

What You Should Know

About Your Pension

The ubiquitous trend of big corporations declaring bankruptcy and dumping their pension responsibilities, along with well-publicized attempts to privatize Social Security, may cause some workers to feel uncertain about their retirement.

As a public employee, you are legislatively entitled to a pension. In fact, you are fortunate to have a true pension, in which the employer assumes the risk of funding the plan. You are one of the few types of employees left with this sort of program—a defined benefit plan.

It's important for members to understand how their retirement benefits work, not only to prepare for their own retirement, but also to be educated and active should any proposed changes be initiated.

With the exception of City of Tacoma and City of Seattle (which have their own retirement systems), most members have pensions administered through the Public Employees Retirement System (PERS). Both plans are administered similarly to the PERS plans. Contact your Human Resources office for more details.

Defined benefit

Employees who work for the state, counties and health districts are part of the PERS system (Plans 1, 2, or 3). PERS 1 and 2 Plans are defined benefit plans—meaning an employee receives a fixed retirement benefit that is defined in advance by a specific formula. The employer assumes the risk for the investment. Social Security is a defined benefit plan.

Unless you have worked for your employer for more than 20 years, you are probably in Plan 2 or 3. The PERS 3 plan is a hybrid of employee contributions and a defined benefit. If you are not already in PERS 1, that plan is unavailable. See the Washington State Department of Retirement Systems (DRS) website for specific information, www.drs.wa.gov.

“You are the last bastion of real pensions,” Doug Orr, an economics professor and pension expert from Eastern Washington University said. Orr was the keynote speaker at the 2006 Local 17 Leadership Conference.

The amount which the employer contributes to the PERS plans is recommended by the State Actuary and is allocated by the Pension Funding Council.

Defined contribution

Conversely, a defined contribution plan (such as a 401K) has benefits that are based on the amount contributed and the investment earnings on those contributions. These types of plans are the most common in the private sector because the employee (not the employer) assumes the risk. Orr added that the current trend is towards employers providing retirement plans such as

401Ks. These plans are more like saving plans, instead of a system in which the employer provides a pre-determined contribution determined by years of service which guarantees income for life.

True pensions under attack

Defined benefit plans, such as Social Security, are under attack. There is proposed legislation which attempts to privatize Social Security. If this happens, it will clear the way to privatize other publicly-administered plans.

Local 17 recently helped educate members on pensions at the Local 17 Leadership Conference when it brought together the state's foremost experts on public employee pensions. (See the May-June *InSight* for more details or go to www.ifpte17.org).

At the conference, Orr talked about how pensions work. He first explained essential concepts and the history of pensions. He stated that pensions were first used at the beginning of the 20th century as a way to attract good workers.

It was a “pay as you go” system. It was first offered only

to management, but later the railroad industry adopted the principle for all workers. Railroad workers continue to have the strongest pension system today, but employers these days are not as generous. Big corporations, such as United Airlines, sometimes try to shun their responsibilities by declaring bankruptcy.

Orr explained what the Employee Retirement Income Security Act of 1974 (ERISA) and the Pension Benefit Guaranty Corporation (PBGC called, “Penny Benny”) are and how corporations use Penny Benny to deny paying pensions.

ERISA is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry. Penny Benny takes over the company's obligations when it declares bankruptcy. However, the problem is that the amount originally promised may be reduced based on the maximum limits allowable. Therefore, employees lose some of the money promised.

Penny Benny is for the private sector. However, public employee plans can also have unfunded liabilities. An unfunded liability means that the fund does not have enough money to pay out its responsibilities. Because the State deferred paying into PERS 1 for several years because of a dip in revenue, the plan had an unfunded liability. However, the 2006 Legislature allocated \$350 million to close this gap until 2024. All other plans are fully funded and are strong.

Unions and other employee advocacy groups continually monitor and fight to protect their members' pensions. Local 17 helped lobby to make sure money was allocated to fund the PERS 1 liability. However, because the trend is moving away from defined benefit plans and is moving towards plans like 401Ks—members may have to fight to keep what they have.

“If there is anyone who is going to save pensions, it's union folks,” Orr said. — *By Taryn Gerhardt, Local 17 Communications Director*

