Strengthen Public Sector Pensions By Helping All Workers Get Retirement Accounts

Teresa Ghilarducci
Professor of Economics
Nearly Half of American Workers Have No Retirement Plan

<table>
<thead>
<tr>
<th>State</th>
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<td>South Carolina</td>
<td>-14.01%</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>-13.25%</td>
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<td>Rhode Island</td>
<td>-12.57%</td>
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</table>
States with the highest share of uncovered workers in 2010

States With the Most Workers Without Plans

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<tr>
<th>State</th>
<th>Number of Uncovered Workers</th>
<th>Percentage of Uncovered Workers</th>
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</thead>
<tbody>
<tr>
<td>California</td>
<td>7,900,507</td>
<td>52%</td>
</tr>
<tr>
<td>Texas</td>
<td>5,219,432</td>
<td>52%</td>
</tr>
<tr>
<td>Florida</td>
<td>4,133,075</td>
<td>56%</td>
</tr>
<tr>
<td>New York</td>
<td>3,850,991</td>
<td>48%</td>
</tr>
<tr>
<td>Illinois</td>
<td>2,279,686</td>
<td>42%</td>
</tr>
<tr>
<td>Georgia</td>
<td>2,051,896</td>
<td>51%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>2,033,520</td>
<td>40%</td>
</tr>
<tr>
<td>Ohio</td>
<td>1,914,453</td>
<td>40%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>1,823,755</td>
<td>50%</td>
</tr>
<tr>
<td>North Carolina</td>
<td>1,695,561</td>
<td>44%</td>
</tr>
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</table>
The Falling Coverage in the Private Sector is a Political Problem

- 81% believe that people cannot successfully save on their own for retirement.
- 82% believe it is getting harder to save for retirement
- 83% have a favorable view of defined benefit pension plans.

Source: Pension and Retirement Security 2013, National Institute on Retirement Security
Criteria 1

CONTRIBUTIONS

• A mandatory system to achieve consistent contributions of at least 5% of pay.

• A mandatory system does not expensive tax breaks.
DC Plans More Expensive —

NIRS Report NIRS Bigger Bang or the Buck http://www.nirsonline.org/index.php?option=content&task=view&id=121

- Overinsure for Longevity -- 15%
- Less Diverse Portfolio -- 5%
- Higher Fees -- 26%

- For a $27,000 annual annuity: DCs plan requires $354,000 and DB $549,903
INVESTMENTS

- Pooled investments have best chance of achieving low-risk, long-term gains.
  - Economies of scale
  - Minimum risk
Criteria 3

BENEFITS AT RETIREMENT

• Balance is converted to income stream

• Funds cannot be withdrawn before retirement.
Risks of the 401(K) 

- Market - Financial Crash
- Longevity – Live too Long
- Investment – Portfolio
- Contribution – Inadequate and Inconsistent
- Leakage – Fees and Preretirement Spending
The Falling Coverage in the Private Sector is a Political Problem

- 81% believe that people cannot successfully save on their own for retirement.
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Source: Pension and Retirement Security 2013, National Institute on Retirement Security
Some Policy Issues Are Hard
Designing a Good Pension System in Not Hard

- Need Adequate And Consistent Contributions
- Need Efficient Investment Performance
- Need Stream of Income in Retirement
A mandatory system to achieve consistent contributions of at least 5% of pay.

A mandatory system does not need “incentives”
Pooled investments have best chance of achieving low-risk, long-term gains.

- Economies of scale
- Minimum risk
Criteria 3

BENEFITS AT RETIREMENT

• Balance is converted to income stream
• Funds cannot be withdrawn before retirement.
## Comparing Popular Pension Designs

(Source: http://www.sharedprosperity.org/bp204/bp204.pdf)

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<td><strong>CONTRIBUTIONS</strong></td>
<td>No</td>
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<td><strong>SAFE INVESTMENTS</strong></td>
<td>No</td>
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<td><strong>LIFE TIME PAYOUTS</strong></td>
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## Comparing Popular Pension Designs

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<td><strong>PAYOUT</strong></td>
<td>Under study.</td>
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California Plan: Current status

- SB 1234 Signed by Governor Brown 9/28/2012.
- Investment Board established with nine members
- Focus on ensuring no cost and no liability.
- Feasibility study by 2015
Other states with or considering public pension options for private workers:
Who Wins With A Public Option?

Most Everyone!

- Workers and employers with pensions and 401(k)s will find it easier to ensure adequate retirement savings.

- Workers without pensions.

- Financial firms manage more savings.

- States will need to provide fewer public services to retirees in need.
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Public Pension Systems Could Help Private Sector Workers Save For Retirement

THE END
The California Example: Incubator for other state programs
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Connecticut in Detail

- House Bill 5313, 2012 - passed 5/1/2012
- Establishes a task force to evaluate the need for and the utility of creating a public retirement plan.
  - Examine current state of access to retirement plans and savings levels in current system.
  - Explore opportunities for the state to encourage residents to save for retirement.
Oregon in Detail

- Establishes the Oregon Retirement Savings Task Force.
  - Estimate the average amount of savings and financial resources that residents have upon retirement.
  - Develop recommendations for increasing the percentage of Oregonians saving for retirement or enrolled in a retirement plan, and for increasing the amount of savings.
  - Report due September 1, 2014.
Illinois in Detail

  • Creates the Illinois Automatic IRA Program Act.
  • Allows eligible employees to invest a percentage of wages into an IRA trust fund administered by State Treasurer’s office.
  • Limits State and employer liability.
  • Hearings adjourned indefinitely.
Massachusetts in Detail

- **HB 3754, 2012 – Signed 3/22/2012.**
  - Implements a plan for the State Treasurer to research current retirement program available to not-for-profit employees.
  - The treasurer may sponsor a defined contribution plan for these workers.

- **HB 1194, 2012 – Accompanied Study Order 9/17/2012.**
  - Legislature finds that small and medium sized business find it difficult to offer retirement plans.
  - Recommends a Massachusetts voluntary retirement accounts program to provide a simple and cost effective way for employers to sponsor plans for their employees.