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\$275-\$610 MILLION BILLED TO TAXPAYERS FOR NEW PENSION PROPOSAL

Switching to a defined contribution plan will be a lose-lose for public employees.

Some state legislators want to change Illinois' current defined benefit system to a defined contribution system that will cost more to implement and produce lower benefits. Estimates of that change alone will cost taxpayers \$275-\$610 million per year (in administrative costs) if all current participants in the five Illinois state pension systems are covered by this change.

"Illinois taxpayers will pay dearly if this benefit switch is allowed to take place," said Director of the Illinois Retirement Security Initiative Bukola Bello. "Good public policy does not burden taxpayers with unnecessary expenditures."

Under the current defined benefit system a public employees' retirement benefits are primarily funded by investment income and their own contributions. Defined benefit plans pay employees a set monthly retirement amount based on their final salary. Some even include annual cost of living increases. Irrespective of market fluctuations or other big economic trends retired workers know the amount of income they will have to live on.

There is absolutely no retirement security in a defined contribution plan. The worker and employer simply make pre-established contributions for an account and whatever is left in that account when the employee retires is the benefit he or she will live on.

The most common form of a defined contribution plan is the 401k. The obvious pitfall is that all risk is shifted to the employee. Not saving enough, making poor investment choices, outliving savings or market crashes - like the one we are experiencing - usually result in woefully inadequate amounts to live during retirement. Individuals who often do not have the time, inclination or ability to manage these assets, are forced to continue employment even to the detriment of public policy goals. Furthermore, Illinois' public employees do not receive Social Security benefits - their pensions are all they receive.

In fact, both Nebraska and West Virginia experimented with shifting from a defined benefit system to a defined contribution system and shifted back. The reason - simple. The investment management fees, record-keeping fees, educational programs and other administrative line items associated with a defined contribution system were substantially greater than the cost under the old defined benefit system. The failed defined

contribution system didn't provide enough income to live on and both Nebraska and West Virginia experienced former state employees having to go on welfare.

The National Institute for Retirement Security reviewed this issue and made a very clear finding, "for any given level of benefit, a defined benefit plan will cost less than a defined contribution plan. This makes defined benefit plans, in the language of economists, more efficient since they stretch taxpayer, employer and employee dollars further in achieving any given level of retirement income." Switching to a defined contribution plan from a defined benefit plan will not solve Illinois' public employee pension crisis or eliminate the \$54.4 billion current unfunded liability. It will, however, cost taxpayers more money and result in public employees having less to live on.

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If you would like more information about this topic, or to schedule an interview with Bukola Bello, please call 312-332-1103 or email Bukola at bbello@ctbaonline.org

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