'Crisis' Doesn't Exist

Defined-Benefit Pensions Continue to Hold Value

By SHERRY S. CHAN Sep 11, 2017 Updated 16 hrs ago

SHERRY S. CHAN

With Labor Day just reminding us of the value we place on our country's workforce and providing an opportunity to show our gratitude to the public employees who help and serve us every day, it's time to put aside the misdirected concern over defined-benefit pension plans. Instead, let's recognize the steady and reliable benefits of these plans when they are properly maintained, as is the case with our city plans.

There is a common misperception that all public-pension plans are in a financial crisis. A great deal of this misperception stems from the narrow pool of high-visibility state and local pension funds that are underfunded.

Predictability vs. Gambling

Unfortunately, this has led to calls for the deliverance of public-pension plans through the introduction of some form of 401(k)-style defined-contribution plans. Like defined-benefit pension plans, defined-contribution plans are financed generally by both the employee and employer, but, unlike with a pension plan, the pot of money people will receive to fund their golden years is mainly dependent on the market. Defined-benefit pension plans take away all the guessing for the members, since they know their benefit upon retirement. Predictability enables these employees to better manage both the timing of their retirement and their overall retirement security.

A few states have experimented with these types of plans and experienced bad results. West Virginia closed its defined-benefit pension plan for Teachers in 1991 and shifted to a defined-contribution plan. By 2005, the cost of transitioning the plan became excessive and retirement security plummeted. This led the state to re-open its defined-benefit plan, resulting in a vast majority of West Virginian Teachers switching back to the defined-benefit pension when given a choice.

As Technical Advisor to the New York City retirement systems, I calculate the statutorily required payments to those systems on an annual basis to keep them on solid footing. Historically, city workers and taxpayers are fortunate that the city has consistently paid its pension bill. That bill, if not paid, would likely result in a future retired workforce unprepared to maintain quality of life after employment, and quite frankly, an endless pool of retirees who might have to rely on governmental social-safety-net programs to make life manageable.

Stable Retirement Income

As of June 30, 2016, the average annual city pension benefit was approximately $38,000. The payments are modest, partially paid for by the former city employees themselves, and are deferred wages. Workers agree to take less pay during their working lifetime to benefit in their retirement years. Most importantly, after years of skilled service, the city plans are a promise of a stable form of essential income during retirement.

All people, whether you work for the city or not, need a solid retirement plan. According to a recent report by the World Economic Forum, there is a gap between what is saved and what is needed for retirement that has to be closed. Segal Consulting did an analysis on the benefits to taxpayers if all full-time workers gained access to retirement savings programs. It revealed that in the first decade after a retirement program was introduced, New York would save about half a billion dollars in future Medicaid costs because retired people would not be impoverished and therefore would not have to rely on social safety-net programs like Medicaid.

The discussion, therefore, should not be about whether defined-benefit pension plans are sustainable; it should be about ensuring their continued sustainability and availability. Without solid retirement plans, people will be without the means to live with dignity after their working years.

We all need to constantly re-visit our retirement offerings. It's not just a concern of governments and their employees; it is a concern for all employees and all employers.

Ms. Chan is the city's Chief Actuary.