

# SECURE RETIREMENT PLAN

## How would you design a secure retirement plan?

- Sound income replacement guaranteed for life
- Funded through an Employer-Employee Partnership
- Pooled and professionally managed investments
- Survivor and disability protections
- Low costs and fees

*Getting  
it Right!*



## State and local governments have been **getting it right** for years!

### ✓ LIFETIME BENEFIT.

State and local retirement systems are designed and funded to provide lifetime benefits so that retirees will not be forced to live in poverty or run out of money. Unlike an individual 401(k)-type account, where funds can be exhausted, these benefits are paid monthly throughout retirement.

### ✓ SOUND INCOME REPLACEMENT.

The average public employee pension benefit is roughly \$20,000 annually. These benefits provide a conservative but stable and guaranteed retirement income designed to replace a reasonable amount of pre-retirement wages. Furthermore, public pensions also are protected from inflation with modest cost-of-living adjustments.

### ✓ GUARANTEED INCOME.

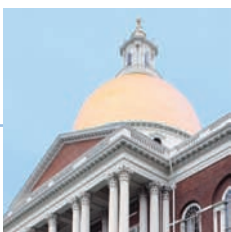
Public pensions are safe and secure because they are backed by their sponsoring governments and often are protected by State constitutions, statutes, or case law. Unlike private sector employers, which can close, merge, declare bankruptcy, or freeze pension promises, governments exist in perpetuity and will be there to manage assets and pay benefits.

### ✓ EMPLOYER-EMPLOYEE SHARED RESPONSIBILITY AND PARTNERSHIP.

An employee shouldn't have to go it alone, nor should the employer bear the full burden for retirement security. State and local employees typically are required to participate in and contribute to their defined benefit pension – usually five to ten percent of pay. This is in sharp contrast to the private sector, where employers shoulder the full cost of traditional pension benefits. Public sector employees also can supplement their pension benefit with individual retirement savings via 401(k)-type accounts called 457 and 403(b) plans. Shared responsibility is all the more important for those public employees who are not eligible for Social Security – about 25% of the public workforce and primarily classroom teachers and public safety officials.

### ✓ PROFESSIONALLY MANAGED AND POOLED ASSETS.

Research shows that professionally managed and pooled assets earn greater returns and reduce investment risk through highly diversified portfolios. In the public sector, this translates into lower taxpayer costs. Furthermore, employees do not have to worry about becoming investment experts or bearing all of the risk alone. For the 10- and 20-year periods ended June 2006, public pension funds generated strong investment returns of 8.5% and 9.5%, exceeding investment benchmarks.



# P U B L I C P E N S I O N P L A N

## ✓ LOWER COSTS AND FEES.

State and local governments pre-fund their pension liabilities to lower overall retirement costs. The majority of pension benefits are paid from investment earnings because pension assets are pooled, professionally invested, and coupled with employee contributions. Collectively since 1982, taxpayers have needed to contribute only one-fourth of the cost of public pensions. Strong investment returns have continued to lower this share over time.

Pooling of pension assets also reduces investment fees and administrative costs. In fact, administration costs for large public pension plans are less than one-fourth the cost of a typical individually-directed plan. Investment fees for individuals also can be several times the cost charged to an institutional investor such as a pension fund.

## ✓ FLEXIBILITY AND PORTABILITY.

For years, State and local pension plans have responded to changing workplace needs by incorporating attributes of defined contribution savings plans while preserving important elements of traditional pensions. This provides public employers with the flexibility to better manage their workforce and meet their unique needs as public service providers.

An increasingly mobile workforce also requires improved portability. In many cases, public workers can carry their pension benefits to other government positions within the State and can frequently purchase service credits for public employment in other jurisdictions. Combined with shorter vesting periods and partial lump sum distributions, public pensions are responding to changing workforce needs.

## ✓ SURVIVOR AND DISABILITY PROTECTIONS.

Survivor and disability benefits are particularly important in the public sector because many workers – such as police officers and firefighters – are in high risk jobs. While retirement benefits for survivors or workers who become disabled are components of traditional public pensions, they are not provided by individual retirement accounts. To provide equivalent protections through private insurance would cause costs for employees and taxpayers to increase.

## ✓ ADDED PROTECTIONS FOR WOMEN.

Women are particularly vulnerable when it comes to retirement security. They are more likely to have time out of the workforce for child or elder care and may have lower salaries, yet often require more money for retirement due to their greater longevity.

The guaranteed benefit formulas provided by public pensions offer women greater overall retirement security. In addition, State and local pensions have incorporated features to address women's unique issues. Women typically can take time off and return to public sector jobs without losing accrued benefits or can purchase service credits for time out of the workforce. Public pensions also typically provide spousal benefits, generally require benefits to be paid as a guaranteed lifetime annuity, and require spousal participation in benefit decision making.

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it Right!*

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