Opening Statement of Senator Casey
Joint Economic Committee Hearing, "Your Money, Your Future: Public Pension Plans and the Need to Strengthen Retirement Security and Economic Growth"
July 10, 2008

The subject of our hearing today sounds obscure: the role of defined benefit pension plans in the American economy. However, this type of pension plan plays a very important role for reasons that we will explore today.

Historically most public and private employers offered their employees defined benefit pension plans, which pay an annuity based upon the employee's salary and years of service upon retirement. Under this arrangement, employers and employees share the risk of loss of market declines or bad investments of retirement assets. Employers offering defined-benefit pension plans take on the responsibility of investing retirement funds, either directly or through outside fund managers. By contrast, defined contribution plans, like the 401ks that most people have, allocate all investment risk to employees.

Over the past 30 years, defined benefit plans have come under severe attack. In the private sector, corporate defined benefit plans have declined substantially. In 1975, 88% of private-sector workers were covered by defined benefit plans; in 2005 that number had shrunk to 33% of the private sector workforce. There have been a number of well publicized attempts to eliminate defined benefit plans for public pension funds and multiemployer or Taft-Hartley funds.

As Auditor General and State Treasurer of Pennsylvania, I took a particular interest in the two state public pension funds, for teachers and public employees, which are traditional defined benefit plans. As Auditor General, I audited both funds and as State Treasurer, I served as a trustee for both funds. It gave me an insight into the benefits of well-run defined benefit plans, both to retirees and to our economy as a whole.

Defined benefit plans have been proven to earn better returns than defined contribution plans over the long run. For example, a recent study showed that defined benefit plans outperformed defined contribution plans by 1.8% per year over an eight-year period. This is because defined benefit plans are professionally managed, particularly in their asset allocation decisions and, in addition, have access to alternative investments like venture capital, private equity, real estate and hedge funds. These “patient capital” investments actually increase the return to a pension fund while reducing overall risk to the fund's portfolio. Alternative asset categories have low correlation with other asset classes; that is, they do not behave the same way that public equity or fixed income markets do, so when stocks go down, investments like venture capital may not.

Defined benefit plans are a key factor in attracting and keeping excellent teachers, firefighters, police, social workers and other public employees. The best and the brightest of our cops, firefighters and teachers have a big incentive to stay in their jobs rather than switch careers because of the promise of pension benefits in retirement. Multiemployer or Taft-Hartley defined benefit plans play the same role for workers in many of our important industries, including manufacturing, building trades and others.

Money invested in defined benefit plans typically stays there until an employee leaves or retires. As a result, defined benefit plans can invest in less liquid, alternative asset classes, such as venture capital, which are crucial to job creation, particularly in high-tech industries. Over 40% of investment capital for venture capital funds in the United States now comes from defined benefit plans.

Today, we will hear from four witnesses: an active firefighter from Los Angeles, who is also a trustee of his defined benefit pension fund; a well-known economist who has written extensively about this issue; a venture capitalist from Philadelphia who manages money for a number of defined benefit plans and invests in the biotech industry; and a representative of the GAO, who has studied the subject.

During this hearing, I believe there is one broader issue that we must all keep in mind. That is the issue of how we allocate risk in our society. It concerns me that some here in Washington and across America want ordinary people to assume sole liability for decisions regarding their health care, their pensions and their Social Security. These are risks that have traditionally been shared with employers or with the government. If we also want people to take 21st-century, global economy-type risks, like changing jobs, stopping-out for more education and training or starting their own businesses, we cannot also dump all the risk of health care and retirement on them. I am concerned that moving billions of dollars of retirement assets from defined benefit plans to defined contribution plans ads substantially to the risk we are asking ordinary Americans to take.

I plan to ask each of the witnesses today, as well as a number of other interested parties, for specific recommendations on what to do about the future of defined benefit plans. At a minimum, we should ensure that the circumstances that led to the decline of defined benefit plans in the corporate world are not repeated in the public or Taft-Hartley sectors.

With economic stability on the minds of all Americans, I look forward to discussing these issues in our hearing today.