From: Adrian Moore
Sent: 12/8/2015 12:05:56 PM
To: Haley, Nikki
Cc:
Subject: Reason Pension Reform Newsletter December 2015

To view this email as a web page, go here. <http://click.email.reason.org/?qs=b52ca77ce3d5cfc54cff8b591861c3f27bc3f2609f1230b67d8d38ab6eca051aed9ae1e28dd3b40a>

<http://image.email.reason.org/lib/fef61d71776302/m/1/ReasonPensionReformNewsletterheaderOct2013.jpg>

<http://image.email.reason.org/lib/ffcf14/m/1/spacer.gif>
<http://image.email.reason.org/lib/ffcf14/m/1/spacer.gif>

Issue No. 23 - December 2015
Reason Foundation

This newsletter highlights articles, research, opinion, and other information related to public pension problems and reform efforts across the nation. It is a product of Reason's Pension Integrity Project. To find previous editions, please visit http://reason.org/newsletters/pensionreform/.

In This Issue...

Articles, Research & Spotlights

- How Much Do Schools Really Pay?
- Public vs. Private Sector Compensation in Connecticut
- Defined Benefit vs. Defined Contribution Plans - Which Is Better at Achieving Successful Retirement?
- Houston Facing Pension Crisis
- An Analysis of Public Pension Investments in Hedge Funds
- New Database of California Public Pensions

Quotable Quotes on Pension Reform

Pension Reform Handbook

Contact the Pension Reform Help Desk

Articles, Research & Spotlights

How Much Do Schools Really Pay?

By Truong Bui, Reason Foundation

A number of research studies show that teacher salary is not systematically related to teacher quality. A teacher's salary is directly to linked to classroom experience; however, the benefits of classroom experience on teacher performance level off after five to seven years.

This means the teacher's experience is a better indicator of the teacher's salary than the teacher's productivity.

Salary alone, however, does not tell the whole story. A recent paper <http://click.email.reason.org/?qs=b52ca77ce3d5cfc5eb31468a9748e985c62238c61ff84b1e82466e8f5173491e4649e43d8f8e09ec>by the Manhattan Institute, based on an analysis of the 10 largest US public school districts, finds that including pension benefits in the total compensation calculation further increases the premium paid to highly experienced teachers. Because of the "backloaded" structure of these districts' pension plans, long-tenured teachers who remain in the same school district throughout their entire careers accumulate substantially larger benefits than their shorter-tenured counterparts.

The paper also finds that switching to a cash-balance plan that maintains the same level of total compensation would smooth retirement benefits and bring about a compensation structure more in line with teacher quality.

To read the full paper, go here <http://click.email.reason.org/?qs=b52ca77ce3d5cfc5e21524b4d5c4c26fffbed2a4a4eda584208d57bbaba1f7b14fd9a6b47a000bfe>.

» Return to Top

Public vs. Private Sector Compensation in Connecticut

By Truong Bui, Reason Foundation

Connecticut has one of the worst government debt-to-state GDP ratios, as well as one of nation's most poorly funded pension plans. Despite large tax increases since 2011, the state's funding woes are growing thanks in large part to ample public pensions and health programs.

Generous public pension benefits are often justified on the grounds that public sector employees receive lower salaries than private sector employees. However, new research from <http://click.email.reason.org/?qs=b52ca77ce3d5cfc5a4e0bdfcafa09923b8fa803a80cb36e6ea2ee9f6557e587fc

5690d55dcae3d04> Andrew Biggs at the Yankee Institute shows that state employees in Connecticut not only earn comparable salaries to similarly qualified private-sector workers, but also receive significantly greater benefits.

After controlling for education, experience, and other factors, the study finds that the average Connecticut state employee earns between $125,531 and $146,611 in total compensation that includes both salaries and benefits, compared with $96,177 received by an equivalent private worker. If state employees were compensated at market levels, the state would save between $1.4 billion and $2.5 billion in annual compensation costs.

To read the paper, go here <http://click.email.reason.org/?qs=b52ca77ce3d5cfc585179c42961b7409929f3068d23b85cf25ab07d25b6f68522583e4c67d2b0096>.

» Return to Top

Defined Benefit vs. Defined Contribution Plans - Which Is Better at Achieving Successful Retirement?

By Truong Bui, Reason Foundation

Defined contribution (DC) plans are often perceived to be less effective than defined benefit (DB) plans at delivering retirement security, but recent research challenges this view. For example, a new study <http://click.email.reason.org/?qs=b52ca77ce3d5cfc5fdc44112879b3999deb826df5960ce33e8abfa0c12e6c4d2e9e0d917f14b63ea> by the Center for Retirement Research at Boston College finds that the private sector's shift to DC plans since the early 1980s has not led to lower overall retirement wealth.

A recent study <http://click.email.reason.org/?qs=b52ca77ce3d5cfc58b01e89c770e250734d35a6d1522871cd6dd21719d142259a9f7988f54f53e34>from the Employee Benefit Research Institute examines the issue from another perspective. Rather than looking at aggregate retirement wealth only, the study analyzes how different income groups can achieve "successful" retirement (defined as achieving above certain income replacement rates) under DC plans versus DB plans. The analysis is based on simulating the percentage of "successful" retirements by income quartile for workers of age 25-29 who will have more than 30 years of simulated eligibility for participation in a DC plan.

The study finds that, under base-line assumptions, DB plans have a higher probability of achieving a 60 percent replacement rate than DC plans for workers in the first three income quartiles. However, at the 70 percent replacement rate, workers in the third and fourth income quartiles have a much higher chance of success with DC plans than with DB plans. And when the replacement rate is raised to 80 percent, DC plans deliver a significantly higher probability of success than DB plans for all income quartiles except for the lowest one, where the results are nearly even.

» Return to Top

Houston Facing Pension Crisis

By Truong Bui, Reason Foundation

In this report <http://click.email.reason.org/?qs=b52ca77ce3d5cfc5411e05cbc87c409a641aebf2b26a669d46532e10d9f61053944d2a7af3dbadd7>, Josh McGee and Michelle Welch of the Arnold Foundation reveal a bleak picture of Houston's pension systems. The city's three major pension plans are unfunded by at least $3.1 billion, which is $1 billion more than the city's total general fund revenue. As a whole, Houston's pensions are only 75 percent funded.

Several factors contribute to the pension problem. The most important factor is the city's failure to fully pay the Annual Required Contribution each year since 2006. Additionally, its pension systems adopt optimistic investment return assumptions that are among highest in the nation, ranging from 8 to 8.5 percent. The report finds that lowering the assumed rate of return to 7 percent would drop the plans' funded ratio from the current 75 percent to 63 percent and would nearly double the unfunded liability. This also means that pension debt, and consequently contributions, will likely increase substantially in the future when actual investment returns fall short of the plans' unrealistic assumptions.

The report warns that Houston may follow in the footsteps of Chicago unless it acts soon to contain its pension debt. Possible actions include negotiating changes directly with workers, fully funding the pension systems, paying off the pension debt in 20 years or less, revaluating risky assumptions, and improving accountability and transparency.

To read the full report, go here <http://click.email.reason.org/?qs=b52ca77ce3d5cfc5700bbe2ba04ca542fc361d907716da4c5a32c9b11bb10974218ff863904350d7>.

» Return to Top

An Analysis of Public Pension Investments in Hedge Funds

By Truong Bui, Reason Foundation

Despite the long-term decline in interest rates <http://click.email.reason.org/?qs=b52ca77ce3d5cfc57a77f95f9a98f560f69bbf2e2fd5c4d4fb3132475343c6f6eb67602335877902>, most public pension plans adopt similar assumed rates of