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Public Employee Retirement Systems

The Voice for Public Pensions

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To the Editor:

With regard to the editorial on pension reform that appeared in your September 23 edition, it seems almost absurd that the issue of public pension funds is editorial-worthy, especially at a time when Congress is considering bailing out financial institutions to the tune of \$700 billion. That said, following are some facts regarding retirement security and defined benefit plans.

Public plans provide stability and liquidity to the financial markets, particularly important given the current financial crisis. As long-term investors, public plans have the strength and financial resources to weather short-term volatility in the markets, while individual investors (those with 401(k)-style plans) are scrambling to ensure they don't lose everything. Data show that Public sector plans are good for taxpayers, as well as local and national economies.

While private sector workers do pay a portion of the costs associated with funding public pensions, the public employees themselves shoulder a hefty amount of that burden. In fact, public employees nationally pay, on average, nine percent of their paychecks into the system each pay period. In Nevada, general employees pay 10.5 percent, while police and firefighters pay 17.5 percent of their paychecks, both of which figures are higher than what the state pays in. Furthermore, nearly 74 percent of payouts from defined benefit plans come from employee contributions and plan earnings.

The notion that 401(k)-style retirement vehicles are a cost-cutting measure that will save taxpayers money and still provide a secure retirement has been shown to be untrue. In fact, when Florida introduced a defined contribution plan in 2000 and tried to attract current employees into the system, it spent about \$90 million (in additional funds) on the effort and achieved very little. The state of Nebraska, which created a defined contribution plan in 1966, closed that plan when the state realized that returns for investments in the DC plan from 1983 to 1999 averaged only 6 percent, while the defined benefit plan was averaging returns of 11 percent.

Public pension funds are well funded and provide secure retirements for millions of Americans. Secure retirement means that when employees retire, they know that every month, like clockwork, money for them to live on will be available. On the other hand, 401(k)-style retirement vehicles offer no such guarantee, which means that we may find ourselves saddled with a new, far costlier tax burden in the future: caring for older Americans who outlive their retirement savings.

Looking at all the facts might prove useful in the debate on retirement security.

Sincerely,

Hank H. Kim, Esq.
 Executive Director & Counsel