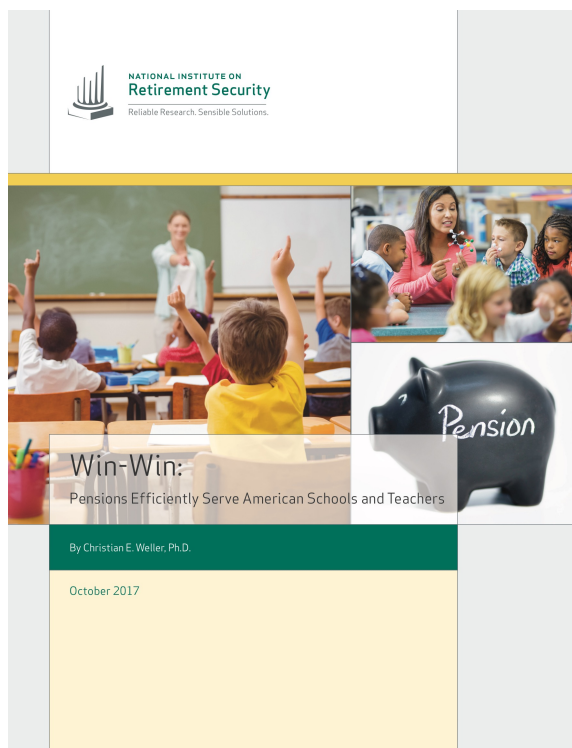


NEW Research

Win-Win: Pensions Efficiently Serve American Schools and Teachers



Webinar October 25, 2017



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Retirement Security

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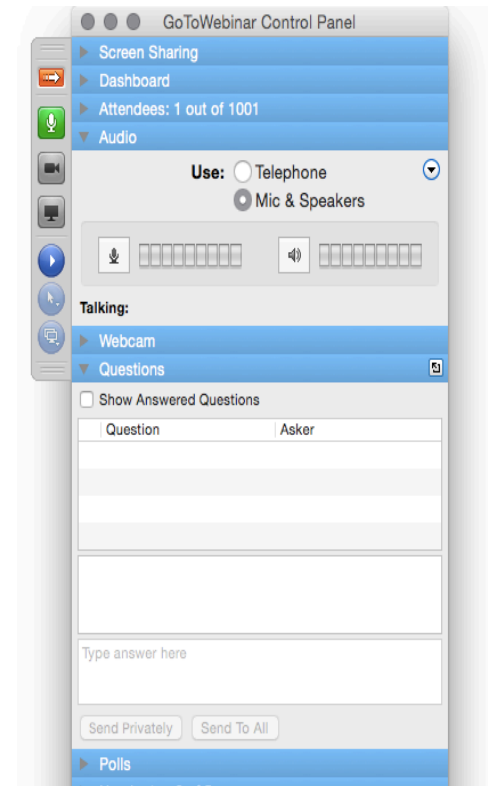
Agenda

- Introductions
- Research Review
- Q&A



Webinar Logistics

- Attendees in listen only mode.
- Research, supporting materials at nirsonline.org.
- Questions welcome. Type question using “Question” function on control panel, and we will answer.
- Encourage distribution of information: @nirsonline using #teacherpension
- Audio, technical issues during webinar, please call contact GoToWebinar at 1-800-263-6317.
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Speakers



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Why This Report?

- Frequent comparisons of defined benefit(DB) pensions to defined contribution (DC) retirement savings plans often focus only on wealth accumulation and downplay retirement income benefits.
- Misleading assertions that DB pensions do not offer incentives that help to retain teachers.
- Misleading claims the DB pensions force teacher to retire at early ages.
- Misleading reports that DB plans are not good for teachers.



Key Findings

1. DB plans help employers recruit and retain committed teachers so that schools benefit from teachers' increasing effectiveness.
2. DB pensions better address obstacles to retirement income security by covering a majority of employees, with adequate savings and managing risk associated with retirement
3. The public overwhelmingly supports DB pensions for teachers and acknowledges their retention effects.



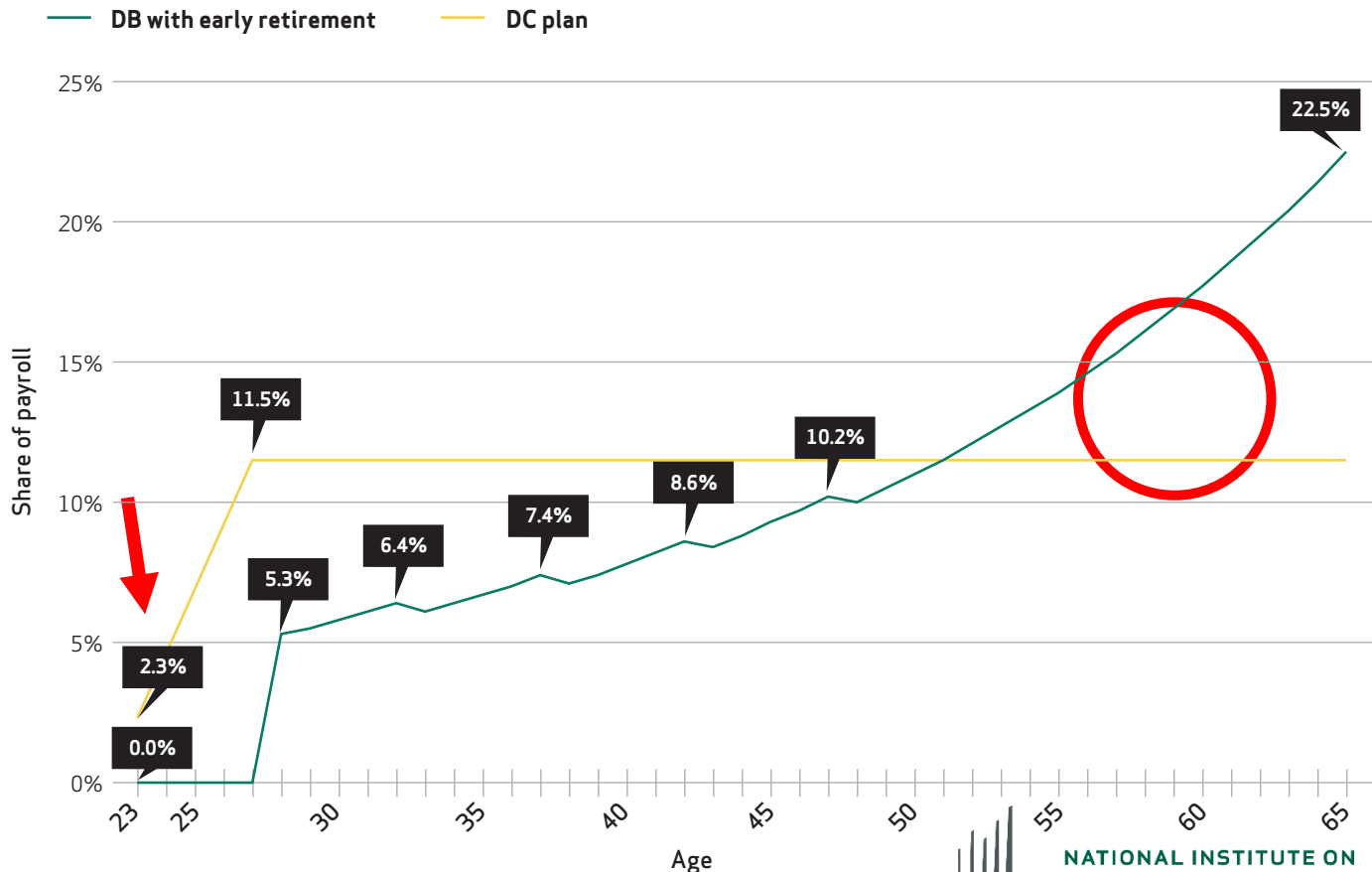
Finding #1: DB Plans Give Employers An Effective Recruitment & Retention Tool

- DB pensions create meaningful economic incentives for effective teachers to stay as they defer part of compensation into the future.
- DB pensions also allow teachers to retire at a more predictable age helping the employer to manage turnover.
- While early retirement options create this predictability, teachers increase annual income by working until normal retirement.



Finding #1: DB Plans Effectively Recruit & Retain Teacher with Larger Benefits

Figure 1: Annual wealth changes for teacher entering in 2017 relative to earnings, under DB pension and DC plan, constant normal cost



Notes: All figures are in percent of payroll. See appendix for descriptions of the calculations.

Finding #1: Larger DB Benefits Are Effective Recruitment & Retention Tool

- Because DB pensions offer larger benefits later in a teacher's career than earlier, these retirement benefits offer teachers an incentive to stay in their jobs. DB pensions thus serve as a retention tool.
- Lower turnover among teachers then translates into, on average, more effective teachers. Having good teachers in schools is a critical component to ensure student success.



DB Plans Are Effective Recruitment & Retention Tool: Simulation Results

Table 1: **Simulation results for teacher effectiveness differences under DC plans compared with DB pensions**

	Probability of improvement relative to DB plan	Ave Orage change	Change at 25 th percentile	Change at 75 th percentile
Baseline: random turnover and effectiveness changes, phased vesting	33.8	-2.5	-5.9	1.4
Alternative 1: random turnover; random, high effectiveness, phased vesting	41.7	-1.3	-5.1	2.5
Alternative 2: random turnover; no effectiveness change; phased vesting	20.3	-3.9	-7.6	-0.7
Alternative 3: random, high turnover; random effectiveness change; phased vesting	23.9	-5.5	-11.1	-0.4
Alternative 4: no turnover change; random effectiveness; phased vesting	84.2	1.8	0.6	3.0

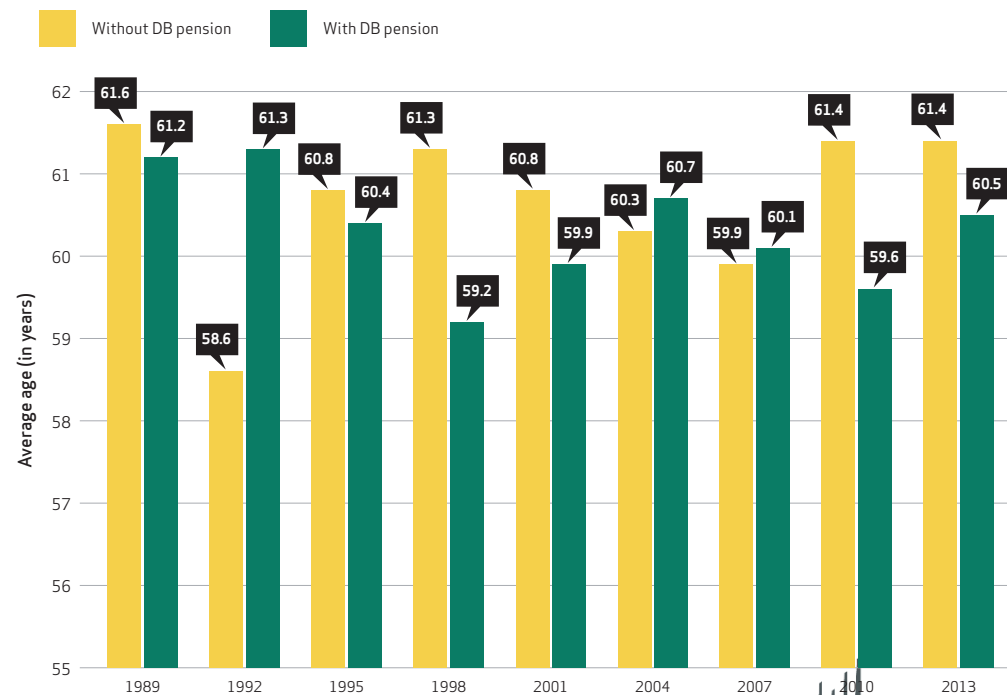
Notes: All figures are in percent. Changes are relative changes. Based on 1,000 iterations of simulation model described in the appendix.



DB Plans Are Effective Recruitment & Retention Tool: Predictable Retirement

DB plans result in more predictable retirement ages for teachers, so schools can plan for turnover.

Figure 6: Retirement age by defined benefit pension coverage



Finding #2: DB Pensions Overcome Obstacles To Retirement Income Security

- DB pensions help provide teachers with a decent standard of living in retirement, and do so more effectively than a DC plan. DB pensions:
 - increase participation in retirement savings plans.
 - boost retirement savings contributions.
 - manage risk and efficiently convert savings into retirement income.



DB Pensions Overcome Obstacles To Retirement Income Security: Participation

- Only 51.3% of private-sector workers had access to a retirement savings plan through their employer, however 82.4% of public workers were offered a plan.
- And, only 80% of private sector workers who had access to a plan, enrolled in a plan, while nearly 90% of public sector workers participated.



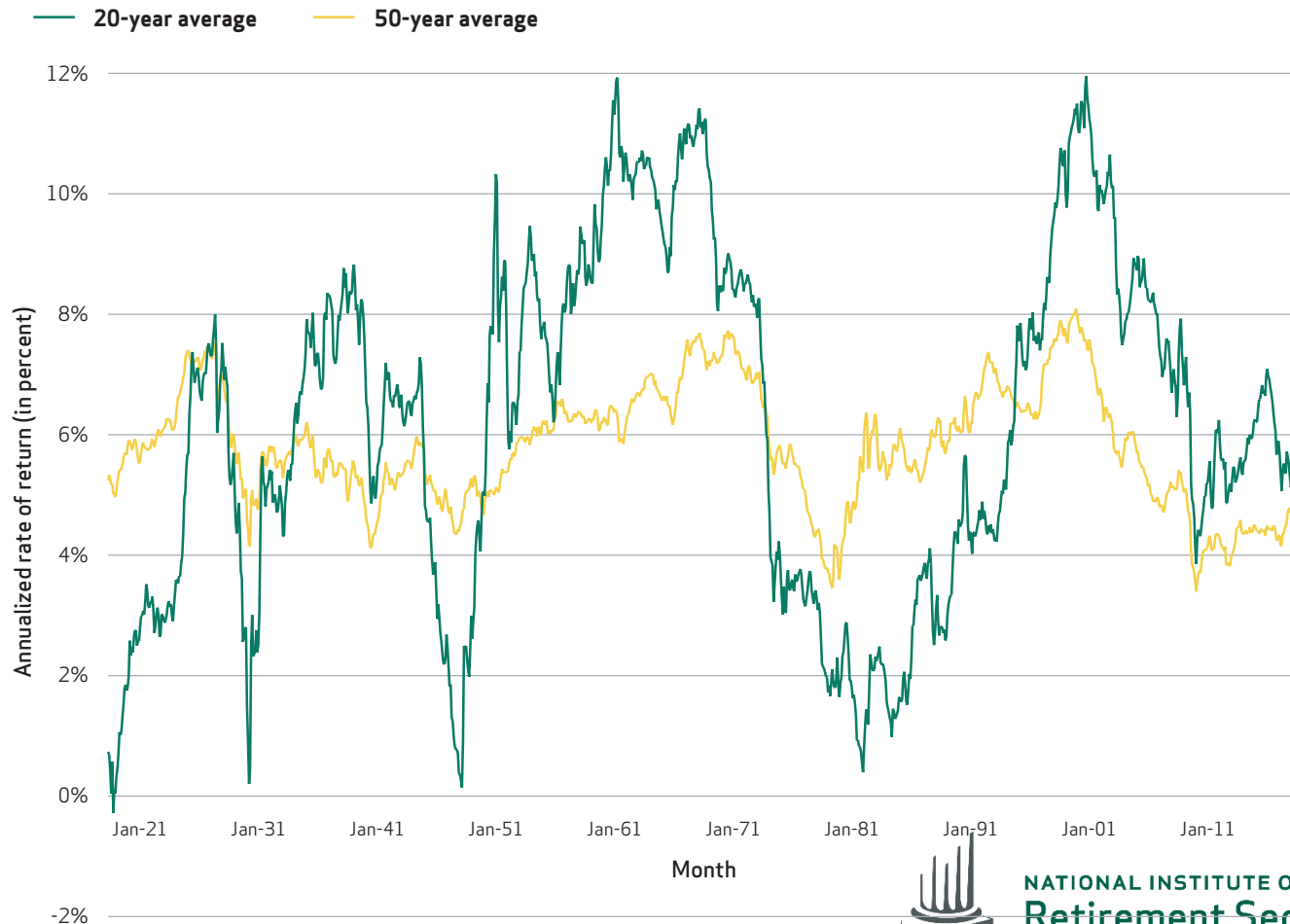
DB Pensions Overcome Obstacles To Retirement Income Security: Contributions

- DB pensions boost retirement savings contributions.
 - In the public sector, both employers and employees generally share the cost, with both making contributions to the plan. Median employee contribution equals 6-8 percent.
 - In comparison, private sector employees typically can choose how much to contribute in a DC plan or they can choose to not contribute at all.



DB Pensions Overcome Obstacles To Retirement Income Security: Risks

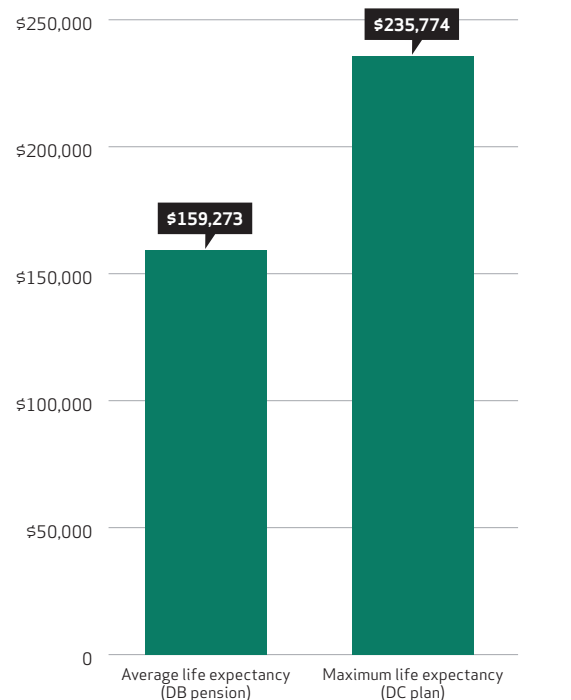
Figure 3: 20-year and 50-year stock market average real returns



DB Pensions Overcoming Obstacles To Retirement Income Security: Income

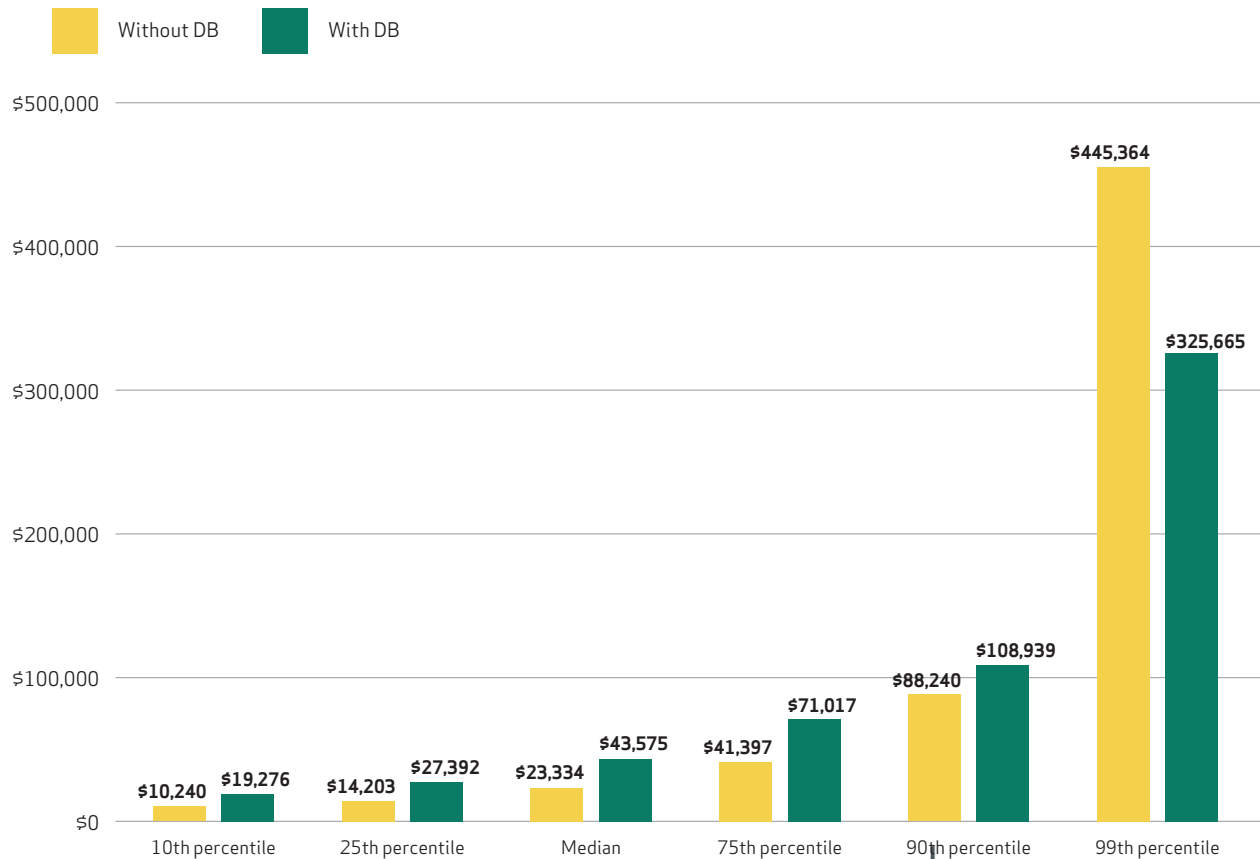
DB pensions help provide teachers with a decent standard of living in retirement, and do so more effectively than a DC plan.

Figure 4: **Wealth necessary for monthly inflation-adjusted retirement income of \$1,000 when planning for average and maximum life expectancy**



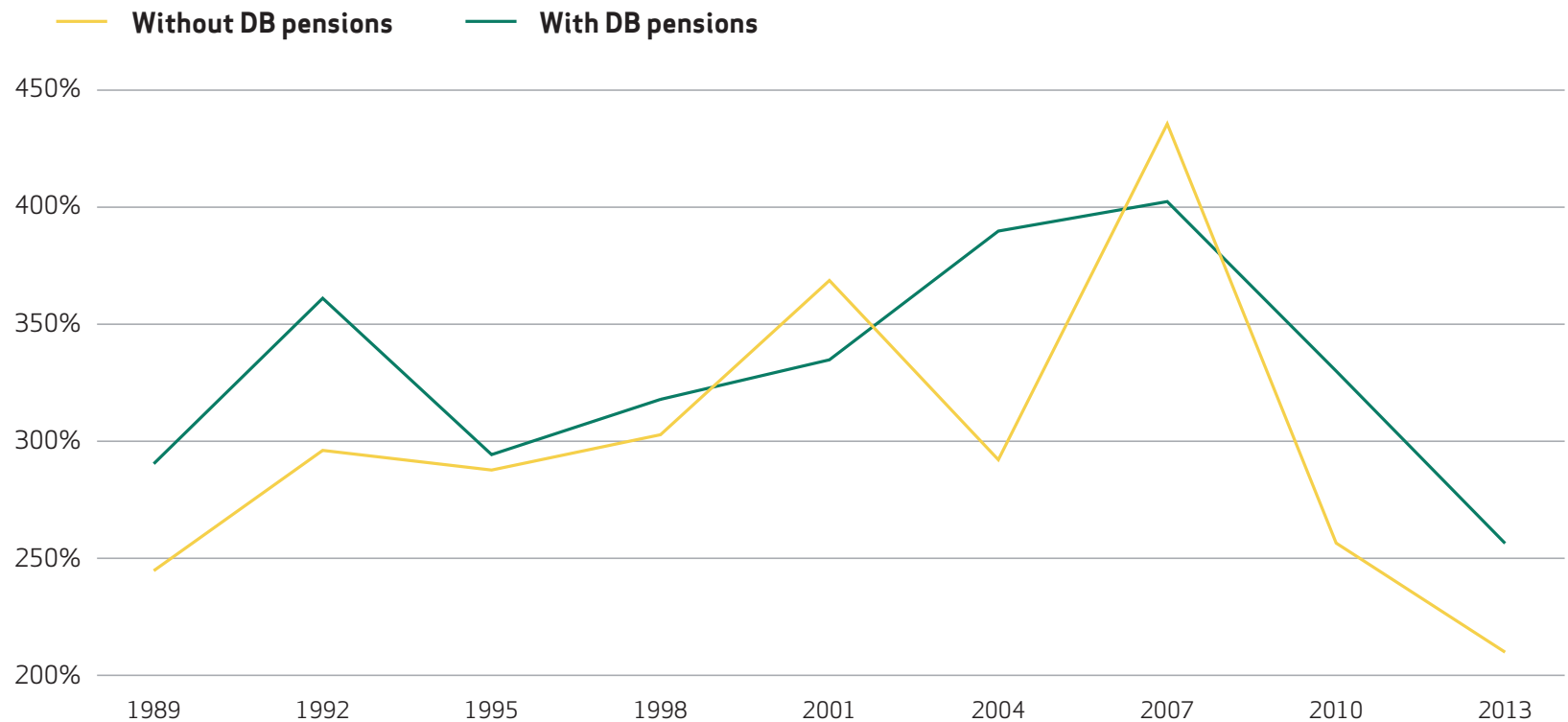
DB Pensions Overcoming Obstacles To Retirement Income Security: More Equity

Figure 5: Inflation-adjusted retiree income at select percentiles from 2010 to 2013



DB Pensions Overcoming Obstacles To Retirement Income Security: Spillover

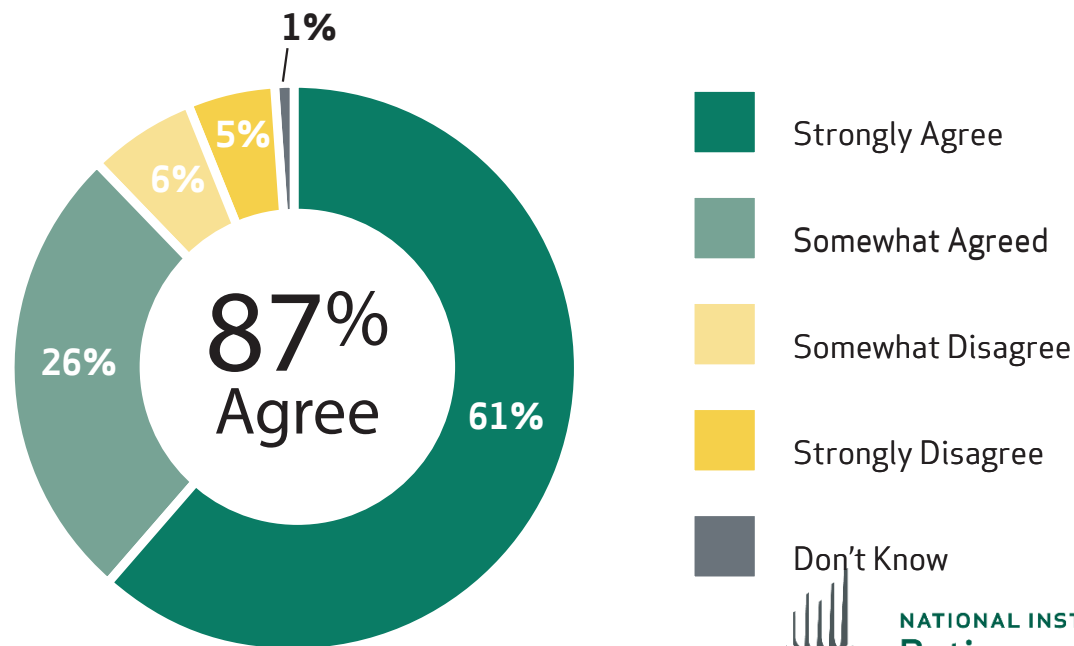
Figure 7: **Wealth to income ratios for households without and with DB pensions, 1989 to 2013**



Finding #3: The Public Overwhelmingly Supports DB Pensions For Teachers

Figure 8: 87% of Americans Say Pensions Are Good Tool to Recruit Teachers, Police, Firefighters

Are pensions a good way to recruit and retain qualified teachers, police officers and firefighters?



Finding #3: The Public Overwhelmingly Supports DB Pensions For Teachers

Figure 9: **Americans overwhelmingly maintain a favorable view of pensions.**

How would you describe your overall view of traditional pension plans?



Conclusions

1. DB pensions allow schools to recruit and retain teachers, which increases teacher effectiveness in classroom over time.
2. DB pensions achieve a better level of retirement security for teachers than DC plans.
3. The long-term challenge of DB pensions is to maintain these crucial benefits on a sustainable basis.



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