June 1, 2015

House Democratic Policy Committee
Commonwealth of Pennsylvania
414 Main Capitol Building
Harrisburg, Pennsylvania 17120

Members of the House Democratic Policy Committee:

I am writing to you on behalf of the National Council on Teacher Retirement (NCTR) in connection with your June 4, 2015, hearing on retirement security from a national perspective.

NCTR, founded in 1924, is an independent 501(c)(6) association dedicated to safeguarding the integrity of public retirement systems in the United States and its territories to which teachers belong, and to promoting the rights and benefits of all present and future members of these systems. NCTR membership includes 68 state, territorial, and local pension systems—including the Pennsylvania Public School Employees’ Retirement System (PSERS)—which serve more than 19 million active and retired teachers, non-teaching personnel, and other public employees, with combined assets of over $2 trillion in their trust funds.

NCTR believes that all Americans should have access to a pension plan that will provide adequate and reliable retirement security, and therefore appreciates this opportunity to address retirement security from a national perspective.

First, NCTR firmly believes that there is a retirement crisis facing our country. Consider the following:

- Americans themselves think so! According to the National Institute on Retirement Security (NIRS), 86 percent of Americans believe that the nation faces a retirement crisis; a recent PBS survey put the number at 92 percent.
- A survey done by Alliance Life Insurance Company showed that substantially more Americans feared a retirement shortfall than feared death. (Jean Chatzky, Financial Editor, NBC Today)
- In 2013, the typical working household approaching retirement with a 401(k) plan had only $111,000 in combined 401(k) and IRA balances. This amount translates into less than $400 per month, adjusted for inflation. (Alicia Munnell, Director, Center for Retirement Research at Boston College)
When all households are included—not just households nearing retirement with retirement accounts—the median retirement account balance is $2,500, which is $500 less than the comparable number from 2013, and nearly 40 million working-age households (45 percent) have nothing at all set aside for retirement. (NIRS)

White families have more than $100,000 more in average liquid retirement savings than African American and Hispanic families, and this gap has quadrupled in the last 25 years. (The Urban Institute)

Federal tax subsidies for employer-based retirement savings plans total $714 billion for FY2013-17, according to the Congressional Budget Office (CBO). Yet, in 2013, the lowest income quartile got only 0.7 percent of this subsidy, while the top quintile got 68.4 percent. (Michael Grinstein-Weiss, Associate Professor, Washington University, St. Louis, MO)

Social Security replacement rates for the average worker retiring at 65 will be just 31 percent by 2030, when Medicare Part B premiums alone are estimated to consume 10.4 percent of the average Social Security benefit. (Munnell)

Social Security and Supplemental Security Income account for more than 90 percent of income for retirees in the bottom 25 percent of income distribution, and 70 percent of annual income of retirees in the middle 50 percent. (Grinstein-Weiss)

According to the Pew Charitable Trusts, 48 percent of parents are providing financial support for kids over age 18, 21 percent are providing support to parents over age 65, and 15 percent are doing both.

From 1992 to 2010, the percentage of consumers age 65 to 74 with mortgage debt doubled from 17 percent to 35 percent. Among those aged 75 and up, it more than doubled from roughly 8 percent to nearly 22 percent. (Chatzky)

72 percent of Americans plan to stay in their current job as long as possible (NIRS), but each person who delays retirement can block 5 or more jobs; if 4 percent of employees are retirement eligible and half of them choose to delay retirement, 10 percent of employees would experience promotion blockage. (Arthur L. Noonan, Senior Partner, Mercer)

NCTR is therefore very concerned that, overall, Americans are woefully unprepared for retirement, and that the consequences of this lack of preparedness will place a significant strain on families, communities, and the nation’s social safety net.

Furthermore, when workers have not saved enough to meet their retirement needs, many will simply have to continue at their current jobs. This can have a serious impact on employers, who will be paying higher salaries to these longer-tenured workers. Also, as some experts have warned, continuing to work primarily because they can't afford to retire can seriously impact these workers’ morale and productivity. Finally, other employees’ career advancement can be blocked, as Mercer notes, with serious ramifications for an employer’s overall workforce talent.
In short, America’s economic future will pay the price of a failed retirement policy.

That is why, in the public sector, state and local governments have worked diligently for over a century to build and maintain retirement systems that offer real protection from financial risk and provide a guaranteed stream of income for life that is adequate and affordable. They have done so by providing public pension plans that are designed to:

- Assure self-sufficiency for retirees by providing a predictable benefit that is guaranteed for life, including cost-effective disability and survivor benefits.
- Create a high performance workforce by providing a benefit that will attract and retain quality and highly trained public employees.
- Lower overall benefit costs by pooling the risk of outliving retirement benefits and of investment losses over the total number of participants.
- Invest plan assets at a low cost in order to produce (1) predictable cash flow for payment of recipient benefits that contribute to state and local economies; (2) earnings that reduce future employer and employee contributions; and (3) a large pool of capital that provides entrepreneurial funding that would not otherwise be available to strengthen the economy.
- Provide flexibility that helps state and local governments maintain an effective workforce.

Consequently, despite frequent media reports to the contrary that point to the exception and not the general rule, the state of America’s public pensions is sound. Consider, for example, the following:

- The “Wilshire 2015 Report on State Retirement Systems: Funding Levels and Asset Allocation” found that the funding ratio for the 131 state defined benefit retirement systems covered in its study was 80 percent in 2014, up from 74 percent in 2013.
- Despite the fact that the 2008-09 market decline reduced public pension asset values by 25 percent, they were once again above their 2007 peak by 2013, according to the National Association of State Retirement Administrators (NASRA), and as of 9/30/2014, state and local retirement trusts held $3.7 trillion in assets, according to the Federal Reserve.
- This remarkable comeback has been accomplished at the same time that public plans distributed more than $1 trillion in benefits to more than eight million retirees and their survivors, and required, on a nationwide basis, only 3.9 percent of all state and local direct general spending in order to do so. (U.S. Bureau of the Census)
- Despite sharp declines in capital markets in 2000-02 and again in 2008-09—with accompanying economic recessions that caused required pension contributions to rise significantly at the same time that the ability of states and local governments to respond was severely challenged—public plans received an average of 89 percent of their annual required contributions (ARC) during the FY 2001-2013 period. Only six states averaged less than 75 percent, while half the plans got 95 percent of their ARC. (NASRA)
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• More than one half of the 126 plans in the Public Fund Survey have reduced their investment return assumption since FY2008; the median is now 7.75 percent. (NASRA)

• Since 2009, 36 states have increased required employee contribution rates. (NASRA)

• In September, 2014, Moody’s claimed that the 25 largest U.S. public pensions face about $2 trillion in unfunded liabilities. However, over the next 30 years, total US economic activity will be more than $750 trillion, assuming 2.5 percent average annual growth in real GDP. “Split it up over 30 years and the alleged pension shortfall comes to $67 billion a year or about 0.26 percent of GDP.” (Ryan Chittum, former Wall Street Journal reporter and deputy editor of the Columbia Journalism Review’s business section.)

• In April, 2014, the Pew Charitable Trusts reported that state pensions had incurred unfunded liabilities of $915 billion based on 2012 data. But looked at another way, this shortfall is equal to approximately 0.2 percent of projected GDP over the next thirty years, the period over which the shortfall would have to be filled; alternatively, it is equal to about 2.0 percent of projected state and local tax revenues over this same period. (Dean Baker, co-founder of the Center for Economic and Policy Research)

NCTR is therefore hopeful that, as the Pennsylvania legislature considers possible changes to the existing retirement security model for Pennsylvania’s public employees, it will “do no harm” in its work on pensions, particularly with regard to the important need to provide Pennsylvania’s children with the best quality education by continuing to attract and retain the best possible teachers. In this regard, we believe that the important role of the retirement security model currently in use in Pennsylvania in meeting this need should be carefully, completely and independently documented by those who do not have potential conflicts of interest with regard to the outcome of such analyses. Also, the impact on employee turnover of recent changes in other states similar to those under consideration in Pennsylvania should be fully examined before any major modifications are considered.

NCTR would also encourage the Pennsylvania legislature to closely examine the work of NIRS in assessing the most cost-effective manner in which to provide whatever level of retirement benefits the legislature deems appropriate for Pennsylvania’s public employees. NIRS’ work has consistently shown that pension plan designs similar to that currently in use in Pennsylvania are a far more cost-efficient means of providing retirement income as compared to individual defined contribution accounts. Without clear and convincing evidence to the contrary, we would urge policymakers to be very cautious in abandoning a tried and tested model, when properly implemented, in favor of a new design that may promise to cap costs, but in practice will only cut benefits and, in doing so, ultimately diminish the overall quality of public services.
In summary, NCTR believes that while the public sector, overall, is doing an admirable job in providing its employees with retirement plans that offer them the ability to earn a safe, sustainable, affordable and secure lifetime income benefit, the nation as a whole faces a serious retirement security crisis. I would also like to reiterate that in the governmental sector, public pension plans are designed to provide a core retirement benefit that will help assure vital taxpayer services by providing cost-effective retirement benefits that attract and retain qualified employees. Public pension systems such as PSERS help ensure a stable retirement income for those who dedicate their career to serving the public, and I would again caution the Pennsylvania legislature to be very careful in making fundamental changes in the successful model currently in use in the Commonwealth.

Thank you for this opportunity to comment.

Sincerely,

Meredith Williams
Executive Director