Transforming the Way People Think, Talk, and Act About Pensions

By Steve Nelsen

I am the executive director of the most successful state-defined benefit plan in the country. All of the current state-defined benefit plans in the state of Washington have reasonable benefits and healthy funding ratios. However, if you were to survey the citizens of Washington for their opinions, I am fairly certain that most would say they believe that public pensions are poorly managed, public employee benefits are overly generous, and taxpayers are facing a huge tax increase to pay for public pensions. I am also fairly certain that most Washington public employees believe that the top priority for their plan is to improve benefits. Despite the success of our plans, legislation was proposed this year to move to a defined contribution plan, because it was believed that this would save money.

We know that all of these beliefs are wrong. We know that the real pension crisis isn't even in the public sector; it is in the private sector. So, how do we transform the way people think, talk, and act about pensions?

Transformation begins with us. We need to change the way we think, talk, and act about pensions, as this will affect the way in which the public, plan members, and policymakers view our plans. We need to follow principles that I call the Four Noble Truths of Pensions.

The First Noble Truth of Pensions is, "A well-designed and well-managed defined benefit plan is the most powerful financial tool for providing individual retirement security." Defined benefit plans work better for both plan members and plan employers. Members have low-cost professional investment and the security of a lifetime benefit. Employers get more compensation created for the same cost as a defined contribution plan.

The Second Noble Truth of Pensions is, "The purpose of a pension plan is to recruit and retain desired employees by providing them with a measure of individual retirement security." This principle is under attack now because of significant competition for government jobs. Although early-retirement benefits are a popular benefit improvement, they contradict the goal of retention. Pension fund sponsors often divert necessary contributions in order to balance budgets or fund other spending priorities, even though a pension plan is not a "rainy day" fund. Most retirement experts agree that between 60 and 90 percent of preretirement income is what is needed for retirement. So when we evaluate the benefits provided by our plans, we need to ask, "How much retirement security is appropriate?"

The Third Noble Truth of Pensions is "No pension plan is perfectly designed or perfectly managed." All plans must seek to improve, and we must always be working to make positive change.

The Fourth Noble Truth of Pensions is, "Following best practices is the only way to successfully design and manage a pension plan." A number of resources are available to all of us through NCPERS regarding best practices for funding, investment, benefits, and administration. A recent study by the National Institute on Retirement Security identified six characteristics that the most successful public plans all had in common:

- Employer pension contributions that pay the full additional retirement credit and that at least equal the normal cost
- Employee contributions to help share the plan cost
- Benefit improvements that are actuarially valued before adoption and properly funded upon adoption
- Cost of living adjustments that are granted responsibly
- Antispiking measures that ensure actuarial integrity and transparency
- Economic actuarial assumptions that can reasonably be expected to be achieved in the long term

So, what do we need to do to transform the way people think, talk, and act about pensions? We need to:

- Explain to taxpayers how they benefit from pension plans (the economic benefits, not just the hiring and retention benefits).
- Provide reasonable benefits at an affordable cost.
- Share funding risks with taxpayers on an equal basis.
- Operate in a way that creates confidence in the plan's management.
- Act appropriately when problems arise (own it and fix it).

Communicate transparently about risks and costs (simplify actuarial and economic discussions).

Create defined benefit plans in which private workers can participate.

Create strategic plans for our pension plans with agreed-upon priorities, goals, and strategies (have a plan for the plan).

Ultimately, we need to create a real partnership among plan members, employers, and taxpayers. Only then will we all be thinking similarly about the issues that face our plans, talking knowledgably with a full and shared understanding about those issues, and then acting together effectively to achieve our common goals regarding our pension plans. ❖

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