New York State Teachers' Retirement System



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RESOLUTION SUPPORTING DEFINED BENEFIT PLANS

Adopted by the NYSTRS Retirement Board April 28, 2005

WHEREAS, most state and local governments and governmental entities, including school districts, provide a defined plan as the primary retirement program for their employees; and,

WHEREAS, defined benefit plans provide retirement and death benefits based upon established formulas that typically take into account the employee's length of service and final average salary, and do not depend upon the transitory movements of the capital markets; and,

WHEREAS, public sector defined benefit plans have afforded numerous advantages to the present and former public employees whom they serve, as well as to the sponsoring and participating public employers and to the economy as a whole, including, but not limited to, the following:

- Providing predictable and secure retirement benefits for public employees that cannot be reduced;
- Providing disability and death benefits comfortably within the plan framework for public employees whose careers are cut short by disease or injury, or who die during their careers;
- Providing low-cost, efficient, professional management of the assets necessary to fund promised benefits;
- Pooling market and demographic risks so as to further reduce plan costs in the long run, while enabling public employees to retire during periods of depressed capital markets and providing a predictable source of security for public employees who become disabled or die or who outlive predicted life expectancies;

- Assisting public employers in the competition for talented workers by enabling them to offer a superior type of retirement benefit plan, including to experienced workers who enter public service later in life;
- Assisting public employers by facilitating the retirement of public employees who have provided a career of public service regardless of the then current state of the capital markets;
- Promoting economic growth by providing a significant, stable source of funds for investment in a variety of capital assets, including stocks, bonds, real estate and private equity interests; and,

WHEREAS, notwithstanding the foregoing benefits to public employees, public employers, and the economy as a whole, short-sighted efforts are, unfortunately, being made in a number of states to switch public employees from defined benefit plans to defined contribution plans as the primary retirement program for such employees; and,

WHEREAS, the proponents of such efforts fail to appreciate or ignore the substantial shortcomings of using defined contribution plans as primary means for providing retirement security to public employees, including, but not limited to, the following:

- Because whatever retirement security provided by defined contribution plans to their participants depends entirely upon the individual investment decisions of the plan participants, the transitory performance of the capital markets, and the individual life expectancies of the participants, participants in defined contribution plans bear substantial risks that they will be unable to retire at all, or will retire with substantially impaired security, or will eventually become destitute as they outlive their account values;
- Because they involve the creation of individual accounts for each participant which are separately managed by each participant, defined contribution plans are far more expensive to operate than defined benefit plans, which fact must inevitably translate into lower benefits to plan participants, including

because the fees and expenses of administering defined contribution plans are far higher than in the case of defined benefit plans and because the investment performance of plan participants, who typically lack investment expertise, is far lower than the investment performance of public sector defined benefit plans which are professionally managed;

- Because defined contribution plans do not work well for participants whose careers are cut short by disease or injury or who died during their careers, a transition to defined contribution plans will require public employers to establish expensive disability and death benefit programs to provide for such employees;
- Because defined contribution plans can typically only invest in stock and bond mutual funds, their structure does not allow for direct investment in profitable capital market sectors, such as real estate and private equity, which results, even in the case of knowledgeable plan participants, in significantly less diversification of risk than in the case of the investments of defined benefit plans;
- The claimed benefit from defined contribution plans to public employers in the form of lower contribution rates is illusory because such contribution rates, together with the lower aggregate investment performance of defined contribution plan accounts and the higher expenses in administering such plans, must inevitably translate into far less retirement security for plan participants, which must be made up by substantial taxable payments by public employers to plan participants at the end of their careers in order to give them even a chance of avoiding becoming public charges during their retirement years;
- Because the benefits provided by existing public sector defined benefit plans are contractually guaranteed by state constitution, statute or case law, these plans must continue to exist along side any new defined contribution plan for an extended transition period and must continue to be funded by public employers, even though the expense of such continued funding will likely increase due to declining economies of scale, decreased pooling

of assets and liabilities and necessary increased investment in fixed income securities as such defined benefit plans are wound down;

The claimed benefit from defined contribution plans in providing larger termination benefits to short term public employees is illusory because there is no public policy interest in providing such benefits, particularly when such individuals leave the jurisdiction or dissipate whatever termination benefits they receive, and because providing greater benefits to short term public employees must, for each dollar of employer contribution, inevitably result in lower benefits for public employees who devote all or a substantial portion of their working lives to public service; and,

WHEREAS, to the extent issues are perceived to exist with respect to existing public sector defined benefit plans, such issues can be addressed through reasonable plan design which takes into account the legitimate interests of public employees and public employers; therefore, be it

RESOLVED, that the New York State Teachers' Retirement System unequivocally supports the continuation of defined benefit plans in the public sector as the primary source of retirement security for public employees; and be it further

RESOLVED, that the New York State Teachers' Retirement System unequivocally opposes current efforts to move public sector employees into defined contribution plans as the primary source of retirement security for such employees; and be it further

RESOLVED, that the New York State Teachers' Retirement System supports the establishment and maintenance of voluntary tax-advantaged savings vehicles in the public sector, such as IRC §403(b) annuities and IRC §457 eligible deferred compensation plans, but as a supplement to, and <u>not</u> a substitute for, defined benefit plans.