# Impact of Eliminating the Defined Benefit Plan

## Key talking points

Issue: The OPERS fund is at risk of having its members involuntarily moved from their choice of the defined benefit fund into the defined contribution fund.

- The OPERS defined benefit fund has a positive impact on Ohio. More than 90 percent of OPERS retirees remain in Ohio, spending more than $5 billion in benefits here every year. The defined benefit fund provides lifetime security to these retirees in the form of a reliable income stream. The retirees cannot outlive this benefit, while monies in many defined contribution funds (such as 401(k) funds) can be outlived.

- Defined contribution funds cost more to manage than defined benefit funds, says the National Institute for Retirement Security. In its 2008 study titled "A Better Bang for the Buck," the institute found that the cost to deliver the same level of retirement income to a group of employees is 46 percent lower in a defined-benefit plan than in a defined-contribution plan. This discrepancy is because of three factors:

    - DB plans are better at managing members' longevity risk, or the risk of running out of money, because they pool the retirement funds of thousands of people. This leads to 15 percent cost savings.
    - DB plans have an investment time horizon that outlives the individual members, so they are not susceptible to lower, more conservative returns typical of DC plans as their owners approach retirement. This saves 5 percent.
    - DB plans are professionally managed and thus achieve higher returns than DC plans made up of individual accounts. This saves 26 percent.

- Switching all OPERS members into a defined-contribution plan would immediately change our accounting rules and could double our current pension liability. It would be the same as a lender requiring that an entire mortgage balance be paid immediately when the holder still has nearly 30 years on the contract.

- This change in the terms of the pension liability increases the likelihood of a taxpayer bailout of public pensions, because employers suddenly would be faced with enormous bills.

- Only 33 percent of OPERS members make it to the 30 years of full pension benefits.

- By providing only a portable retirement benefit (such as a 401(k) or 457 plan) government and education employers run the risk that highly-trained employees will be willing to leave their positions for opportunities in the private sector. The result will be much higher turnover in public work places. There will be less loyalty from senior employees, fewer experienced employees and educators, and a more transitory workforce. Also, there will be little "institutional memory."