Facts, Myths and Outright Lies About Retirement Plans

***Lie**: Shifting new-hires to individual risk accounts* will save the state money and help with the budget crisis.*

Fact: Individual risk accounts will not save the state *any* money because they cost *more* to manage. Operational expenses and investment fees are higher.

- Creating a second retirement system would not only generate higher start up costs but over time would actually drive up costs of the current secure plan.
- Your basic, secure retirement plan** costs an average of 18 cents to manage for every $100 invested.
- Individual risk accounts cost an average of $1.35 to manage for every $100 invested.
- As younger employees are forced into the new plan, the current system would lose money and have fewer assets to invest for retirement.

*Individual risk accounts are known as "defined contribution" plans. Your monthly retirement would depend on how well you invest and the ups and downs of the stock market.

** Your secure retirement plan is known as a "defined benefit" plan. Your monthly retirement is fixed and based on your salary and years of service.

***Myth**: Individual risk accounts can earn more than your secure retirement plan.*

Fact: Secure (defined benefit) retirement plans outperform risk accounts (defined contribution) according to several studies.

- Individual risk accounts, just as the name implies, place 100% of the risk of investing on each individual worker.
- Research by **Dalbar**, a Boston investment firm found that from 1984-2000, the average individual stock investor had a 5% annual return compared to an average 9.38% return in our CalPERS secure plan.
- In Nebraska, a 2000 study found that over 20 years, workers with individual risk accounts had average returns of 6-7% on their investment compared to 11% returns for the secure retirement plans. Nebraska switched back to its secure retirement plan like we have in California.

***Myth**: Public Employees have exorbitant pensions and should give up some of that money to help the state with the budget crisis.*

Fact: The average public employee who devotes 20 years to public service retires with less than $20,000/year according to CalPERS. That's far from exorbitant and well within the national average.

- Breaking up the retirement system into two plans will *increase* costs, not save the state any money.
- Currently, CalPERS invests $19.4 billion into the California economy. Weakening this secure retirement system will have a negative effect on our economy and exacerbate the state budget crisis.

***Lie**: Most private sector employers have changed to individual risk accounts such as 401K plans and public employees should do the same.*

Fact: The majority of large private sector companies have a defined benefit plan similar to the one managed by CalPERS. According to the **Employee Benefits Research Institute**, over the last 20 years, the number of large employers offering a defined benefit plan as their primary retirement vehicle has increased.

- Only 17% of Fortune 100 companies have an individual risk account or 401k style plan as their primary plan.
- Individual risk accounts cost more to manage, many employees do not utilize the investment options that bring the greatest returns, operational expenses are higher, and they do not include disability and death benefits for family members.
- Experts agree that individual risk accounts or 401k style plans would not provide adequate retirement benefits for California workers and that adopting such plans could hurt the state's ability to recruit and retain qualified employees.
- Secure retirement plans help the state retain and recruit highly skilled workers such as nurses, doctors, and technology workers where there are labor shortages.

***Myth**: Public employee pension funds are in trouble and taxpayers will just have to bail them out if we don't fix them now. That's what's happening now in San Diego.*

Fact: There are almost 40 public pension funds in California and almost every single one is in very healthy condition. Some plans are under funded (as in San Diego) because employers have not made their required contributions.

- The fact is that when the market turned downward, secure retirement plans outperformed risk account type plans according to studies done by the investment firm of **Watson Wyatt Worldwide.**
- The San Diego City Council has ordered a review of the city's books – but according to a review by a pension reform committee there, the shortfalls in San Diego are primarily the result of the city reducing its pension contributions in recent years.
- Taxpayers pay less of the cost of our current retirement plan today than in the early 1980's. However, under a new risk account type plan, taxpayers could pay much more. Workers leaving public service and taking money out of CalPERS drains the fund leaving taxpayers with the obligation to fund it.

***Lie:** Social Security wastes money. We should take money out of the Social Security system so workers can invest their own money in individual risk accounts.*

Fact: Exactly the opposite is true. The Social Security system costs far less to operate than private investment funds. However, the powerful financial industry would love to get their hands on the billions of dollars in the Social Security system.

- Administrative costs for Social Security are less than 1% of benefits compared to average costs of 12-14% for individual risk accounts. **(Century Foundation)**