Why ERB retirees get their pensions…And why they should continue to…

ERB members participate in a “traditional” pension plan, also called a defined benefit “DB” plan. ERB’s DB plan provides NM public educational retirees with a steady income stream that is guaranteed for the retiree’s life.

With a DB pension plan, the retiree’s benefit is a function of their salary and the number of years worked.

The retirement benefits are paid from a fund that is made up from a combination of “state” contributions, employee contribution and investment earnings. The retirement benefits are not paid by the “State” every month, but from the ERB fund. ERB members have always paid a significant proportion of the total pension bill. Under the Member Stakeholder proposal, adopted by the ERB, members will pay 43.5% of all the contributions. In most other pensions, the employer contribution rate is almost twice the employee contribution rate. Keep in mind that the so-called *employer contribution* is not a “contribution” but rather deferred compensation earned by employees and placed in the fund. (Think about this as being comparable to the deferred compensation most school employees get to provide summer pay but it is put into the retirement fund for your retirement rather than distributed each year as is your summer pay.)

The ERB benefit is not “lavish”. The average monthly benefit is less than $1,700.The ERB COLA feature is modest. It follows pension plan best practices: it is tied to CPI; it has a cap of 4% when the change in CPI is 8%; retirees wait until age 65 to receive the COLA; and on average the COLA is 2%. The Member Stakeholder proposal raises the age to begin receiving the COLA from 65 to 67 for new hires.

Two-thirds of the ERB members are female. Women and racial and ethnic minority groups are more at risk of hardships in retirement than their white male counterparts. (NIRS) National experts agree that DB pension income plays a substantial role in ensuring that Americans remain self-sufficient in retirement. (NIRS)

DB plans are very cost efficient, compared to Defined Contribution plans (also called 401(k)s). DB plans pool longevity risk. DB plan investments can take advantage of longer investment horizon. DB plans achieve greater investment returns.

DB plans reduce citizens’ need to rely on public assistance. When fewer elderly households experience poverty and financial hardship, federal, state and local governments collectively save billions of dollars in terms of public assistance expenditures avoided. (NIRS)

Recently, New York’s state’s Comptroller argued that 401(k) plans “have proven to be woefully inadequate for those who rely on them for their primary retirement income. That’s because 401(k) plans were never intended to take the place of pensions. They were designed to be savings vehicles to supplement [DB] pensions and Social Security income.”

NIRS- National Institute on Retirement Security