMPORTANT FOR POLITICS**

### **4. WE SHOULD FOCUS ON LONG-TERM SOLUTIONS, NOT BAND-AIDS**

### **5. ADEQUATE FUNDING TODAY MINIMIZES LIABILITIES TOMORROW**

### **6. DB PLANS ARE RESILIENT AND DESIGNED TO WITHSTAND MARKET VOLATILITY**

- A December 2009 Towers Watson study of defined benefit versus 401(k) investment returns between 2006 and 2008 offers proof that traditional pensions outperform 401(k) plans. While both types of retirement plans lost value in 2008, pensions yielded better results than 401(k) plans by roughly one percentage point, the same percentage of higher returns that pensions have averaged during the past decade. All 401(k) plans in the study experienced average losses of at least 10 percent; some 401(k) plans lost more than 40 percent of their value, more than any traditional pension studied. One of the reasons demonstrating how defined benefit plans deliver better returns was that professional investors are better at adhering to a sound allocation strategy that helped to mitigate losses, while participants in 401(k) plans were less likely to rebalance their asset portfolios, therefore making them more vulnerable to market declines (“Defined Benefit vs. 401(k) Investment Returns: The 2006-2008 Update,” Towers Watson, December 2009, <http://www.towerswatson.com/research/845>).

### **7. WE SHOULD HONOR OUR COMMITMENTS, ON-TIME AND IN FULL**

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