401(k) Accounts Are Not Retirement Plans
# TABLE OF CONTENTS

Executive Summary........................................................................................................Page 2
Introduction........................................................................................................................Page 3
Origin of 401(k) Accounts.................................................................................................Page 6
401(k) Accounts Do Not Provide Retirement Security................................................Page 7
401(k) Accounts Are Not Beneficial to Taxpayers.......................................................Page 13
Acknowledgments............................................................................................................Page 18
Bibliography....................................................................................................................Page 20
EXECUTIVE SUMMARY

Congress created 401(k) accounts in 1978 as a way to close a loophole on executive bonuses. They were never intended as a replacement for traditional (employer-guaranteed) defined benefit pension plans—but today that is how they are often perceived, and as a result, many American workers will never have sufficient funds to retire as they would with a traditional or defined benefit retirement plan. The failure of 401(k) accounts as a primary retirement vehicle can be attributed to three fundamental and incontestable shortcomings.

1. When saving for retirement becomes optional, the average American grossly undersaves or simply opts out altogether.
2. Defined contribution accounts compel average Americans, who are untrained and inexperienced in managing stocks, to become expert portfolio managers.
3. The 401(k) structure in its current form encourages financial failure.

Numerous employers across the United States have switched from the defined contribution model to a defined benefit plan due to the inadequacy of plan benefits or increased costs. They have done so to provide adequate retirement benefits and attract and retain quality employees—an approach that has succeeded.

Nationally, research shows employees cite retirement benefits as a loyalty factor. Turnover and the number of employee who resign are reduced. Employee retention translates into increased productivity by an experienced workforce. Good pensions facilitate the recruitment and retention of specialized workforces to deliver critical public services.

In Florida, the evidence is clear that defined benefit plans save taxpayers money. Defined benefit plans are efficient, effective and provide governments with the ability to recruit and train highly qualified individuals and provide them with retirement security, disability and death benefits without additional costs. Additionally, the nearly 1.2 million government retirees and active employees provide vital services to the residents of Florida and are an economic generator of tax revenues and goods and services.

Defined benefit plans are good for taxpayers, governments, employees and the economy. Defined contribution (401(k) accounts) are not retirement plans, were never intended to be retirement plans, and cannot provide retirement security.

Those who argue differently are misleading taxpayers with short-term fixes that will have long-term consequences to taxpayers, retirees, and society in general.
1. INTRODUCTION

The purpose of this paper is to educate readers about the pension plan design options now being debated across Florida.

In the public sector, the predominant pension plan is a defined benefit plan, offered by the State of Florida through the Florida Retirement System (FRS) and through 252 local governments that sponsor and administer 489 defined benefit plans for their employees. Combined, these plans have 771,000 active members and 401,000 retirees and survivors.

Prior to 1986 state and local governments could offer employees a 401(k) account, but the law restricted the creation of new plans after this year. In most cases, the employers offered deferred compensation arrangements to employees as an add-on to supplement the primary retirement benefit, which is a defined benefit retirement plan. These deferred compensation arrangements allowed employees to save additional money through tax-deferred accounts for their retirement years.

Today, government employers argue that one way to cut costs is to eliminate defined benefit plans and replace them with defined contribution accounts, like a 401(k)-type account. They believe it limits the employer’s risk and levels costs. Under a defined benefit plan, the employer’s (meaning the taxpayer’s) costs vary, depending on the investment returns of the plan and other factors, such as whether or not the employer makes a full contribution or whether benefits are increased without additional funding. The employer’s cost is calculated by an actuary, who determines the annual contribution needed from the employer to fund the plan.

Concerns about the cost of defined benefits plans are due to failed plan design. In the past, government-sponsored plans have used excess returns to lower employee contributions, increase benefits, provide early retirement (without contributions to the plan), or reduce investment risk. Employers have even used the excess returns to justify not making an annual contribution – what is called a “contribution holiday.” Most pension plan sponsors fail to recognize that excess returns in good times are essential to offsetting sub-par returns in bad times, such as what we saw in 2008.

For the purposes of this paper, a defined contribution plan (also called a qualified plan) is usually referred to by its popular and common name, a 401(k) account. Throughout this paper, a 401(k) account is not considered as an add-on supplemental retirement savings plan to enhance guaranteed retirement benefits. Instead, it is referred to as an individual account replacement for a defined benefit plan.
A battle is taking place across America about pension plan design. The question boils down to whether to continue a defined benefit plan or convert to a defined contribution account, popularly called a 401(k) account. The battle began in the private sector (where Taft-Hartley Plans are predominate) and is now being debated in the public sector. In the public sector, much of the debate has been generated by the downturn in the stock market, resulting in the need for increased contributions by employers (governments) to their pension funds. Without this one-year, historically significant downturn, the debate would likely never occur.

A defined benefit plan provides a guaranteed income after retirement. Traditionally in the public sector, the employer and employees make a contribution based on earnings and the risk is borne by the employer (in this case, the taxpayers of Florida). The advantage of a defined benefit retirement plan is that the retiree cannot outlive the monthly retirement benefit, and the funds in the plan are professionally managed by pension system trustees.

A defined contribution plan, typically consisting of a 401(k) account, is not a retirement plan at all. It does not provide retirement income security, disability benefits, or death benefits to survivors. Any benefit paid by the 401(k) account is based on the total funds in the individual’s account. When all the funds are withdrawn, there is no more money. All risk is borne by the employee as is the responsibility of deciding how to invest the funds in the individual’s account. One of the promising features of the defined contribution account was an employer match to encourage employees to participate. Today, however, matching plans often never occur as promised. More than one-fourth of employers have scaled back or eliminated their matching contributions as a cost-savings measure.

Defined contribution accounts provide insufficient retirement income when they are the primary source of benefits. It is estimated that 35% of early baby boomers will be unable to maintain their pre-retirement income at retirement age. The risk is higher for those with no workplace retirement plan (50%) or just a 401(k) account (49%). For those with a defined benefit plan, the risk is lower (15%). Even before the latest stock market crash in 2008, workers’ 401(k) plans were seriously underfunded for life after work. It is a failure as a retirement plan.

The difference between these two approaches to retirement has been exposed in new research published by the Employee Benefit Research Institute’s (EBRI’s) annual Retirement Confidence Survey. The 2010 EBRI survey shows that American workers with virtually no retirement savings increased for the third straight year. Those with less than $10,000 in savings increased to 43% in 2010, from 39% in 2009, according to the survey. That excludes the value of primary homes and defined benefit pension plans. Workers with less than $1,000 jumped to 27%, from 20% in 2009.
This debate leads to several serious questions about retirement plan design and the future financial security of a whole generation when it comes time for them to retire.

Women and racial and ethnic minorities are at higher risk of retirement insecurity than white males. Will they be able to retire? Will they have enough retirement income for food, housing, transportation and medicine? If they have no retirement income, and cannot work, then what?

Are we losing the battle for America’s retirement security? The research clearly shows that many workers covered by defined contribution accounts have no retirement security at all.
2. ORIGIN OF 401(k) ACCOUNTS

The first question this paper answers is, how and why did 401(k) accounts come into being and for what purposes?

Salary deferral plans, in general, and 401(k) accounts in particular, have grown at an astonishing pace since they first came about in 1978 with Congress’ passage of the Revenue Act. In just over 30 years, they have become the primary retirement program for American workers, propelled by companies looking to cut costs, and individuals who wanted control of their retirement destiny.

What exactly is a 401(k) account? The name refers to the section of the Internal Revenue Code in which it appears. The 401(k) account is a cash or deferred arrangement under which covered employees can elect to have a portion of their compensation contributed to a qualified retirement plan as a pre-tax reduction in salary. Contributions are taken out of an employee’s pay before tax, and the employee generally controls how the contributions are invested. In addition, if an employee leaves a job, the employee takes the 401(k) to the next job. These plans apply to private sector employers. Public sector employees and nonprofit sector employees may participate in similar cash or deferred compensation arrangements under, respectively, section 457 and section 403(b) of the Internal Revenue Code. However, these deferred arrangements are used as add-ons to existing defined benefit plans, not as a replacement for the primary pension source.

Congress created the 401(k) account as a way to close a loophole on executive bonuses, not to create a replacement for traditional (employer-guaranteed) defined benefit pension plans. Although the law mandates that all employees are eligible to participate in 401(k) accounts, companies initially maintained their traditional pension systems, because lower-paid employees could not generally afford to defer a portion of their paycheck. However, as the growing cost of maintaining traditional pension plans became more apparent to shareholders, cutting pension benefits – and eliminating plans altogether – proved to be a fail-safe way to improve the bottom line. Consequently, 401(k) accounts became more popular than ever.

There are now more than 65 million 401(k) accounts, which allow participants to invest in stocks and bonds, some with matching funds from employers – all at a lower cost than the traditional pension plans that 401(k) accounts replaced. The accounts helped spark a financial-industry boom, funneling billions into mutual funds and the stock market. But 401(k) accounts did not yield more intelligent investors.

The current financial crisis has skimmed about 20% from 401(k) accounts since 2007 and ignited debate over their ability to provide sufficient retirement income. "Unlike Wall Street executives, American families don’t have a golden parachute to fall back on," stated California Representative George Miller at a congressional hearing on retirement savings.
3. 401(k) ACCOUNTS DO NOT PROVIDE RETIREMENT SECURITY

The second question this paper answers is, why do 401(k) accounts fail to provide retirement income security? Is it a flaw with the design of 401(k) accounts or are they not supposed to provide income security?

In 1980 more than 80% of large and medium-sized corporations offered traditional defined benefit pensions that provided a predetermined monthly benefit for the remainder of an employee’s life. Today, fewer than 20% do. Instead, many employers offer a defined contribution plan, typically a 401(k) or similar program, in which returns are neither predictable nor assured.

Research shows that the transfer of retirement risk from employers to workers coupled with widespread financial illiteracy and apathy of those workers has led to a national retirement crisis. The financial meltdown of 2008-2009 certainly hastened its arrival.

The updated National Retirement Risk Index finds that a full 51% of Americans are at risk of not being able to maintain their standard of living in retirement, the highest level in the history of the Index.¹ (This statistic is likely a conservative estimate, considering the latest update does not factor in the costs of healthcare or long-term care.) Certainly, it can be argued this unfortunate rise is related to the shift away from defined benefit plans to defined contribution accounts as the mainstay for retirement security.

The defined contribution concept reflects a baffling lack of consideration for historical investor behavior. Empirical evidence suggests the current structure actually enables failure on the part of many plan participants. The failure of 401(k) accounts as a primary retirement vehicle can be attributed to three specific fundamental and incontestable shortcomings.

1. When saving for retirement becomes optional, the average American grossly undersaves or simply opts out altogether.

Figure 1 shows the fundamental differences of defined benefit plans and defined contribution accounts:

¹ Center for Retirement Research, Boston College, 2010.
As we can see, a core virtue of a defined benefit plan is its compulsory design. The removal of this element often results in vastly underfunded retirement plans for individuals.

It’s widely quoted that the average “replacement ratio,” or how much post-retirement income retirees will need to maintain their standard of living, falls somewhere between 65-80% of their pre-retirement income. So, a couple earning $100,000 annually might need $80,000 a year to maintain their lifestyle. This required income will be generated from pensions and/or from personal assets accumulated in defined contribution accounts.

Fortunately, the vast majority of workers not covered by an employer pension today will have a limited defined benefit plan of sorts to fall back on: Social Security. Let’s assume most Americans without an employer pension will receive some Social Security benefit. Will it be enough to sustain them in retirement? Not likely.

Figure 2 illustrates the shortfall for those Americans depending upon Social Security as their “pension.”
It’s worth noting the only reason the shortfall isn’t greater is because Uncle Sam taxes workers wages involuntarily to fund their Social Security benefits . . . in effect creating a forced defined benefit plan for many Americans. (If given a choice on whether to pay Social Security taxes or not, most would likely opt out, leaving them with no “defined benefit” plan at all.)

This shortfall means that discretionary savings from other retirement accounts will be required to make up the difference to fund retirement needs. Here, the news gets worse. The average balance in 401(k) accounts today is a paltry $63,000\(^2\), hardly enough to supplement a potential 30-year retirement. What about those that opt out altogether? Approximately 24% of workers simply fail to participate in employer based defined contribution plans.\(^3\) So, the average American without an employer-based defined benefit plan will likely retire far below their estimated required income level, assuming they are able to retire at all.

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\(^2\) University of Michigan Retirement Research Center, The Efficiency of Pension Menus and Individual Portfolio Choice in 401(k) Plans, 2009

\(^3\) Survey of Consumer Finance, 2004
The point? Traditional defined benefit plans fulfill a critical need by forcing workers to defer their own wages for a future lifetime benefit, whereas defined contribution accounts offer complete discretion to the participant. Research data proves conclusively that, left to their own devices, most Americans will never save enough funds or will opt out of the decision process altogether.

2. Defined contribution accounts compel average Americans to become untrained and inexperienced portfolio managers.

Americans who are likely to opt out of saving adequately for retirement also typically are very poor managers of their own retirement savings—something for which they are untrained to do. Unlike defined benefit plans where the investment process is overseen by professional consultants, managers, and trustees, 401(k) plan participants are generally responsible for their own selection, monitoring, and rebalancing. (Should they appeal to their Benefits Department for assistance, they will promptly be informed that the law prohibits employers from providing investment advice to employees.) How does this responsibility affect returns for the reluctant plan participant-turned-investment manager?

A recent study reflected that, while the vast majority of 401(k) participants have efficient investment choices relative to benchmarks (implying that participants could do as well as the market averages by choosing an optimal portfolio), participants “undo” this efficiency and make substantial mistakes. The study notes these key findings:

a. 401(k) participants had higher return losses and assumed greater risks than if they had used a extremely simple asset allocation strategy available within the plan.

b. Poor investment decisions accounted for over three quarters of the total losses sustained in the average portfolio.

c. Over an average 20-year career, mistakes would reduce retirement wealth by one-fifth over a naïve asset allocation strategy.

In addition, a recent EBRI research project reveals that in 2007, almost a quarter (22%) of 401(k) participants ages 56-65 had 90% or more of their 401(k) assets in equities. Another 10% had 80-90% in equities, and 11% had 70-80% in equities. In sum, 43% of all pre-retirees had 70% or more of their 401(k) accounts in equities, placing their retirement savings at sizeable risk.

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4 University of Michigan Retirement Research Center, The Efficiency of Pension Menus and Individual Portfolio Choice in 401(k) Plans, 2009
5 EBRI Issue Brief #326, The Impact of the Recent Financial Crisis on 401(k) Account Balances, 2/09
When reviewing all current 401(k) participants, the average person owns 3.7 funds and has 88% in risk-oriented assets. The following chart reflects the performance of 401(k) account balances during the financial crisis. It is worth noting that accounts with larger balances (which typically belong to older employees approaching retirement) performed the worst.

**Figure 3**

Change in Average Account Balances from Jan 1, 2008 - Jan 20, 2009, by level of Account Balance, Among 401(k) Participants With Account Balances as of Dec, 31, 2007

Source: 2007 Account Balances: Tabulations from EBR/ICI Participant-Directed Retirement Plan Data Collection Project; 2008 and 2009 account balances: EBRI estimates. The Analysis is based on all participants with account balances at the end of 2007 and contribution information for that year.

The conclusion? Most individuals do not have the skills, interest, or workplace-related resources to effectively manage their retirement assets in defined contribution accounts.

3. **The 401(k) structure in its current form encourages financial failure.**

Between 1989 and 1998 – a decade in which 401(k) coverage exploded and the stock market boomed – the share of families nearing retirement that found themselves likely to live on less than half of their pre-retirement income increased by a third, to more

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6 Ibid
than 40%\(^7\). If 401(k) accounts are indeed a panacea for all that ails the defined benefit world, how could the data indicate such tragic outcomes to the contrary?

**Automatic enrollment is a fallacy** – Proponents of defined contribution accounts have theorized that automatic enrollment of employees is the answer. The assumption here is that by automatically enrolling employees, they will all automatically save enough funds for retirement. There are two problems with this argument.

First, employees can choose to opt in or opt out, making automatic enrollment an oxymoron. Of those who stay in, many contribute at rates that are far lower than required to build retirement security. The Survey of Consumer Finances reports that only 11% of plan participants contribute the maximum, and of those earning $40,000-$60,000, only 1% contribute the maximum.

The second challenge to this argument is adoption. The Government Accountability Office released data indicating that the number of companies offering automatic enrollment increased from 1% in 2004 to only 16% in 2009, the vast majority of which are larger employers. Before automatic enrollment can be lauded as a solution, broader participation and stronger results will be required.

**As go employer matches, so go employee contributions** – The notion that employer matching encourages employee participation proves to be quite accurate, but the opposite is also true. In the recent economic downturn, those companies that suspended their matching contributions experienced a 73% decline in employee participation. In those that didn’t suspend their match, only 14% saw a decline in employee contributions. \(^8\)

**No guaranteed pension benefit?** – Unlike defined benefit plans, the vast majority of defined contribution accounts do not offer a guaranteed lifetime income benefit option for participants. According to Hewitt Associates, only 7% of 401(k) vehicles currently offer an annuity-type instrument, which can offer the participant a pension-like lifetime payout option.

Fidelity Investments estimates that the average defined contribution account declined by 27% in 2008. For an employee retiring in 2009 with only a defined contribution account, this would equate to a 27% pay reduction in their expected annual retirement income, and a very real possibility the retiree will outlive his or her savings. The 2007-2008 downturn in the stock market has skimmed about 20% from 401(k) accounts. In the case of a defined benefit plan (or possibly an annuity option within their DC plan), the risk of the decline would have shifted to the guarantor, resulting in no loss of expected lifetime income to the retiree.

\(^7\) Hewitt Associates, Trends and Experience in 401(k) Plans, 2009
\(^8\) CCH Pension, 401(k) Plan Matching Suspensions, 1/6/10
In summary, defined contribution accounts are far better than having no plan at all. And, the recent revisions designed to encourage participation are noble and noteworthy. The current defined contribution model will continue to upend expectations for a generation of Americans in retirement.
4. 401(k) ACCOUNTS ARE NOT BENEFICIAL TO TAXPAYERS

The final question this paper answers is, why taxpayers should favor defined benefit plans and how Florida taxpayers are negatively affected and shortchanged when governments replace defined benefit plans with 401(k) accounts for government employees?

These benefits and advantages are lost when a defined benefit plan is replaced by a 401(k)-type account. It costs Florida taxpayers today, and will cost even more in the future. The data support these arguments as do the studies and experiences of governments that have switched retirement plan designs or thought about switching.

Here are examples of how Florida taxpayers save from providing defined benefit plans to their employees.

1. EFFICIENCY IN PROVIDING RETIREMENT BENEFITS

Defined benefit plans are more efficient at providing income to retirees. The costs to deliver same level of benefits are 40-50% lower for defined benefit plans compared with 401(k) accounts. The cost savings translates into percentage of payroll that the employer must contribute to provide retirement benefits. One study shows there is a 46% savings from a defined benefit plan vs. a 401(k) account to provide the same pension benefit at retirement. This is because defined benefit plans reduce the risk of outliving one’s retirement savings, and they provide better investment returns resulting from balanced portfolios and professional investment management.

Most individuals with a 401(k) account have no idea about the costs associated with their account investments. Many of the costs are hidden behind expense ratios or reflected in the daily pricing of a fund.

2. EFFICIENCY IN OPERATION

The overall costs of running a defined benefit plan are generally less than defined contribution accounts. Studies showing these costs vary from annual savings of 0.40-1.50% of assets. For a $200 million Florida pension fund, this range of annual savings is from $800,000 to $3 million a year. The less a plan pays for expenses, the more the plan can deliver in pension benefits and/or reduced employer costs.

3. PRE-SPENDING RETIREMENT BENEFITS

Taxpayers make contributions to employee retirement plans, with the goal of providing benefits when employment is terminated at the end of a career. The taxpayers do not anticipate these contributions will be used before retirement,
especially to purchase non-retirement related items. That’s what can happen with a 401(k) account.

- When 401(k) account members terminate employment and receive a distribution of their vested benefits, over 50% use that money to pay for some other product rather than keeping the distribution in a retirement account. One-fourth to one-third of these 401(k) account assets are drained out of the retirement system because of this action and, therefore, are unavailable at retirement.
- Nearly all 401(k) accounts allow members to take a loan against their account balance. Such loans have to be paid back with after-tax employee payments. Participant loans undermine the purpose of a 401(k) account, which is to provide retirement income. Many plan participants never pay back these loans.
- Some 401(k) retirees wish to annuitize part of their individual account balance to obtain steady monthly income for life. However, the annuity purchase rates have built-in expenses that reduce the income to the retiree. One study shows that about 14% of the price of an annuity goes to insurance company expenses, commissions and profits.

4. PRODUCTIVITY

Defined benefit plans reduce employee turnover by an estimated 13% and the number of people who quit their job by 20%. More experienced employees are generally more productive, which lessens the need to recruit and hire more employees. Fewer turnovers result in lower training costs. Recruitment and training costs are significant for specialized occupations, such as firefighters and police officers (estimated to be $300,000). Good pensions make possible the recruitment and retention of specialized workforces to deliver critical public services.

5. RECRUITMENT AND RETENTION

Because employees value guaranteed pension benefits, public sector employers that sponsor such plans can attract and retain qualified employees. Many positions require highly skilled and specially educated individuals who are heavily recruited by the private sector. Retirement benefits are cited by 72% of employees for their loyalty to a job and employer. The private sector employers use recruitment techniques such as signing bonus and relocation costs to entice prospective employees.

6. MANAGEMENT OF WORKFORCE

Key government service areas, such as police officers and firefighters, require skilled and dedicated employees to work in positions involving high levels of stress and physical activity. It is important to recognize and reward their long-term, dedicated service with a secure retirement. Defined benefit plans can be designed to manage the workforce according to the needs of the employer. This is done by
providing incentives to work longer or retire sooner. Having flexibility in structuring the pension plan design gives the employer the ability to control costs and match the pension plan with the experience of the workforce.

7. EFFECT ON THE ECONOMY

Defined benefit plans pay guaranteed, regular monthly pension benefits that do not fluctuate with the markets thus providing automatic stabilizers for the economy. One-half of the Florida local pension plans do not provide a cost-of-living adjustment to their retirees. Research data show that every $1 in guaranteed pension benefits distributed to retirees generates $1.41 in economic activity statewide. State and local pension payments made to Florida residents supported a total of $1.3 billion in revenue to federal, state and local governments.

8. REDUCTION IN POVERTY AND GOVERNMENT ASSISTANCE

Switching to 401(k) accounts will inevitably lead to reduced retirement income. A reduction in retirement income will result in more poverty among older Americans and increases in public assistance. When an individual retires with a 401(k) account, the lifetime pension benefit is the total amount of dollars in that account – regardless of how long the retiree or the surviving spouse/beneficiary lives. If an individual retires during a down market, the balance in the 401(k) account can be 40-50% less than when the market was booming – a factor over which retirees have no control. More than 72% of workers over age 60 are putting off retirement because they cannot afford to retire. For women, the number is 78%.

Pensions are especially important for women; 42% of men have pensions, while only 23% of women have pensions. Among women, the percentage having a pension varies widely:

- white women, 31%;
- African-American women, 26%;
- Asian women, 17%; and,
- Hispanic women, 13%.

Historically, women have earned less over a career, and so have had less access to retirement plans. Defined benefit plans shrink the gap by decreasing the percentage of households in Florida classified as poor or near poor.

9. CLOSING A DEFINED BENEFIT PLANS COSTS MORE

To switch from a define benefit plan to a 401(k)-type account, it is necessary to either close or freeze the current pension plan. In essence, that means no more employees may be enrolled, and that the plan is required to pay all the promised benefits until the last retiree/survivor passes away. This action will increase the cost for the closed plan for a number of years. The costs will vary from one group to another; total costs for the closed or frozen defined benefit plan will increase. In
most cases, it will be quite a few years before savings arise, if any, for these reasons:

- Reduction in the number of years over which any unfunded defined benefit obligations must be paid, thus reducing investment returns and resulting in fewer contributions coming into the fund;
- For plans covering police officers and firefighters, loss of Chapter 175 and 185 revenue from a tax on casualty insurance premiums;
- For many plans, the manner of amortizing the unfunded obligations would have to change from level percent of payroll to level dollar amount;
- Possible changes in actuarial assumptions that would be more appropriate for a closed or frozen plan, thus costing taxpayers more money.

10. FAIRNESS

Having a two-tiered plan causes dissention among employees. For example, two employees could work side-by-side, doing the same job, but receive substantially different retirement benefits – one with a guaranteed retirement income through a defined benefit plan and the other with a 401(k)-type account. Two employees covered by a 401(k) account with the same salary history, ages and length of service could have substantially different account balances at retirement simply due to their differing investment decisions. These two employees would receive the same retirement income from a defined benefit plan that is professionally managed by a board of trustees.

11. EMPLOYEES FAVOR TRADITIONAL PENSION PLANS

Time after time, when given the choice, public employees in overwhelming numbers have opted to go to or remain in a defined benefit plan. Witness the case of the Florida Retirement System (FRS) that opened a defined contribution option in 2000. After FRS spent about $89 million in promoting the defined contribution option, only 3-4% of employees elected to switch from a guaranteed pension benefit to the 401(k)-type account. These traditional pension plans earn money on the investment of assets in securities. Taxpayers have benefited from these investments because $2 out of every $3 contributed to a defined benefit plan comes from investment earnings. According to the Wharton School’s Pension Research Council, “Contributions to public plans may be among the best investments a state or local government can make.”

12. PENSIONS PROVIDE DEATH AND DISABILITY BENEFITS

Almost all pension employers provide disability and survivor benefits to their employees through the defined benefit pension plan: 97% provide disability coverage, and 93% provide joint and survivor benefits. These benefits typically are funded through two sources, employee contributions (most employees make a contribution to their defined benefit plan) and investment earnings. These benefits
are especially important to employees in highly hazardous jobs, such as firefighters and police officers.

The typical death and disability benefits that are provided as part of a defined benefit plan are not included in the defined contribution model. If the defined benefit plan is replaced, employers would have to obtain this coverage through commercial insurance or through self-funded benefits. Either way, the cost will be higher due to the use of insurance company contracts, with premiums that have built in expenses that would not be paid by the defined benefit plan. Death and disability benefits are particularly important to police officers and firefighters. Without such benefits, it would be difficult to recruit and retain qualified public safety employees.

Defined benefits plans are good for Florida taxpayers, good for government employers, good for the local and state economy, and good for government workers and retirees during their retirement years.

By providing defined benefit plans to their employees, Florida taxpayers save.
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**STEPHEN H. CYPEN, ESQ.**, of Cypen & Cypen has represented municipal pension plans in Florida for almost forty (40) years and is widely known for his expertise in the area of public pensions. In addition, Mr. Cypen has had extensive experience as a municipal attorney. He often lectures throughout the state on a variety municipal pension issues and personally writes the Cypen & Cypen weekly newsletter, which is widely read throughout Florida and beyond.

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FPPTA was established in 1984 for the purpose of providing education and information for the Florida public pension systems and protecting defined benefit pension plans through educational seminars and conferences, where distinguished speakers, in an educational environment, focus on issues and subjects of global and national importance as they pertain to trustees and pension boards.

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