

Pensions Are A Good Investment In Missouri

- About half of Americans age 55 and older have nothing saved for retirement. However, 20% of these have access to a defined benefit pension plan.
- Defined benefit pensions are the preferred retirement plan for state and local government employers.
- Defined benefit plans help government employers attract and retain good workers to serve the communities.
- Defined benefit plans are a good investment for Missouri as most pensioners remain in the state and spend their pension income within the community they served while working.

The U.S. Government Accountability Office (GAO) recently reported that about half of Americans age 55 and older have nothing saved for retirement. This is a dim statistic. However, the numbers get slightly better when you factor in defined benefit pension plans. Of the 48% of Americans age 55 and older with no retirement savings, 20% of the people in this group have access to a defined benefit pension plan. The good news here is that this group will at least have two of the three legs on the three-legged stool for a secure retirement. The two legs being a defined benefit pension and social security. The missing leg is personal savings.

A defined benefit pension plan is one where payments to a retiree are “defined” because they pay a pre-determined amount for a person’s remaining life after work. Individuals participating in the plan do not direct their own investments; rather, the funds in the plan are pooled together and invested in one portfolio that is managed by professionals. Returns from the investments are used to help pay for the benefits.

The GAO report doesn't specify, but it is a safe assumption that the majority of those reported as having access to a defined benefit pension plan are state and local government workers. While defined benefit pension plans are continuing to be phased out in the private sector, around 90% of state and local government workers in the U.S. still have access to these plans. There are 77 defined benefit pension plans covering over 600,000 public workers in Missouri. The majority of these plans are sponsored by municipalities. While each plan is unique, the public pensions in Missouri are financially sustainable as a whole with an average funded ratio of 82%.

Local governments choose defined benefit pensions over other types of retirement plans to attract and retain good workers to serve the taxpayers. They choose defined benefit pensions so that employees can leave the workforce with dignity when they're ready to retire. They choose defined benefit pensions because they know benefits will be there for workers that become disabled or pass away before reaching retirement. They understand

the importance of continuity of public services and how detrimental high turnover and low moral can be to communities. They choose defined benefit pensions to reduce uncertainty and promote stability.

Defined benefit plans are also a good investment for Missouri as most pensioners remain in the state and spend their pension income within the community they served while working. In fact, benefit payments from Missouri’s public pension plans totaled over \$5 billion in 2017!

Defined benefit pension plans are not a dying breed. In Missouri, these plans are alive and well in the public sector and continue to be a good investment for Missouri. 🍀

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