NATIONAL EDUCATION ASSOCIATION
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Great Public Schools for Every Student

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Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Representative:

The National Education Association respectfully submits these comments for the record in conjunction with today's hearing on private employer defined benefit pension plans.

Traditionally, sources of retirement income for Americans have been compared to a three-legged stool supported by pensions, Social Security, and savings. For most Americans, however, the metaphor no longer reflects the reality:

- More than 30 percent have no retirement savings or pensions at all—including 19 percent of those ages 55 to 64. (Source: *Report on the Economic Well-Being of U.S. Households in 2013*, Board of Governors of the Federal Reserve, July 2014)
- The average working household has virtually no retirement savings—the median retirement account balance is just $3,000 for all working-age households and $12,000 for near-retirement households. (Source: *The Retirement Savings Crisis: Is It Worse Than We Think?* National Institute on Retirement Security, July 2013)

NEA is a leading advocate for financially stable, employment-based, defined benefit pension plans in both the public and private sectors of the economy. Our knowledge of such plans has been gained firsthand and through the experience of our affiliates, nearly all of whom maintain defined benefit pension plans—on both a single employer and multiemployer basis—for their own employees. Such plans are advantageous for both employees and employers.

For employees, the advantages include:

- **Knowing in advance what the benefit will be.** The amount of the benefit is usually based on factors such as age, earnings, and years of service.
- **Defined, guaranteed pension.** A retired participant receives a pension annuity, such as a monthly benefit, for life, as does the participant's surviving spouse, unless both the participant and spouse elect otherwise.
- **Comprehensive benefits.** Defined benefit plans can provide additional valuable benefits to participants, such as early retirement benefits, disability benefits, death benefits, benefits for past service, increased benefits, or cost-of-living adjustments.
- **Benefits are not subject to the fluctuations of the stock or bond markets.** The employer bears the investment risk and, normally, professional money managers make the investments.
- **Plan participants can earn service credit for earlier years of service**, even if they were not covered by a retirement plan earlier in their careers.

For employers, the advantages include:

- **Helping to ensure a high-performance workforce.** By providing a predictable, guaranteed benefit at retirement that is valued by employees, a defined benefit plan can promote employee loyalty and help retain valuable staff.
- **Flexibility.** While the employer bears the investment risks for the plan, favorable interest rates and economic conditions can reduce or eliminate an employer's contribution, or make it possible to increase benefits at reduced or nominal cost.
- **Can be designed to accomplish specific goals.** For example, a plan can offer enhanced early retirement benefits.
- **Less expensive.** Generally, it is less expensive to provide the same level of benefits via a defined benefit plan than a defined contribution plan due to better investment results, lower investment fees, longer time horizons, and more professional management.

For most Americans—especially racial and ethnic minorities, and those on the lower rungs of the economic ladder—Social Security is the foundation of retirement security. Among those 65 or older, Social Security provides:

- 85 percent of the income of those in the bottom quarter of the income distribution or about $6,000 per year. (Source: *When Thinking about Retirement, Beware the Averages*, Wall Street Journal, Jan. 23, 2014)
- 90 percent or more of income for 35 percent of elderly white beneficiaries, 42 percent of Asian Americans, 49 percent of blacks, and 55 percent of Hispanics. (Source: *Policy Basics: Top Ten Facts about Social Security*, Center on Budget and Policy Priorities, Nov. 6, 2012)

While almost all our members have public sector defined benefit pension plans, some educators face a different retirement security problem: they are being unfairly deprived of Social Security benefits they have earned. The Government Pension Offset (GPO) reduces public employees' Social Security spousal or survivor benefits by two-thirds of their public pension. It affects people who work as federal, state, or local government employees, including educators, police officers, and firefighters, if the job is not covered by Social Security. Nationwide, more than one-third of teachers and education employees, and more than one-fifth of other public employees, are not covered by Social Security, and are, therefore, subject to the GPO. An estimated 9 out of 10 public employees affected by the GPO lose their entire spousal benefit, even though their deceased spouse paid Social Security taxes for many years.

The Windfall Elimination Provision (WEP) reduces the earned Social Security benefits of an individual who also receives a public pension from a job not covered by Social Security. It affects people who worked in jobs not covered by Social Security and in jobs in which they earned Social Security benefits—such as educators who do not earn Social Security in the public schools, but who work part-time or during the summer in jobs covered by Social Security. The WEP penalizes individuals who move into teaching from private sector employment, or who seek to supplement their often insufficient public wages by working part-time or in the summer months in jobs covered by Social Security.

In summary, we urge you to provide the funding flexibility necessary for defined benefit pension plans to survive; maintain current Social Security benefit levels while eliminating GPO and WEP, which unfairly deprive hard-working Americans of benefits they have earned; and provide incentives to encourage personal savings, especially for those who are not covered by employment-based pension plans.

We thank you for the opportunity to submit these comments.

Sincerely,

Mary Kusler

Mary Kusler
Director of Government Relations