Citizens Task Force #3 recommends that all Springfield Police and Fire Firefighters be enrolled in a defined benefits plan.

<u>Pros</u>

1) All other city employees participate in a DB plan (LAGERS). Switching to a DC plan would unfairly commit a single class of employees to additional risk.
2) Police and Fire members do not participate in any other DB plan such as Social Security.
3) Typically, public service employees accept lower wages in the public sector in exchange for a secure, DB retirement. Switching Police and Fire members to a strictly DC Plan will require higher incomes--similar to the private sector--in order to retain and recruit desirable Police and Fire employees.
4) DC plans are portable, enabling younger, healthier employees to seek other employment. This radically drives up training costs and creates gaps in service to citizens. DB plans encourage employees to remain with the city where their experience benefits citizens and younger colleagues. This saves money and helps keep the Police and Fire departments stable—DB plans positively impact the city's ability to recruit and retain quality employees.
5) Because DB pension plans contribute to stability in Police and Fire departments, they also impact the city's capacity to attract and retain desirable employers to the community. That can have a positive economic effect on the entire community.
6) Proponents claim that DC plans save employers money by shifting administrative costs to the employee. A DC plan can actually increase the employer's expense with mandatory education, additional record-keeping, and printed materials. The employer must keep records and make payments to the DC plan on behalf of employees who, individually, may make periodic changes. Administrative costs, then, can actually increase. In fact, in FY 2004, the median cost of public defined benefit plans was 0.3 % of assets while the median cost of defined contribution plans was 1.4%.*
7) DC plans do not cover disability benefits. The current Police & Fire Pension Fund does cover disability. Similarly, LAGERS will cover disability claims for future members. This coverage would still have to be provided with a high premium—if it can be found at all.
8) DC plans require individuals to manage their own plans. In spite of employers' efforts at education and guidance, public service DC participants often make disastrous investment decisions.** Many city employees lack experience, time, inclination, and resources for managing their accounts.*** DB plans provide oversight and accountability by professionals with a genuine long-term investment horizon, more resources, and greater expertise to make decisions. DB plans also have the advantage of a larger asset pool, creating opportunities not available to small investors. For all these reasons, typical DB plans create more earnings over the participant's lifetime than the typical DC plan (the exception to

this is a DC plan provided to highly sophisticate, highly paid executives—not rank and file employees).

9) DC plans allow cashing out funds at retirement, loans, and other forms of leakage. Also, market changes can severely reduce the income from a DC plan (which does not offer a COLA). Employees may outlive their DC nest eggs, while DB plans guarantee a lifetime income. One caveat is that retirees with insufficient coverage wind up on public assistance—the community can pay now with a DB plan or pay later in taxes.
10) Market timing—employees who retire in down markets have less income from their DC plan and may not be able to find supplementary employment at a time they most need additional income.
11) DC proponents claim that DB plans are passé and should go the way of the dinosaur. The truth is that many public employers who have tried to substitute their DB plans with DC plans report negative experiences. For example, Nebraska adopted a DC plan over 35 years ago. They report that ten years after retirement, long-term employees receive substantially less than their DB counterparts. DC plan costs increased due to management fees, record-keeping, education, and materials. Additionally, plan expenses for the DC plan were 30 basis points compared with the DB expenses of 15 basis points.****
12) The existing DB plan for Tier I employees and disabled employees must still be funded and managed, regardless of implementation of a DC-only plan or movement to LAGERS.
13) Springfield already offers a DC plan (401a and 457) to all employees (it is under-utilized). Many employees invest in these plans with varying degrees of success. This is sometimes referred to as the private investment leg of a three-legged stool. Generally, the other two legs are a Defined Benefit pension plan and Social Security. Whether Police and Fire members enroll in the current DB plan or in LAGERS they will still be left with only two legs of the stool. A DC plan will leave only one leg.

*_Teacher's Retirement System of the State of Illinois,_ 2009
Http://trs.illinois.gov/subsections/legislative/dbvsdc.ht.

**Flynn & Lum 2007, p. 7, "Patience is a Virtue," NIRS website.

***_i.e., this is like a consumer who needs car repair. Most people prefer to delegate that task to a licensed mechanic who has the knowledge, tools, resources, and time to do the job correctly._

****_A Report to the House of Representatives, 77th Texas Legislature_, House Committee on Pensions and Investments, Texas House of Representatives Interim Report, 2000
www.nasra.org/resources/Texas%20legislative%20study.pdf