



September 9, 2008

Editor
Las Vegas Review-Journal
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Submitted via Email to letters@reviewjournal.com

To the Editor,

The Las Vegas Review Journal's series of pension editorials on September 9, 2008, missed the facts about the Nevada Public Employee Retirement System (PERS) and public pensions in general. With a better handle on the facts, it's doubtful that the Review-Journal would advocate shutting down a retirement system that even the Las Vegas Chamber of Commerce report concedes is "well managed and prudently administered."

With respect to the finances of Nevada PERS, the system is nearly 80 percent pre-funded. In recent testimony before Congress the Government Accountability Office – the investigative arm of Congress – indicated that a public pension system that is funded at about 80% is considered to be financially sound. PERS is hardly a system in crisis.

It also seems that the Review-Journal and Chamber are unaware of the economics of pensions and the recent experiences of states that have experimented with changing their pension system.

States such as West Virginia, Nebraska, and Alaska have learned the hard way that to jettison the tried-and-true defined benefit (DB) pension model in favor of individual savings – or defined contribution (DC) accounts – actually ends up costing taxpayers more and erodes retirement security. These states have switched, or are considering switching back to traditional pension systems, to reduce costs and ensure adequate retirement income for workers.

This trend is supported by a recent study on the economics of DB pensions we conducted that finds pensions can deliver the same level of retirement income at nearly half the cost of an individual DC plans. That's because group-based plans have built-in economic efficiencies that help drive down costs and enhance investment returns as compared with DC plans that rely on individual accounts.

Also, taxpayers and policymakers should be aware that “freezing” a pension plan can be extremely costly to taxpayers, especially in the short run. It starves the plan of new entrants and erodes the plan’s ability to achieve superior investment returns. Also, accounting rules require the state to accelerate payments on their pension obligations when a plan is frozen. At a time when Nevada faces an economic downturn, it seems illogical for legislators to put into motion actions that would raise pension costs. It would be like a financially-strapped family accelerating payment on their mortgage when they can least afford it and when there is no need.

Bottom line -- a drastic retirement system switch in Nevada is not only unnecessary, but harmful and costly. In other words, if it’s not broke, don’t break it.

Sincerely,

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