WHY DEFINED-BENEFIT PENSIONS ARE BEST FOR THE RECRUITMENT AND RETENTION OF PUBLIC EMPLOYEES

The handful of states and local governments that have decided to convert future public employees from a defined-benefit pension plan to a defined-contribution retirement plan have suffered enormous consequences, from costly budgetary issues to the recruitment and retention of public employees.

RECRUITMENT AND RETENTION

Defined-benefit pension plans are a valuable tool for states and municipalities in the recruitment and retention of public employees. Offering public employees a pension plan, when they can most likely make more in the private sector, is a great way to keep firefighters, teachers, public safety officers, and other public employees in the public workforce. A 2019 survey showed that more than 73% of state and local employees said they would leave their jobs if the pension benefit was cut.[1]

LEARNING FROM STATE AND LOCAL GOVERNMENTS

Several examples show the pitfalls state and local governments may face if lawmakers convert newly hired public employees from a pension plan to a defined-contribution plan.

ALASKA

After closing its Public Employees' Retirement System (PERS) and Teachers' Retirement System (TRS) in 2005, Alaska has had difficulty recruiting and retaining public employees, including teachers and state troopers. The recruitment of teachers costs the state roughly $20 million a year, and some school districts have to offer $3,000 signing bonuses to recruit new teachers. The Alaska Department of Safety also cites the lack of defined-benefit pensions as a barrier to recruiting state troopers around the state.[2]

PALM BEACH, FLORIDA

In 2012, the Town of Palm Beach closed its pension system to all future public safety officers, including police officers and firefighters. The town offered a new plan: an inadequate hybrid-style retirement plan. As years passed, more and more police officers left the force, and quickly more than 60% of the public safety officers had less than three years of experience. Recruits would often train with Palm Beach and then transfer to a jurisdiction that offered a pension. Eventually, training costs ballooned to $20 million. After four years, the town was forced to re-open its pension plan for public safety officers.[3]

[1] Kenneally, K., & Bond, T. (2019, November). *State and Local Employees Views on Their Jobs, Pay and Benefits*. National Institute on Retirement Security. https://www.nirsonline.org/reports/state-and-local-employees-views-their-jobs-pay-and-benefits/

[2] Doonan, D., & Bond, T. (2019, August). *Enduring Challenges: Examining the Experiences of States that Closed Pension Plans*. National Institute on Retirement Security. https://www.nirsonline.org/reports/enduring-challenges-examining-the-experiences-of-states-that-closed-pension-plans/

[3] Oakley, D. (2018, February). *Retirement Reform Lessons: The Experience of Palm Beach Public Safety Lessons*. National Institute on Retirement Security. https://www.nirsonline.org/wp-content/uploads/2018/02/Final-Palm-Beach-Feb-2018.pdf

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BRANFORD, CONNECTICUT

Much like Palm Beach, the Town of Branford closed its pension system in 2011 and offered all future public safety officers a defined-contribution retirement plan. After years of recruitment and retention issues due to officers leaving for other jurisdictions that offered a pension plan, the Representative Town Meeting re-opened the pension plan in 2019.[4]

SAN DIEGO, CALIFORNIA

In 2012, voters in the City of San Diego passed Proposition B, which eliminated pensions for all future city public employees except police officers and replaced them with a 401(k)-style retirement system. A five-year pay freeze was also implemented. That same year, a mass exodus of longtime public employees occurred. Because San Diego was the only city in California to not offer a pension plan, it struggled for years to recruit and retain highly qualified workers. In January 2021, a state trial court declared Proposition B to be invalid. In an attempt to attract and retain more workers, the city did not appeal and brought back the pension plan for workers who have been hired since 2012.[5]

Over 75% of Americans agree that providing a pension plan to public employees is an essential tool in the recruitment and retention of teachers and public safety officers.[6]

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[4] Butera, C. (2019, May 7). Some Police in Connecticut May Revert to DB Plan. *Chief Investment Officer.* https://www.ai-cio.com/news/police-connecticut-may-revert-db-plan/

[5] Smolens, M. (2021, July 14). Column: Pensions, pay raises should be a boon to city of San Diego's recruitment efforts. *The San Diego Union-Tribune*. https://www.sandiegouniontribune.com/columnists/story/2021-07-14/column-pensions-pay-raises-should-be-a-boon-to-city-of-san-diegos-recruitment-efforts

[6] Doonan, D., & Kenneally, K. (2021, March). *Americans' Views of State & Local Employee Retirement Plans.* National Institute on Retirement Security. https://www.nirsonline.org/reports/americans-views-of-state-and-local-employee-retirement-plans/