Communications Workers of America
Public, Health Care & Education Workers

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Washington, DC 20001

RESOURCES

Pension Rights Center

http://pensionrights.org/

National Institute on Retirement Security

http://www.nirsonline.org/index.php

Center for Retirement Research at Boston College

CWA
PUBLIC, HEALTH CARE AND EDUCATION WORKERS

PRIMER ON PUBLIC PENSION PLANS

"There is an unprecedented attack on public sector workers, their jobs and benefits. Years of tax cuts for the rich have starved our government when citizens need it the most. And now they are trying to finish the job.

"Learning about your pension is the first step to protecting your benefits."

Brooks Sunkett
CWA Vice President for
Public, Health Care & Education Workers

April 1, 2010

April 23, 2010

PROTECT YOUR DEFINED BENEFIT PLAN

Many legislators and anti-government activists would like to do away with our pension benefits. This would be a huge loss for workers in the public sector. Here are some of the advantages of a Defined Benefit (DB) plan to workers and to their employers:

- ***Guaranteed Benefits, Lower Risks***

  — Fixed and predictable

  — Based on service, salary and age

  — Paid out of a pool of invested assets

- ***Better Investment Returns:***

  — Professional investment management with lower administrative costs

  — Average 1% better annual returns, for a 25% better outcome over 30 years.

  — From 1975 to 1999, 70% of the funding for public pension plans came from investment returns

- ***Can provide additional benefits***

  — Cost of Living Adjustments to retirees' monthly benefit

  — Disability pension benefits

  — Spousal benefits

  — Guaranteed income to other beneficiaries

  — Early retirement benefits

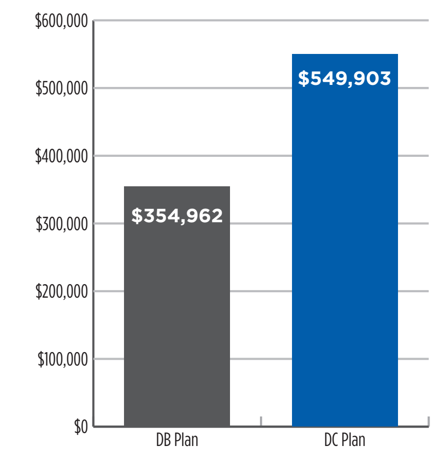
- ***Allows government to attract qualified employees and retain loyal workers, even at lower wages than the private sector.***

WHAT'S WRONG WITH A DEFINED CONTRIBUTION PLAN?

- Employees bear all the risk for investment losses
- The plan can't guarantee your benefits
- Can't deliver the same level of benefits with the same level of funding
- Can't pay disability pensions or cost of living adjustments
- Defined Contribution (DC) plans have higher administrative costs for employer, and employee, and are not likely to attain an equal benefit as compared to a DB plan
- Changing to a DC plan still leaves DB benefits to be paid, even if they are under funded now

For $2,200/mo., Starting at Age 62

DB Plan vs. DC Plan



Source: Graphic created by Natl. Institute on Retirement Security

- If DC plan only applies to new employees, their contributions will not go to support the DB plan
- Will those new employees want to protect your DB benefits later on?

WHEN WILL I GET MY PENSION?

- Generally all full time employees participate in the plan but part-timers may also be included, sometimes you must have a certain amount of service before you become eligible.
- After some years of service (usually 5 or 10), you become "Vested" – the benefits you have earned cannot be taken away
- Once you reach a certain age or years of service or combination of the two, you become eligible to receive pension benefits.

WHAT WILL MY PENSION PAY ME?

- The amount of your monthly benefit is usually based on your earnings, your total service to retirement, and your age at retirement. There are three different methods:

  — ***Final Average Pay:*** Your monthly benefit is calculated by multiplying your average annual pay over your last 1, 3 or 5 years of work by a percentage and your years of service (example: $40,000 x 2% x 30 yrs = $24,000 per yr or $2,000 per mo)

  — ***Flat Dollar:*** Your monthly benefit is a set dollar value paid per month per year of service, which may vary depending on your job (example: $66.67 x 30 yrs per month = $2000)

  — ***Career Average:*** Your monthly benefit is calculated from your total earnings over your service (example: the sum of 2.5% of your earnings from each year you work divided by12 months)

- Plans generally offer early retirement options, and alternative benefit payments including spousal benefit, alternate beneficiaries for other family members and partners.
- Normal retirement is most often at age 65. Retiring at an earlier age may require a reduction in the amount of benefit paid, because that benefit will, in most cases, be paid for a longer period of time.

THERE ARE THREE WAYS TO SAVE FOR RETIREMENT

By your self

- Bank accounts, Investment accounts
- Individual Retirement Accounts (IRAs), which get favorable tax treatment

In an Employer-Sponsored Defined Contribution Plan

- 401K, 403b, and 457 Plans get favorable tax treatment
- Employer may make contributions and/or match some of yours

Access to Retirement Savings Options

	PRIVATE SECTOR	PUBLIC SECTOR
Personal Savings Only	40%	0%
Defined Contribution Plan (may have DB plan)	54%	29%
Defined Benefit Plan (many have DC plan too)	21%	83%

Source: Bureau of Labor Statistics: Private sector data 2006; Public Sector 2007

- You choose how to invest your money
- Account grows if your investments succeed, but the risk is yours
- When you retire you live on what you have in your account

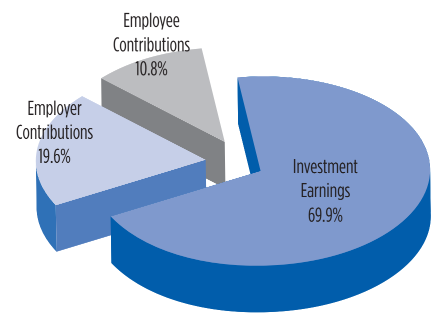
In an Employer-Sponsored Defined Benefit Pension Plan

- Employees and employers redirect wages to fund retirement benefits
- Professionally invested
- Benefits based on your service and earnings
- Benefits are guaranteed for as long as you live

HOW ARE DEFINED BENEFIT PENSIONS FUNDED?

- Public plans generally have contributions from both employer and employee
- Contributions are professionally invested so that interest can compound over time and pay benefits in retirement
- Between 1993 and 2007, 70% of all contributions to public plans came from investment returns, 19% from employees, and 11% from employers.
- An actuary determines how large a contribution is required based on many factors including the benefits which the plan will be obligated to pay out.
- If the contribution made each year is less than that estimated by the actuary, then larger contributions will be required to catch up and ensure fund has enough to cover benefits.

Where Does the Funding Originate?



Source: National Institute on Retirement Security, February 2009.