

# YOUR RETIREMENT: WHAT KIND OF PENSION PLAN IS BETTER FOR EDUCATORS?

Just before the end of the 2010 Louisiana Legislative Session, a joint House and Senate Retirement Committee was formed under a committee resolution. The joint committee was charged with studying the issue of converting state retirement plans for future employees from a defined-benefit pension plan to a defined contribution plan.

What's the difference? The **defined benefit pension plan** is what public school employees in Louisiana have through the Teachers' Retirement System of Louisiana (TRSL). It provides a formula (currently around 2.5% times the average of your highest three years of salary, times the number of years you worked) to determine your retirement annuity. A person who works 30 years will retire with a pension of about 70% of their salary.

TRSL receives retirement contributions from employees, the state and school districts. It hires experts to manage its investment portfolio. These managers grow the funds, which provide the necessary revenue for monthly annuity checks.

Most important is the obligation of the Louisiana House and Senate to make required state contributions to the fund. In years past the Legislature has not kept up its obligation, thus putting the fund at risk.

When a slump occurs in the stock market, like the one most recently in 2008-2009, the system still receives funds from employees, the state and school districts. It has ample money to continue paying benefits until the market rebounds, which has happened in the past and is currently happening now. Since most public school employees do not have access to Social Security and do not get automatic cost-of-living adjustments, the defined benefit plan provides them the security of a guaranteed retirement.

The **defined contribution plan**, which is used by many private businesses to supplement the defined benefit Social Security income private employees will also receive, provides that during an employee's working career, he/she will contribute a percentage of salary

and the employer will contribute a percentage of salary to a tax deferred retirement account.

At retirement, the employer has no further obligation to the employee. The employee has a "nest-egg" accrued over the years and as a retiree, has to assume the total responsibility of managing or paying someone to manage that account for the rest of his/her life.

As the reader can ascertain, a defined contribution plan is an advantage for the state, not the public employee.

The last decade is a classic example of the vagaries of the stock market. People with defined contribution accounts (401(k), etc.) did very well during the mid to late 1990's, when the stock market was yielding double-digit returns almost every year. When the most recent slump hit, many of those 401(k) accounts began to look more like 201(k) accounts. Many people lost 30%, 40% and even 50% or more of their retirement savings in just a few months.

The core issues in the defined benefit vs. defined contribution discussion are deciding what the primary purpose of a retirement system is and who is best qualified to fulfill that purpose. LAE believes a retirement system ought to reward the career education employee who has served this state for 25, 30 or 40+ years. (Yes, there are still people working in our schools for 40 plus years.) Since this is the only retirement fund available to most educators, LAE feels the investment experts at TRSL can garner a better return on funds in the stock market than each of the 88,000 employees and 62,000 retirees and beneficiaries could do individually.

Public employee pension checks represent a vital, continuous source of spending in every city and community across Louisiana. Spending by retirees provides stability to national, state and local economies, especially during tough economic times. Research shows that public employee retirees pump \$358 billion into local economies and help to create 2.5 million jobs.

Therefore, LAE will continue to support the defined benefit system for educational retirees in Louisiana. Rather than change a system that has worked well for the last 70 years, LAE will be working with the Legislature to improve that defined benefit system. We will recommend more sensible and solid solutions to the current defined benefit system which will continue to create a sustainable retirement annuity for Louisiana's educational retirees.

## ATTENTION LAE DELEGATES!

*We will be conducting regional meetings on the following dates at the locations listed below. Please make every effort to attend these important meetings!*

February 15 - LSU-A - Live Oaks Conference Center, Bayou Roberts' Room, Alexandria

February 16 - Houma - Holiday Inn, 1800 MLK Blvd, Houma

March 10 - Bossier - Horseshoe Casino, Orleans Room, 711 Horseshoe Blvd, Bossier City

March 15 - Lafayette - Lafayette Hilton, 1101 West Pinhook Rd, Lafayette

March 22 - Monroe - Holiday Inn - 1051 US Highway 165, Monroe

March 23 - Belle Chase - Lil G's Kajan Restaurant - 9338 Hwy 23, Belle Chase

March 28 - Lake Charles - Isle of Capri - 100 Westlake Ave, Westlake

March 29 - Baton Rouge - Marriott - 5500 Hilton Ave, Baton Rouge

*Pre-RA regional conferences will take place from 4:00 PM - 5:00 PM.*

*Legislative/Membership meetings will take place from 5:15 PM - 7:00 PM.*