

# KNOW YOUR RETIREMENT: TRSL Q&A

## What is TRSL?

TRSL is a defined benefit (DB) retirement plan. TRSL is a pooled retirement plan that offers a predictable defined monthly benefit to retired employees. A DB retirement from TRSL provides a steady income stream that is guaranteed for the remainder of the retiree's life. DB plans are the primary retirement benefit for the vast majority of K-12 public school teachers, education support professionals and other public employees.

## How are retirement benefits earned?

In a DB retirement plan like TRSL, coverage is universal; all eligible employees are automatically enrolled in the retirement plan. The amount of monthly income each employee receives is based on the employee's years of service, the employee's final average salary and a fixed multiplier that is determined by the plan. For example, under this design the plan may provide a benefit multiplier of 2.0% of pay. If an employee works for 30 years and has a final average salary of \$40,000, this employee's annual retirement income will be \$24,000 ( $40,000 \times 30 \times 2.0$ ), which translates into a retirement income of \$2,000 per month.

## How is TRSL funded?

TRSL is funded by employer contributions and contributions from employees themselves. The TRSL defined benefit plan has the advantage because investment earnings do much of the work in paying for benefits. The contributions made on behalf of current workers are invested and these investment earnings compound over time. Earnings on investments have historically made up the bulk of retirement fund receipts. Between 1993 and 2007, 10.3% of total state and local retirement fund receipts came from employee contributions, 19.4% from employer contributions and 70.4% from investment earnings. [Source: U.S. Census Bureau. 2009. *State and Local Government Employee-Retirement Systems*. Washington, DC: U.S. Census Bureau.]

## How are investment decisions made?

Trustees who have a fiduciary duty to ensure that the retirement fund is operating in the best interest of workers and retirees oversee the TRSL retirement plan. These trustees hire professional asset managers to steer the investment of these funds. TRSL has been recognized for its high-value, low-cost

investment program and its cost-effective retirement administration.

## Why do retirements matter to employees?

Specific characteristics of DB retirement plans make them effective in supporting retirement security. Specifically, the guaranteed lifetime income is one of the most appealing characteristics of DB plans for employees. DB retirement plans also provide ancillary benefits, such as spousal protections and disability benefits. Retirement experts have long acknowledged the importance of the so-called "three-legged stool" to provide Americans with financial security in retirement, Social Security benefits, DB retirement income and supplemental individual savings. [In Louisiana, where educators do not participate in Social Security, the retirement benefit must take the place of two legs of the stool.](#)

## Are retirements an effective recruitment and retention tool?

The TRSL retirement plan is an effective and important retention tool. Retirements are a proven tool for recruiting and retaining highly effective young professionals in our schools and classrooms. DB retirement plans represent the most efficient way for younger workers to save for retirement. A 2008 MetLife survey found that 72% of employees cite retirement benefits as an important factor in their loyalty to their employer. Among employers, a 2004 survey found that 84% of DB plan sponsors believe that their retirement plan has a positive impact on employee retention.

## Why do retirements matter to taxpayers?

All American taxpayers have an interest in making certain that all workers can retire with an adequate income. DB retirement plans also help government employers recruit and retain a qualified workforce that provides essential public services. Compared with other types of retirement benefits, DB retirement plans are the most economically efficient use of taxpayer funds. The most current research indicates that a DB retirement plan can provide the same retirement benefit at half the cost of an individual defined contribution plan. In addition, public sector employees' contributions and investment returns have historically paid for about 80% of retirement benefits, with taxpayers covering only a small portion of the cost.

## Are retirements more economically efficient than defined contribution plans?

Yes. A recent analysis of the cost to achieve a target retirement benefit under both a DB plan and defined contribution (DC) structure found that a DB plan costs half as much as the DC plan. In other words, the cost to deliver the same retirement income to a group of employees is 46% lower in the DB plan than in the DC plan. The reason for such cost savings is threefold. First, because DB plans pool the longevity risks of large numbers of individuals, they need to only accumulate enough funds to provide benefits for the average life expectancy of the group. Second, DB plans take advantage of the enhanced investment returns that come from a balanced portfolio over long periods of time. Third, DB plans achieve greater investment returns than DC plans.

## Are there any other reasons why Defined Benefit (DB) plans might be a good deal for taxpayers?

Yes. DB retirement plans also save governments money in reducing citizens' need to rely on public assistance. A recent study finds that DB retirements have been instrumental at keeping elder Americans out of poverty. When fewer households experience poverty and financial hardship, the government saves money at all levels because fewer dollars of public assistance are needed. The report calculates a savings of some \$7.3 billion in public assistance expenditures in 2006 attributable to receipt of retirement income. In the absence of DB retirements, spending on public assistance for the elderly would be about 40% higher.

## What is the macroeconomic effect of expenditures from DB retirement income?

The economic impact of DB retirements reaches well beyond the retirees who receive retirement checks. Retirement income has a broad economic impact both nationally and on the local level. In 2006, spending from public retirement payments supported more than 2.5 million American jobs that paid more than \$92 billion in total compensation. Retirement spending also supported more than \$358 billion in total economic output nationwide and more than \$57 billion in federal, state and local tax revenue. State and local retirements also have large multiplier effects. Each dollar paid out in retirement benefits generates \$2.36 in total economic activity, and every dollar contributed by taxpayers to state and local retirement funds generates \$11.45 in economic activity.