NASRA

MEMORANDUM

To: **NASRA Members and staff**

From: **NASRA Staff**

Date: **April 29, 2014**

Re: **Summary of Observations Regarding "Friends without Benefits," by Bellwether Education**

Bellwether Education, The Joyce Foundation, and teacherpensions.org recently published a paper, "Friends without Benefits," which claims that "poorly structured" policies governing retirement benefits for public school teachers create an inequitable distribution of retirement security outcomes: career teachers are heavily rewarded, and short-term teachers leave the profession with retirement savings that are disproportionately small relative to those with longer tenures. This memo summarizes the feedback we received from members, staff and public pension actuaries; this feedback is reflected in the following narrative and is presented verbatim in the appendices, including a helpful Myth vs. Fact analysis of the report.

A NASRA issue brief is in progress to provide a more comprehensive review of the various benefits provided in public retirement systems, benefits that are overlooked or omitted in this and other like papers issued recently. Also, NASRA is reaching out to the authors of the Bellwether report to share our concerns about their methodology and conclusions.

Background

According to its website, "Bellwether is a national nonprofit dedicated to helping education organizations – in the public, private, and nonprofit sectors – become more effective in their work and achieve dramatic results for students."

NASRA appreciates the authors' interest in retirement benefits for public school teachers, and we recognize that changes to retirement plan design or financing may be necessary to ensure the sustainability of public retirement plans, and to meet various stakeholder objectives, including promoting the retirement security of public school teachers. This report, however, has key shortcomings that limit the value of its findings.

For example, the basis of the report is that a young teacher must have an uninterrupted career under the same pension plan until they qualify for a normal (unreduced) retirement benefit, and that the sole alternative is to receive no benefit. In fact, as described below, many public school teachers have different work patterns that allow them to qualify for a full, reduced or alternative type of benefit. Also, the authors' own data belies the report's emphasis on the effects of vesting on qualifying for a retirement benefit. Finally, the authors employ various assumptions and methods incorrectly, leading to flawed conclusions and outcomes.

Normal Retirement Benefits Are Not the Only Benefits

The report's findings are premised on the assumption that the only way public school teachers receive a benefit from their retirement plan is to be in a position covered by the same pension plan until they attain normal retirement eligibility, i.e., to work continuously until they reach a

required age or number of years of service, or both. Yet retirement plans for public school teachers offer a range of benefits other than normal (unreduced) retirement benefits. Listed below are some of the ways a retired teacher can receive a benefit from their pension plan without having an uninterrupted career or reaching normal retirement age:

- Attain eligibility for an early retirement benefit
- Receive a disability benefit
- Qualify for a vested deferred benefit (sometimes with interest)
- Terminating teachers in every state are eligible to receive at least their own contributions made to their retirement plan
- In many states (as the report states), terminating teachers are eligible to receive a portion of their employer's contributions
- Also in many states (as the report states), terminating teachers are eligible to receive their own contributions plus interest or earnings applied to their contributions, plus employer contributions for which they are eligible
- Surviving family members of deceased teachers typically qualify for a survivor's benefit
- Teachers who withdraw and continue public employment elsewhere typically may transfer or purchase their prior service to their new retirement plan
- Teachers who terminate may return to employment with the same employer, enabling the returning teacher to re-start accrual of retirement service credit or to purchase service credit forfeited upon termination.
- Many states offer reciprocity agreements between plans, usually within the same state, for those who terminate and are later employed by a different employer

Methodology and Assumptions

The basis of the report's analysis is "assumptions for twenty-five-year-old female teachers who begin their teaching experience after August 1, 2013." The authors use actuarial assumptions pertaining to retirement system funding to extrapolate the statistical likelihood that teachers will receive a normal retirement benefit. This method, however, ignores the following key facts:

- Some teachers who withdraw will later return; typically, these teachers may purchase their forfeited service, or they may leave their service (and contributions) with the pension plan and begin accruing service credit that adds to their previous service.
- Anecdotal evidence suggests that many new school teachers are older than age 25 and are more likely to stay on the job longer than younger entrants. The report does not consider this group or possibility.
- Teachers in many states participate in a pension plan that also includes other worker groups, such as state employees. In such cases, actuarial assumptions for withdrawal rates are combined with other worker groups. Yet "Friends without Benefits" seems to apply the same rates for teachers and non-teachers alike, an assumption that may work for purposes of pension funding analysis, but that may not work for assessing the role of the pension plan design in affecting teacher behavior and retirement security.

The report also fails to acknowledge the manifold factors beyond the retirement plan design that play a role in retirement security and teacher turnover. These factors include salary, working

conditions, the condition of the economy and other employment opportunities, the presence or absence of Social Security, the level of the retirement benefit itself, and others.

In addition, the report suggests defined benefit plans are blind to teacher effectiveness; in fact, this is true for all retirement plan designs. For both the public and private sectors, however, traditional plans historically have been a more effective tool for workforce management, which is not recognized by the authors.

Vesting

One of the report's overarching messages is that vesting periods serve as an impediment to teachers' retirement security. Although valid policy reasons exist for concerns regarding longer vesting periods, the report's own findings actually show little correlation between higher vesting periods and lower rates of teachers attaining a normal retirement benefit under their plan.

The report contains a chart plotting vesting periods for teacher pension plans in 50 states and criticizes the lengthening of vesting periods the authors claim have been made in 12 states in recent years. The report's Figure 2 lists vesting periods for the pension plan in each state in which the teacher participates, and the percentage of teachers reaching normal retirement age.

A calculation of the correlation between these factors reveals a very weak relationship between the length of the vesting period and the percentage of teachers who attain normal retirement age.

This weak relationship is exemplified by the example of two states cited in the report: Arizona and Rhode Island. Teachers vest immediately in Arizona. Yet, according to the study, less than 10 percent of the measured group reaches normal retirement eligibility, a rate that is among the lowest in the report. The reverse is true in Rhode Island, which has a 10-year vesting period, which, with others, is the longest vesting period among states. Yet, nearly one-half of teachers in Rhode Island qualify for a normal retirement benefit, a rate of NRA attainment five times that of Arizona, which has a far shorter vesting period.

The report also is silent on the fact that vesting is a standard feature of most retirement plans in both the public and private sectors, in both defined benefit and defined contribution plans. Vesting is one of many human resource tools aimed, among other objectives, at promoting the ability of employers to receive a return on the investment made in hiring and training a new worker.

The weak relationship between vesting period and the percentage of participants reaching normal retirement age, and the wide disparity of outcomes in the percentage of those who qualify for a normal retirement benefit (from less than 2.0 percent to nearly 50 percent) suggest there are other, more pertinent factors driving teachers' decision to stay on the job long enough to qualify for a normal retirement benefit. Such factors might include salary and other benefits; working conditions; the economy and other job opportunities; and others.

Conclusion

Valid reasons exist to analyze public policy as it relates to the role of retirement plan design and teacher retirement security. Yet "Friends without Benefits" does not provide a full or fair assessment of the manifold types of pension benefits available to public school teachers. A study that takes into account the observations described above and in this memo's appendices would be more helpful in revealing the range of policies in place and that best serve varying work patterns of public school teachers.

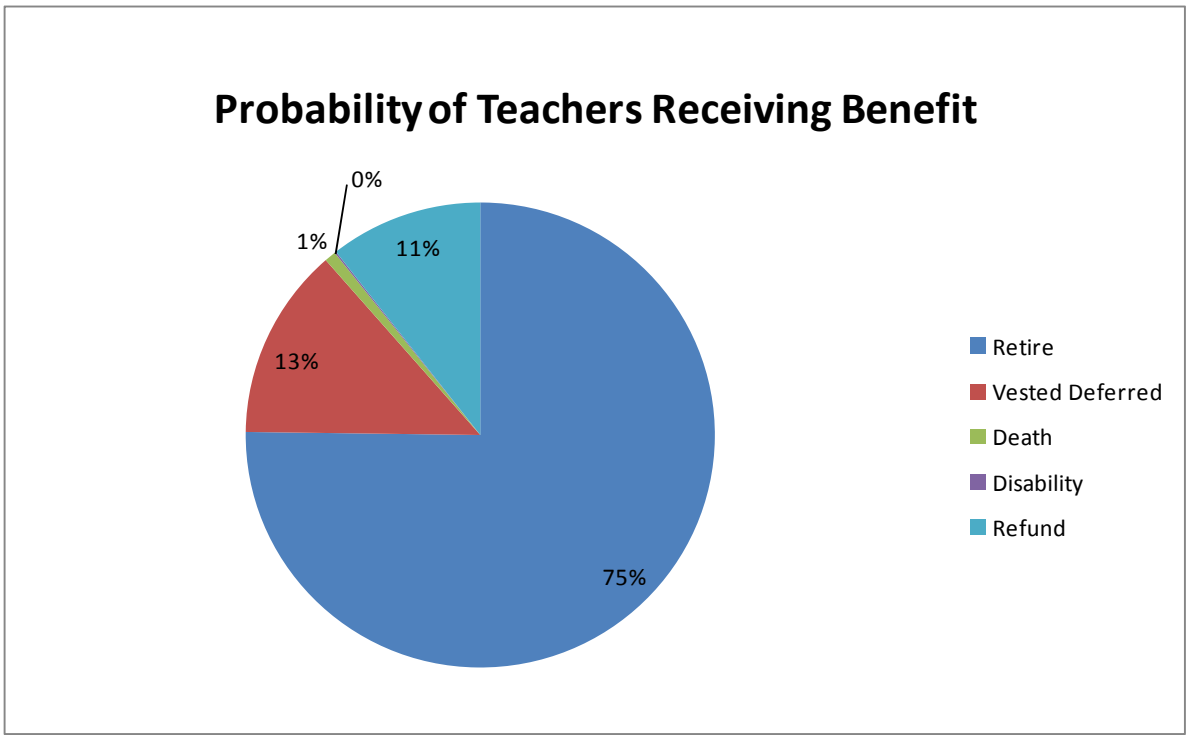
Appendix A: Comments from public pension actuaries

Paul Zorn and David Kausch, Gabriel, Roeder, Smith & Co.

Myth 1: Many teachers will never meet their vesting requirements

Response: A key claim made by the report is that current teacher pension systems result in a "small group of winners" and "many teachers will never meet their vesting requirements." It argues that because some teacher retirement systems have vesting periods of more than 5 years, the vast majority of teachers will not benefit from their retirement plans.

However, using the report's own information, about 60% of teacher plans have vesting periods of 5 years or fewer, consistent with most private sector defined benefit plans. In most cases, the majority of current teachers participating in public defined benefit plans are expected to vest and a large majority of those that vest are expected to retire from the plan. The following chart, based on actuarial data from a real teachers plan, indicates a 75% probability that the teachers currently in the plan will receive a retirement benefit. As a result, the report's analysis does not reflect the whole picture.



Myth 2: Many state systems have put in place penalties for mobility that can amount to hundreds of thousands of dollars in lost pension wealth.

Response: According to the report, teacher plans in 8 states (16% of the total) refund contributions to terminating employees without interest, effectively providing the plan with interest free loans. However, the report also notes that 43 state teacher plans (84% of the total) pay interest on employee contributions. Moreover, 7 of these plans also pay some portion of the employer's contribution. Although not mentioned in the report, the interest on the contributions varies, but is often around 5%-6% (more than twice the average 2.3% rate on 5-year bank CDs over the last decade). In addition, for employees early on in their careers, the return of member contributions with interest can be more valuable than the deferred annuity under the plan.

Myth 3: A teacher who splits a thirty-year career between two pension plans would accumulate between 41 and 74 percent less in pension wealth, depending on the state, than a peer with the same longevity in only one pension plan.

Response: A teacher who splits a thirty-year career between two districts within a state participating in the same cost-sharing plan would receive the same benefit as a peer with the same longevity in one district. Many teacher plans are cost-sharing plans.

Myth 4: If you asked teachers how many years of experience they had, the most common answer would have been one year, followed by two years.

Response: The report argues that if you asked teachers how many years of experience they had in 1988, the most common answer would have been fourteen or fifteen years. As a result, state retirement systems that favored longevity suited a large portion of the workforce. However, if you ask current teachers the same question, the most common answer would be one year, followed by two years. As a result, the report claims that state retirement systems favoring longevity are no longer suited for the teacher workforce. However, it should be noted that the average current service for teachers participating in most statewide retirement systems is in the range of 10-15 years, not 1-2 years.

Myth 5: Defined benefit formulas rely on age and years of experience, and are blind to teacher effectiveness.

Response: Cash balance plans and defined contribution plans are also blind to teacher effectiveness. Teacher effectiveness is a separate question from retirement benefits. Defined benefit plans have historically been more effective for attracting and retaining teachers and also may be more effective in workforce management through early retirement incentives than cash balance plans or defined contributions. Florida is a good example, where by the articles own numbers two-thirds to three fourths chose DB.

Elizabeth Wiley, Cheiron

To match their results, you need the following assumptions for "the median state plan's assumptions for employee and employer contribution rates and for the interest rate on investments":

Starting Salary: $40,000
Salary scale: 0%
EE contribution: 6%
ER contribution 5.576%
Interest on contributions (both EE and ER): 8%

Then you also have to assume that the entire contribution for each year of service is paid at the beginning of the year and so earns a full year of interest (and I can't think of any situation in which this is logical and/or is actually done).

Putting half a year's interest in the year it is earned and changing the salary scale to 4% changes results slightly, but I'm not sure what useful information they are wanting to glean from these statistics, so correcting the methodology doesn't seem to add much value.

Some of my other thoughts are below.

A. Title and much of the language is definitely not balanced, near pejorative

B. Oversimplifications/"errors"":

1. State data is in error, Maine for example is referring to Tier 1 NRA where a new hire after 8/1/2013 would be Tier 3.
2. They are running withdrawal rates in periods where valuations assume retirement decrements instead
3. Metrics of "vested" and "at NRA" do not give useful information
    a. No benefit adequacy analysis/comparison
    b. Doesn't consider unreduced retirement before NRA and/or magnitude of early retirement subsidies
    c. "minimal pension benefit" is equated to being vested and so even if that deferred annuity is worth much less in PV terms than the refund of contributions earned in another state where the person isn't "vested," the state with the deferred annuity appears better in the analysis
4. No consideration given to service accruals and how termination decrements pick up service
5. Comparison of paying just EE contributions versus refunding EE contributions and ER contributions, both with interest, on the basis of "median state" nonsensical as doesn't reflect the different characteristics of plans offering these options, includes interest that isn't reasonable, includes no salary scale, and is an isolated piece of the compensation package.
6. In addition to the above issues with the dates and no benefit adequacy information being given, comparing percentages reaching vesting and NRA between states looking just from the date of hire gives limited information, looking at metrics such as what percentage of teachers who reach 5 years reach an immediate annuity and/or an unreduced annuity and percentages that reach vesting who make it to one or two years might give more information. (BUT still think this is drastically oversimplifying)
7. Doesn't reference that can't look at one piece of compensation in isolation and get useful comparison information
8. Only addresses HR goals and context in light of "perverse incentives"
9. Don't consider disability or death rates in developing their percentages – disability often much more than a "minimal" benefit
10. Doesn't discuss/consider service transfers/purchases

I did actually like the identification that the debate between traditional pension and 401(k)-style DC plans is a false one, but I was disappointed that they didn't touch on the IRC changes that would be

necessary to allow new design options to better reflect both the risk and reward desires of the plan sponsors.

Tom Cavanaugh, CavMac Consultants

I agree with Elizabeth from Cheiron particularly on skipping the first couple of years of employment when people are trying to decide if they even like the line of work they start out in.

With regard to the 6.5% it comes from an analysis shown in Figure 3. If you take the difference between the best and worst case numbers ($5,001- $2,400 for example) and divide by the assumed $40,000 salary, the 6.5% pops out. No comment, however, on the issue of vesting of employer contributions in a DC plan.

And of course the "analysis" is the same old rhetoric about portability that we've heard for years. They at least allow that the current private sector approach is no bowl of cherries, but then offer "solutions" that would make account balances much better, with no comments about the significant IRC changes that would have to be made to accomplish some of them so as to avoid leakage when an employee changes jobs, or the much lower benefits that would accrue even if the teacher were able to match returns of professional money managers over a 30 year timeframe.

One final note. Some teachers participate in statewide plans of all general public employees. In some of those, the assumptions are based on the experience of the entire population, not just the teachers. That could skew the results and underscores the fact that employers are not making contributions for individual employees in cost sharing DB plans. They are making an overall contribution expressed as a percent of payroll that will (hopefully) adequately finance the benefits promised.

John Dowell, Nyhart

I agree with the comments made by Elizabeth. I did not read the whole piece, but I suspect there is a great deal of commentary in there that I would find suspect at best.

As for Figure 2, I think their calculation is simply based on the withdrawal rates and early retirement rates published in the valuation reports (and CAFRs). I was able to match the figures for Indiana very closely. Their calculations seem to be arithmetically correct, but they are starting with a brand new hire. In Indiana, approximately 50% of female teachers leave employment within the first three years. I agree with some of the other comments already made; the information would be more valuable if they looked at someone who has already been teaching a few years.

Tom Lowman, Bolton Partners

There are many things happening here.

I am not sure if the 6.5% represents employee contributions but it sounds like it. Obviously employee contributions are vested and do not stay in the fund for others.

> *Quote: "The savings penalties for mobility are large. An individual teacher could* ***forfeit up to 6.5 percent of her annual salary for one year, or, due to compound interest, 22.6 percent of her annual salary after three years according to the new Bellwether analysis. To put these penalties in dollar terms, a hypothetical teacher earning $40,000 a year could face a savings penalty of $2,601 for teaching only one year and $9,035 if she left after three years. This money stays with the pension funds and is used to supplement the pensions of the remaining teachers."***

Do a lot of new teachers quit? Yes and they often cost the system nothing. You really need to look at the rates of exit (or survival) from 5 years to retirement. Attached is a simple excel file using the New Hampshire assumptions (and CalSTRS). For someone hired at age 25, from age 30 to 50 the probability in NH is 40% of females will still be working and 50% for males. Can I get to the quoted 25%? I can get below 25% if I start at age 25 for either males or females.

At age 50 the turnover assumption ends and early retirement begins. We could look at Normal vs. Early retirement and adjust for death and disability benefit, but I kept it simple. Others can adjust if they want.

Looking at California the rates of termination are much less. A similar male has a 75% chance once they have 5 years and 45% if you count from hire date.

My unscientific takeaway is this:

1. The economy has a lot to do with turnover assumptions and rates have generally been coming down.
2. The better and more secure the benefit, the lower the employee turnover.
3. New Hampshire benefit cuts and insecurity help create the big difference between them and California.
4. Lowering benefits or going to a DC design will only increase turnover. A DC only design will create no pension-financial reason for a 40-50 years old experienced teacher to want to work another 15-20 years vs. work in the private sector. This is not good for taxpayers (unless they have no children and (editorial coming:) don't care about the future)

Appendix B: Comments from retirement system representatives

Virginia Retirement System

First, the report begins with a philosophical premise that any plan with a vesting schedule is unfair to the employee and therefore should not be a feature of a sound retirement plan. That's a big philosophical leap that most employers would find hard to accept. Ten year vesting might be too long, but that is certainly not the norm.

Second, its empirical conclusions are drawn from just one hypothetical example of a 25 year old entrant who is subject to annual decrements in the statistical likelihood that she achieving a vested benefit. From that overly simplified hypothetical, the report leaps to the conclusion that only 50% of new entrants will ever obtain a benefit from their employer contributions. The annual decrements and the resulting math are probably valid for a 25 year old who may end up terminating prior to a five-year vesting requirement. However it ignores the probability that the same 25-year old may return to the classroom in her 30's or 40's following her child bearing years. At that point she looks to the plan actuary like a new entrant with a much higher likelihood of achieving vesting and in fact actually drawing a benefit. For example, the actuary's annual decrements for a new entrant in her 40's are much different than for new entrants in their 20's. As a result, the report selectively chooses a hypothetical example that does not reflect actual work patterns.

The report also chooses to focus on the probability that a new 25 year old entrant will reach "normal retirement age". In [our state], that would be age 65, but it has little to do with the age at which people actually can draw benefits from the plan. The average age at retirement for teachers in [our state] was 61.8 last year. Most obtain benefits from the plan well before reaching age 65. Moreover, the report considers termination due to death, disability, and early retirement as "turnover", thereby ignoring the fact that each of those groups obtained benefits from the plan. A disability benefit is a lifetime retirement paid by the plan. A death in service benefit provides a lifetime retirement to the member's survivor. Likewise, an early retirement benefit represents a considerable payout and cannot be dismissed as mere "turnover". Rather, these examples of "turnover" represent significant benefits to members of the plan.

Oregon PERS

I'd agree with the comments you have received that the "Friends without Benefits" report has flaws in facts and judgement (as well as non-supported commentary). It never ceases to amaze me how many people try to do these state by state comparisons without contacting the individual systems to "fact check" their assumptions, interpretations, or analysis. I know from experience that it is easier to get those comparisons wrong than to get them right, and that could all be avoided with a simple phone call or email.

For example, the chart on pages 7 and 8 shows a normal retirement age of "60" for a teacher in our state who started at age 25 after August 31, 2013. Such a teacher would be in a different tier, which has a normal retirement age of 65 (or 58 with 30 years service). I also can't follow how the authors calculated the "vesting" columns in that chart using just data from our CAFR since the Illinois CAFR based vesting calculation example doesn't track with our CAFR displays. The authors also don't explain how they calculated the estimated percent reaching normal retirement age columns (which are also presented with no explanation of the extreme variances from state to state).

In terms of benefits for newly hired teachers in Oregon who may only stay a short term, I think our hybrid tier provides a good benefit package. Member contributions (6% of salary) to the Individual Account Program start being collected after the six month waiting period; are invested as part of the $65+ billion professionally managed, diversified and relatively low cost PERS Fund; and members vest immediately in their IAP contributions and any related market earnings (which have averaged more than 8% on an annualized basis over the last ten years). Such members also start accruing service time in the employer funded non-contributory hybrid pension program, which has a five year vesting period. Actively working hybrid plan members also vest in the pension program immediately on the date they reach normal retirement age, regardless of their years of service. Our members are also covered by Social Security.

Retirement Systems of Alabama

We have always taken the position that our purpose was to provide pensions for career employees, not those who chose to work for a very limited time in Alabama. We have ten year vesting and I know other states have vesting in five years or less. Even short term employees receive a return of their contributions which they may roll into another qualified plan or an IRA. The short term employees may not qualify for our traditional DB plan benefits, however, they do receive a refund of contributions which may be rolled over to a new plan. Those who chose not to continue for a normal career did so at their own volition. The fact that they may not qualify for a pension is not a flaw in the plan design; it is the career path chosen by the employee.

State Teachers Retirement System of Ohio

The fact that we have a DC plan does, in my opinion, negate some of the argument relative to portability. By the way, a DC plan participant can retire and start taking distributions at 50. We don't allow for anything that contributes to the leakage issue.

The authors completely miss the point of an employer's benefit package being as much to retain employees as it is to attract them. They treat this as a pension issue rather than an employment benefit issue. In regards to their calculations about the amount of employees that make it five years, they use our numbers accurately (we expect to retain 65% in the first year, 75% in second, 85% in third and 90% in fourth and fifth which would equate to 33% making it to five years).

Their data argues for keeping the benefits as is if I'm an employer.

1. Many of the early teachers who don't make it five years are part-time teachers. I don't have the numbers but I bet that if you limit the study to only full-time employees, the rates will really change.
2. If I'm an employer and have limited resources for benefits (the case for all employers), then I have a choice of giving a richer benefit to people who pass through my door for a short time or richer for employees who will stay around for a long period of time, any rational business-minded employer would give it to the long-term employee.
3. Bottom line is that the authors miss the whole point of having employee retention plans. Short-term transient employees are costly to employers, why would an employer want to remove barriers to turnover?

The report recommends that states outside of SS coverage be covered because SS is portable. They assert, with respect to SS coverage that "participating employers are able to offer their own less

expensive pension plans, which helps lower their unfunded liability and reduce funding uncertainty." That statement might lead one to conclude that if you're in a state that participates in SS employers won't have pension issues. I don't that's been the case.

Finally, what they are recommending, and I know this won't be a surprise, is that policy-makers "be creative", suggesting that SS in tandem with a hybrid plan, such as what the federal government moved to, is a viable option. Or that cash balance plans offer an alternative.

Public Schools Retirement System of Missouri

Based on our actuarial assumptions for turnover, about 58% of new PSRS members will earn 5 years of service and become vested. However,

- Virtually all retirement benefits, whether public, private, defined benefit, or defined contribution require members to earn a certain number of years of service (typically 3 - 7) before becoming vested in an employer-funded benefit. The primary reason is that virtually all employers agree that a retirement benefit is a reward for service rendered and prefer to allocate their retirement benefit dollars to those who provide more service to the organization. In defined benefit plans, close to 90% of the dollars spent on benefits goes to those who retire, not those who are transient. Minimizing "leakage" to employee turnover is viewed favorably by employers.
- Both of our plans require 5 years of service to be vested. This is consistent with, or shorter than, most public sector defined benefit plans and is consistent with the ERISA vesting requirements for private sector (non-governmental) defined benefit plans. In other words, Missouri teachers who leave before vesting are not treated any differently than employees in other industries.
- Our members who terminate before vesting have still saved their contributions for retirement, respectively. At that level of savings, a member who is hired at 22 and terminates at 26 could take their contributions and interest from the fund and buy and annuity payable at age 60 that would pay about 9% of the salary they were making at the time they terminated. A similar member in our other plan could buy an annuity equal to about 4% of the salary they were making.
- The study doesn't say anything about why teachers turn over, or where the teachers go when they do turnover. Those who leave early- or mid-career are likely leaving for other employment (which may yield them an even better retirement income).
- The majority of turnover is voluntary. If members are knowingly leaving before they are vested, it is likely for a reason (see previous bullet point).

Rob Wylie, South Dakota Retirement System, including remarks received from actuarial consultants and his staff

Along with all of the discussions below, it should be noted that only 24% of the SDRS new retirements during FY 2013 had reached Normal Retirement Age (Age 65). Our average age of retirement is age 62. To use the NRA as a measure of retirement coverage misses much of our membership.

The report did note that SDRS and several other plans pay out a portion of the employer contribution, but it did not recognize several other features that maintain the value of retirement benefits and thus promote retention in public plans. As an example, we added indexing of the deferred vested benefits for those that terminate before being eligible for a benefit. Most plans have a significant number of members that remain members of plans after their termination in order to receive the deferred benefit. In South Dakota, 20% of the membership is inactive and waiting to take a benefit. If the normal retirement age was the only measure of the value of the benefit, these members would not be waiting to start a deferred benefit.

The report also implies that those who leave before 30 years or before NRA are shortchanged. This ignores any subsidy provided in Early or Special Early retirement.

The report makes several recommendations that seem mainly concerned with portability of benefits and making sure policies don't only benefit the few, long-service teachers. It seems to imply that equivalent benefits should be available to teachers who are employed for only a couple of years. In my opinion, this discounts the value of a defined benefit plan in the attraction and retention of experienced teachers. If the benefits are modified so that short-tenure teachers receive equivalent benefits to long-tenure teachers, this removes any retention incentive and encourages turnover, the very issue that many school districts are struggling with.

SDRS data shows about 60% have terminated after 10 years, fewer than expected if all school employees. However, I assume this includes all members, not just school employees. If so, the turnover rate assumed is less for non-school employees.

I guess it depends on what they mean by a secure or meaningful benefit? I would argue that as a minimum anyone who gets a vested benefit at SDRS has a meaningful benefit based on service performed. In fact, i would argue that with the PRO 100% of SDRS members leave with a significant benefit based on employment. The implication of the report is that a very significant percent of employees leave with no employer funded benefit.

It is particularly misleading to assume that only employees who stay to NRA have a meaningful benefit.

Kathleen Farney, TRS of Illinois

The authors intertwine commentary with "findings," which in my view is not very scholarly. The study reflects a number of misunderstandings about public pension benefits and a few pretty basic mistakes. Some of the corrections would make Illinois TRS look even worse, and we are already used to exemplify bad benefit design in the introduction.

Here are a few comments based on my brief review.

1. In the summary table, a new teacher in Illinois TRS is a member of Tier 2 and has a normal retirement age of 67, not 60.
2. The probability of a teacher vesting should be based on the actual turnover rates at each age. The study uses termination rates from our CAFR that are in five-year increments. You would think the authors would at least extrapolate to better approximate turnover at ages in between the increments. Also, the example is based on a teacher entering at 27, but we have many teachers entering or returning to the profession later when turnover rates are lower.
3. The study goes on to state that terminations are actually higher than indicated because of death and disability. It is not clear whether the authors realize there are additional assumptions for death and disability. If either occurs, benefits are payable that are worth more than the refund. The defined benefit plan has certain minimum benefit levels that protect disabled members and their families.
4. TRS members currently contribute 9.4% of pay. Of this rate, the 1% contribution for survivor benefits is not refundable when a member takes a refund. They are correct that no interest is paid on the amount that is refundable.

On the other hand, when a member dies before retirement, an amount is payable to the family that is substantially more than the member would have received as a refund. Survivors of members who die shortly after retirement also receive a refund of the member's accumulated contributions not already paid out in retirement benefits. This is another way that defined benefit plans offer security to members and their survivors.