PERSI

August 8, 2012

Dear Idaho Lawmaker:

The National Institute on Retirement Security (NIRS) has released a new report titled, **"The Pension Factor 2012: Assessing the Role of Defined Benefit Plans in Reducing Elder Economic Hardships."** Compiled by NIRS Executive Director Diane Oakley and Professor of Gerontology Frank Porell, PhD. from the University of Massachusetts (Boston), the report updates a similar study conducted in 2009 (based on 2006 data). The study calculated how defined benefit (DB) pensions reduce the risk of poverty and hardship among older American households, particularly for more vulnerable households such as those headed by women and racial/ethnic minority groups. The report also assessed how pensions drive public assistance savings. In reference to the findings Ms. Oakley said, “We’ve documented a substantial increased risk of elder poverty for Americans lacking a pension that coincides with an alarming decline in pension coverage. With 75 million baby boomers beginning to retire, this couldn’t come at a worse time.”

According to the report, traditional DB plans have long been a source of retirement income so middle-class households are able to maintain middle-class status in retirement. Employees with traditional DB pensions accumulate greater retirement wealth than with defined contribution (DC) plans because they don’t have to decide whether to participate, how much to save, make complex investment decisions, or figure out how much to withdraw at retirement. Two key factors separate DB and DC plans. 1) **The Loan Factor.** In 2009, 21 percent of participants eligible for a loan had an outstanding loan against their DC account that averaged 15 percent of the total account balance. Because DB pensions are protected from pre-retirement withdrawals, they provide a guaranteed regular stream of income that DC plans just can’t offer. 2) **The Risk Factor**. DC participants must manage the risk associated with prematurely spending down their retirement savings whether through loans or by withdrawing too much too fast so the funds don’t last a lifetime, leaving participants vulnerable to poverty later in life.

The report also found the poverty risk was nine times greater for older Americans without a defined benefit pension benefit in 2010, up from six times in 2006. Findings showed older households (age 60 and above) with a lifetime pension were far less likely to experience food, shelter, and healthcare hardship — and were also less reliant on public assistance programs. In 2010, governments spent $7.9 billion LESS on public assistance programs to older households with pension income. With pressure on governments to trim budgets, this is a substantial savings.

Whether it’s from loans to make ends meet or from investment losses, the ongoing financial crisis has eroded individual retirement savings accounts (i.e., DC plans). Less than half of American households today can count on a modest lifetime pension when they retire. In a regional comparison, the West – including Idaho – ranked last in terms of persons with DB pension income. Only 40.1 percent of individuals in the West can rely on a regular pension income from their own or their spouse's former employer. The study reveals a future with many middle-class Americans not only unable to pay for their basic necessities, but also living in poverty and relying on social service programs because they don't have a steady income stream that a DB pension can provide.

The statistical approach used in the study controlled the socio-demographic characteristics that could influence the data to ensure an apple-to-apple comparison of households with and without pension income. Education, work history, age, gender, race, marital status and pre-retirement income could all play a part in whether an older household would experience poverty or hardship. As a result, for each household with pension income, the predicted probabilities were replaced with those of a household with the same socio-demographic factors but no DB pension income. The number of actual poor and near poor households was 12 million. When factoring out DB pension income, the number of poor households increased by 1.7 million and the near poor increased by 3 million – a 39 percent hardship increase. The number of Americans actually receiving public assistance would increase from 4.04 million recipients to 5.3 million – a 30 percent increase when all things are equal but the DB pension income is factored out.

Take-Aways

- Having a predictable monthly DB benefit is a source of security that enables millions of older Americans to remain secure and independent in retirement.
- With DB pension income there would be 4.7 million fewer poor or near poor households.
- With DB pension income there would be 1.22 million fewer households receiving means-tested public assistance, saving taxpayers $7.9 billion.

Clearly, pensions play an important role in determining the quality of life for older Americans in retirement. Being able to count on DB pension income month-after-month provides a greater level of retirement security to seniors and alleviates a burden on taxpayers for the billions spent on public assistance for those without DB pension income.

PERSI makes a concerted effort to stay on top of breaking news about pension plans. Time is spent assessing changes made by other systems and evaluating the risk associated with those changes. We review and pass along material we hope will be useful to Idaho lawmakers, who have a history of weighing the pros and cons of pension issues before deciding if Idaho needs to change.

I hope you find the summary of the Pension Factor report useful. The full report is available online at http://www.nirsonline.org/index.php. I am still traveling the state meeting with lawmakers, employers, members and constituency groups. If you are interested in meeting with me to talk about the Pension Factor report or other retirement issues, please call my assistant Erin Duran at 208-287-9273.

Best regards,
Don Drum
Executive Director