

NEW Case Study

Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions



Webinar
February 15, 2018



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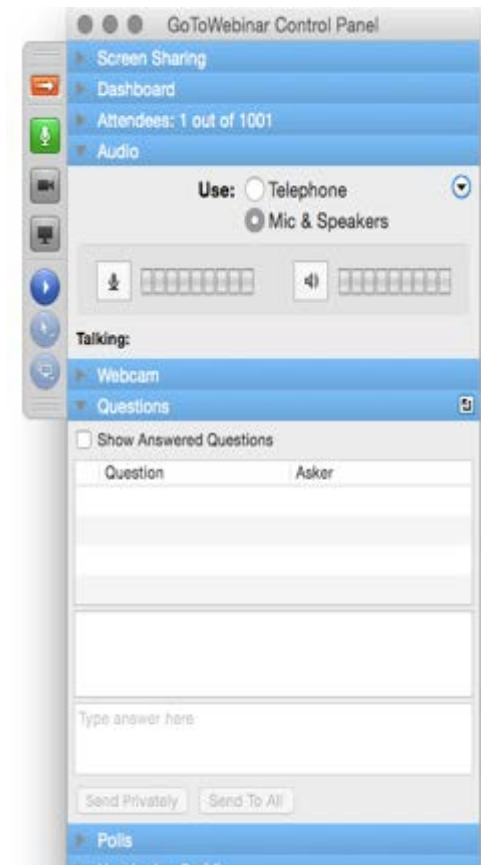
Agenda

- Introductions
- Research Review
- Q&A



Webinar Logistics

- Attendees in listen only mode.
- Download research at www.nirsonline.org.
- Questions welcome! Type question using “Question” function on control panel, and we will answer.
- Encourage distribution of information: @nirsonline and #pension.
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- Webinar replay will be available.



Speaker



Diane Oakley
Executive Director
National Institute on Retirement Security



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Why This Case Study?

- Misleading assertions that defined benefit (DB) pensions do not help retain key public employees such as police, firefighters, teachers.
- Explore impact on employee attraction & retention when local government dismantled DBs & replaced with combined plan that added defined contribution (DC) savings plan to pension.
- Understanding workforce management advantages of DBs & anticipating subsequent costs based on reduced employee retention are important when policy makers consider pension reforms.



Key Findings

1. DB plans help communities recruit & retain police, firefighters, public safety employees.
2. Reactions of Palm Beach public safety employees & Town Council brought pension reform debates to impasse.
3. Council's action to dismantle DB pension & add generous DC savings plan caused a mass exodus of public safety employees.
4. Nearby towns learned from the Palm Beach experience and recruited from its talent pool of experienced public safety officers who wanted to leave Palm Beach force.



Key Findings (continued)

5. Shortly after Palm Beach implemented May 2012 Town Council changes, signs of staffing crisis arose and grew more acute.
6. Costs for other human resources expenses increased. For example, the unprecedented loss of experienced and new police officers and firefighters caused training costs to soar.
7. The DC switch proved a failed experiment in Palm Beach. The Town Council voted in 2016 to abandon the DC plans and improve the DB pension benefit for police officers and firefighters.



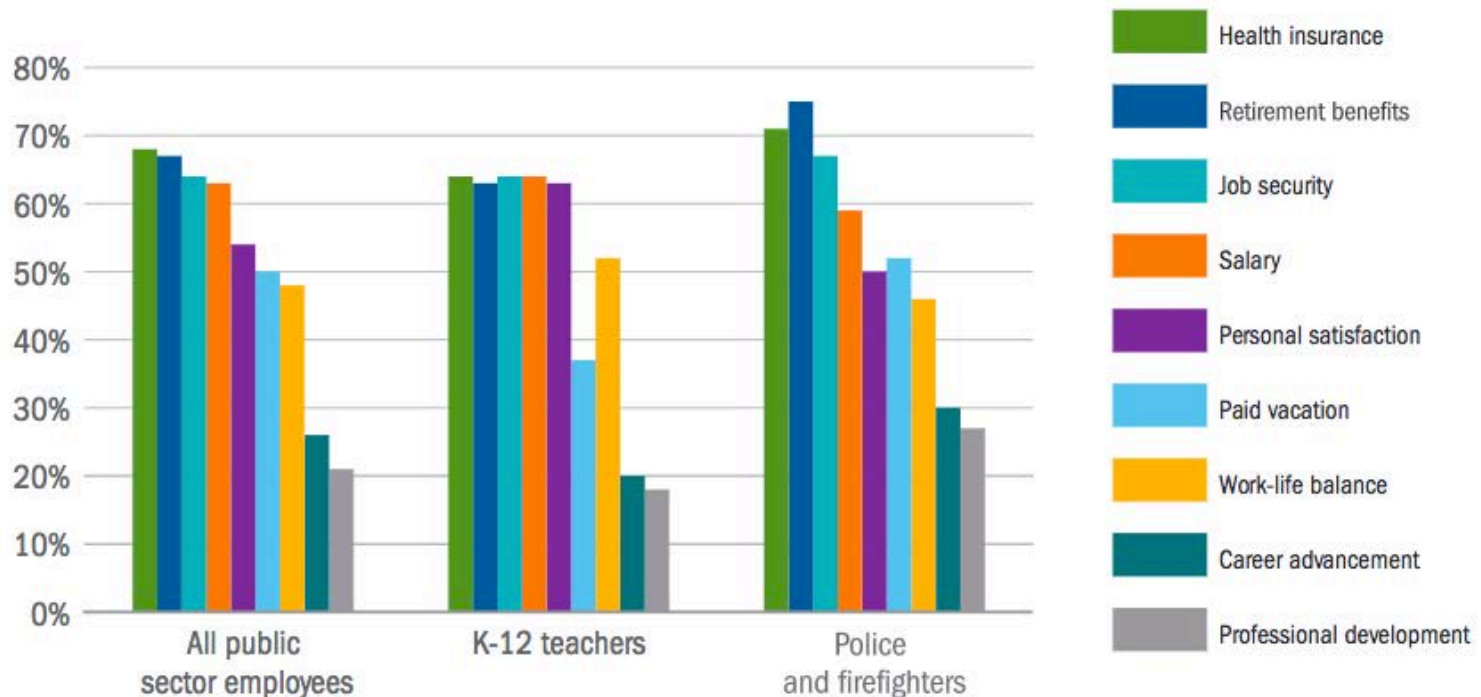
Background: DB Plans Help Manage Public Sector Workforce

- DBs improve public sector productivity:
 - Employees are more likely to value their work and tend to invest more in their skills.
- Pensions enable public employers to recruit and retain quality workers.
- Moving to a DC design could affect recruitment, retention, productivity in the public workforce.
- DB pensions are highly valued by public employees and the general public appreciates the value public pensions provide for taxpayers.

Source: National Institute on Retirement Security publications

Public Employees – Retirement is an Extremely Important Job Feature

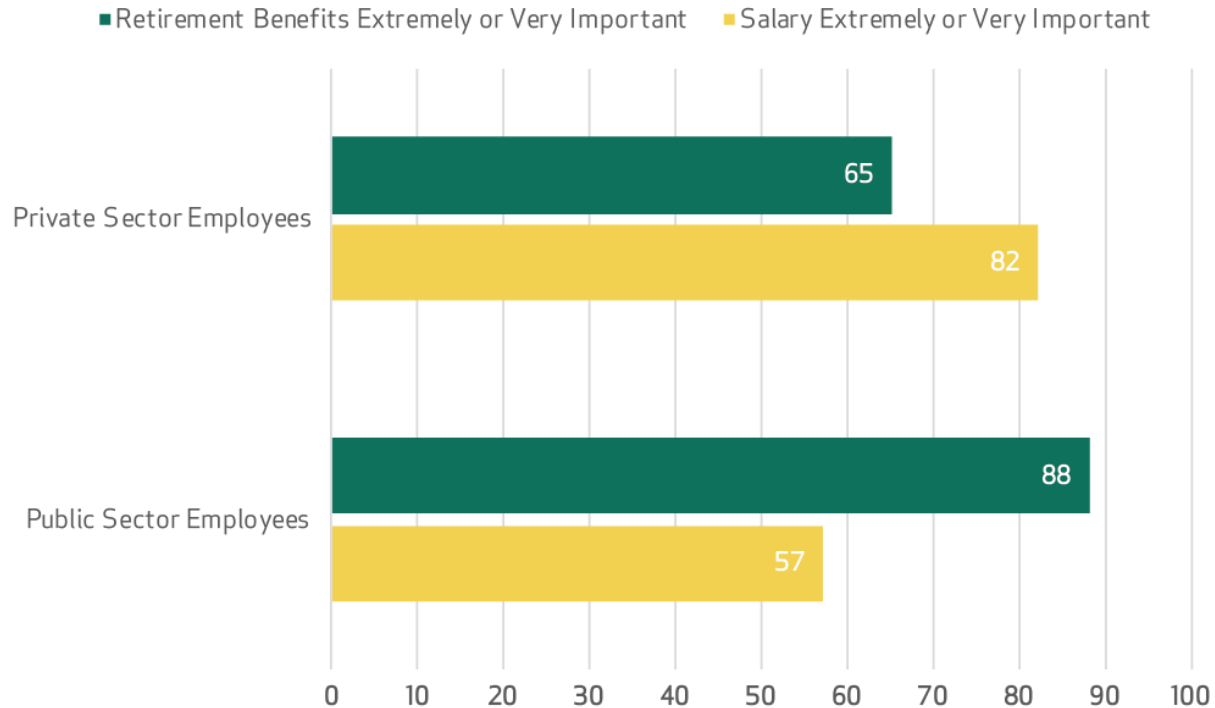
Figure 2: Importance of Job Features and Characteristics Among State and Local Government Employees, 2016



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

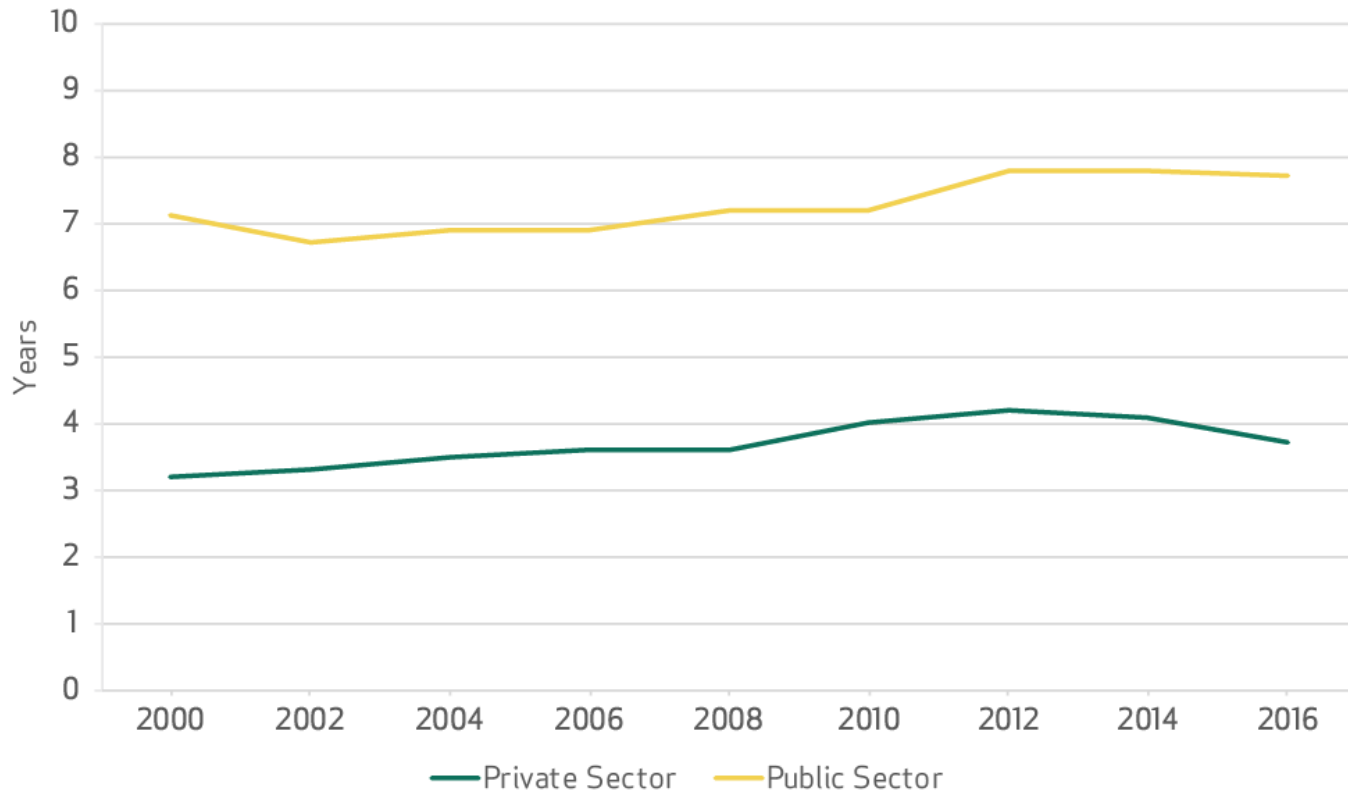
Figure 2: Retirement Benefits are Significantly More Important to Public Workers as Compared to Private Sector Workers



Authors' calculations using demographic data from "Retirement Security 2015: A Road Map for Policy Makers," 2015, NIRS.

Public Sector Has Median Employee Tenure Equal to Twice the Private Sector

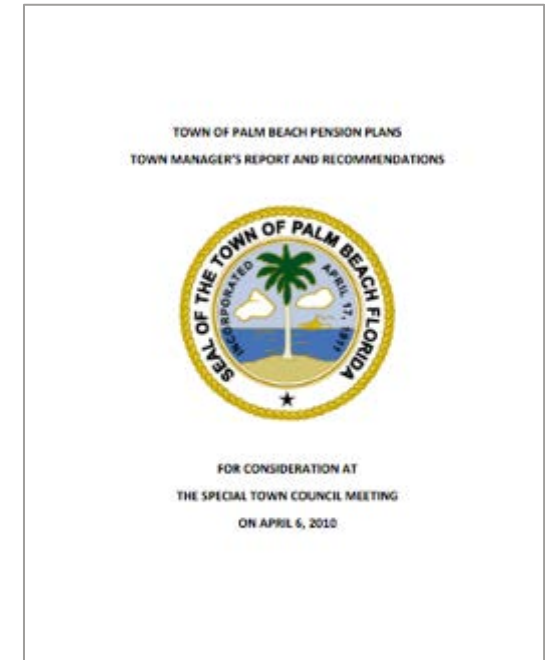
Figure 1: Median Years of Tenure with Current Employer for Private and Public Sector Employees, 2000-2016



Authors' calculations using job tenure data from the Bureau of Labor Statistics (BLS).

Case Study Background: Palm Beach Police and Fire Retirement Systems

- In 1999, Palm Beach spun off public safety officers into two pensions: Police and Fire. Each pension was over 100% funded.
- Town's goal – a top compensation and benefit program for public safety officers.
- Between 1990 and 2005, Town increased pension benefit multiplier from 2.75 percent of final average salary/year of service to 3.5 percent multiplier in three steps.



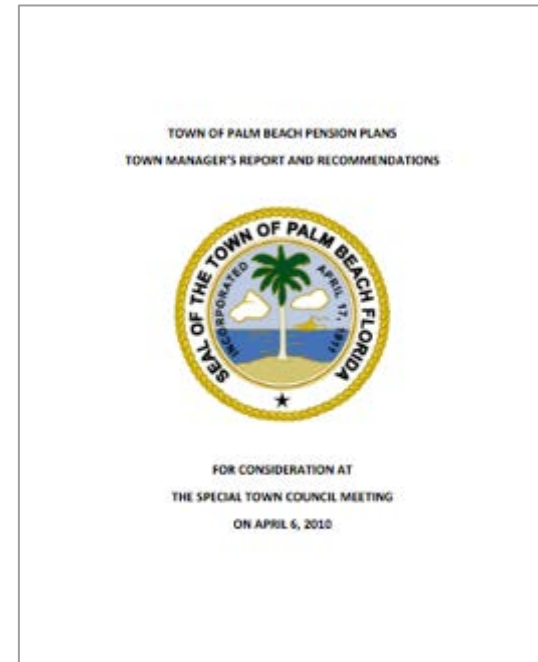
Source: Palm Beach Town Managers Report and Recommendations, April 6, 2010, No. 731



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Town Manager's Recommendations for the Police and Fire Retirement Systems

- Retain a DB pension, but freezing benefits of existing employees.
- Modify DB plan going forward
 - Roll back to 1990 multiplier
 - Increase retirement age
 - Adjust payout to single life, and
 - Lower compensation to base pay.
- Offer a DC plan as an option.
- Withdraw from Chapter 175 and Chapter 185 pension subsidies.



Source: Palm Beach Town Managers Report and Recommendations, April 6, 2010, No. 731



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Florida's Subsidy Program for Municipal Retirement Systems: Police (Chapter 185) and Firefighters (Chapter 175)

- Florida provides a pension subsidy program under Chapter 175 and Chapter 185.
- Purpose is to provide a uniform retirement system for the firefighters and police officers in Florida.
- The Division of Retirement oversees pensions & distributes funds from state insurance taxes to retirement systems meeting requirements.
- With reforms, Palm Beach stopped participating in Chapter 175/185 subsidy, losing \$800,000 in state pension funding support that can not be restored.

Source: Florida GFOA



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Palm Beach Daily News Headlines: Reactions of Police, Firefighters & Council

Police seek public's support for pension funds

NEWS

By William Kelly - Daily News Staff Writer



Fraternal Order of Police (FOP) placed ad predicting problem with recruitment, retention and quality of service.

Town Council gives final reading to pension cuts

NEWS

By William Kelly - Daily News Staff Writer



Run up to 4-0 vote on deep cuts to pension plans.

Source: Palm Beach Daily News



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Palm Beach: Summary of 2012 Public Safety Pension Reforms

Table 1: Palm Beach Police Officer and Firefighter Retirement System: Key Plan Provisions

Key Plan Provisions	Before May 2012	After May 2012
Benefit Multiplier	3.5 percent per Year of Service (YOS)	1.25 percent per YOS
Final Average Salary	Highest 2 of last 5 years	Last 5 years
Retirement Age	As early as after 20 YOS	Age 65
Employee Contribution to DB Pension	6.98% (P); 6.82%(FF)	4.98% (P); 4.82% (FF)
COLA	2% after 3 years	None
Employer Matching Contribution to DC plan	N/A	100% of employee contribution of 4% of pay

Source: Plan data from 2012 Actuarial Valuation, May 10, 2013, Gabriel, Roeder, Smith & Company.

Source: Actuarial Evaluations of Palm Beach Retirement systems



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Case Study: What Happens Next? Devastating Impact on Employees

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

FPPTA firefighter interview 2016.



www.youtube.com/watch?v=wKA9h_wlewl&feature=youtu.be



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Palm Beach Daily News: Reports of Staffing Crisis in Police and Fire Forces

Pension tension: Firings, lawsuits and worker exodus a roller coaster for police, fire

NEWS By Michele Dargan - Daily News Staff Writer



Table 2: Police and Fire Employee Departures, By the Numbers

Year	Number of Employees
2009	8
2010	6
2011	6
2012	24
2013	19*

*Either left or gave notice as of Sept. 17, 2013.

An exodus of police officers and firefighters began even before the pension cuts took effect on May 1, 2012.

Source: M. Dargan, Palm Beach Daily News, September 27, 2013.



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Nearby Towns Do Not Follow Palm Beach's Path to Pension Reform

“Town Leaders (in Palm Beach), they felt that everyone else had let them down by not following suit...had they followed suit we would all be in a different situation.”



<https://www.youtube.com/watch?v=YncSb9FjEO8>

Start at 2:30



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Case Study: Impact of Employee Turnover Wasn't Considered

During the four years from 2012 to 2015, total of 109 police officers and firefighters left the forces before retirement, including 53 vested officers.

Table 3: Palm Beach Police and Firefighter Pension Plans Withdrawals and Vested Terminations (over the four-year period ending in year)

Valuation Year (9/30)	Police		Firefighters	
	2011	2015	2011	2015
Withdrawals During Last Four Years	12	25	3	31
Departures of Vested Employees	1	24	1	29

Source: Author's calculations based on the Actuarial Valuations from 2008 to 2015.



Case Study: Employee Turnover Shifted Demographics

Big Shift in Employee Demographics in Four Years

Table 4: Active Employees by Years of Service (YOS)

Valuation Year (9/30)	Police		Firefighters	
	2011	2015	2011	2015
0-4 YOS	15	23	13	24
5-9 YOS	21	8	27	5
10-14 YOS	13	9	8	15
15-19 YOS	10	8	12	5
20-24 YOS	1	4	-	-
25-29 YOS	-	-	-	-
Total	60	52	60	49

Source: Author's calculations based on actuarial values and the Comprehensive Annual Financial Reports 2011 and 2015.



Case Study: Palm Beach Daily News Headlines on Police and Firefighters

Palm Beach council adopts pension overhaul for police, firefighters

New plan aims to stop employee exodus

NEWS By William Kelly - Daily News Staff Writer



- The biggest issue is that the other towns have a defined benefit pension plan, which is valued among the public safety employees. *Palm Beach Daily News*
- On May 10, 2016, Town Council voted (4-1) to improve DB pension by increasing the multiplier 2.75 percent and lowering retirement age to 56 and to shut down the DC plan. *Palm Beach Daily News*



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Case Study: 2016 Palm Beach Reforms - Improve DB Pension & Close DC Plan

Table 5: Town of Palm Beach Defined Benefit Retirement Plan for Police Officers and Non-Union Firefighters as of October 1, 2016

Key Plan Provisions	Before October 2016	After October 2016
Benefit Multiplier	1.25 percent per YOS	2.75 percent per YOS
Final Average Salary	Last 5 years	Last 5 years
Retirement Age	Age 65	Age 56
Employee Contribution to DB Pension	2.47%; 4.82% (Union FF)	Actuarial Calculation (Range: 8 to 12%)
COLA	None	None
DC Plan Match	100% of employees contribution of 4% of pay	N/A

Source: Employee Retirement Program Guide (2017.08)



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Improving DB Pension Costs Offset by Higher Employee Contributions

“The biggest issue is that the other towns have a defined benefit pension plan, which is valued among the public safety employees.”
Palm Beach Daily News - 5/2/2016

Table 6: Age 56, 2.75% Multiplier, 10% Employee Contribution

	Current Plan at 7.5%	Current Plan at 7%	Scenario 2 at 7.5%	Scenario 2 at 7%
Retirement Age	65	65	56	56
Multiplier	1.25%	1.25%	2.75%	2.75%
EE Contribution Rate	2.47%	2.47%	10%	10%
Town Contribution	\$5,656,031	\$6,415,630	\$5,439,743	\$6,272,751
UAAL	\$58,126,229	\$73,216,022	\$60,340,453	\$75,512,659

Source: Supplemental Information Memo to Mayor and Town Council dated April 8, 2016 accessed at: <https://www.townofpalmbeach.com/DocumentCenter/View/4747>.

Source: Memo on Mercer Study at <http://www.townofpalmbeach.com/DocumentCenter/View/4747>



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Case Study: 2017 Pension Editorials in Florida Press

“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 2/22/2017

Palm Beach Daily News

Editorial: Palm Beach should ratify long-awaited fire union contract

OPINION By PEON

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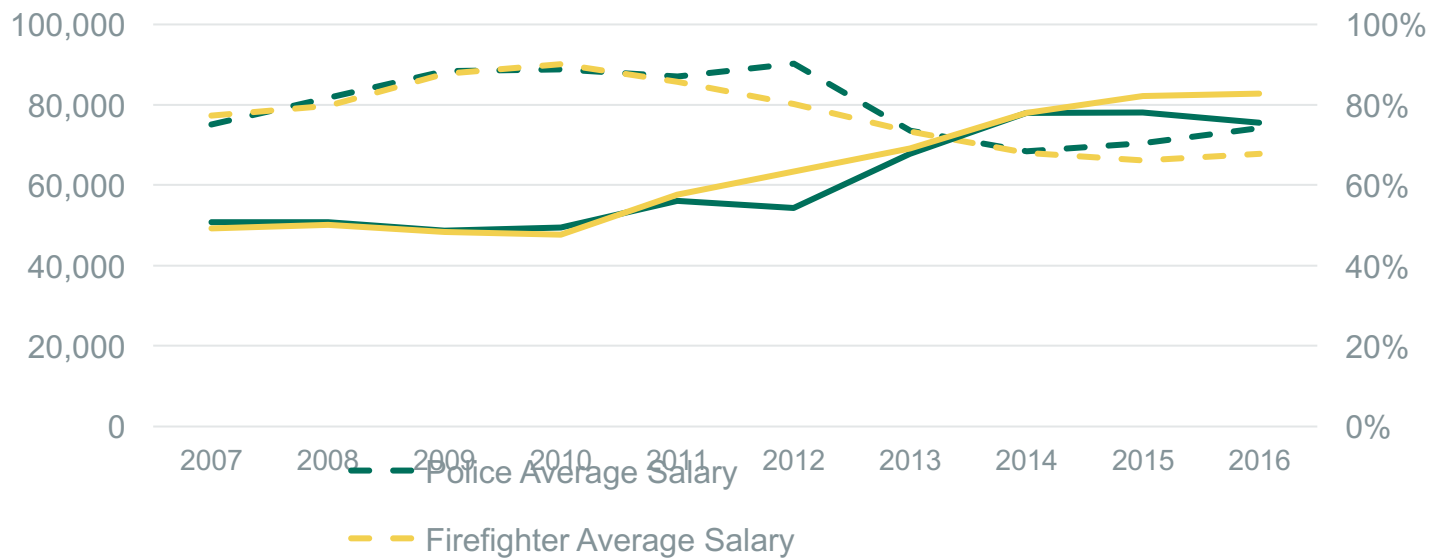


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Caution: Understanding What is Behind the Numbers

Reduced Staffing Levels and Lower Average Salaries Contributed to the Increased Cost at a Percent of Payroll

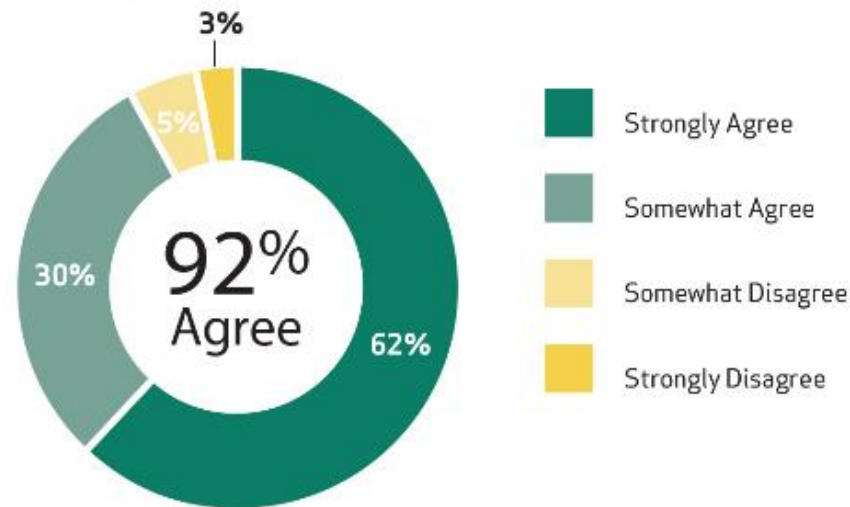
Police and Firefighter Wages and Benefits



92% of Americans see pensions as a recruitment tool.

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

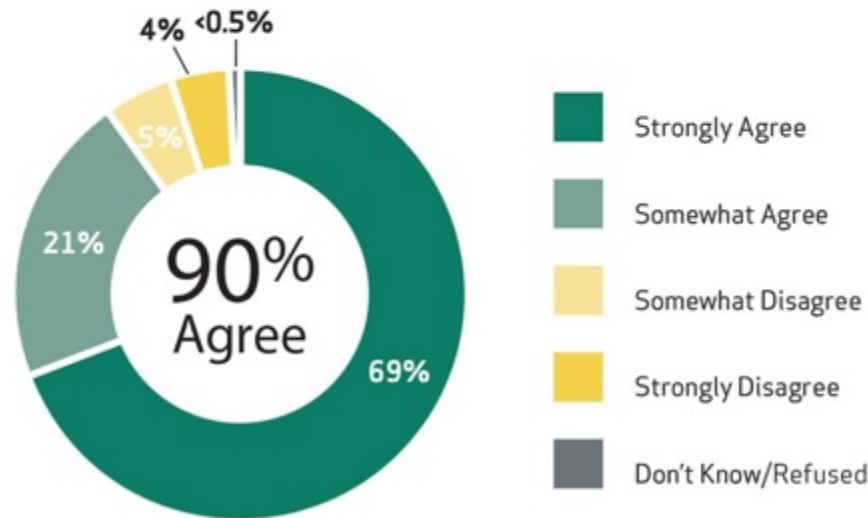
Please tell me whether you (agree/disagree): Pensions are a good way to recruit and retain qualified teachers, police officers, and firefighters.



90% support pensions for police/fire.

Figure 31: **90 percent of Americans support pensions for risky jobs like police officers and firefighters.**

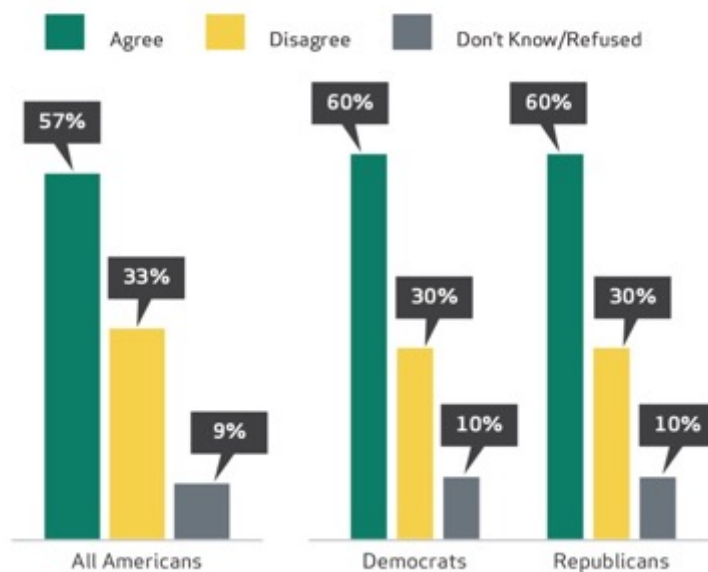
Please tell me whether you (agree/disagree): Police and firefighters have agreed to take jobs that involve risks and therefore deserve pensions that will afford them a secure retirement.



Six out of ten agree that public pensions have made changes to keep promises.

Figure 38: How much do you agree or disagree with the following statement about public pensions, which are offered to state and local government workers?

Do you strongly agree, somewhat agree, somewhat disagree, or strongly disagree that public pensions have made the changes they need to in order to continue providing promised benefits?



Lessons from Palm Beach

Case Study

1. Public pensions are important tools for workforce management in the public sector.
2. DB pensions help attract and retain workers, especially among public safety officers.
3. In Palm Beach, changing from DB pension to DC accounts lead to a different workforce and increases in other costs.
4. Switch from a DB pension to a DC plan, in and of itself, does nothing to reduce unfunded liabilities.



Questions

