<u>**LRTA Talking Points on Defined Benefit/Defined Contribution Retirement Plans**</u>

1. Defined benefit retirement plans are secure in that the amount of the benefit to be paid is determined by certain factors. These factors usually are the years of service in teaching, the average of salaries earned over a consecutive period (usually three to five years), and an accrual rate for each year worked. An example of the computation of a defined benefit is provided below.

30 years of service x the average salary of $40,000 x 2.5% = $30,000 or 75% of the average salary.

Defined contribution retirement plans base the amount of the monthly benefit to be paid on the balance of funds in an individual's retirement account at the time the decision is made to terminate employment. The balance of the account is normally annuitized, meaning the amount of the balance, plus an assumed rate of interest to be earned over the life expectancy of the retiree determines the monthly benefit. Depending upon how the plan is established, should downward market fluctuations reduce the account balance, the monthly retirement benefit could also be reduced, and the account balance could be paid out prior to the death of the retiree. In that case retirement benefits would cease.

2. Some argue that defined contribution plans are a cheaper alternative to defined benefit plans. Here in Louisiana, public employees are not currently contributing to the Social Security Administration on an old age benefit. A defined contribution plan should include this additional source of retirement income. Additionally, switching from a defined benefit plan to a defined contribution plan will not reduce the obligation currently owed to the state's retirement systems on the unfunded accrued liabilities of those systems. Therefore, the creation of a defined contribution plan which includes social security coverage, and the continued UAL payments, may be more expensive to implement than continuing the current defined benefit plan.

- **The normal cost to provide the defined benefit retirement plan offered by the Teachers' Retirement System of Louisiana (excluding the payments to unfunded accrued liabilities) is 5.7% of payroll.**

- **The cost to provide Social Security coverage is 6.2% of payroll, plus another 1.45% for Medicare coverage, or 7.65% of payroll.**

- **Therefore, if a defined contribution plan is integrated with Social Security, the cost will be even greater than the 7.65% of payroll by the amount the state would place into retirement accounts on behalf of employees.**

3. Defined benefit plans offer a recruitment tool for employers. They can assure their potential employees a guaranteed benefit at the time of retirement. Defined contribution plans, and continued benefit payments from an individual's account, rest solely on the investment of the assets built up in the account during the employee's career. It is possible that a significant portion of that account could

be lost due to market fluctuations, as many employees nearing retirement experienced over the last 18-24 months. In addition, when neighboring states continue to offer defined benefit plans, recruiting new teachers may become even more difficult when the only retirement option is a defined contribution plan.

4. Assets of a defined benefit plan are usually invested through a trust arrangement. The funds in the trust are wholly invested by governing bodies who secure the advice of investment consultants and professional money management firms for the purpose of guiding investment decisions. Gains and losses are shared by the collective membership.

Defined contribution plans require individuals to make their own investment decisions. Gains and losses are not shared, but credited and absorbed by the individual. Investment risk is determined by the individual, and losses in available funds could greatly affect retirement plans of individuals with defined contribution accounts.

5. Defined benefit plans have provisions that must be followed by all members which determine when funds can be disbursed in the form of a benefit, i.e. meeting certain age and eligibility requirements. Defined contribution plans often allow a member to withdraw funds from their accounts upon termination of employment, even if the member has not reached retirement age. Defined benefit plans protect members from self-temptations to use retirement funds for other purposes.

6. Some states have implemented defined contribution retirement plans for public employees. In West Virginia, the legislature has closed the DC plan, and re-opened the DB plan for many of the reasons mentioned above. Alaska is also considering reversing its decision to offer a DC plan.

7. Defined contribution plans do not offer disability or survivor benefits.

8. Louisiana has already implemented a DC plan for employees in academic and administrative positions at state institutions of higher education. It is known as the Optional Retirement Plan (ORP), and has been in existence since 1991. The plan was developed behind the argument that faculty members on college campuses desired more portability in their retirement plans. At the time of employment, many of them do not expect to teach in Louisiana over the length of time it takes to vest in the DB plan. Plan design limits the Teachers' Retirement System of Louisiana to selecting three companies to provide investment services to ORP members. Plan members make their own investment decisions based upon choices made available to them by the companies. The average balance in the ORP accounts serviced by the companies is somewhere in the neighborhood of $50,000—hardly enough to support retirement. In addition, these individuals do not have a social security benefit they can rely upon to augment retirement income paid from their ORP accounts.

8. The Louisiana legislature needs to give great consideration on this recommended change to existing public policy as it relates to the future of employees of the state. A secure retirement benefit means fewer people seeking out other forms of assistance in old age, and provides for a sense of well-being during the years employees are working.

Based upon the reasons given above, the Louisiana Retired Teachers Association opposes the implementation of a defined contribution plan for individuals employed in the public education community.