AMERICANS' VIEWS OF STATE & LOCAL EMPLOYEE RETIREMENT PLANS

PREPARED BY:

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Dan Doonan is the executive director of the National Institute on Retirement Security. With the Board of Directors, Doonan leads the organization's strategic planning, retirement research and education initiatives. Doonan has more than 20 years of experience working on retirement issues from different vantage points including an analyst, consultant, trainer, and a plan trustee. He comes to NIRS after serving as a senior pension specialist with the National Education Association. Doonan began his career at the Department of Labor as a mathematical statistician. He then spent seven years performing actuarial analysis with Buck Consultants in the retirement practice. His experience also includes positions as a research director and labor economist. Doonan holds a B.S. in Mathematics from Elizabethtown College and is a member of the National Academy of Social Insurance.

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INTRODUCTION

The past year has presented unprecedented global health challenges that also triggered a deep economic crisis. In the U.S., the arrival of COVID-19 in early 2020 resulted in a large-scale economic shutdown to help prevent the spread of coronavirus. The result has been persistent and deep economic hardship across certain segments of the population, job losses and high unemployment. According to the Bureau of Economic Analysis, the U.S. economy shrank by 3.5 percent in 2020, pushing economic growth to a low not seen since 1946.[1]

During the pandemic, the role of state and local public employees has become increasingly important. From first responders to public health professionals to teachers, more than 18 million individuals who are employed by state and local government continue to make integral activities and services available to their communities. Not surprisingly, recent research finds that the pandemic and economic crisis are taking a toll on the state and local employees. Since the early days of the pandemic, negative job sentiment is on the rise, feelings that the risks they are taking during the pandemic are not on par with their compensation has jumped, and many have been negatively impacted financially by the pandemic.[2]

At the same time, the past several decades have seen dramatic changes to the U.S. retirement system that have undermined retirement for large portions of the U.S. workforce. Much of the workforce lacks an employer-sponsored retirement plan, fewer workers have stable and secure defined benefit pensions, while 401(k)-style defined contribution individual accounts shift costs and risks to workers and typically lack lifetime income that pools longevity risks.[3] Today, most Americans are not on track for a secure retirement.[4] Moreover, the economic fallout from the pandemic may create substantial uncertainty about financing retirement that could trigger Americans to work longer or rethink retirement altogether.[5]

One bright spot when it comes to retirement is related to the benefits provided to state and local employees. Most public employees continue to receive pensions as their primary retirement benefit, and often times the pension is supplemented by individual savings and Social Security.

A wide body of research indicates that workers with these three sources of retirement income are best positioned to have a secure retirement.

In 2018, state and local pension plans served 32.8 million Americans, including 14.7 million active participants, 6.9 million inactive members, and 11.2 million retirees and other beneficiaries receiving regular benefit payments.[6] Benefit payments in 2018 totaled $308.7 billion, for an average benefit payment of $2,335 per month, or $28,019 per year.[7] In addition to providing retirement security for workers who often have lower salaries than their private sector counterparts, pensions also serve as an important workforce management tool to recruit and retain workers.[8]

In response to the 2008 global financial crisis, state and local governments have taken steps to ensure the long-term sustainability of public pensions and to recover the deep investment losses that all investors experienced in the following. The 2008 global market crash reduced public pension fund asset values from $3.15 trillion in 2007 to $2.17 trillion in 2009.[9] Since then, every state has passed reforms to one or more of its pension plans. The changes took different forms throughout the country – from increasing employee contributions to raising retirement ages.[10]

As markets recovered from the Great Recession and throughout the COVID-19 crisis, financial markets have been resilient and most public sector pension plans remain on a financially sound course.[11] As of the third quarter of 2020, public pension assets were $4.78 trillion, doubling their asset values since 2009—all while reliably pumping hundreds of billions of dollars annually into the economy.[12]

Despite this recovery, public retirement plans continue to be threatened by proposals at the national and state levels that aim to take these vital benefits away from future generations of public servants. Some advocates continue to work to switch public employees from pensions to defined contribution 401(k)-style retirement accounts even though the same benefits cost nearly twice as much due to their inherent economic inefficiency, and despite the evidence that this change fails to reduce costs to taxpayers and undermines the public sector work force where the career model of employment is still enjoyed in our communities.[13]

Against this backdrop, the National Institute on Retirement Security (NIRS) polled Americans to ascertain their views about the retirement benefits provided to state and local employees. This research finds that:

• More than three-fourths of Americans say all workers, not just state and local employees, should have access to a pension.

• The vast majority of respondents agree that providing pensions to state and local employees is a good way to recruit and retain these employees.

• Most Americans agree that public employees should receive pensions because workers contribute to the cost, the benefit levels are about right, retirement benefits help compensate for lower public sector pay, and pensions are needed because some jobs are physically demanding or pose risks.

I. AMERICANS AGREE THAT *ALL* WORKERS, NOT JUST STATE AND LOCAL EMPLOYEES, SHOULD HAVE ACCESS TO A PENSION PLAN

Overall, most Americans are deeply concerned about their economic security in retirement, and increasingly see retirement as elusive. More than two-thirds of Americans (67 percent) say the nation faces a retirement crisis and more than half (56 percent) are concerned that they won't be able to achieve a financially secure retirement. When it comes to pensions, 76 percent of Americans have a favorable view of defined benefit pensions and most (65 percent) agree that defined benefit pensions are better for providing retirement security than 401(k)-style plans.[14]

This research finds that Americans do not seem to begrudge public employees for their retirement benefits, but instead would like to receive similar retirement benefits. Some 77 percent say all workers, not just state and local workers, should have a pension **(Figure 1)**.

And even though the nation is deeply divided on a number of issues, this support is consistent across party lines. Eighty percent of Democrats, 75 percent of Republicans and 78 percent of Independents agree that all workers should have a pension **(Figure 2)**.

Figure 1: More than three-fourths agree that *all* workers should have access to a pension.

To what extent do you agree or disagree with the following statement: All workers, not just those employed by state and local governments, should have access to a pension.
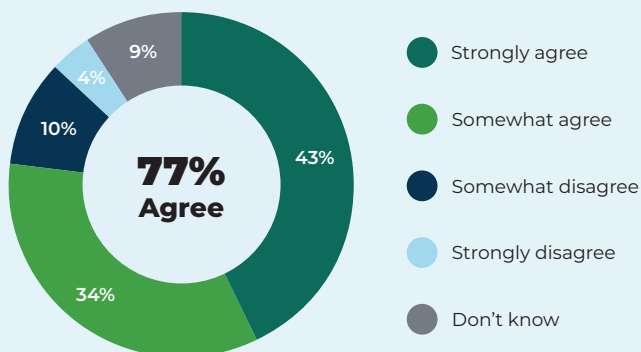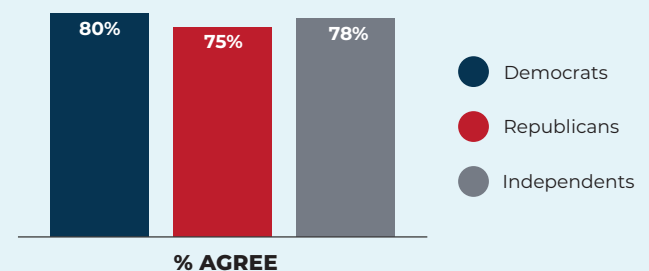

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

Figure 2: Across party lines, Americans believe all workers should have access to a pension plan.

To what extent do you agree or disagree: All workers, not just those empoyed by state and local governments, should have access to a pension plan.

- Democrats
- Republicans
- Independents

II. THE VAST MAJORITY OF AMERICANS AGREE THAT PROVIDING PENSIONS TO STATE AND LOCAL EMPLOYEES IS A GOOD WAY TO RECRUIT AND RETAIN THESE EMPLOYEES

Pension plans have existed in the U.S. since the 19th century. Over time, employers have seen the value of offering pensions to employees because these benefits have been valued not only by workers, but also from a human resource management perspective because they serve as a recruitment and retention tool.[15]

This workforce tool has been especially important in the public sector as state and local governments faced steep recruitment and retention challenges when the labor market was tight prior to the pandemic.[16] While the U.S. economy now is facing high unemployment, state and local governments could face future workforce challenges stemming from the pandemic.

For example, recent research finds that K-12 employees' general job satisfaction has fallen during the pandemic, from 69 percent in March 2020 to 44 percent in October 2020. Education workers could leave their jobs, with more than one-third of K-12 employees saying that working during the pandemic has made them consider changing jobs.[17] Also, the number of enrollees in teacher preparation programs has declined by 47 percent since the Great Recession, from 2009 through 2018.[18]

Additional research from the Learning Policy Institute indicates that teacher shortages were a problem prior to the pandemic, and the issue has worsened during the pandemic and threatens to jeopardize schools reopening in California. The report highlights issues with supply and demand, resignations, retirements, turnover, and the number of new teachers entering the workforce.[19]

This research indicates that Americans indeed see the value of pensions beyond providing retirement security. The polling finds that some 75 percent of Americans agree that pensions are a good way to recruit and retain qualified teachers **(Figure 3)**.

More broadly, an increasing number of state and local government employees are feeling negative about their jobs and pay since the start of the pandemic. Thirty-one percent of state and local workers said that working during the pandemic has them consider changing jobs. Also, 48 percent said that the risks they were taking during the coronavirus outbreak were outsized compared to their pay.[20]

With regard to public safety employees, 76 percent of Americans agree that pensions are an important recruitment and retention tool of these workers **(Figure 4)**.

Figure 3: Three-fourths agree pensions are a good way to recruit and retain qualified teachers.

To what extent do you agree or disagree with the following statement: Pensions are a good way to recruit and retain qualified teachers.
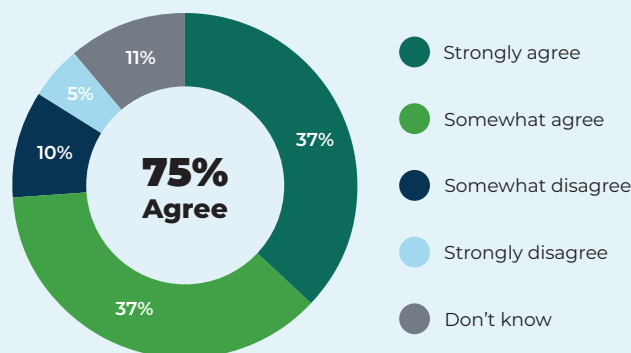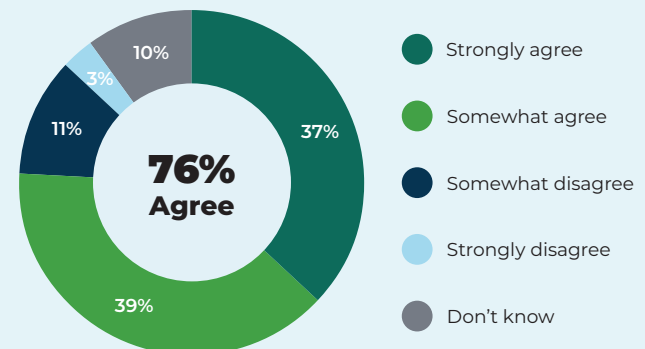
- 11%
- 5%
- 10%
- 37%
- 37%

75% Agree

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

Figure 4: More than three-fourths agree pensions are a good way to recruit and retain qualified public safety employees.

To what extent do you agree or disagree with the following statement: Pensions are a good way to recruit and retain public safety employees.

- 10%
- 3%
- 11%
- 37%
- 39%

76% Agree

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

III. MOST AMERICANS AGREE THAT PUBLIC EMPLOYEES SHOULD RECEIVE PENSIONS

State and local pensions are funded from three sources: employer contributions, employee contributions and investment earnings. **Figure 5** shows that between 1993 and 2018, about 25 percent of public pension fund receipts came from employer contributions, 11 percent from employee contributions, and about 64 percent from investment earnings. This means that earnings on investments historically have made up the bulk of pension fund receipts, even during two market downturns, and taxpayers are funding only a portion of these benefits.[21] In contrast, private sector pensions are fully funded by the employer. And in some cases, public employee pension contributions are rising.

This research finds that Americans support public employee pensions because workers contribute to their retirement plans. Seventy-two percent agree that state and local employees should receive pensions because they help finance part of the cost by contributing money from each paycheck **(Figure 6)**.

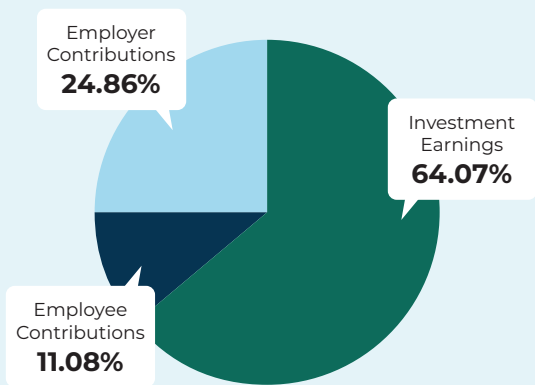**Figure 5:** Aggregate state and local pension contributions by source, 1993-2018.

Figure 6: Nearly three-fourths agree public employees should receive pensions because they help finance the costs.

To what extent do you agree or disagree with the following statement: State and local government employees deserve these retirement benefits because they help finance part of the cost, by contributing money out of every paycheck.
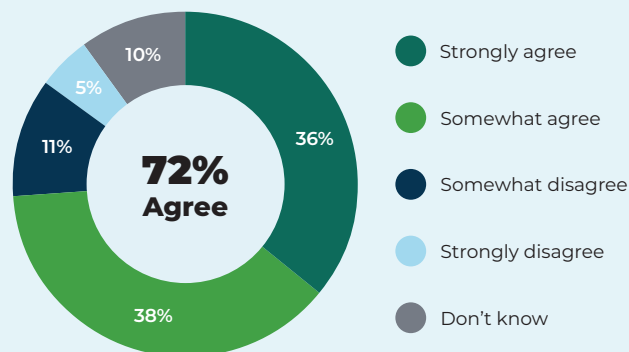
The average retirement benefit paid to a state and local employee is about $2,335 per month, though some receive more or less. When it comes to benefit levels, nearly half of Americans say that this retirement benefit is about right (46 percent), while about one third (31 percent) say it is too low. Only 13 percent say public sector retirement benefits are too high **(Figure 7)**.

Research indicates that teachers are paid less in wages and compensation than other college-educated workers with similar experience, which discourages students from entering the profession and creates challenges for schools to keep current teachers in the classroom. According to the Economic Policy Institute, the regression-adjusted teaching wage penalty jumped from six percent in 1996 to 19.2 percent in 2019.[22]

This research finds that most Americans believe it is important to provide teachers with pensions to compensate for their lower pay. Sixty-nine percent say public school teachers deserve a pension to compensate for their lower pay **(Figure 8)**.

Figure 7: State and local retirement benefits largely are viewed as about right or too low.

The average retirement benefit for public workers is about $2,335 per month, though some may receive more or less. Judging based on what you think is reasonable, do you think that this amount of retirement income is too low, too high, or about right?
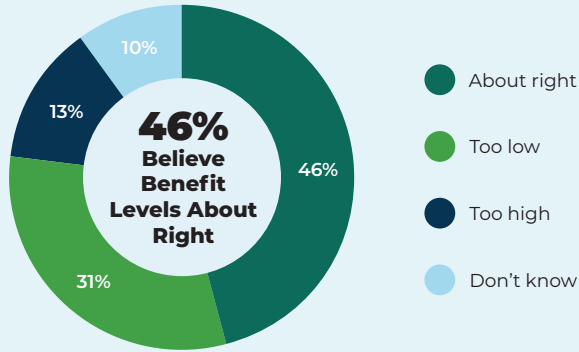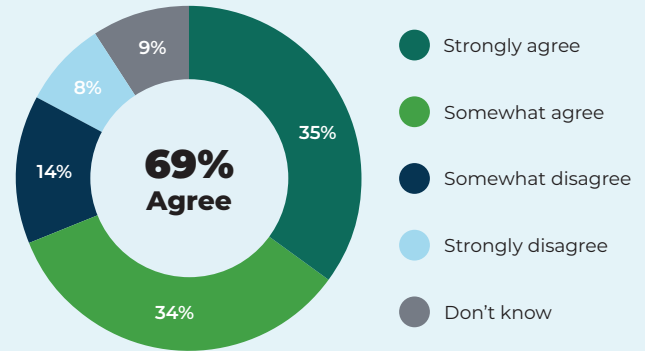
46%
Believe Benefit Levels About Right

- 46%
- 31%
- 13%
- 10%

- About right
- Too low
- Too high
- Don't know

Figure 8: Most agree public school teachers should receive pensions to compensate for lower pay.

To what extent do you agree or disagree with the following statement: Public school teachers deserve pensions to compensate for lower pay.

69%
Agree

- 9%
- 8%
- 14%
- 35%
- 34%

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

Americans also believe it is important to provide pensions to state and local employees who face physical demands in their job, as these demands can make it difficult to work later in life. For example, physically demanding public sector jobs like firefighting can shorten the number of years an individual can work. Seventy-six percent of Americans agree **(Figure 9)**.

Similarly, Americans say high risk jobs are another reason that public employees should receive a pension, with 76 percent in agreement **(Figure 10)**.

Figure 9: More than three-fourths agree that public workers with physically demanding jobs should receive a pension.

To what extent do you agree or disagree: Pensions are important in some public sector jobs, such as those who work in public safety.
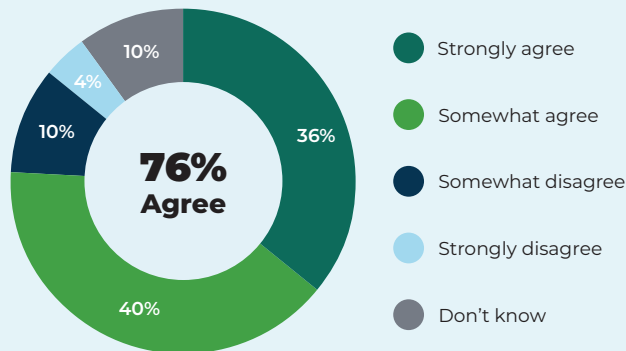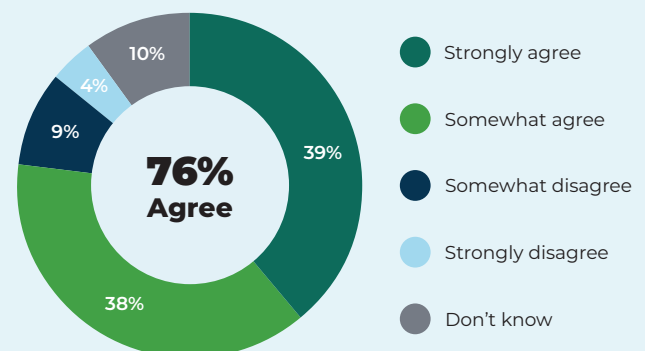
76%
Agree

- 10%
- 4%
- 10%
- 36%
- 40%

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

Figure 10: More than three-fourths agree that public workers in high risk jobs should receive a pension.

To what extent do you agree or disagree with the following statement: People who work in public safety have agreed to take jobs that involve risks and therefore deserve pensions that will afford them a secure retirement.

76%
Agree

- 10%
- 4%
- 9%
- 39%
- 38%

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

CONCLUSION

The past year has presented unprecedented global health challenges that also triggered a deep economic crisis. In the U.S., the arrival of COVID-19 in early 2020 resulted in a large-scale economic shutdown to help prevent the spread of coronavirus. The result has been persistent and deep economic hardship across certain segments of the population, job losses and high unemployment.

During the pandemic, the role of state and local public employees has become increasingly important. From first responders to public health professionals to teachers, more than 18 million individuals who are employed by state and local government continue to make integral activities and services available to their communities. Not surprisingly, recent research finds that the pandemic and economic crisis are taking a toll on the state and local employees.

At the same time, the past several decades has seen dramatic changes to the U.S. retirement system that have undermined retirement for large swaths of the workforce. Today, most Americans are not on track for a secure retirement. But one bright spot when it comes to retirement are the retirement benefits provided to state and local employees. Most public employees continue to receive pensions as their primary retirement benefit, and

often times the pensions are supplemented by individual savings and Social Security.

Public pensions have been resilient during recent economic downturns, but attacks on public retirement systems at the national and state levels persist. This research measures public sentiment about the benefits provided to state and local employees and finds that:

  • More than three-fourths of Americans say all workers, not just state and local employees, should have access to a pension.

  • The vast majority agree that providing pensions to state and local employees is a good way to recruit and retain these employees.

  • Most Americans agree that public employees should receive pensions because workers contribute to the cost, the benefit levels are about right, retirement benefits help compensate for lower public sector pay, and pensions are needed because some jobs are physically demanding or pose risks.

METHODOLOGY

Conducted by Greenwald Research, information for this study was collected from online interviews between December 4–10, 2020. A total of 1,203 individuals aged 25 and older completed the survey. The final data were weighted by age, gender, and income to reflect the demographics of Americans aged 25 and older. The sample was selected using Dynata, an online sample provider. Tabulations in some of the charts may not add up to 100 due to rounding.

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WHO WE ARE & WHAT WE DO

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The National Institute on Retirement Security is a non-profit research and education organization established to contribute to informed policymaking by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole.

Our Vision

Through our activities, NIRS seeks to encourage the development of public policies that enhance retirement security in America. Our vision is one of a retirement system that simultaneously meets the needs of employers, employees, and the public interest. That is, one where:

• employers can offer affordable, high quality retirement benefits that help them achieve their human resources goals;

• employees can count on a secure source of retirement income that enables them to maintain a decent living standard after a lifetime of work; and

• the public interest is well-served by retirement systems that are managed in ways that promote fiscal responsibility, economic growth, and responsible stewardship of retirement assets.

Our Approach

• High-quality research that informs the public debate on retirement policy. The research program focuses on the role and value of defined benefit pension plans for employers, employees, and the public at large. We also conduct research on policy approaches and other innovative strategies to expand broad based retirement security.

• Education programs that disseminate our research findings broadly. NIRS disseminates its research findings to the public, policy makers, and the media by distributing reports, conducting briefings, and participating in conferences and other public forums.

• Outreach to partners and key stakeholders. By building partnerships with other experts in the field of retirement research and with stakeholders that support retirement security, we leverage the impact of our research and education efforts. Our outreach activities also improve the capacity of government agencies, non-profits, the private sector, and others working to promote and expand retirement security.

The National Institute on Retirement Security is a non-profit, non-partisan organization established to contribute to informed policy making by fostering a deep understanding of the value of retirement security to employees, employers, and the economy as a whole. NIRS works to fulfill this mission through research, education and outreach programs that are national in scope.

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