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## Protecting Our Pensions

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*California State Teachers' Retirement System*

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## PROTECTING OUR PENSIONS

Thanks you for the opportunity to talk briefly and broadly with you about what is happening to pensions in the country and its implications for union leaders and activists in higher education. Unfortunately, I have to begin with a not-very-interesting disclaimer – my remarks are my own and do not represent the positions of other CalSTRS trustees, the board as a whole, or of the system.

Faculty are used to being asked, “What do you teach?” In pension circles, when I tell them I teach English, I notice a funny look comes over most folks’ faces. They were expecting maybe economics or business – at least math or science. But, teaching English is an advantage to understanding issues of pension security because we English teachers explain symbols for a living.

So, in my remarks today, I invite you to think with me about retirement by picturing yourself sitting at a counter on a stool. (You decide whether you will listen better in a kitchen or a bar.) Historically, the American stool for secure retirement had three legs: one was Social Security, the second was your employment-based pension, and the third leg was private savings. Update the picture a little; contemporary stools usually have four legs. Let’s call the fourth leg of a secure retirement access to affordable retiree health care.

Over the last two years, each leg of the stool has been attacked beginning with President Bush leading a failed charge to privatize Social Security. In California, Governor Schwarzenegger’s attacks on the defined benefit retirement systems – including those serving all three sectors of public higher education - also failed. They were defeated because public employee unions united to fight them. So this year, the attack has changed. Now, it’s not about Defined Benefit versus Defined Contribution – which is better? Now, the debate is being framed as “Private citizens paying taxes can’t afford to fund those fat pensions and retiree health care in the public sector, and why should they when they don’t have anything like that themselves?” We literary types call it “pension envy.”

Again – union leaders must unify to defeat this attack. We will lose if we get stuck defending why we deserve a stronger retirement stool than others have. Instead, we must educate ourselves and our members to strengthen retirement security for all Americans by insisting on the following “new legs:”

- ***Mandatory, adequate contribution levels from all employees and employers over a full career.*** This is the defined benefit model, but we know this can work even for a defined contribution system due to TIAA-Cref’s example in higher education. Currently, in too much of the private sector, employees are not required to contribute and employers contribute too little. 50% of private sector employees have no retirement plan at all outside of Social Security, and Social Security will replace only 30% of pre-retirement income for those who qualify. One small step to get there is the recent legislation requiring “opt

out” rather than “opt in” enrollment for private DC plans in the new Pension Reform Act. We need to go well beyond that – as we also need to remove the cap and make higher earners contribute to social security on all their earnings.

- ***Investment of these contributions managed by professional investors to provide adequate diversification with low, transparent fees.*** Again, defined benefit systems are the model – with most of them having over 80% of what they will need to pay all benefits promised to retirees and actives – and, the public funds are saving tax payers a bundle as 66 cents of each benefit dollar comes from their investment earnings. Research shows convincingly that the average individual investor simply cannot deliver the same results: she invests too conservatively to accumulate enough savings, doesn’t rebalance to control risk as she approaches retirement, or erodes the account balance by paying too much in fees. Again, the Life Cycle funds are only a partial solution. We must also begin to invest and diversify part of the Social Security account.
- ***Vehicles for private savings that also have convenience, low fees and easily comprehensible terms and conditions.*** The poster child for bad behavior has been the TSAs (403b accounts) sold to teachers around the country with exorbitant fees and draconian penalties for moving the money. Even here there are some rays of hope. In California, we passed legislation to permit CalSTRS to set up the web-based 403bcompare. Companies who wish to sell new policies in public schools and community colleges must list their fees and terms so that teachers can compare them. More importantly, some unions who received reimbursements from companies they recommended have agreed to stop doing so. The employer-based 457 plans offer another opportunity to save, but unions should bargain to be part of the RFP process that decides on the provider.
- ***A national transformation of our badly broken employer-based health care system to one that provides accessible, affordable care for all.*** The rate of inflation in health care costs is unsustainable - it threatens our entire economy. Fortunately, a great debate about fixing it is well under way – and should continue through the election of 2008 and beyond. Meanwhile, faculty union leaders must be adamant in separating discussions of unfunded liabilities for health care from any attack on a well-funded pension system. Of course, those of us in the public sector who face new GASB disclosure rules are discovering that the actuarial UAO number for decades of promised health care are huge. But, unions are making it very clear to the Governor’s new Commission in California that we will not tolerate lumping this new enormous number from retiree health care – which has almost never been pre-funded, but was always paid each year out of current revenues – with the financial health of our pensions – which we have adequately pre-funded.

In closing, let me share the greatest fear we Californians have – an initiative put on the ballot by Richman (the leader of the fight to change DB to DC) or some other group funded by right-wing ideologists who hate the public sector. We worry that the majority of Californians –working in the private sector with inadequate retirement savings and

inferior health care – will vote to dismantle our systems out of desperate envy. So we increasingly are realizing that to save what we have, we must improve retirement security for all Americans – get everyone a sturdy, safe four-legged stool. I hope my brief remarks have convinced you to join us.