



The Voice for Public Pensions

FACE THE FACTS on Public Pensions

The traditional public pension system is the best way to ensure taxpayers can reliably receive vital services. It is a cost-effective, proven, and stable method to attract and retain qualified people to perform critical public sector work.

Before states consider the future of the public pension system, it is imperative to understand the **FACTS** and dispel the **MYTHS**.

FACT

The public pension system safeguards the delivery of vital taxpayer services.

For more than 100 years, the traditional public pension system has proven to be a stable, reliable, and cost-effective method for providing vital taxpayers services. The pension system helps ensure an experienced workforce that provides citizens of states with:

- Emergency & First Response – Medical, 911, Disaster Relief
- Police Protection
- Firefighting
- Healthcare Services
- Child Welfare Protection
- Health Inspections
- Forensic Investigations
- Education for Children K-12 and College
- Prison & Correctional Services

Continuing to provide a modest pension – on average only \$20,400 per year – enables state governments to retain and recruit a strong and experienced workforce needed to continue to provide these services. A new system could put these vital services at risk.

It's a **MYTH** that taxpayers will benefit from a radical reform of the public pension system.

Many cities and states already have a labor shortage and high turnover. A new system of private accounts with lower, unstable retirement income will further diminish the ability of states to attract and retain a solid workforce that serves taxpayers – especially for high-risk and stressful positions.

FACT

Taxpayers will pay MORE to move to millions of private accounts.

Taxpayers will foot the bill for the high costs to change from a proven pension system to a radical new system of millions of private accounts. Estimates indicate that the costs to shut down the traditional pension system, set up millions of new private accounts, and educate participants could be

as high as \$7.6 billion.

Taxpayers also will pay an additional cost for death and disability pension benefits. These benefits are critical for police, firefighters and others public safety officers in hazardous occupations. Without traditional pensions, states will have to pay commercial insurance companies to set up death and disability plans, or fund the plans themselves. Either way, taxpayers pay more.

It's a **MYTH** that taxpayers will save money by dismantling the public pension system.

In fact, reforming a tried and true pension system is a risky gamble. Changing to a system of millions of private accounts is like putting money in the slot machine and hoping to win with three "7s."

FACT

The traditional public pension system is sound.

The traditional pension system is the most cost-effective solution to ensure taxpayers continue to receive vital services. Taxpayers contribute less than 26 cents for every dollar paid out in pension benefits. The remainder is funded by investment income and employee contributions.

It's a **MYTH** that the traditional pension system needs a radical reform.

As with any program or system, issues can arise. It is better to correct any issues with the traditional system, rather than dismantle it.

If your car has a flat tire, repair the tire. Don't waste money buying a new car.

If your kitchen sink is clogged, unclog the sink. Don't tear down the whole house.

FACT

Funding shortfalls can be avoided.

Some states have experienced funding shortfalls because they failed to make contributions to the pension fund. States and local governments should not be surprised when they have to make "catch-up" contributions – just like missing a mortgage payment. This is the case in states such as New Jersey and Illinois. It also is important to note that workers are required to regularly contribute to their pension plans – but employers are not.

It's a **MYTH** that funding shortfalls exist because pension plans are too generous.

In fact, the average retirement pension is only about \$20,400 per year. For this, taxpayers contribute less than 26 cents for every dollar paid out in pension benefits.

FACT

The traditional public pension system is a vital stimulus to the economy.

Public pensions are an important and continuous source of economic stimulus to every state, city, and town across America. The traditional system distributes \$140 billion annually and adds \$200 billion in economic stimulus to the nation each year.

It's a **MYTH** that our economy will benefit from a new system of private accounts.

In fact, a shift to private accounts will have a dramatic and detrimental impact on our local economy because businesses depend upon the stimulus of investment income from the traditional pension system.

FACT

States that have attempted reform of the public pensions have failed.

States that have experimented with private accounts as workers' primary retirement benefit have found that a traditional pension plan is a better option. These states recognized that traditional pension plans are cost-effective, efficient, create value, and help workers attain a modest, stable retirement. For example, West Virginia moved from a traditional pension plan to private accounts – and then recently right back to a traditional plan. Florida, Nebraska, and North Dakota also found that a new system of private accounts was not a success.

It's a **MYTH** that states can successfully dismantle their traditional pension in favor of millions of private accounts.

We need to learn from the mistakes of others, rather than repeat their errors.

FACT

Taxpayers will foot the bill for workers who outlive inadequate, unstable retirement income.

Not everyone has the time, resources, or experience to be a good investor. Some will win, but most will lose. It is unreasonable to expect individual investors to outperform the professional investors who manage traditional pension assets. Under a new system of private accounts system, many workers will find they have lower and inadequate retirement income. Public workers' already have modest pensions – an average of \$20,400 per year.

It's a **MYTH** that private accounts will generate increased retirement income.

States that experimented with private accounts saw lower investment returns – nearly a 50 percent reduction.