How Does Benefit Design Affect Turnover?

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All errors and omissions are my own.
Rising UAAL costs are putting pressure on budgets, triggering a wave of benefit cuts.

Number of Benefit Cuts by Type of Employee Affected, 2009-2014

Source: Author’s calculations from various AVs and CAFRs, 2009-2014.
And many sponsors are considering DC plans to align with the private sector.

Introduction of State Defined-Contribution Plans by Year

Studies show that benefit generosity and portability affect employee separation.

Present Value of Accrued Pension Wealth Relative to Final Salary

Source: Author’s calculations based on data from the Michigan Office of Retirement Services.
For example, state employees in Michigan grew less attached to their jobs after a DC conversion in 1997.

Note: The figure shows the probability that employees active in 2001 earned 10 years of tenure with the state.

Source: Author’s calculations from data provided by MI ORS.
A similar analysis in Rhode Island shows that a cut to DB benefit generosity also increased separation.

**Effect of Benefit Cuts on the Cumulative Probability of Separation by Occupation, 2003-2008**

Notes: Solid bars are statistically significant at the 5-percent level or better.

Source: Authors’ estimates from employment records provided by the Employees’ Retirement System of Rhode Island (2003-2017).
Ultimately, retirement benefit design should reflect human resource goals.

- Is compensation sufficient to recruit a talented workforce?
- How much mid-career turnover is desirable?
- At what age should employees retire?
And allow short and long-tenured employees to achieve retirement security.

Distribution of Leavers from State and Local Government by Tenure

Thank you.

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