IFT A Union of Professionals

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LEGISLATIVE FACT SHEET

MAINTAIN DEFINED BENEFIT PENSION PLANS

Background

- Defined Contribution (DC) plan: Specifies the amount of money contributed by the employer and employee. The retirement benefit is based on the accumulated investment earnings on those contributions at retirement. The ability of DC participants to make sound investments directly impacts the amount of money that is available for retirement.

- Defined Benefit (DB) plan: Specifies a benefit for the member at retirement based on length of service and final average salary multiplied by a certain percentage (2.2% under TRS). The employer and the member both contribute to a DB plan. The employer contribution in a DB plan is calculated by actuaries who determine the amount of money that needs to be set aside today to pay for a benefit at the time of retirement.

Position

The Illinois Federation of Teachers believes that the current DB pension plan structure in Illinois is sound and should be sustained. DB pension plans are the only vehicle that can guarantee a set benefit at the time of retirement. Because public educators are not able to access Social Security through their employment and other public employment compensation does not keep pace with salaries in the private sector, it is essential that Illinois DB pension plans continue to be the primary retirement plan structure.

The Debate

- DC proponents argue that placing new hires in a DC plan will solve the state pension liability problem.
  Fact: **Switching to a DC plan from a defined benefit plan would *not* solve Illinois' public employee pension crisis.** The switch does nothing to eliminate the unfunded pension liability that Illinois owes to its five public employee pension systems. In fact, pension contributions would rise in the foreseeable future if a switch is made from a DB to a DC plan.

- DC proponents argue that switching to a DC plan would save the state of Illinois money.
  Fact: **A change to a DC plan would *not* save the state of Illinois money.** The reason for the state's increased pension contribution is the underfunding of these systems since their inception. Switching to a DC plan would not eliminate the DB

plan. Illinois would have to run two separate retirement systems (one for Defined Contribution and one for Defined Benefit) side by side for at least the next 75 years.

- DC proponents argue that when fully phased in, a DC plan will save money by reducing the state required contribution.
  Fact: **Currently, on average it costs the state of Illinois 8.2 percent of payroll to fund the benefits being earned today.** This amount is projected to decline over the next 25 years. If Illinois offered a defined contribution that was comparable to the private sector, it would pay 6.5 percent into Social Security, 4.5 percent on average into each defined contribution account plus an additional 2 percent on average in administrative fees for the defined contribution plan. This equals a total state cost for DC plans that is 13 percent, nearly 5 percent more than DB plans.

- DC proponents argue that the private sector has converted to DC plans, so should the public sector.
  Fact: **Public educators in Illinois do not earn Social Security credits during their teaching career.** In the private sector employees earn Social Security benefits as part of their employment. For the vast majority of public educators in Illinois the DB pension plan is their only source for retirement security.

Quick DC Facts

- Nebraska shut down their DC plan after discovering the DB plan investment returns doubled that in the DC plan.
- DC plans do not provide for death and disability benefits for members.
- A West Virginia study confirmed that a properly funded DB plan is cheaper than a DC plan with equivalent benefits.

Quick DB Facts

- When given a choice, members of these systems choose DB plans over DC plans.
- Member contributions to DB pension plans far exceed those in DC plans.
- The Teachers' Retirement System of Illinois administrative and investment expense is extremely low. It only costs $0.30 per $100 in TRS assets. This compares to an average administrative fee of $1.40 for every $100 invested in a DC plan.

Final Thoughts

IFT believes that DB plans provide the best vehicle for retirement planning and when properly funded are more cost efficient than DC plans.

IFT OPPOSES A SWITCH FROM DB TO DC RETIREMENT PLANS.