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The New Intersection on the Road to Retirement

***Public Pensions, Economics,
Perceptions, Politics & Interest
Groups***

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About the Authors

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Motivation

- State, local pensions ensure those retiring from public service have adequate retirement income after a lifetime of work. Systems collectively are financially sound and cost-effective.
- Despite these strengths, opposition has emerged in recent years. Proposals emerged in several states to close down public sector DBs in favor of DCs.
- What is behind this trend?



Outline

- What do we know about the economics of public pensions?
 - Retirement income adequacy
 - Financing
 - Funded status
- What does the public think about pensions?
 - General level of knowledge about pensions
 - Public opinion research on pensions *and* public pensions
 - Analysis of the factors that influence public opinion
- How have politics and interest groups impacted the debate over public pensions?
 - Partisanship
 - Interest groups
 - Case studies



Public Pensions and Retirement Income Adequacy

- Overall, troubling retirement security trends
 - Decline of retirement coverage in private sector
 - Little, if any, personal savings
 - 6/10 Americans unlikely to sustain standard of living in retirement
- Public employees well positioned for sufficient retirement income
 - Very likely to have access to at least one retirement plan;
 - Primary plan is almost always a DB
 - Almost all can participate in DC plans
 - ¼ do not participate in Social Security
 - Public plan retirement assets 2x greater than private sector
 - Median public retiree receives a benefit of \$22,000/year



Public Pension Plan Financing

- DB plan funding is shared employee & employer responsibility – unlike private sector
 - Social Security eligibles typically contribute 5% of pay to DB plan
 - Non-Social Security eligibles typically contribute 8.5%
- Pre-funded, not pay-as-you-go
 - Nearly \$3 trillion in assets representing about 90% needed to pay future benefits
 - Investment earnings pay for the greatest share of benefits -- three-fourths over past 10 years
 - Only one-fifth from employer (taxpayer) contributions
- Benefits of group plan
 - Pooled investments reduce cost, lifts return
 - Pooling of mortality and other risks reduces cost further



Public Pension Plan Funding

- GAO: Public sector DB plans as a group are generally well-funded and on track to being fully funded.
- Projected fiscal impact of fully funding pension obligations modest (less than 1% of payroll), state and local governments can and are meeting commitments.
- By contrast, DC funding gap is large. A switch would require much larger increases in contribution rates. Stakes for lower income workers are especially high.



How the Public Perceives Pensions

- Low knowledge base
- Divided on merits of DB and DC
- Where individuals do make judgments about DB vs DC, they are driven by ideological concerns, self-interest



Public Opinion Research

- **Rutgers University Heldrich Center (2005) survey**
 - Slight majority favors DB
- **Peter Hart Research (2006) survey**
 - Slight majority favors DC
 - Question re: proposed change from pensions to 401(k)s for public employees
 - 47 percent of voters strongly or somewhat oppose
 - 44 percent strongly or somewhat favored
 - 9 percent unsure.

What are the Factors Driving Public Opinion on Pensions

Model Specification 1			
Dependent Variable: Support for Switching to 401(k) for public employees			
	B	Std. Error	Sig.
(Constant)	2.538	0.243	
Age	0.015	0.020	
Female	-0.259	0.106	***
Education	-0.057	0.039	
Income	-0.024	0.030	
Union Member	0.057	0.150	
Public Employee	-0.396	0.125	***
Have 401(k)	0.077	0.124	
Have DB Pension	-0.018	0.154	
Individualistic Ideology	0.201	0.059	***
Republican Party Support	-0.024	0.036	

n=387

Note a: Reference category is not having a 401(k) or DB.

*** significant at greater than .01

Note b: Significance listed based on one-tailed tests.

**significant at greater than .05

Source: Author's analysis of 2006 Hart Research survey.

* significant at greater than .1

What are the Factors Driving Public Opinion on Pensions

Model Specification 2			
Dependent Variable: Preference for a 401(k)-type savings plan			
	B	Std. Error	Sig.
(Constant)	0.106	0.540	
Age	0.032	0.048	
Female	0.033	0.245	
Education	-0.042	0.088	
Income	0.039	0.069	
Union Member	-0.136	0.324	
Public Employee	-0.501	0.275	**
Have 401(k)	-0.048	0.296	
Have DB Pension	-0.926	0.347	***
Individualistic Ideology	0.226	0.134	**
Republican Party Support	0.096	0.084	
n= 341			
Note a: Reference category is not having a 401(k) or DB.		*** significant at greater than .01	
Note b: Significance listed based on one-tailed tests.		**significant at greater than .05	
Source: Author's analysis of 2006 Hart Research survey.		* significant at greater than .1	

What are the Factors Driving Public Opinion on Pensions

Model Specification 3

Dependent Variable: Preference for receiving benefits based on account balance.

	B	Std. Error	Sig.
(Constant)	0.020	0.152	
Age	0.004	0.023	
Female	-0.026	0.052	
Education	0.015	0.026	
Income	0.061	0.019	***
Union Member	-0.141	0.072	**
Public Employee	-0.124	0.068	**
Have 401(k)	0.131	0.095	*
Have DB Pension	-0.327	0.103	***
Individualistic Ideology	0.079	0.053	*
Republican Party Support	0.033	0.030	

n = 287

Note a: Reference category is not sure whether have a 401(k) or DB.

*** significant at greater than .01

Note b: Significance listed based on one-tailed tests.

**significant at greater than .05

Source: Author's analysis of 2005 Heldrich survey.

* significant at greater than .1

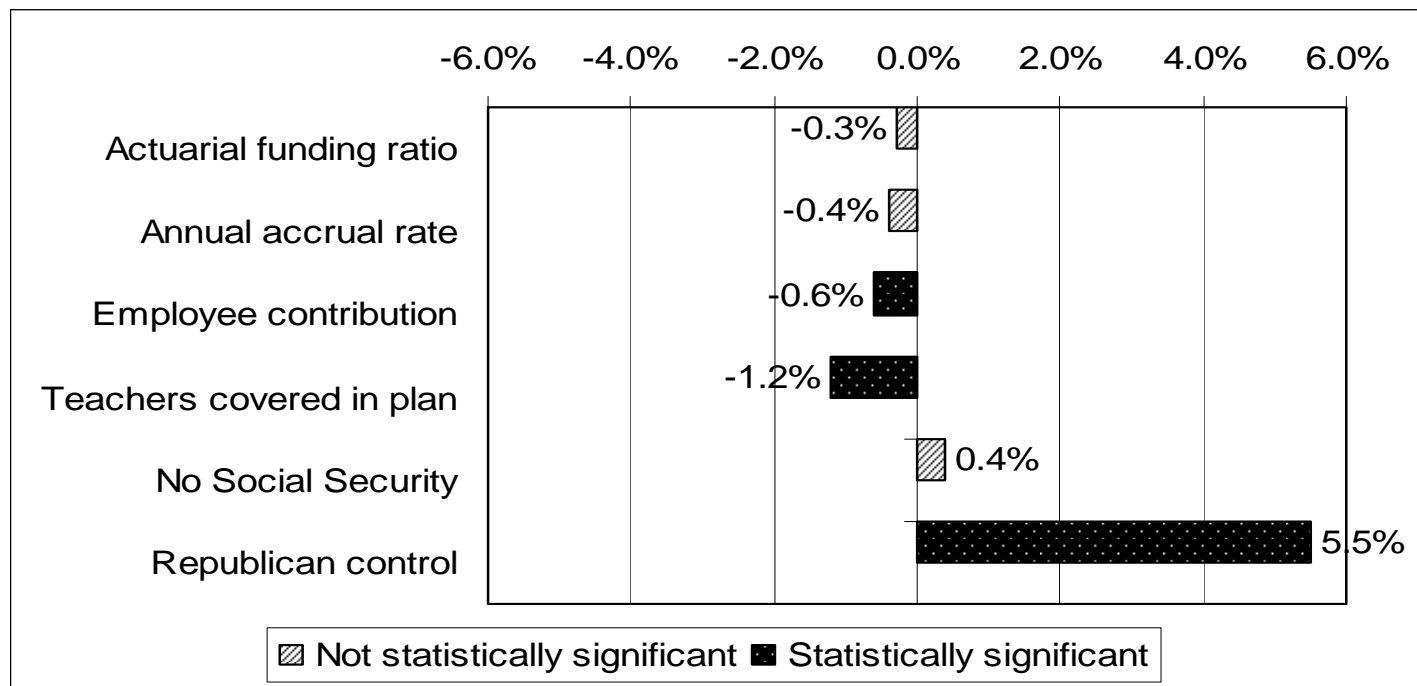


Factors that Influence Public Opinion about Pensions

- Women, public employees and those who have DB plans tend to be more supportive of pensions
- Those with an individualistic ideology are less supportive
- Republican party affiliation does not seem to have an effect

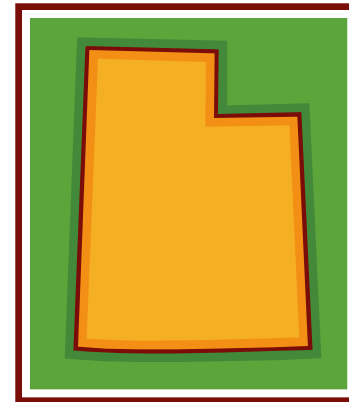
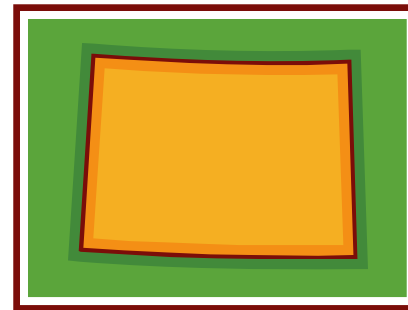
Partisanship and the Public Pension Debate

Effect of Various Factors on the Probability of Introducing a Defined Contribution Plan



Source: Munnell et al. (2008a)

State Case Studies





Interest Groups and Public Pensions

- **Public pensions were not on “radar” until moves into equities, growth of assets**
- **National and state-based interest groups (anti-tax, free market, and libertarian) advocating DB to DC switch**
- **Anti-DB interest groups have found an audience. However, their mixed record of success may indicate that they are talking past voters and legislators.**



Conclusions

- Challenges to public DBs do not appear to stem from well-established economic considerations, nor widespread public dissatisfaction
- Attempts to change public pensions has coincided with Republican political control, but partisanship is not the whole story
- Interest groups have been active force in public pension policymaking, with dismantling of DB plans a key part of their agenda



Questions Raised – Areas for Future Research

- Will Republican political leaders continue to favor DB to DC switches? Or, can fiscal moderates be swayed by the potential benefits DBs hold for taxpayers?
- Has influence of anti-DB interest groups reached a natural limit? Or, will these groups broaden political appeal of their messages?
- Will future changes in funding status inoculate pensions during upswings or make them vulnerable to attack in downturns? Or have we entered an era of permanent, partisan and interest group opposition to public sector DBs?
- Will education about the economics of public DBs targeted at policymakers and public help inoculate DB plans from partisan and interest group attacks?



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