



Pensions Are Good For Business

Houston Firefighters' Relief and Retirement Fund

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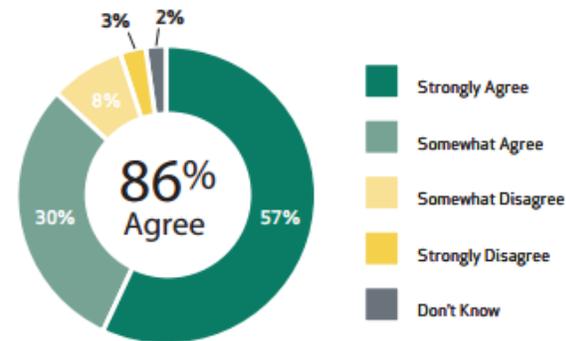
THE U.S. HAS A \$4 TRILLION RETIREMENT SAVINGS DEFICIT THAT WILL BECOME A LEADING DRAG ON ECONOMIES IF WE TAKE AWAY FROM RETIREES

- “We're at a major crossroads” in the U.S., because “we have a real absence of savings toward retirement” in the private sector.
- The lack of retirement savings “will become the leading drag to the U.S. economy in the future,” and “be a far bigger crisis in this country than health care ever was.”

- LARRY FINK, CEO AND CHAIRMAN OF BLACKROCK, AN AMERICAN
MULTINATIONAL INVESTMENT MANAGEMENT CORPORATION

EXPERTS AGREE ON THE BREWING RETIREMENT CRISIS

- The Government Accountability Office reports that as many as half of Americans over the age of 55 are financially unprepared for retirement
- NIRS *Retirement Security 2015* states that 86% Americans agree the Nation faces a retirement crisis with 82% supporting pensions for its success in providing stable income that will not run out



FACTORS CONTRIBUTING TO THE RETIREMENT CRISIS

- Life expectancy has increased making retirement periods longer
- More employers are releasing the responsibility of retirement preparedness from themselves onto the individual employee
- Workers are not saving enough during employment to support their standard of living during retirement
- Retiree out-of-pocket medical costs are increasing over time



DEFINED BENEFIT PLANS ARE IN THE BEST INTEREST FOR BUSINESSES, THE ECONOMY AND TAXPAYERS

- Business Advantages
- Economic Support
- Retirement Security
- Public Support
- Affordable and Sustainable



DEFINED BENEFIT PLANS HAVE 48% COST ADVANTAGES COMPARED TO DEFINED CONTRIBUTION PLANS.

- Longevity Risk Pooling
 - Lifespan and lifetime annuities are averaged to ensure benefits can be provided to all individuals
- Diverse Portfolio
 - Longer investment horizon with low investment expenses, defined benefit plans can ride out the fluctuating market leading to higher gross returns based on asset allocation
- Professional Management
 - Higher risks that yield higher investment returns



PENSIONS ENHANCE THE ABILITY TO ATTRACT QUALIFIED EMPLOYEES

- Defined benefit plans encourage employees to remain with an employer longer than defined contribution plans
 - With vesting periods and financial incentives to continue working based on accruals of continued service, defined benefit plans provide strong incentives for these dedicated and skilled workers to remain in these high risk roles
- Switching to a defined contribution plan would limit this ability, possibly exacerbating labor shortages in key service areas by increasing employee turnover rates
 - Higher turnover rates could lead to increased training costs and lower levels of productivity, possibly resulting in the need for a larger workforce
- Several studies support the hypothesis that pensions attract more productive workers
 - Due to their value in far-off pension benefits presumes forward-thinking employees



BENEFITS PAID BY PENSION PLANS SUPPORT ECONOMIC ACTIVITY

- Retiree Expenditures Support:
 - State Economy
 - City Economy
 - Minorities
 - Consumers and Taxpayers



IMPACT TO TEXAS' ECONOMY

- A 2012 study showed that retiree expenditures support \$23.7 billion in total economic input in the state of Texas
- Total income to state residents supported by pension expenditures was \$7.5 billion and supported 146,387 jobs
- \$3 Billion gained in federal, state and local tax revenues



IMPACT TO HOUSTON'S ECONOMY

- Over 75% of Houston retirees stay in Houston and remain vital taxpayers who contribute to the local economy
 - Without pensions, future retirees will not be able to support local businesses and their services, cutting into the tax revenue
 - The possibility of future retirees depending on government assistance is higher without pension benefit income
- Houston city government saves 6.2% of payroll by not contributing to Social Security for Houston Firefighters as they participate in HFRRF's defined benefit plan
- Firefighter pensions are an important recruitment tool that constitutes only 2.1% of the City's total budget



IMPACT TO MINORITIES

- Texas ranks relatively low in relations to older adult labor market opportunities
 - Therefore, the potential of our seniors working longer is grim
- Women are still earning only 79 cents for every dollar earned by men
 - This gender wage gap still affects women during retirement and their ability to maintain a worthy standard of living
- African Americans and Hispanics rely more heavily on employer-sponsored plans as they are less likely to have expertise for saving and preparing for their own retirement
 - White retirees receive about one-fifth of their income from savings, while blacks and Hispanics receive less than one-tenth
 - Pension wealth measured for Hispanics – 47%, African Americans – 66%, Whites – 79%



IMPACT TO CONSUMERS

- Every \$1.00 put into pension benefits yields \$1.51 in economic output in state of Texas
- Without continuing income, there will be more demand for social services like Welfare and Medicaid
- Defined contribution plans are found to have significantly higher costs to taxpayers than with traditional defined benefit plans, as proven in case studies of states switching from a defined benefit plan to a defined contribution plan



THE ECONOMIC CRISIS IS A THREAT TO RETIREMENT SECURITY

- Both public and private sector employees face a retirement threatened by the economic crisis
- 36% of U.S. adults anticipate working beyond 65 due to insufficient retirement savings
- Poverty rates among senior citizens without pensions are almost 9 times higher than those with pensions
- Employers could still face additional pressure to increase defined contribution retirement benefits and provide additional financial assistance for retirees in order to combat the retirement crisis
- There is a notable gap between the average salary for public sector workers and their social security income, making maintaining the cost of living for retirees problematic



PUBLIC SUPPORTS DEFINED BENEFIT PLANS OVER DEFINED CONTRIBUTION PLANS

- Public sector support for pensions is high and on the rise. NIRS 2015 study *Americans Views on the Retirement Crisis* shows some 82% support for pensions for all workers
- 67% of Americans indicate they would take a pay decrease in exchange for guaranteed income in retirement – a defined benefit plan



PENSIONS ARE AFFORDABLE AND SUSTAINABLE

- Research shows defined contribution plans are 20% less efficient when delivering benefits
- U.S. Department of Labor is helping states steer more workers into retirement plan to “make it easier for people to save for retirement” as one-third of American workers do not have retirement plans through their employers
- According to a Pew study, over half of non-retirees with defined contribution plan are “not confident” in their ability to make proper investment and retirement saving decisions



FINAL TALKING POINTS

- The real crisis in retirement is the limited incomes that offer few or no financial resources to implement retirement
 - Even with a defined contribution plan, some workers cannot afford to contribute to their retirement accounts even if employers match contributions
- We should deliver retirement security to more people, not force retirees into poverty
 - To strip away the pension benefits of the firefighters who risk their lives daily to keep their communities safe is not the right solution to budgeting issue



PENSION RESOURCES

1. [NCPERS: The Top 10 Advantages of Maintaining Defined Benefit Pension Plans](#)
2. [NIRS: Still a Better Bang for the Buck](#)
3. [NIRS: America's View of the Retirement Crisis](#)
4. [United States Government Accountability Office: Retirement Security – Most Households Approaching Retirement Have Low Savings](#)
5. [NIRS: Pensionomics](#)
6. [NCPERS: A New Pension System Will Be Costly & Chaotic](#)
7. [NCPERS: Income Inequality – Hidden Economic Cost of Prevailing Approached to Pension Reforms](#)
8. [Board of Governors of the Federal Reserve System: Report on Economic Well-Being in U.S. Households in 2014](#)
9. [Northwestern Mutual's 2015 Panning and Progress Study](#)
10. [Center for Retirement Research at Boston College: Do Public Pensions Help Recruit and Retain High-Quality Workers](#)
11. [NIRS: Financial Security for Future Retirees: Texas Scores 5 out of 10](#)
12. [SSA: Racial and Ethnic Differences in Wealth and Asset Choices](#)
13. [EBRI: 2015 Retirement Confidence Survey](#)