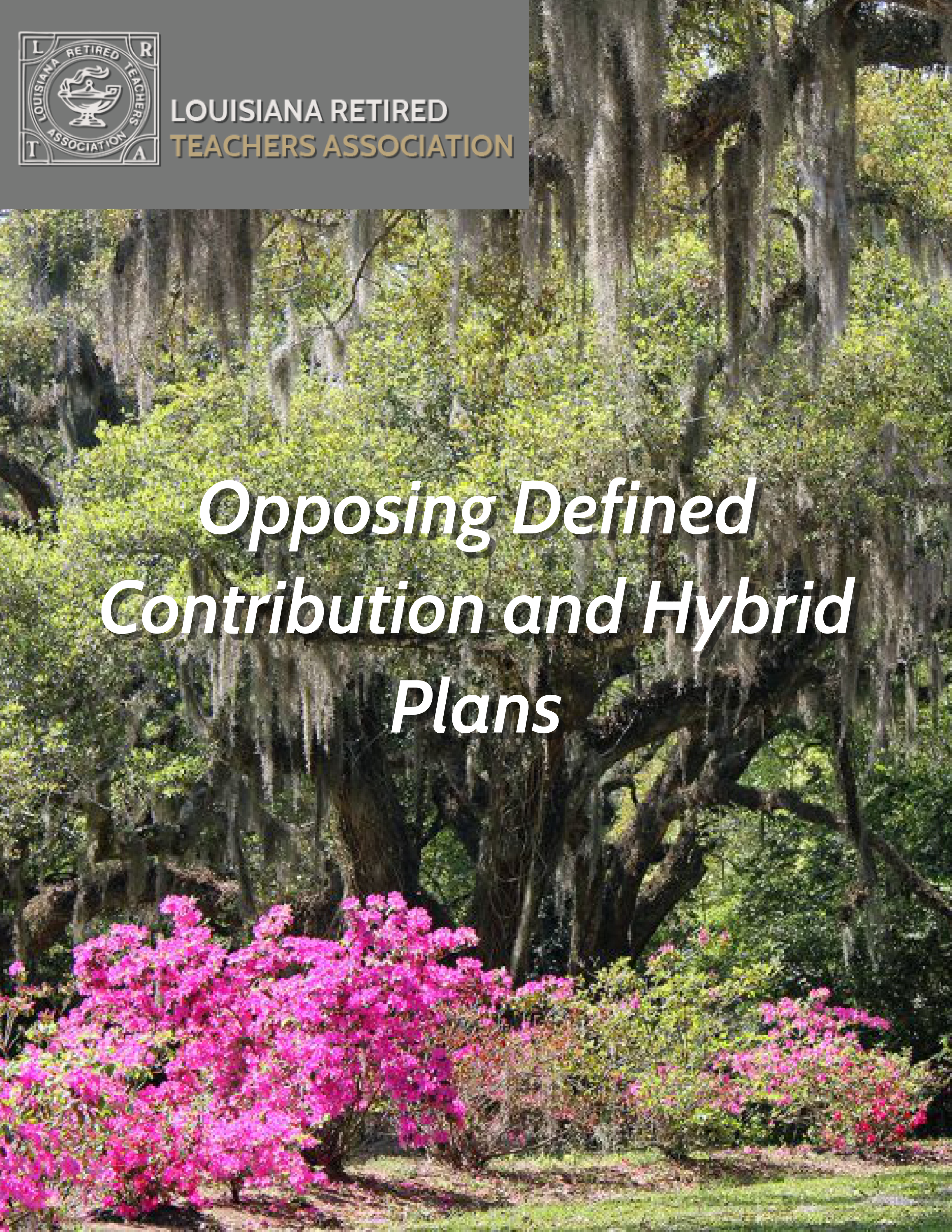
LOUISIANA RETIRED TEACHERS ASSOCIATION



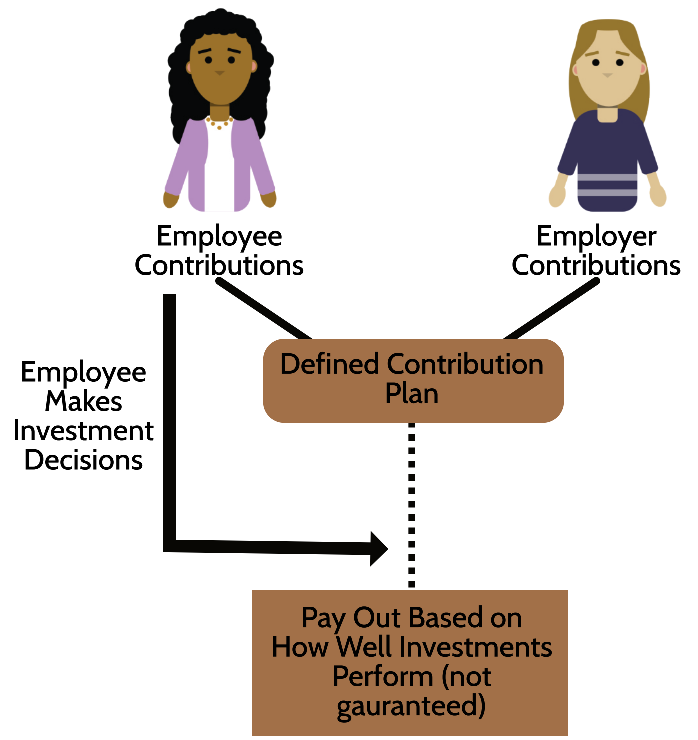
Opposing Defined Contribution and Hybrid Plans

What is a Defined Contribution Plan?

Defined Contribution (DC) plans are similar to 401(k) style plans. Employers and employees can contribute to the DC plan. However, it is up to the employee to make investment decisions themselves. Oftentimes, employees have different portfolio options to choose from to make their investment decisions (Figure 1).

The retirement benefit from a DC plan is not a guaranteed amount. DC plans base the amount of the monthly benefit to be paid on the balance of funds in the individual's retirement account at the time the decision is made to terminate employment. The balance of the account is normally annuitized. 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. Ultimately, the retirement benefit amount is dependent on how well the employee's investments performed.

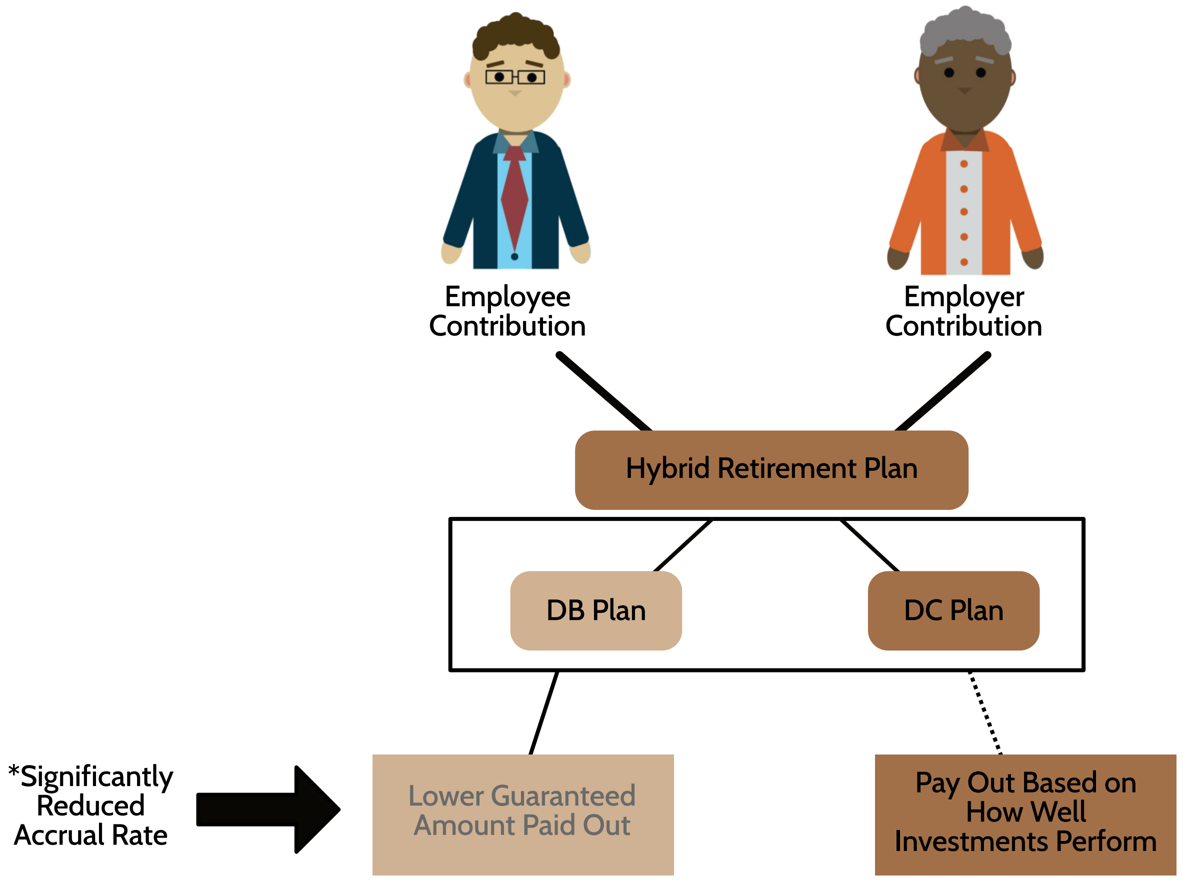
Figure 1. Defined Contribution Plan



What is a Hybrid Plan?

Hybrid plans combine the features of Defined Benefit (DB) and Defined Contribution (DC) plans. The money employees and employers contribute to a hybrid plan are split between a DB and DC plan. The DB portion of a hybrid plan is smaller than a traditional pension plan. The benefit factor, or accrual rate, is lower than the typical benefit factor of a traditional DB plan. Because the benefit factor is smaller, the guaranteed payout of the DB portion of a hybrid plan is generally lower. The amount of money available from the DC portion is dependent on how well the employee's investments performed.

Figure 2. Hybrid Retirement Plan



Why Does LRTA Oppose These Plans?

LRTA opposes changing the current Defined Benefit plan to a Hybrid or Defined Contribution plan. To date, there is no evidence of a DC or Hybrid plan providing retirement benefits greater than or equal to our current DB plan or Social Security. Hybrid retirement plans offer benefits that are less than DB retirement plans. The amount paid out by the DC portion of the plan is not guaranteed. Plus, the accrual rate of the DB portion of the plan will be significantly lower than the accrual rate of a full DB plan. Therefore, the guaranteed payout from the DB portion is significantly lower.

Not only would these plans provide a lower benefit to retirees, Hybrid and DC plans would harm the health of the retirement system. Switching to a hybrid plan does not eliminate or even address the existing debt. In fact, states that switched to hybrid retirement plans before paying down the debt actually increased the debt (Bond and Doonan, 2019). The UAL or debt exists no matter which retirement plan TRSL implements. The state's obligation to paying down the UAL does not change. Plus, switching plans could affect employer and employee contributions to the system. This could mean less money would be available that can go toward paying down the debt, the Experience Account, etc. Changing the DB plan undermines the financial stability of the trust.

Switching from the current DB plan to a DC or Hybrid plan could accrue additional costs to administer. The legislature has already enacted pension reforms in the past that help reduce the debt, which keeps the retirement system healthy. Even during times of turbulent stock markets, the retirement system has remained stable.

Research Cited

Teacher Pensions vs. 401(k)s in Six States: Colorado, Connecticut, Georgia, Kentucky, Missouri and Texas - Leon (Rocky) Joyner, Nari Rhee; NIRS

https://www.nirsonline.org/reports/teacher-pensions-vs-401k/