

How Does Benefit Design Affect Turnover?

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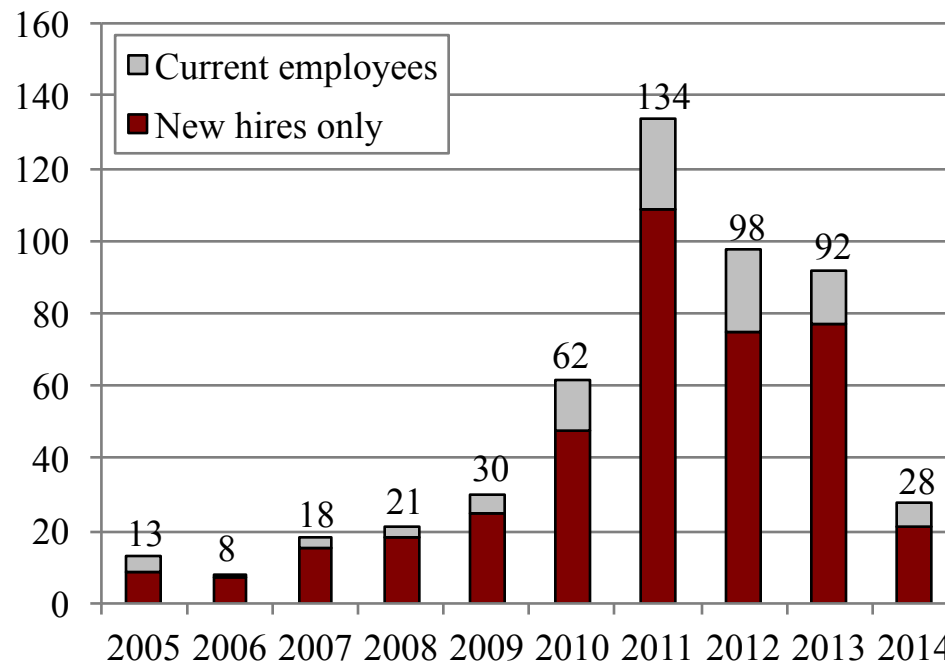
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All errors and omissions are my own.

Rising UAAL costs are putting pressure on budgets, triggering a wave of benefit cuts.

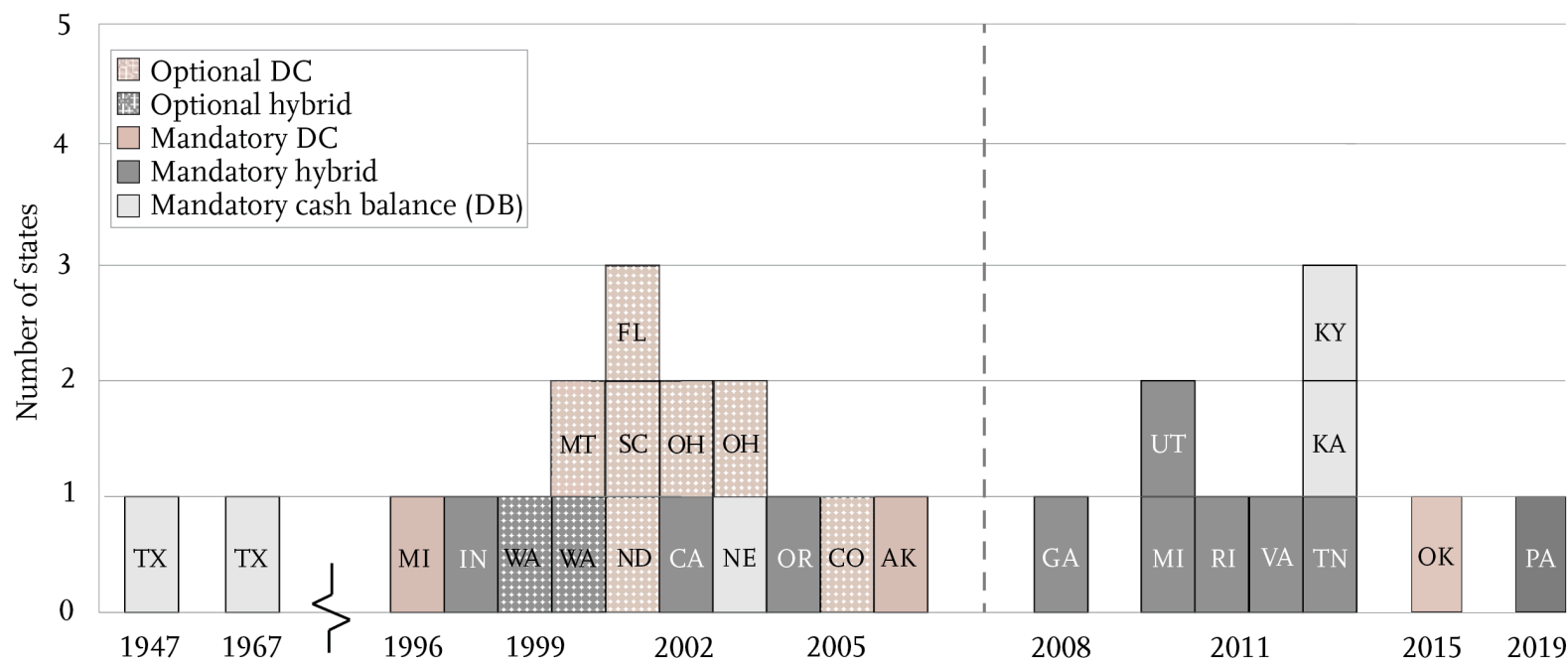
Number of Benefit Cuts by Type of Employee Affected, 2009-2014



Source: Author's calculations from various AVs and CAFRs, 2009-2014.

And many sponsors are considering DC plans to align with the private sector.

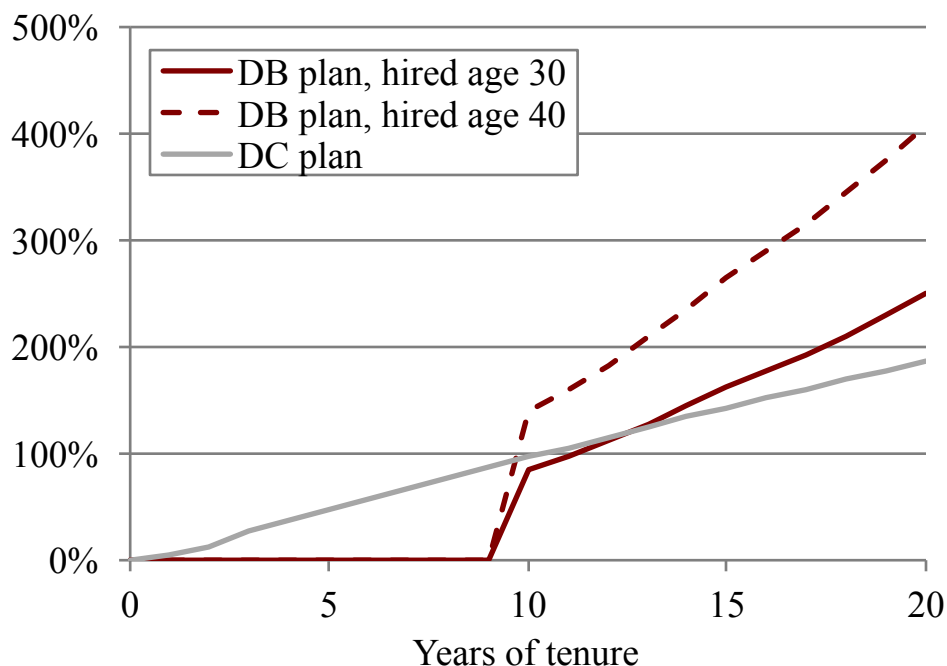
Introduction of State Defined-Contribution Plans by Year



Source: Updated from Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli. 2013. "Defined Contribution Plans in the Public Sector: An Update." *State and Local Plans Issue in Brief* 37. Center for Retirement Research at Boston College.

Studies show that benefit generosity and portability affect employee separation.

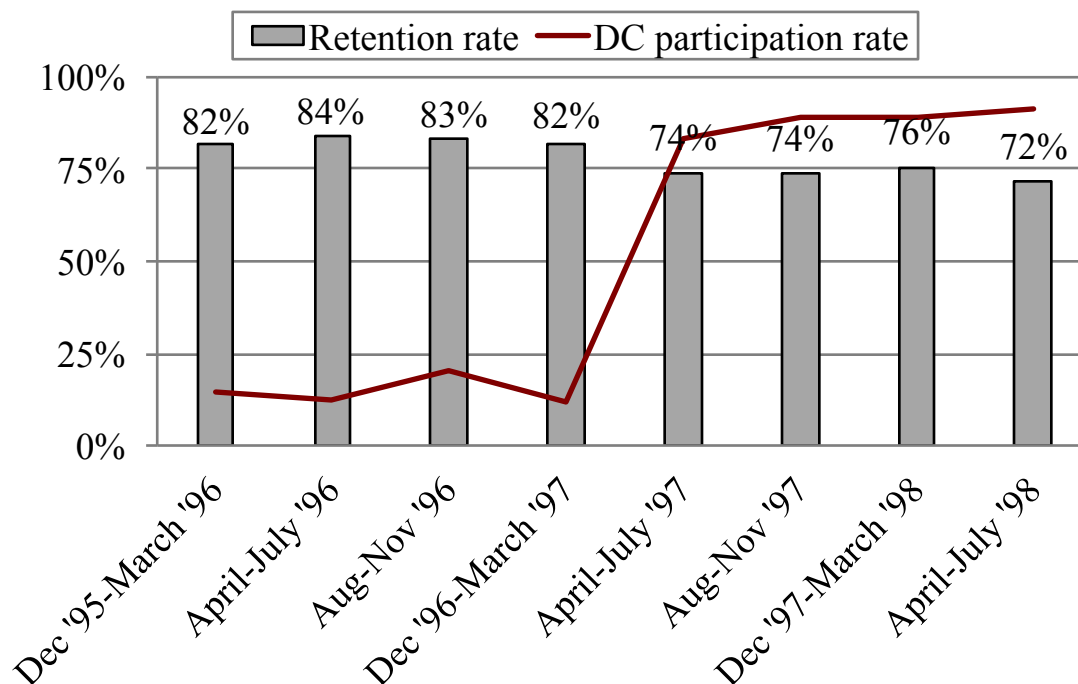
Present Value of Accrued Pension Wealth Relative to Final Salary



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.

Probability of Earning 10 Years of Tenure by Month Hired

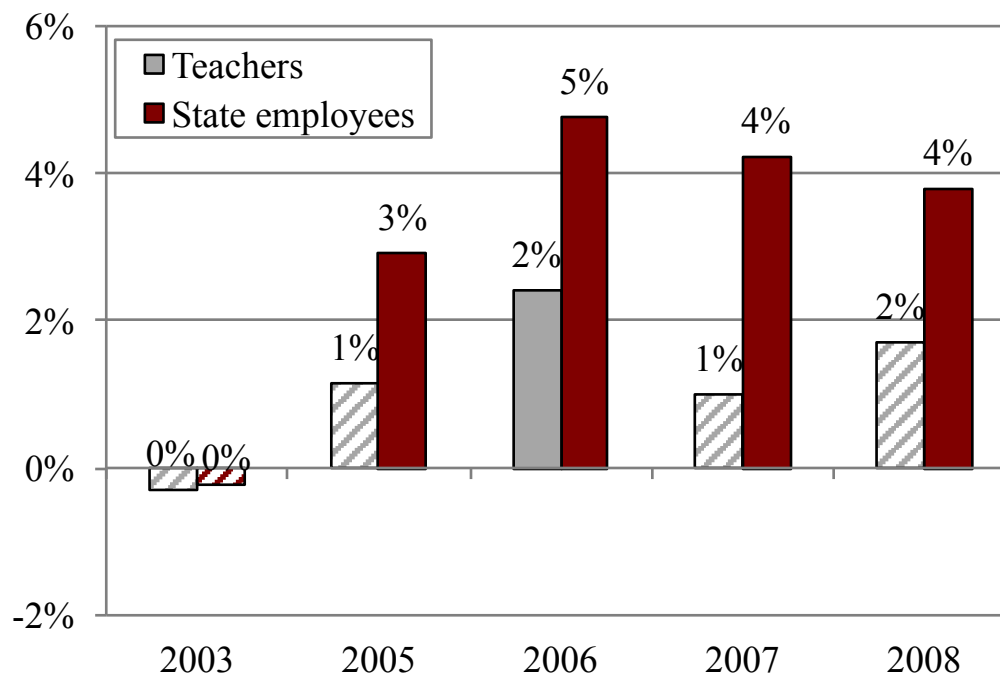


Note: The figure shows the probability that employees active in 2001 earned 10 years of tenure with the state.

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.

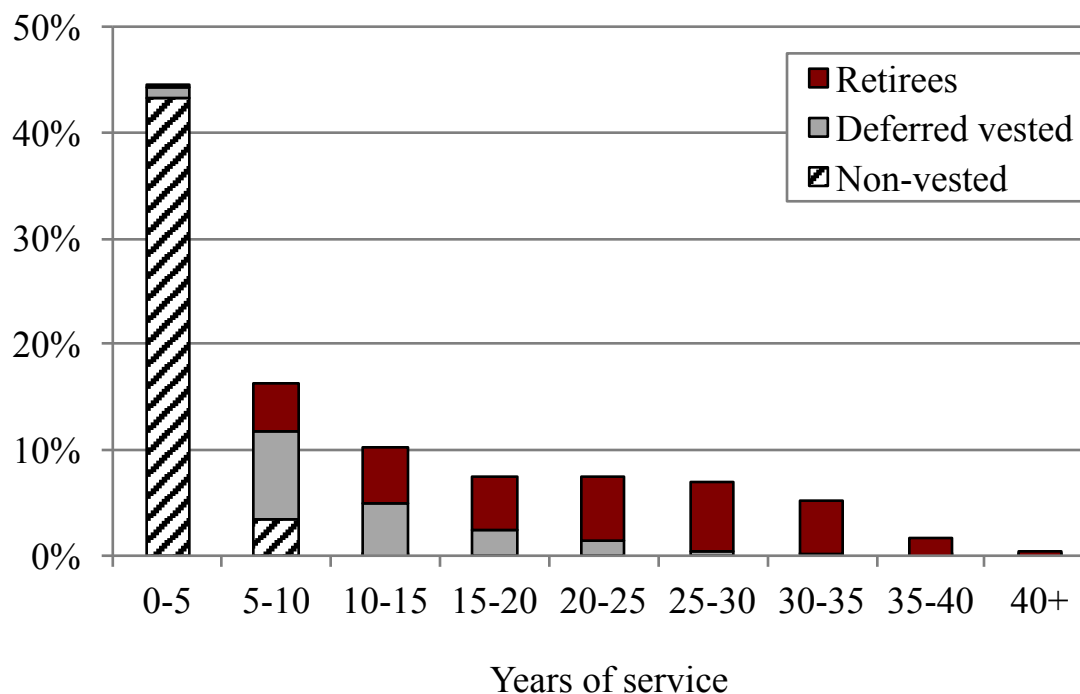
Source: Authors' estimates from employment records provided by the Employees' Retirement System of Rhode Island (2003-2017).

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



Source: Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura D. Quinby. 2012. "The Impact of Long Vesting Periods on State and Local Workers." *State and Local Plans Issue in Brief* 26. Center for Retirement Research at Boston College.

Thank you.



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