Are Public Pension Cuts Hurting Your Ability to Recruit Workers?

2018 NCPERS Public Pension Funding Forum
September 19, 2018

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Executive Director
NIRS Research on Retirement Plan Design and Workforce

- Public employers would attract a different labor force if they switched from DB pension plans.

- DBs may improve public sector productivity as employees are more likely to value work and invest more in their skills.

- Employee turnover would increase under DC and cash balance plans.

- When given a choice, public employers and employees choose to stay with DB plans.
Public Sector Has Median Employee Tenure Equal to Twice the Private Sector

Median years of tenure with current employer for private and public sector employees, 2000-2016
Public Employees – Retirement is an Extremely Important Job Feature

Figure 2: Importance of Job Features and Characteristics Among State and Local Government Employees, 2016

Source: Retirement Confidence Survey of the State and Local Government Workforce (2016), TIAA Institute and the Center for State and Local Government Excellence.
Retirement Benefits More Important Than Salary For Public Employees

Figure 24: **Retirement Benefits are Significantly More Important to Public Workers as Compared to Private Sector Workers**

When making job decisions, how important are the following job features to you?

- **Salary Extremely or Very Important**
- **Retirement Benefits Extremely or Very Important**

- **PUBLIC SECTOR EMPLOYEES**
  - Salary Extremely or Very Important: 57
  - Retirement Benefits Extremely or Very Important: 88

- **PRIVATE SECTOR EMPLOYEES**
  - Salary Extremely or Very Important: 82
  - Retirement Benefits Extremely or Very Important: 65
Case Study: Palm Beach Daily New Headlines Police and Firefighters

2010-2012

Police seek public’s support for pension funds
By William Kelly - Daily News Staff Writer

Town Council gives final reading to pension cuts
By William Kelly - Daily News Staff Writer

2016

Palm Beach council adopts pension overhaul for police, firefighters
New plan aims to stop employee exodus
By William Kelly - Daily News Staff Writer

Source: Palm Beach Daily News
### Case Study: Summary of 2012 Palm Beach Retirement Plan Reforms

**Key Plan Provisions**

<table>
<thead>
<tr>
<th>Before May 2012</th>
<th>After May 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Multiplier</td>
<td>3.5 percent per YOS</td>
</tr>
<tr>
<td>Final Ave. Salary</td>
<td>Highest 2 of last 5</td>
</tr>
<tr>
<td>Retirement Age</td>
<td>As early as 20 YOS</td>
</tr>
<tr>
<td>Employee (EE) DB</td>
<td>6.98% (P); 6.82% (FF)</td>
</tr>
<tr>
<td>COLA</td>
<td>2% after 3 years</td>
</tr>
<tr>
<td>DC plan Match</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Reduces to 2.47% after October 2013

Source: Palm Beach Actuarial Evaluations 2011 and 2013
Case Study: Impact of Employee Turnover Was Not Considered, BUT...

“Everybody just looked for a way to move on with their life.”

FPPTA firefighter interview 2016.

<table>
<thead>
<tr>
<th></th>
<th>Police</th>
<th>Firefighters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Withdrawals</td>
<td>12</td>
<td>25</td>
</tr>
<tr>
<td>(4-year lookback)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vested Terminations</td>
<td>1</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: www.youtube.com/watch?v=wKA9h_wlewI&feature=youtu.be and Palm Beach Actuarial Evaluations 2011 and 2015
## Case Study: Impact of Employee Turnover Shifted Demographics

### Big Shift in Employee Demographics in Four Years

**Palm Beach Police and Firefighter Pension Plans**  
**Active Employees by Years of Service (YOS)**

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>0-4 YOS</td>
<td>15</td>
<td>23</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>5-9 YOS</td>
<td>21</td>
<td>8</td>
<td>27</td>
<td>5</td>
</tr>
<tr>
<td>10-14 YOS</td>
<td>13</td>
<td>9</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>15-19 YOS</td>
<td>10</td>
<td>8</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>20-24 YOS</td>
<td>1</td>
<td>4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>25-29 YOS</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>52</td>
<td>60</td>
<td>49</td>
</tr>
</tbody>
</table>

Source: Palm Beach Actuarial Evaluations 2011 and 2015
Return to DB Pension in Palm Beach
Comparison of 2016 Reforms

Move back to DB pension, involved higher employee contributions (10%) and saved employers money.

<table>
<thead>
<tr>
<th>Key Plan Provisions</th>
<th>Before October 2016</th>
<th>After October 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Multiplier</td>
<td>1.25 percent per YOS</td>
<td>2.75 percent per YOS</td>
</tr>
<tr>
<td>Final Ave. Salary</td>
<td>Highest 2 of last 5</td>
<td>Last 5</td>
</tr>
<tr>
<td>Retirement Age</td>
<td>Age 65</td>
<td>Age 56</td>
</tr>
<tr>
<td>Employee (EE) DB</td>
<td>2.47%; 4.82 (Union FF)</td>
<td>8 to 12 % (Act. Calc.)*</td>
</tr>
<tr>
<td>COLA</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>DC plan Match</td>
<td>100% of 4% EEs pay</td>
<td>N/A</td>
</tr>
</tbody>
</table>

*Union FF covered in 2017

Source: Palm Beach Actuarial Evaluations 2013 and Summary Annual Report 2016
“Palm Beach subsequently restored guaranteed pension benefits, but healing their relationship with the city’s employees has been painful and slow…

It costs about $240,000 to train each public safety officer. Cities where the pension is not commensurate with neighboring employers are unable to retain workers.”

Kimberlie Ryals, CEO of the FPPTA
Florida Times Union on 2/22/1017
UC Berkeley: California Teachers Are Better Off with a Pension

While CalSTRS has four out of 10 new hires leave before vesting in any given year they represent less than 6 percent of the classroom teachers.

Study’s Key Findings Show Pensions Benefit a Long-Term Educator Workforce

- Three-quarters of classroom teaching in California is performed by long-term teachers
- 61% age at retirement with around 29 years of service
- 75% of active educators will have worked at least 20 years
- 49% of educators will retire with 30 or more years of service
- 26% will have been covered by CalSTRS for 20–29 years

http://laborcenter.berkeley.edu/pdf/2016/California_Teachers_Pension_401k.pdf
NCES: Only 17% of the Teachers hired in 2007-08 left in the next 5 years.

DB plans help schools recruit and retain committed teachers.

Schools benefit from teachers’ increasing effectiveness as they gain experience.

DB pensions better address obstacles to retirement income security.

Source: National Center on Education Statistics

Win, Win: DB Plans Give School An Effective Recruitment & Retention Tool

DB pensions create economic incentives for experience teachers to stay by deferring some compensation.

Figure 1: Annual wealth changes for teacher entering in 2017 relative to earnings, under DB pension and DC plan, constant normal cost

Notes: All figures are in percent of payroll. See appendix for descriptions of the calculations.
92% see pensions as public pensions as recruitment tool.

Figure 35: 92 percent of Americans say pensions help recruit and retain qualified employees.

Please tell me whether you (agree/disagree): Pensions are a good way to recruit and retain qualified teachers, police officers, and firefighters.
• Pensions enable public employers to recruit and retain quality workers.

• Moving to a DC design could affect recruitment, retention, productivity among this workforce.

• Workforce Management is important in public sector and the general public understands this.

• DB plans encourage “efficient retirement,” which is eliminates “job lock” when workers with DC plans cannot retire.
Questions?

National Institute on Retirement Security
www.nirsonline.org
Are Public Pension Cuts Hurting Your Ability to Recruit Workers?

NCPERS Public Pension Funding Forum
September 17, 2018

Jean-Pierre Aubry, CRR
Joshua Franzel, SLGE
State and Local Government Job Openings Rate: 2008-2018

Source: BLS Job Openings and Labor Turnover Survey (monthly, seasonally adjusted)
2009-2018: Hiring compared to the prior fiscal year:

- More people than it did the previous year: 51%
- The same number of people it did the previous year: 24%
- Less people than it did the previous year: 10%

The number of state and local responses for 2012-2018 were 316, 313, and 312, respectively.

Source: State and Local Government Workforce: 2018 Data and 10 Year Trends
Do you feel the compensation you offer is competitive with the labor market?

Wages:
- Yes: 61%
- No: 36%
- Don't know/No response: 3%

Benefits:
- Yes: 92%
- No: 7%
- Don't know/No response: 1%

Source: State and Local Government Workforce: 2018 Data and 10 Year Trends
State and Local Pension Funding Ratios

Source: http://publicplansdata.org/quick-facts/national/
Required Contributions

Source: http://publicplansdata.org/quick-facts/national/
Retirement and Health Benefits vs. Salaries

SHARE OF TOTAL COMPENSATION

Source: State and Local Government Wages and Salaries, Health, and Defined Benefits for All Occupations; Cost per hour worked

Source: SLGE Infographic - State and Local Government Compensation
Changes in Retirement and Health Benefits, Compared to the Prior Year

Source: State and Local Government Workforce: 2018 Data and 10 Year Trends
ISSUE BRIEF
HOW HAVE PENSION CUTS AFFECTED
PUBLIC SECTOR COMPETITIVENESS?

April 2018
In the wake of the financial crisis, public pension benefit cuts increased dramatically.

Percentage of Plans Making Benefit Changes, 2009-2014

For current employees, cuts to the COLA were most common.
For new hires, changes to core benefits were more common.

Percentage of Plans Making Benefit Changes to New Employees by Type of Reform, 2009-2014

So, how have these reforms impacted the ability for public sector employers to attract and retain quality workers?
Two CRR studies use the private sector wages of those entering and exiting public service to measure the impact of reforms.

Real Private Sector Weekly Earnings for those Entering and Leaving the Public Sector, 1980-2012

The first study finds that plans with lower normal costs report a larger gap in the private sector wage of enterers and leavers.

Effect of a 1-Percentage-Point Increase in Normal Cost on the Quality Gap

The second finds that, in the years following a benefit cut, the relative private sector wage of those entering public service dropped.

Conclusion

• Since 2009, there has been a flurry of pension reforms.

• Most reform focused on new hire benefits and affected all aspects of the pension benefit formula.

• However, some reforms were made to current employee benefits, mostly through a reduction in the post-retirement COLA.

• Two studies by the CRR suggest that cuts to pension benefits will play an important role in public employers’ ability to attract and retain quality workers.