INTERNATIONAL ASSOCIATION OF FIRE FIGHTERS

PENSION HANDBOOK

About Pensions

Talking about pension plans is easy for most plan trustees but harder for IAFF affiliate officers without pension board or direct negotiating experience. But learning basic vocabulary, the history of pensions and the value they offer public employees and taxpayers is essential to local leaders developing and implementing a plan to protect public employee pensions.

This handbook addresses pension basics, including a brief history of pensions and a comparison of the types of pension plans. It also provides information and tools for responding to proposed cuts.

Public Pension Plan Origins

In the 1800s, local governments were the first public sector entities to establish employee pensions. Some of the first groups to be covered included police officers, fire fighters and teachers. States followed in the early 1900s. It wasn't until the 1920s that the federal government created the first universal pension plan for federal civilian employees. The majority of today's public pension plans trace their beginnings to the first half of the 20th century.

As some local and state legislators seek to cut what they consider overly generous public employees pensions, they fail to understand why pensions were first offered. From the 1900s to the present, public employees typically earn less than their private sector counterparts. Therefore, to improve total compensation, governments offered public employee pensions.

The concept was simple and sound. Employees earned less during their working days, but received good retirement benefits — retirement benefits that were guaranteed. This guarantee protected employees and family members in their retirement years.

As an example, a New York state law passed in 1857 covered New York City police injured in the line of duty. A lump-sum payment and later a pension were provided. This same coverage was afforded New York City's fire fighters in 1866. In 1878, city police officers and fire fighters were able to retire due to incapacity at half final pay. The earliest municipal plan for teachers was established in New York's borough of Manhattan in 1894.

In addition to retirement plans, another important historical fact most legislators and reporters are unaware of is that when the Social Security Act was passed in the 1930s, it expressly excluded public sector employees. Although Congress has since amended the law to allow public employees to participate in Social Security, most fire fighters remain outside of the system and dependent on state and local retirement systems.

Consequently, in lieu of Social Security, progressive state and local governments began instituting or improving pension benefits for public employees. The IAFF took a leading role in the expansion of retirement benefits and has been a major advocate on this issue for more than 50 years.

It should be noted that Congress has chosen not to exert oversight on public retirement programs. The best example of this posture is the Employment Retirement Income and Security Act of 1974 (commonly referred to as ERISA), which governs private sector pension plans and does not apply to the public sector.

As a result, the public sector developed its own history with respect to pension benefits and fund management. Most public pension systems are governed by a Board of Trustees, charged with the fiduciary responsibility of the system. The trustees are obligated to make investment and other decisions based solely on what is in the best interest of the system and plan participants. In some cases, state and local legislative bodies retain ultimate authority over the plans.

Unlike Social Security, public pension systems build long-term assets to cover their liabilities. These pension funds have quantifiable assets that produce dividends, interest income and other sources of revenue. Conversely, Social Security is funded through government debt and IOUs.

Consequently, the burden on the taxpayer is relatively modest. In almost every retirement system, employees contribute a percentage of their annual earnings towards retirement benefits. For most fire fighters, the share ranges from 5 percent to 9 percent of payroll. More than three-fourths of all funds in the pension system are contributed either by the employees or earned through wise investments. The employer (taxpayer) contributes less than 25 percent of the total cost of funding retirement benefits.

Defined benefit programs are the appropriate model for the public sector — especially public safety employees. Fire fighters have frequently forfeited pay raises to improve and protect retirement benefits. As important, the accidental disability provisions unique to defined benefit programs are essential for public safety employees. Most employers recognize that a defined benefit retirement plan is vital in retaining well-trained, quality workers.

Defined Benefit Plans

Defined benefit (DB) plans offer both retirees and state and local governments sound vehicles for safeguarding retirement security. DB plans are designed to provide retirement benefits based on an individual's salary and years of service. Retirement benefits are typically calculated using formulas that include employees' years of service, age at retirement and final average salary. From a government standpoint, defined benefit plans augment its ability to attract and retain qualified employees, thereby reducing turnover and the associated training costs. Moreover, DB plans afford local governments flexibility in managing their labor force. For example, governments may provide incentives to encourage employees to work longer or retire earlier to fit the prevailing circumstances.

Standard defined benefit plans are prefunded systems — the plans receive routine contributions from employees during the course of their employment. Investment earnings do a significant amount of the work of paying for retirement benefits. In prefunded systems, the contributions are invested and investment earnings compound over time. Earnings on investments can be substantial and have historically shouldered the majority of public pension funding. In 2005, the National Association of State Retirement Administrators (NASRA) found that investment earnings accounted for 74 percent of all public pension revenue.

Contrary to widely-held perceptions, the stability of public pension systems did not rest upon taxpayer revenue. Ilana Bovie and Beth Almeida — authors of a study on the economic impact on state and local pensions — found that from 1993-2006, earnings on investments comprised 69.6 percent of state and local pension fund receipts. They also found that state and local employees contributed 10.8 percent of fund receipts during this period and employers contributed 19.6 percent.

Investment earnings in a DB plan reduce future employer contributions. Employer and employee contributions generate investment earnings that pay benefits that would otherwise have to be paid from future employer contributions. Lastly, the provision of adequate and steady retirement benefits aids local economies, since a switch to defined contribution (see page 6) or other plans may result in an increased reliance on government financial assistance programs due to lower retirement benefits.

Lost amid the criticism of public pension plans is the fact that state and local government workers were prohibited from joining Social Security at its inception in 1935. Approximately half of the large public employee pension plans in existence today were created between 1931 and 1950. Roughly five million individuals — 25 percent — of all public employees do not participate in the Social Security system. Fire fighters, teachers and police officers are the most likely to be outside of the Social Security system. As a result, pension benefits and contribution levels are generally higher to offset the lack of Social Security benefits. Public safety employees are particularly likely to be outside of Social Security. Their nonparticipation reflects the need for early retirement options due to the physical demands of the job and the need for enhanced death and disability benefits that Social Security does not provide.

A built-in death and disability survivor benefit further enhances retirement security. According to the U.S. Bureau of Labor Statistics, 97 percent of state and local government employees in DB plans have disability coverage through the plan and 93 percent may elect joint and survivor benefits. These benefits are largely funded through contributions and investment earnings.

Disability and survivor benefits are especially important for employees in hazardous occupations, such as fire fighters and police officers who may die or become disabled in the line of duty. In the absence of a DB plan, employers would need to obtain disability and pre-retirement death benefits through commercial insurance or self-fund the benefits. Either of these options would result in additional administrative costs. If the benefits were obtained through commercial insurance, the employer's cost would also include the insurer's profit margin.

Finally, public pension systems have received negative press coverage for instances of "spiking." This term refers to sudden increases in compensation in the time period leading up to retirement. This term is commonly used to describe situations in which the primary motivation is the increase of the pension benefit and is enough to substantially increase an individual's overall pension benefit. This may be achieved through unusual amounts of overtime, sudden promotions or the sale of accumulated vacation and sick leave. A benefit formula that uses a short time period to determine compensation may encourage pension spike.

Pros of Defined Benefit Plans

- Provision of adequate and steady retirement.
- Built in death and disability survivor benefits.
- Provides early retirement options due to physical demands of the job.

Cons of Defined Benefit Plans

- Lack of Portability – with DB pension plans, there is a minimum service requirement to become a qualified participant.
- Lack of Investment Freedom – an individual does not have freedom to choose and manage their own investments.

Defined Contribution Plans

Most private sector employers provide defined contribution (DC) plans. DC plans are personal retirement funds in which employees can contribute and purchase investment assets with preferred tax benefits. A DC plan is like a bank account in which deposits are made. These deposits are typically a set contribution, deducted from employee salary with the employer occasionally making a matching contribution. However, instead of cash, the assets in DC plans consist of investments such as mutual funds, bonds and stock. When the employee retires, withdrawals are made from this pool of assets which has accumulated value from employee contributions, employer contributions and investment earnings.

The rise to prominence of DC plans occurred in the 1980s when Congress changed tax policies allowing for pre-tax investment contributions through 401k plans. This gave employers a convenient means to offer employees retirement benefits without taking on the liability of a fully-funded pension plan. Employees set aside their own pre-tax dollars and employers typically matched some percentage of those contributions. Employers that had been paying roughly 7 percent of salaries to cover pension plans began spending 3 percent in those matching contributions instead.

Employers often believe that switching from a DB to a DC plan will save money because the investment risk is switched from employer to the employee. However, switching from a DB to a DC plan does not necessarily save the employer money. Under a DB plan, if properly funded and the market does better than expected, the employer reaps those benefits. While some believe the employer garners more risk when administrating a DB plan, when investments do well, the employer also garners more reward.

Also, if an employer converts from a DB to a DC plan, the initial costs can be overwhelming. DC plans are costly to establish and maintain. A DC plan must be designed, vendors must be selected, its operation must be monitored and employees must be informed about plan features and available investments. Staff time is spent throughout this process, and the sponsoring government must pay legal and consulting fees. If a third-party administrator is not hired to operate the plan, the government must do this as well. Even if a third-party administrator is hired, the government will still have operating costs related to the DC plan, possibly in the millions of dollars.

For example, the budget for the state of Florida's DC plan, established in 2000, totaled $89 million from FY 2001 through FY 2004. This includes $55 million to educate Florida's 650,000 government employees about the new plan. As of 2004, approximately 3 percent of DB participants had chosen to transfer to the DC plan.

Even when new hires are required to join a DC plan, long-term cost savings for employers are uncertain and may take many years to realize. When a DB plan is closed to new hires, it still covers current employees and retirees, and benefits continue to accrue to active employees as a result of their service. To the extent that plan assets are less than accrued liabilities, unfunded liabilities remain.

For DB plans with unfunded liabilities, closing the DB plan to new hires will likely increase the employer's annual required contribution rate. Because new hires are not entering the plan, the cost of funding the liabilities is spread over a declining number of active members, thereby increasing the employer's contribution rate as a percent of covered payroll. In addition, since a growing portion of plan assets must be used to pay benefits, a growing portion of assets will likely be held in short-term securities, thereby reducing investment returns.

Pros and Cons of Defined Contribution Plans

Pros

Portability — the employee has ownership rights over the assets in the plan. Therefore, DC plans are typically easier to transport from one job to another. With pension plans, you often need a minimum service requirement to become a qualified participant. DC plans are easier to convert because it is your own money you are moving.

Investment Freedom — some prefer having the freedom to choose and manage their own investments within a DC plan.

Accumulation Satisfaction — although typically more valuable, it is also more difficult to compute the value of a DB plan. Employees often enjoy seeing their DC fund balance accumulate, as opposed to a formula-driven DB plan.

Cons

Market Risk — in a DC plan, the participant bears the entire market risk. Participants may be ill-informed and make poor investment choices, and even those who make well-informed decisions bear the risk of market losses.

Longevity Risk — even an employee who contributes heavily to DC plan faces longevity risk — the risk that an employee could outlive his or her assets — if they do not annuitize DC plan assets. If an employee saves only modestly, the risk is even greater.

Disability and Health Care — it is typically easier to include disability and sometimes health care benefits into a DB plan than a DC plan.

Types of Defined Contribution Plans

401k Variety — plan participants may elect to contribute a portion of their current compensation on a pre-tax basis to the plan for retirement. Many employers provide matching contributions.

> **401k —** available mainly for employees at private companies
>
> **403b —** available for employees with public education organizations and some non-profits
>
> **457 plans —** available for government and certain non-government employees

Traditional Individual Retirement Account (IRA) — contributions are made with pre-tax earnings. All transactions and earnings within the IRA have no tax impact, and withdrawals at retirement are taxed as income.

Roth Individual Retirement Account — contributions are made with after-tax earnings. All transactions within the IRA have no tax impact, and withdrawals are usually tax-free.

Money Purchase Pension Plans — employer's contributions are mandatory and are usually based solely on each participant's compensation.

Profit Sharing Plans — employer agrees to make substantial and recurring contributions although generally discretionary, typically based on the profit earned.

Employee Stock Ownership Plans — designed to invest primarily in stock of the employer.

Target Benefit Plans — Similar to a DB plan in that the annual contribution is determined by the amount needed each year to accumulate a fund sufficient to pay a projected retirement benefit — the target benefit.

Defined Benefit (DB) vs. Defined Contribution (DC) Plans — A Side-by-Side Comparison

DB: Provides the retiree with a fixed monthly benefit. The average annual benefit: $21,800 per annum. The benefit formula is usually based on years of service and annual salary at retirement.

This benefit provides for a steady predictable income for the remainder of the retiree's life, as well as the surviving spouse's life.

DC: Does not guarantee the retiree with a fixed monthly benefit. The participant must set aside enough funds to last for a maximum life. The plan's investments are participant directed. Each employee decides how much to save, how to invest the money and how to withdraw the funds.

DB: The employer bears all the risk associated with the defined benefit plan.

DC: The plan participant bears all the risk associated with the plan.

DB: Contributions are made by the employer on behalf of the employee to a common pension trust fund. Public sector employees typically contribute some percentage of their income to the pension trust fund.

DC: The participant contributes to his/her individual account. The employer may or may not contribute a matching percentage.

DB: Almost all state and local DB plans provide disability and survivor benefits. According to the U.S. Bureau of Labor Statistics, 97 percent of state and local government employees in DB plans have disability coverage through the plan and 93 percent may elect joint and survivor benefits. These benefits are extremely important for employees in hazardous occupations, such as fire fighters and police officers who may die or become disabled in the line of duty.

DC: DC plan survivor benefits are usually limited to the participant's account balance. Employers would need to obtain disability and pre-retirement death benefits through commercial insurance or else have to self-fund the benefits. This would result in additional administrative costs. If the benefits are obtained through commercial insurance, the employer's cost would also include the insurer's profit margin.

DB: The pension trust fund is not managed by the employer or employee, but by a professional money manager which is overseen by trustees. DB plans do not age and are positioned to take advantage of investment returns over a long period of time. They can ride out fluctuations in market conditions better than individual DC plans. As older workers retire, younger workers enter the plan.

DC: The DC plan is usually directed by the participant. DC plan participants must shift their asset allocation to more conservative assets as they age to protect against market shocks. Administrative costs are borne directly by individual plan participants through deductions from the DC accounts.

Defined Benefit (DB) vs. Defined Contribution (DC) Plans — A Side-by-Side Comparison (continued)

DB: The pension trust fund contributions are pooled into one fund that is invested by professional money managers. It is the buildup of earnings in the fund that provides for the benefit payments. Defined benefit plans are considered much more efficient than defined contribution plans due to economies of scale. Defined benefit plans achieve greater investment returns. Professional management of assets achieves superior investment performance. According to Boston College economist Alicia Munnell, DB plans outperformed DC plans by one percentage point annually, on average, between 1988 and 2004.

DC: On average, investment returns are lower than DB plans, resulting in significantly lower investment earnings over an individual's lifetime. For a person contributing $5,000 to a DC plan each year for 40 years, the difference between an 8.0 percent annual return and a 7.0 percent return amounts to a loss of more than $279,000. Other studies show that individual, non-professional investors may underperform the market by as much as 2.0 percent annually. The difference between an 8.0 percent annual return and a 6.0 percent return amounts to a loss of over $521,000.

The fees to manage one plan vs. many smaller plans are lower. Administration and investment costs for DC plans can be more than four times higher than for the DB plans.

DB: According to the Investment Management Institute, the operating expense ratio for DB plans averaged 31 basis points in 2003 (31 cents per $100 of assets).

Basis points are often used to measure changes in or differences between yields on fixed income securities, since these often change by very small amounts.

DC: According to the Investment Management Institute, the operating expense ratio for DC plans averaged 96 to 175 basis points in 2003.

Basis points are often used to measure changes in or differences between yields on fixed income securities, since these often change by very small amounts.

In 1999, the Illinois Municipal Retirement Fund's total annual administrative and investment cost for its DB plan amounted to 44 basis points. Had it switched to a DC plan, total annual administrative and investment costs could have increased up to 225 basis points, or up to $250 million more than the annual administrative and investment costs paid by the DB plan.

Pension Boards and Trustees

Pension Board

A pension board is responsible for making decisions regarding a pension plan. Each public pension board is different, with variances in board composition, responsibilities and meeting rules. The duties and responsibilities of a pension board shall include, but not necessarily be limited to, the following:

- To interpret the provisions of the plan and answer all questions on the plan.
- To determine all questions relating to eligibility and participation.
- To determine and certify the amount of all retirement allowances or other benefits.
- To establish uniform rules and procedures to be followed for administrative purposes, benefit applications and all matters required to administer the plan.
- To distribute to participants, at regular intervals, information concerning the plan.
- To receive and process all applications for benefits.
- To authorize all payments from the fund, and to notify the disbursing agent, in writing, of approved benefit payments and other expenditures arising through operation of the plan and fund.
- To perform actuarial studies and valuations at least as often as required by law, and make recommendations regarding any and all changes in the provisions of the plan.
- To perform such other duties as are required to prudently administer the plan.
- An attorney, typically from the jurisdiction, gives advice to the pension board in all matters pertaining to its duties in the administration of the fund whenever requested. The attorney will also represent and defend the pension board as its attorney in all suits and actions that may be brought against it and bring all necessary suits and actions in its behalf. However, the board may also employ independent legal counsel at the fund's expense, together with such other professional, technical or other advisers, as the board deems necessary.

Individual Trustees

Individual trustees are personally responsible to administer the pension plan in the best interests of the members.

The legal obligations and responsibilities of pension trustees are extensive and include the following:

- Act honestly, in good faith and in the best interests of the members and former members and any other persons to whom a fiduciary duty is owed.
- Exercise the care, diligence and skill that a person of ordinary prudence would exercise when dealing with the property of another person.
- A plan administrator and all trustees on a board of trustees must not knowingly permit their own interests to conflict with their duties and powers in respect to the pension plan.
- Pension plan investments and financial decisions must be made in the best **financial** interests of plan members, former members and other plan beneficiaries.

Protecting Your Pensions

Actuaries look at the number of employees, their ages, their income and other factors to determine what the future liability of a defined benefit plan will be. The actuaries then look at the invested assets, estimate a future return and determine if the assets will be sufficient to cover the future liability. When the market is spiraling up, assets are usually greater than the liabilities and the employer does not have to put any money in the plan. But when the market is down, the liability is greater than the assets on hand. This is referred to as underfunded. During a financial downturn, public-sector pension plans have seen large declines in the value of their investment portfolios. Employers must consider how to stabilize their contributions to the plans, often at the employee's expense. Provided below is a sample of headlines and events:

Cities' Firefighters and Police Officers Have $636M Unfunded (NCPERS Weekly; 11/24/09)

A bill to relieve cities of some of the burden of their combined $636 million unfunded police and fire fighter pension liabilities began making its way through the legislature. The bill: (1) Creates the West Virginia Police Officers and Firefighters Retirement System (OFRS) effective Jan. 1. The system will cease to exist Jan. 1, 2014, if fewer than 100 people sign on; (2) Allows municipalities now participating in a retirement fund to close that fund to new hires and put the new hires in the new system; (3)Puts the OFRS under the oversight of the Consolidated Public Retirement Board, with a new board member to represent the system and various actuarial methods in place to ensure the system remains financially solid; and (4) Allows cities that join the new system to set up a 40-year amortization schedule to pay off their existing funds, with a nine-member board established to help cities manage those funds.

Jacksonville to fire union: Take pension deal or it'll get worse (NCPERS Weekly; 1/20/10)

If Jacksonville's public safety unions don't move quickly to accept a pension reform proposal that applies only to new employees, the city will take steps to cut retirement benefits for current workers, too. The proposal on the table: (1) Increase minimum retirement requirements from 20 years of service at any age to 25 years of service and a minimum age requirement of 52; (2) Eliminate the guaranteed 8.4 percent return on deferred retirement accounts; (3) Increase the employee pension contribution from 7 percent of pay to 8 percent; and (4) The proposed pension changes would save the city $1.27 billion over 35 years, according to the city.

Local Leaders Across Illinois Press For Pension Fund Changes (Rockford Register-Star; 3/4/10)

Facing growing financial problems, local leaders from across the state hope coming together will pressure state lawmakers to make significant changes on pension funds slated for police and fire fighters. The Pension Fairness for Illinois Communities coalition calls for requiring police officers and fire fighters to pay more for their retirement plans and pooling 640 public pension funds into one plan. Coalition members including mayors from several cities say their government pension contributions keep climbing. In Springfield, for example, the city contributed more than $11.5 million to police and fire fighter pensions in 2008 — up from less than $7 million in 2004. Springfield Mayor Tim Davlin said, almost all of the property taxes collected in Springfield go to police and fire pension funds. The issue is getting support from police and fire fighters. They receive 75 percent of their final year salary after 30 years of service when they are 50 years old.

New Jersey Senate May Require State To Pay Its Annual Share Into Pension System (Associated Press; 3/2/10)

New Jersey lawmakers want to reverse years of raids on state retirement funds by requiring the state to pay its annual share into the pension system. The Senate is expected to vote on the resolution next week. The Assembly has yet to consider it. If voters are asked to approve a ballot question in November, they would decide whether to bind the state and other public employers to make at least one-seventh of their pension contribution the following fiscal year. New Jersey's public worker unions oppose the resolution, which they say sanctions the state to continue underfunding the pension system for seven more years.

Mobilizing Your Campaign Coalition

Some of the most effective campaigns occur when fire fighters work with other public employee organizations as part of a coordinated coalition. This approach has already proven enormously successful in the fight to protect fire fighter pensions.

Provided below is information on how to get your campaign organized, develop talking points for defending against pension attacks, and identify the organizations to include in your coalition.

Campaign Preparation

The key to defending your pension is to be prepared before the threat becomes apparent and then to respond quickly and decisively.

If your state or local government has yet to seriously consider pension cuts, consider yourself lucky and take advantage of the additional lead time you have. Form a standing committee to address this single issue. Use your existing political and public relations committees to help you connect with legislators, community groups and the media. Then establish a mechanism for communicating with these individuals — such as an email distribution list or a page on your local's web site.

Campaign Materials

Educational materials for legislators, community leaders and reporters are an essential part of any campaign to protect pensions. The key element is simplicity. Many in the private sector, and some fire fighters, find it difficult to understand the differences between a traditional retirement plan and a defined contribution plan (which they may call a 401(k) plan, even though there are many other types of defined contribution plans).

Below is a list of some of the basic documents you'll need to develop and distribute.

- A formal resolution approved by your local pledging to fight the attack.
- A news release announcing passage of the resolution and the local's plan for protecting the pension benefits fire fighters deserve and have earned.
- A fact sheet explaining in simple language the threat and the outcome if the proposal is approved by the municipal or state government.
- Communications explaining why the proposal is a bad idea and the consequences of passage (you can use much of the same language put into your fact sheet).

Message Points

When meeting with legislators, community leaders and the media, it's important to offer several key reasons why traditional pension plans are worth defending. The IAFF can help in this area. For example, if you need expert testimony for a hearing, the IAFF can provide proponents of traditional pension plan design to testify.

As a starting point, following are some examples of the types of background information and statistics you can use. These examples explain the value of traditional pension plans and the problems that could result from pension cuts or the elimination of traditional plans. Remember, you must customize these message points to respond to the specific proposal in your situation.

Eliminating traditional plans means eliminating disability coverage for public safety officers who put their lives on the line every day.

Almost all state and local traditional plans provide disability and survivor benefits, as well as retirement income. Switching to a defined contribution plan would eliminate those benefits or require employers to obtain them from another source, probably at a higher cost. Many employers would simply allow public safety officers to fend for themselves in terms of disability coverage. Others may be forced to purchase insurance to deal with potential disabilities. In defined benefit programs, the cost of disabilities is determined actuarially and factored into the overall costs.

Traditional plans provide a guaranteed and secure retirement benefits based on a person's salary and period of service.

Retirees covered under defined benefit plans are guaranteed an income regardless of market performance. There is NO risk. The unfortunate reality is that most defined contribution plans fail to generate enough accumulation to provide members and beneficiaries with a lifetime income. In many cases, faulty investment decisions or bad market performance create scenarios in which the defined contribution plan is unable to sustain a secure retirement.

This is a more acute concern because of increasing life expectancies among Americans. Switching to a defined contribution plan is likely to result in lower and less secure retirement benefits for many long-term government employees, including teachers, police officers and fire fighters who constitute over half of all state and local government workers.

State and local employees who are without Social Security coverage would be put at even greater risk.

A Congressional Research Service report concludes that defined contribution-type plans will provide less than $5,000 in annual income for over one-half of participants; in contrast, traditional pensions will pay an average of more than $21,800 annually. The disparity is further exacerbated for employees (more than 75 percent of all fire fighters) who do not participate in the Social Security system.

Defined contribution plans are portable, but that feature is of little value to public safety workers.

In the private sector, workers expect to change jobs several times before retirement. However, when it comes to public safety employees, such as fire fighters and police, experience is valued. Longevity on the job ensures the presence of qualified, experienced individuals, especially in management positions — and that enhances public safety.

Switching to a defined contribution plan would likely cost state and local governments more over the short term.

The cost of administering defined contribution plans is expensive. These costs must be borne by either the plan sponsor (the employer) or passed on to plan participants in the form of higher fees.

Traditional plans enhance the ability of state and local governments to attract qualified employees and retain them throughout their careers.

Switching to a defined contribution plan would limit this ability, possibly producing or exacerbating labor shortages in key service areas by increasing employee turnover rates. Higher turnover rates result in increased training costs and lower levels of productivity that can, in turn, result in the need for a larger total workforce. One survey shows that 58 percent of employers believe that a defined benefit retirement plan helps in employee retention. The prospect of a guaranteed retirement encourages employees to remain with their respective employers and not search for greener pastures. Especially for public safety positions, maintaining a well-trained, consistent workforce is good public policy.

Traditional pension plans help state and local governments manage their labor force by providing flexible incentives that encourage employees to work longer or retire earlier, depending on the circumstances.

Switching to a defined contribution plan would limit this flexibility and make these incentives more expensive for the employer. Traditional plans are sufficiently flexible that they can be tailored to provide benefits to either retain or encourage early retirement. For example, deferred retirement option plans (DROPs) may be used to plan for orderly retirements and subsequent hiring needs.

Traditional plans lower overall retirement benefit costs by pooling the risks of the entire work force and smoothing investment performance (both gains and losses) over a long period of time.

Switching to a defined contribution plan would require each individual to bear these risks alone, resulting in higher contributions than if the risks were pooled. Traditional plans earn higher investment returns and pay lower investment management fees, on average, than defined contribution plans because of the economies of scale.

Return statistics show the investment management fees of defined contribution plans are often several times more than traditional models, which further erode ultimate asset accumulation, so at the end of the day, participants lose. Traditional plans are managed by professionals. Investment decisions are made in a fashion that balances risk and return. Too frequently, individual investors lack the time and skill needed to determine the best investments.

An actuarial study by Michael Carter demonstrates that non-professional investors underperform in the market by approximately 2.0 percent annually. Over a 25-year or more investment horizon, those results are catastrophic. Finally, studies indicate that when individuals change jobs, more than 50 percent withdraw all or part of their contributions from defined contribution plans.

Traditional plans help sustain state and local economies by providing adequate retirement benefits for a significant portion of the workforce.

Switching to a defined contribution plan may slow state and local economies because a large number of retirees would likely receive lower retirement benefits. The estimated economic value of income derived through defined benefit pension plans over what would have been earned in defined contribution plans is 2.0 percent of the U.S. Gross Domestic Product, or $200 billion a year.

Coalition Partners

In most state and municipalities, pension attacks affect many other public sector workers. Building a working coalition with these individuals is essential to defeating these attacks. Forming an informal coalition with these organizations' leaders begins when you and your fellow IAFF leaders contact your counterparts in organizations such as these:

- AFL-CIO: On the national level, the AFL-CIO has established a quick response system to address attacks on public pension systems and maintains a division dedicated to pension and investment issues.

- Local Chamber of Commerce: This business league has often been supportive of the IAFF, especially where the locals are members. Local chamber leaders do not always share the same positions as the national organization. The support of business leaders can be enormously beneficial.

- National Conference on Public Employee Retirement Systems: NCPERS is the largest national nonprofit public pension advocate, representing more than 500 public pension funds.

- National Association of State Retirement Administrators: NASRA represents the directors of the nation's state, territorial and largest statewide public retirement systems.

- National Council on Teacher Retirement: NCTR's membership includes 77 state, territorial, local and university pension systems.

Other associations and unions that represent public employees and have a vested interest in protecting traditional retirement programs include but are not limited to the following:

- American Federation of State, County and Municipal Employees (www.afscme.org)
- American Federation of Teachers (www.aft.org)
- Communication Workers of America (www.cwa-union.org)
- Fraternal Order of Police (www.grandlodgefop.org)
- International Brotherhood of Teamsters (www.teamsters.org)
- International Union of Police Associations (www.iupa.org)
- National Association of Police Officers (www.napo.org)
- National Education Association (www.nea.org)
- United Food and Commercial Workers International Union, CLC (www.ufcw.org)

If you have not formed a coalition and you come under attack, immediately bring all stakeholders together. Meeting on a regular basis draws everyone together and creates a commonality of interest. Engage in frank and candid discussions on what resources each group brings to the table. Draw on each other's strengths and weaknesses.

For example, fire fighters may have the best relationships with elected officials. The police association may have better media contacts. A member of the teachers union may be a trustee of the retirement system.

Lessons Learned in California and Other States

The success in defeating the 2005 ballot initiatives in California offers several lessons regarding political and public relations tactics — and especially the value of a coordinated campaign. Led by fire fighters, teachers, and school employees, public employee organizations came together to form a coalition in response to several anti-worker ballot initiatives supported by the governor, including the defined contribution pension measure.

The California Professional Firefighters (CPF) levied a $8-a-month assessment on its membership. The campaign used several tactics:

- Television commercials featuring the spouses and widows of fire fighters proved that Governor Arnold Schwarzenegger was not the governor he promised voters he would be.

- At rallies held across the state and at the state capitol, coalition members captured the attention of local voters, explaining why the proposed cuts were unfair.

- The coalition sent a steady stream of information to the media, explaining the true financial situation of the pension plan and the proposed cuts. The coalition also wrote dozens of letters to the editors that were published in numerous newspapers.

The result? Governor Schwarzenegger lost — for now. "When we started this battle, we were down almost two to one in the polls," says Lou Paulson, President of CPF. "We faced well-funded and committed adversaries, as well as a popular celebrity governor. Even though our backs were against the wall, we had to fight because IAFF affiliates and more than 30,000 CPF members' and retirees' pensions were in jeopardy. In the end, we prevailed because we worked hard and we worked smart. Fire fighters built effective coalitions, educated and mobilized our membership and conducted a coordinated and effective political and public relations campaign which carried the day."

Additional ballot initiatives are likely, but face a now experienced coalition that continues to meet regularly, share information on possible legislative maneuvers and develop better materials that reveal the truth about public employee pensions.

In California, as in many states, legislators unfriendly to public employees perpetuate a number of myths, a tactic IAFF locals should be prepared to counter.

Some examples:

- Is your pension plan truly under-funded? Many are not, or are not in as bad financial shape as claimed. In many states, problems of under-funding can be corrected over time; they do not need to be resolved by huge cash infusions over the next year or two.

- If your plan is under-funded, what happened? Is it because of excessive pensions? In many states, the problem is the legislature's failure to contribute sufficient funds — and in some cases any funds — into the system.

- Are your pensions excessive? In California, the comparatively high pensions of a few state employees were presented as typical by Governor Schwarzenegger. In fact, the typical public employee receives only $19,200 a year — including those who live in some of the most expensive cost-of-living areas in the country.

Collecting this type of information is faster and easier when many groups work together. Get together with your public employee colleagues to analyze the statements — or misstatements — of political leaders and the often incorrect or distorted media reports, and then prepare simple, easy-to-understand responses that make your case.

Responding to Proposed Cuts

A fast, organized campaign is essential to defeating proposed pension cuts. Delay, and you risk losing benefits that may take years to restore.

An effective campaign, one designed to protect pensions, will have three major strategies:

- Legislative
- Political
- Communications

Legislative Strategy

A legislative campaign will test the effectiveness of your existing legislative committee. Having an informed activist as chair is essential.

Your legislative strategy begins by making a careful and detailed analysis of the proposed measure that would reduce your pension benefits. Such a review may yield extremely important information. In California, for example, such a review revealed an unknown — and perhaps unintended consequence: the elimination of disability coverage for line-of-duty deaths. This single fact was responsible for lining up numerous individuals and organizations who publicly opposed the governor's proposal, leading to its defeat.

The next step is to identify the individuals in the state legislature or municipal government who propose the pension cuts. Then identify elected officials, community leaders, business and trade organizations, and newspaper and media outlets that support your opponent's position.

Once you have analyzed the proposed cuts and learned everything you can about those supporting them, it's time to meet with them — in private and in public. Preparation is essential, as is a well-rehearsed, professional presentation of your position.

Behind-the-scenes, private negotiations with these proponents of pension cuts and their supporters often present the best opportunity to discuss your arguments. A face-to-face meeting gives you the best means for establishing a relationship with appointed and elected officials, who often will speak more openly in private than they will during a public meeting.

Eventually you will need to confront your opponents in public meetings and hearings. An advantage of public meetings is that they present an even better opportunity to get an elected official to state a position on your issue. An elected official is also more likely to keep a commitment made at a state government committee or city council meeting in front of a public audience that includes reporters.

In the few minutes immediately before a public meeting, you typically have an opportunity to speak briefly with elected officials. If you're meeting someone for the first time or someone who may have forgotten you or your position in an IAFF local, always introduce yourself by name, indicating your position both as a fire fighter and an IAFF local representative.

During the meeting, if an official says something with which you disagree or that you believe is incorrect, and you don't have the chance to address the comment publicly, try to get the attention of the official afterward. If unsuccessful, follow up with a meeting, a phone call or a letter stating your position or supplying information to refute the comments.

Whether in a public or private meeting, remember these basic rules for lobbying appointed or elected officials:

- When discussing an issue, be polite and courteous. Don't argue or threaten.
- When seeking a commitment for support, be clear and to the point. Don't be evasive.
- Know the reasons why the official should support or oppose the issue in question, and anticipate objections to and questions about the local's position.
- Schedule meetings in advance. Don't show up unannounced and expect a meeting on the spot.
- Never resort to name calling. Remember that you may need to meet with this individual again on the same or some other issue.
- Never threaten political retaliation if the elected official disagrees with your position.

State Legislation

Another way to protect the security of your pension plan is to amend your state law by adding provisions designed to improve the operation of pension plan administration and expand participant involvement.

Carefully review your state laws to detect problem areas and explore the possibility of advancing state legislation to correct any deficiencies. The IAFF can provide model legislative language, but the onus of crafting specific legislation appropriate for your state falls on the IAFF state and local affiliates.

In 1991, the National Conference of Commissioners on Unformed State Laws (NCCUSL) drafted a model state pension law. Although the model law contains a number of helpful provisions, it falls far short of what is necessary to adequately protect the interest of plan participants. At a minimum, every state should be fully compliant with the NCCUSL model law, and most states should go beyond these bare minimum requirements.

Florida 2000: Another Controversial Election

Beginning in the late 1990s, a cadre of well-paid, out-of state lobbyists tried to influence the Florida legislature. These influence peddlers wanted to convert the nation's fourth largest retirement system into an exclusively defined contribution style program. The Florida Public Employees Retirement System covers 660,000 active members and 240,000 retirees. If successful, the conversion would have been a windfall for Wall Street.

Recognizing the very real threat, a coalition of stakeholders launched a counterattack and mobilized a massive grassroots lobbying campaign to protect retirement security for Florida's public employees.

"When the legion of Wall Street lobbyists descended on Tallahassee, we knew the score. They wanted to convert our pension system into a defined contribution program, which is little more than a glorified savings plan. But through grassroots lobbying and a little backroom deal making, Florida fire fighters and our allies from other public sector unions thwarted their scheme. Today, our members still enjoy traditional pension benefits," says the Florida Professional Firefighters.

When the dust settled, the traditional defined benefit program was preserved and an "optional" defined contribution plan was instituted. After a comprehensive educational campaign was waged by various public sector unions, more than 95 percent of plan participants elected to remain in the traditional retirement program.

Political Strategy

Other IAFF documents address at length ways to support politicians who support fire fighters and to defeat those who do not. It's important to get candidates for elected office on the record regarding this issue.

The easiest way to identify candidate positions is through a candidate survey. A sample is available on the IAFF web site. For surveys focusing exclusively on retirement issues, include direct questions such as these:

- Would you maintain defined benefit retirement systems and disability benefits for public safety employees?
- Would you commit to supporting legislation stating that money designated for retirement system purposes cannot be diverted for other purposes, including reducing the annual employer or employee contributions to the system?

You will have supporters in government. Encourage them to support your campaign. They can write editorials, submit testimony and lobby their colleagues.

For those politicians who are undecided or refuse to state a position, demand answers. Many politicians choose to travel the path of least resistance. On this issue, you must force a choice.

Fire Fighter Candidates

The best way to advance IAFF legislative issues is to ensure that fire fighters and emergency medical personnel are among those officials managing public employee pensions.

Just as the IAFF has been able to help elect more than 350 IAFF members and spouses to elective office across the United States, we believe fire fighters must pursue one of two positions that are typically available with most pension plans:

- pension plan trustee
- pension plan administrator

In some states, these positions are elected, while in others they are appointed by politicians. Find out what positions are available in your system and when the positions next become available. Your participation in the day-to-day management of these plans can help ensure timely, accurate information. As important, it can help prevent actuarial and accounting data manipulation.

Communications Strategy

An effective communications strategy can be the most important tool in a fight to preserve your pension. That's because it can help address the lack of information that exists among many key audiences who will determine whether the proposed cuts are approved.

- Most voters oppose taking disability benefits away from fire fighters and police officers. Defined contribution plans do not protect fire fighters injured in the line of duty. And many legislators and reporters are unable to distinguish the difference between traditional and defined contribution pension plans.
- Most Americans are unaware that public employee pensions were offered in lieu of the higher salaries typically found in the private sector.
- Most legislators are unaware that many fire fighters must retire at a certain age and of the importance of disability benefits because of the potential for career-ending injuries.
- Most Americans are unaware that public sector employees were legally prohibited from participating in Social Security at the time it was created.

Whether using paid media (advertising) and earned media (news stories on television and in newspapers), the key is to use every possible tactic to reach as many different audiences as possible and to attain several goals:

- explain the value of government-run public services
- shift public opinion to support your position on the pending legislation
- create public pressure on political leaders
- produce the votes needed to defeat the pension proposal

A successful communications strategy begins by formulating the essential message, which must be customized in every situation, based on the proposed cuts. Your coalition members can help develop your message, as can the IAFF.

Undertaking a media campaign is an enormous expense, and in most cases, paid media may be unnecessary. There are, however, statewide referendum campaigns when a media campaign is imperative. These costs are another incentive for organizing a diverse coalition of organizations and individuals to support your campaign.

The key to a successful campaign is to evoke public support for your position and make the issue relevant. To help achieve this goal, be sure to recruit retirees, dependents and members receiving disability benefits who would be most negatively impacted by the proposed pension cuts. In several states, these individuals have consistently proven to be the most effective spokespersons at press conferences and community meetings, and as authors of editorials.

Of course, getting your message out requires a current media list. Remember that the reporters covering pension cuts are most likely different than those who cover the fire service. You'll need a new list of the appropriate reporters and assignment editors, and a strategy for educating these individuals on the value of traditional pension plans. Assign a committee member the task of developing a media list that includes names, addresses and phone numbers — and especially email addresses. Learn their deadlines and, for television and radio, the number of broadcasts per day. Remember to track the editorial writers who publish editorials on government services and fiscal responsibility.

Meeting with local editorial boards to explain the issue is an essential step. Even if a paper is predisposed to support privatizing a pension fund or converting to a defined contribution model, it is important to articulate your position and why the issue is important to fire fighters.

Conclusion

Pensions are not gifts from employers but rather deferred wages owned by fire fighters. Any attack on fire fighter pensions must be seen as an attack on the hard earned [deferred] wages of fire fighters.

We cannot afford to be complacent or unprepared to fight off these challenges. If we fail, IAFF members, their families and future generations of professional fire fighters will pay the price. Failure will carry a heavy cost, because reversing pension cuts will be difficult, perhaps impossible. There won't be many opportunities for second chances. Therefore, review this handbook now, get organized and get involved to protect your pension.

For additional information, contact the IAFF, visit **www.iaff.org/et/pensions/** or visit the National Conference on Public Employee Retirement Systems web site at **www.NCPERS.org**. NCPERS members include many IAFF active and retired members.

Appendix: Glossary of Pension Terms

Pension Terms

401(k) Plan A defined-contribution pension plan offered by many corporations.

403(b) Plan A retirement plan that is provided by nonprofit entities, such as public school systems, hospitals and 501(c)(3) entities. These plans are also called Tax-Sheltered Annuities (TSA).

Actuarial Assumptions A group of assumptions set about future inflation, rates of return, salary growth, probable death rates, and probable disability. As a whole, these form a basis for the actuary to determine the liability of the pension fund and the amount of money that needs to be paid into the plan.

Actuarial Valuation The actual cost of the municipality's pension plan based on the plan's demographics. The cost study is based on the plan's determined retirement age, benefit level, years of credited service, and the individual demographics of the employees. The actuary calculates how much money is needed to fund the pension.

Actuary A qualified independent professional who determines the amount of money that needs to be deposited in a defined benefit plan to ensure adequate assets accumulate to pay the promised benefit.

Aggregate Volatility The volatility of a total portfolio, as opposed to the volatility of individual securities, individual managers, or individual asset classes.

Agreement The document or contract between the employing municipality and employee that details the retirement benefits and eligibility requirements for plan members.

Alternate Payee A spouse, former spouse, child, or other dependent having a right to receive a portion of the participant's benefits under a Qualified Domestic Relations Order (QDRO).

Alternative Asset Classes Asset classes other than traditional asset classes such as stocks and bonds.

Annuitant A retiree or a survivor or beneficiary of a retiree who receives a monthly periodic payment.

Annuity A series of periodic payments that typically continues for the lifetime of the participant. Optional forms include a joint and survivor annuity and a term-certain annuity that pay a beneficiary a predetermined amount if the participant dies first.

Asset Class A category of assets, such as large U.S. stocks or high-yield bonds, or venture capital.

Asset/Liability Studies Studies based on (a) assumptions about the future performance of specific asset classes, and (b) projected liabilities of a pension fund, to determine an optimal asset allocation.

Back-Loaded Mutual Funds Mutual funds that charge a fee when an investor sells the mutual fund.

Benchmark A basis of comparison for the investment return of an investment manager or for an overall portfolio.

Beneficiary The joint annuitant or any other person, estate, or trust fund you last designated in writing to receive any benefits which may be payable upon your death.

Benefit Payment Forms Payment options, such as Single-life, 50 Percent Joint and Survivor, 100 Percent Joint and Survivor, Period Certain, or Certain and Life.

Book Value The price that was paid for an investment.

Capitalization of a Stock The number of a company shares outstanding (or available for trading), times the price of its stock.

Cash Balance Plan A defined benefit plan that looks like a defined contribution plan. Participants have hypothetical account balances that earn a guaranteed rate of interest.

Certificate of Deposit A deposit with a bank of a specific amount of money for a specific time at a specific rate of interest.

Commingled Fund A fund in which two or more clients invest. Mutual funds, group tests, and most limited partnerships are common examples.

Compensation The salary, wages, and other earnings paid to a member for employment which is used in calculated the pension benefit.

Consumer Price Index (CPI) The index of inflation for the previous year as released each January by the U.S. Bureau of Labor Statistics.

Correlation A statistical term measuring the amount of similarity between the volatilities of any two indices, individual securities, or investment portfolios.

Cost of Living Adjustment (COLA) An annual adjustment in wages to offset a change (usually a loss) in purchasing power most often derived by the CPI.

Custodian The organization that holds and reports on the assets of an investment fund.

Deferred Retirement Option Plan (DROP) A DROP plan is an arrangement under which an employee who would otherwise be entitled to retire and receive benefits under an employer's defined benefit retirement plan instead continues working. However, instead of having the continued compensation and additional years of service taken into account for purposes of the defined benefit plan formula, the employee has a sum of money credited during each year of the continued employment to a separate account under the employer's retirement plan. The account earns interest (either at a rate stated in the plan, or based on the earnings of the trust underlying the retirement plan). The account is paid to the employee, in addition to whatever benefit the employee has acquired under the defined benefit plan based on earlier years of service, when the employee eventually retires.

Derivative A security such as a convertible bond or futures contract where the market value is derived all or partially from a different security.

Diversifiable Risk Volatility that can be eliminated through diversification.

Diversification Assembling a portfolio of securities that fluctuates in value differently from one another.

Diversification Benefit The reduction in volatility or increase on return that can be gained through the diversification of a portfolio.

Dividend Yield A stock's dividend as a percent of its market value.

Dollar-Weighted Return Internal rate of return, the average percent return on every dollar that was invested over an interval of time.

Duration A measure of the average amount of time before returns on an investment are realized, including both interest and principal payments.

Early IRA Withdrawal Penalty A 10 percent penalty on money withdrawn from an IRA retirement plan before age 59 1/2.There are some exceptions to the penalty, such as payments on account of death, disability, termination of employment after age 55, and payments to an ex-spouse due to a qualified domestic relations order.

Efficient Frontier Given assumptions for the return, volatility, and correlation of each asset class, the Efficient Frontier is a graph showing the highest return that can be achieved at every level of portfolio volatility.

Elective Deferral A contribution that an employee makes to a 401(k) plan.

Emerging Markets Stock and bond markets of the less developed countries of the world.

EPS (Earnings Per Share) The net earnings of a company divided by the number of its outstanding shares.

ERISA (Employee Retirement Income Security Act) A law passed in 1974 covering qualified retirement plans that include the Internal Revenue Service pension laws, Department of Labor provisions, and the Pension Benefit Guaranty Corporation (PBGC).

Fiduciary Any person or entity that exercises discretionary authority or control over a plan or its assets and any person who gives investment advice to the plan for a fee. Generally, the employer, the trustee, and the investment advisor are fiduciaries.

Fixed Income Bonds and cash equivalents where principal and interest payments are fixed.

Forfeitures The portion of an account that a participant loses if he/she terminates employment before becoming 100 percent vested.

Front-Loaded Mutual Fund A mutual fund that deducts a sales charge from a purchase of that fund.

Frozen Plan A plan that continues to exist even though employer contributions have been discontinued or future accruals have ceased.

Funding Deficiency For defined benefit or money purchase plans, the amount of the minimum required contributions that were not funded by the minimum funding deadline (eight-and-a-half months after plan year-end).

Funding Ratio The ratio of (a) the market value of a pension fund to (b) the present value of the liabilities of that pension fund.

GDP/GNP Gross Domestic Product and Gross National Product are two measures of the size of a nation's economy.

Growth Stocks Stocks with higher growth rates in earnings per share.

Hardship Withdrawal An in-service withdrawal from a 401(k) or 403(b) plan because of the immediate and heavy financial need of a participant.

Hedge An investment that reduces the risk of another investment.

Hedge Funds A term designated for a broad range of funds that make both long and short investments, sometimes using a variety of derivatives.

High-Grade Bonds Bonds with high quality ratings.

High-Yield Bonds Bonds with lower quality ratings, once known as "junk bonds."

Illiquid Assets Assets that cannot be rapidly sold or otherwise converted to cash, usually for at least a year and perhaps for many years.

Index (a Securities Index) A measure of the investment return on an asset class.

Index Funds An investment fund that is designed to replicate as closely as possible the return on a particular index; for example, an S&P 500 index fund.

Individual Retirement Account (IRA) A qualified retirement plan into which an individual may contribute pretax dollars and keep the money tax-free until retirement age. The individual may withdraw the money without penalty anytime between ages 59-1/2 and 70-1/2.

In-House Management Management of all or a portion of a fund's investments by its internal staff.

Integration A feature of the plan whereby benefits are integrated with Social Security. An integrated plan generally provides larger benefits for employees who earn more than the Social Security taxable wage base. After 1986 integration was renamed "permitted disparity."

Leverage Investing with the use of borrowed money or credit.

Liabilities of a Pension Fund The value of promises made to the participants in a pension plan, usually the present value of those promises.

Liquid Assets Assets that can be sold or otherwise converted to cash in less than a year.

Long/Short Investments Investments that are both long and short, such as buying security A (long) and borrowing and selling security B (short), so that results depend entirely on the difference in return between securities A and B.

Market-Neutral Investments Investments where volatility has a very low correlation with the volatility of the stock and bond markets.

Market Value The price at which an investment could be sold at any given time.

Median The midpoint of a distribution, with half above and half below.

Micro Stocks Midsize stocks, such as (in the United States) stocks smaller than those included in the Russell 2000 index.

Mid-Cap Stocks Midsize stocks, such as (in the United States) stocks larger than those included in the Russell 2000 index, but excluding the larger stocks.

Money Market Mutual Funds Mutual funds that invest in fixed income securities shorter than one year in maturity, funds whose price is not expected to fluctuate.

Multiemployer Plan A retirement plan sponsored by more than one employer that is established pursuant to a collective bargaining agreement (union).

Net Returns Investment returns that are net of all fees and expenses.

Normal Retirement Age An assumed retirement age that is specified in the plan document. Participants are not required to retire when they reach retirement age. Participants generally continue to earn benefits if they work past retirement age. Participants are 100 percent vested at normal retirement age.

Operating Policies An organization's written policies relative to the operation of its investment committee.

Options The right, but not the obligation, to buy a security from (or sell a security to) a particular party at a given price by a given date.

PBGC (Pension Benefit Guaranty Corporation) A U.S. government agency that insures the payment of pension benefits up to a certain benefit level in the event that a private pension plan is terminated and can't come up with the money to meet its promises.

Plan Administrator The entity that has responsibility to administer the plan (i.e., collect data, calculate contributions, and pay benefits). Generally, the company is the Plan Administrator. Oftentimes, a company will appoint a committee to act as its agent to administer the plan. In addition, the Plan Administrator or committee can hire a company (third-party administrator or record keeper) to help it administer the plan. The Plan Administrator has legal responsibility for the plan and can be sued.

Plan Sponsor The business entity that sponsors the plan and has responsibility for the plan.

Policy Asset Allocation The target asset allocation that an organization has established in its Investment Policies.

Portfolio All of the securities held by an investment fund.

Predictive Value The extent a manager's past performance may provide some indication of that manager's future performance.

Price/Earnings Ratio The ratio of a stock's price to its earnings per share.

Private Investments Investments that are not sold publicly.

Proxy The voting on issues to be decided at a stockholder's meeting.

Quantitative Managers Managers who develop and rely on mathematical algorithms to determine the transaction to be made in managing an investment portfolio.

Quartile One-quarter of a distribution, for example the top 25 percent or the bottom 25 percent.

Real Return Investment return in excess of inflation.

Rebalancing Transactions that bring a portfolio's asset allocation closer to the investment fund's Policy Asset Allocation.

Reinvested Dividends Dividends paid by a stock that are used to buy more shares of that stock. For example, a total return index assumes that all dividends are reinvested.

REITs (Real Estate Investment Trusts) Common stocks of companies that invest in real estate, but instead of paying corporate income tax pass their income tax liability on to their stakeholders.

Required Minimum Distributions The minimum amount that must be paid to a participant each year after attaining age 70 1/2.

Retirement Eligibility Meeting the age and service requirements to be eligible for retirement.

Risk The probability of losing money, or that the value of an investment will go down. For a portfolio of investments, risk is often defined as volatility, which over long intervals tends to encompass most individual risks.

Risk-Adjusted Return Return-on-investment adjusted for its volatility over time, with a volatile investment requiring a higher return and vice versa.

Rollover A tax-free transfer of cash or other assets from one retirement plan to another retirement plan or to an IRA.

Rollover IRA An individual retirement account that is established for the sole purpose of receiving a distribution from a qualified plan. Oftentimes distributions in rollover IRAs can be rolled back into a qualified plan.

Roth IRA An IRA in which the contributions are nondeductible and the distributions are non-taxable.

SAR (Summary Annual Report) A summary of the Form 5500 (annual report) that is required to be distributed to plan participants.

Securities Evidence of ownership or debt, such as stocks or bonds.

Separate Accounts A portfolio that is held for only one investor. (Insurance companies, however, use "separate accounts" to denote a portfolio held for one or more investors that is valued for those investors at market value.)

Short Selling Borrowing a security and then selling it.

Short-Term Investment Fund (STIF) A money market fund provided by a bank for investment clients for whom the bank serves as custodian.

Small Stocks Stocks with relatively low capitalization, sometimes measured by the Russell 2000 index.

Social Investing Overlaying a fund's investment objectives with a set of social goals that constrain the fund from investing in certain kinds of companies or that encourage it to invest in certain other kinds of companies.

Social Security Retirement Age The age, used as the normal retirement age under the Social Security Act to pay unreduced benefits, that depends on the calendar year of birth.

SPD (Summary Plan Description) A detailed, but easily understood, summary of the plan that must be provided to participants and beneficiaries.

Standard Deviation A measure of volatility of the return on a security or a portfolio.

Style The manner in which a manager invests, such as in small, medium, or large stocks, or in growth stocks or value stocks.

Systemic Risk The portion of a security's volatility that is highly correlated with all or a portion of the market; for example, the portion of a stock's volatility that is highly correlated with the overall stock market or with other stocks in its own industry.

Tactical Asset Allocation A strategy of moving investments between different asset classes (such as between stocks and bonds), depending on which seems more attractive at time. Such strategies are typically driven by quantitative models.

Target Asset Allocation See Policy Asset Allocation

Time Diversification Purchasing investments in an asset class in multiple different years.

Time Horizon The time between when one makes an investment and when one will need to use the money for other purposes.

Time-Weighted Return The compound annual growth rate of a dollar that was in a portfolio from the beginning of an interval to the end of that interval. The portfolio's performance in each unit of time is given equal weight.

TIPS (Treasury Inflation-Protected Securities) Inflation-linked bonds are is by the U.S. government.

Total Return The investment return on a security or a portfolio that includes income (such as dividends and interest) and capital gains (whether realized or not), net of all fees and expenses.

Total Return Index A securities index that assumes that all dividends are reinvested in the issuing company's stock.

TPA (Third Party Administrator) An outside company hired by the Plan Administrator to assist in administering the plan.

Track Record The historical investment performance of a manager.

Transaction Costs The total costs involved in buying or selling a security, including both brokerage commissions and market impact costs.

Treasury Bill (T-Bill) A short-term loan to the U.S. government.

Trust A legal entity established under state law to hold and administer plan assets. Federal law allows the trust to be tax-exempt.

Trustees The parties responsible for managing the trust. The trustees can manage the plan's assets or can appoint an investment manager.

TSA (Tax Sheltered Annuity) A type of retirement plan provided by non-profit entities such as public school systems, hospitals and 501(c)(3) entities. These plans are also called 403(b) plans.

Unfunded Liability The amount of funds or time (commonly measured in years) needed to pay for improvements over the years for present members and retirees who formerly contributed at a lower contribution rate for a lesser program.

USERRA The Uniformed Services Employment and Reemployment Rights Act of 1994, which prohibits discrimination against employees because of membership in the uniformed services.

Value Stocks Stocks with lower price-to-book-value ratios.

Venture Capital Private corporate investments, especially in start-up companies.

Vested The rights members of a retirement plan acquire by length of service needed to receive benefits.

Vesting The percentage of a participant's account or benefit that he or she owns and is entitled to when he or she terminates employment.

Volatility Fluctuation in the market value of a security or a portfolio.

Voluntary Contributions After-tax amounts that a participant voluntarily contributes to a retirement plan.

Wealth The total market value of a portfolio at any given time.

Wilshire 5000 Index A capitalization-weighted index of virtually all stocks traded in the United States, including foreign stocks listed on U.S. exchanges.

Withdrawal from a Fund The cash payment by an investment fund to its sponsor or to its plan participants.

Workers Compensation A state government system designed to address work-related injuries.

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