POWRS

Protect Our Wisconsin Retirement Security

Debunking the Myths about WRS "Reform"

The Wisconsin Retirement System (WRS) is fully funded and independently rated one of the best public pension plans in America. Yet numerous right-wing think tanks are attacking it and some politicians want to "reform" it. They have suggested making participation voluntary and providing an optional defined contribution or 401(k) plan. Are these good ideas? Let's take a look.

Definition of Terms: In *defined contribution* (DC) plans, the employer is *only* responsible making contributions to the employee account. Employees must save enough to retire. DC plans provide no guaranteed retirement income and investment fees are born by individuals.

In a *defined benefit* (DB) plan, such as WRS, the employer is responsible for making their contribution AND for managing the retirement program to ensure sufficient funds to pay promised benefits. Risks are more evenly shared. Retirement benefits are guaranteed.

Myth 1: Individuals can manage their own retirement better

Fact: DC plans seldom provide sufficient income for a secure retirement. In 2010, a typical DC household had retirement account savings of only $120,000, far short of the $363,000 needed.

Fact: Research shows people do not have the knowledge or *time* to successfully manage their own retirement portfolio. People make investment mistakes such as not saving enough, taking withdrawals, misjudging risk, "chasing performance", and attempting to "time the market" for the highs or lows.

Myth 2: DB plans are old fashioned and lack the flexibility and portability needed by a today's mobile workforce

Fact: *Guaranteed* DB pensions underpin a secure retirement! Knowing a specific annuity is awaiting you provides comfort, security and freedom in retirement. There is nothing old fashioned about knowing you have a secure retirement future.

Fact: Quality DB plans, like WRS, are very flexible for a modern workforce and similar to DC plans without the downsides. WRS allows employees to make additional contributions during employment, retain full account value at the time of job change, receive annuities out-of-state, and invest in a market-based account, the Variable Fund, for those wanting higher performance (and risk). There is no flexibility problem with WRS!

Myth 3: DC plans like 401 (k)s make great retirement vehicles for a modern workforce.

Fact: In DC plans, the individual bears all of the burden of accumulating enough wealth for retirement along with *all of the risks and costs* of account management such as market volatility, currency changes, investment losses, inflation, and investment fees.

Fact: Account transaction fees and other charges in DC plans have a significant impact on total account performance. A 2011 study by Demos showed that households of two median-income earners will pay, on average, almost $155,000 in fees over 40 years. This is "lost money" for further investment gain.

Fact: The WRS pools risk, spreads out market volatility, and provides professional management. The WRS provides stable, dependable, guaranteed income to over 155,000 annuitants and does all this at half the cost of most DC plans.

Myth 4: Allowing employees to "opt out" of DB plans like the WRS is a great idea.

Fact: A 2010 study by AON Hewitt of 170,000 workers with 401(k)s who changed jobs found that 46% of them DID NOT re-invest their money in retirement . . they took the money and ran. When given access to money, too many people live for the moment and do not consider their retirement future, exposing themselves and their families to great insecurity down-the-road.

Fact: DB benefit systems are built around a delicate balance of new money coming in as money is being paid out to retirees. "Opt-out" provisions weakens the system for everyone by reducing revenue and shifting actuarial burdens.

Fact: The WRS offers employees high security and performance, averaging 10.4% per year over the past 25 years in the Core Fund. "Staying in" is the best strategy for a secure retirement future.

Myth 5: The WRS is under-funded and will not be able to pay future annuitants as promised

Fact: All accepted accounting studies of the ETF have found that "your money will be there" as it has remained in the 97% fully-funded range for years. Even when newer standards have been applied through **t**he General Accountability Standards Board (GASB), it was 93% funded. WRS has NEVER failed to meet any obligation nor required any taxpayer bailout.

Fact: In order for the WRS to meet its annual financial obligations, ETF normally sets Core Fund performance goals in the 7% range. Given the size and diversity of ETF investments and its investment experience, all independent analysts believe 7% is both reasonable and attainable in today's markets.

Bottom Line: DC plans and retirement savings accounts are good tools for *supplemental* retirement savings. When combined with Social Security and a DB employer pension, they provide a good retirement program. But DC plans do not make good, stable, retirement pensions by themselves.

Your WRS account belongs to you. It is not "taxpayer money". It is *earned compensation* that has been deferred for your retirement.

If it isn't broken…don't fix it!

Sources:

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This publication was developed by Protect Our Wisconsin Retirement Security (POWRS). POWRS is a statewide working group of activist public retirees who advocate for protecting the WI Retirement System and secure retirements for everyone. To contact POWRS or find other publications: go to: www.powrs.org.

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