

Issue Brief

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

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February 2018



NATIONAL INSTITUTE ON
Retirement Security

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ABOUT THE AUTHOR

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ACKNOWLEDGEMENTS

The author would like to thank the following individuals for their assistance on this research: Peter Hapgood, Susan Marden, Michael Kahn, Bailey Childers, Ron Saathoff and Max Patterson. Their comments and suggestions were valuable and helpful. The author would also like to thank the Florida Public Pension Trustee Association for capturing the impact of these changes to the Palm Beach retirement systems with videotaped interviews of public safety employees and others in the community that tell their story. The views in this case study and any errors or omissions are those of the author alone.

ABOUT NIRS

The National Institute on Retirement Security is a non-profit research institute 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.

EXECUTIVE SUMMARY

Since 2009, fiscal constraints pushed state and local governments to reduce costs in ways that impacted employees such as layoffs, salary freezes or benefit reductions. Nearly every state modified its retirement systems to ensure long-term sustainability, most often by increasing employee contributions, reducing benefits or both. During these deliberations, some retirement systems faced pressure to move from defined benefit (DB) pension plans to defined contribution (DC) 401(k)-type individual accounts, in part or whole.

Advocates of switching from DB to DC plans position the change as reducing employer costs for unfunded liabilities, but the move to DC accounts does nothing to reduce plan liabilities on its own. At the same time, significantly reduced retirement benefits under the DC savings plan create other workforce challenges, such as recruiting and retaining public employees.

In 2012, the Palm Beach Town Council closed its existing DB pension systems for all employees, including police and fire. Going forward “combined” retirement systems offered police officers and firefighters dramatically lower DB pensions and new individual DC retirement accounts.

This case study of the Palm Beach experience offers an important cautionary tale on the detrimental impacts of switching public employees from DB pensions to DC accounts. More specifically, the town’s experience reveals that:

- **Dismantling the DB pension benefit caused a mass exodus of public safety officers.** Employees’ reactions to losing expected DB pension benefits were swift. The town’s two public safety pensions had covered 120 employees at the end of 2011. In addition to the 20 percent of the town’s workforce that retired after the change, 109 other protective officers left before retirement in the next four years. Mid-career public safety officers departed the forces in unprecedented numbers with 53 vested police officers and firefighters departing Palm Beach’s forces from 2012 to 2015, compared to just two such experienced employees in the four years from 2008 to 2011.

- **Neighboring towns benefitted from the changes that Palm Beach implemented to its retirement plans.** Nearby towns saw the public controversy erupt in Palm Beach and instead adjusted their DB pensions rather than dismantle employees’ benefits. The 109 trained officers who decided to leave provided a talent pool for other towns and counties. For example, in the next four years 31 newly hired Palm Beach firefighters left with a refund, likely jumping at the chance for a DB pension. This was a dramatic increase from three firefighters who took refunds in the four years before the switch. Ultimately, churning affected 56 non-vested public safety officers across the police and fire departments.
- **The shift away from the DB pension increased costs in other areas.** The town did not anticipate the financial impact of the high attrition. For example, firefighters had to work extremely high levels of overtime to fill staffing gaps. Also, the unprecedented loss of new and experienced public safety officers caused the town’s training cost to soar likely reaching upwards of \$20 million, based on an “all in” cost estimate of \$240,000 per officer to bring a new police officer through the rookie period in Florida.
- **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 pensions for police officers and firefighters by raising benefits substantially and lowering the retirement age. The Council offset the cost of the police and fire DB pension improvements by increasing employee contributions and eliminating the DC plan with its employer match.

Public pension plans are an important workforce management tool for recruiting, retaining and retiring public sector employees. The Palm Beach experience suggests that policymakers must carefully analyze the consequences of moving employees from DB pensions to DC accounts, particularly for public safety personnel. The dramatic staffing shifts resulted in expensive consequences as high turnover escalated training costs. Especially in the public safety professions that require a highly skilled and experienced workforce, Palm Beach saw the value of offering an adequate DB pension and abandoned its DC plan.

I. BACKGROUND

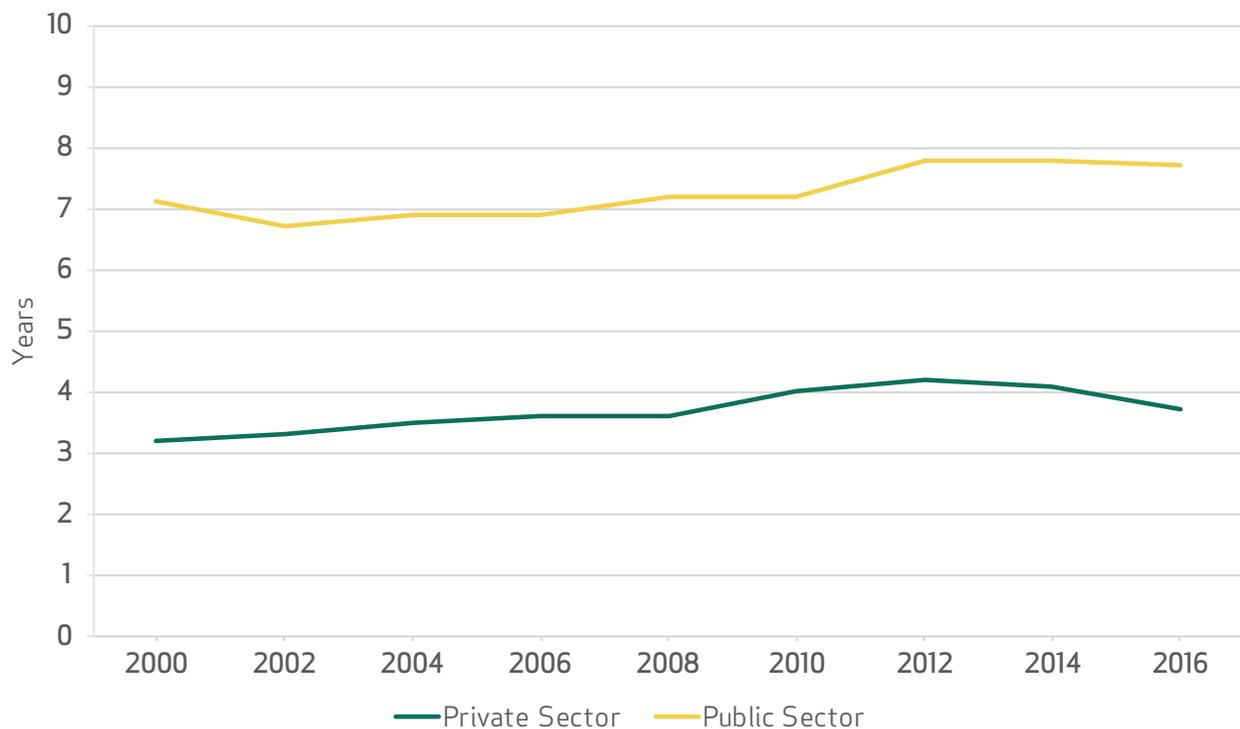
Generally, public sector workers display a strong attachment to their jobs. Overall, the length of job tenure for public sector workers is about twice that of private sector workers. This is important to public agencies and citizens because employee experience on the job is a critical factor underlying the quality of services these employees provide taxpayers.

Pensions play an important role in this relationship. When policy makers dismantle public pension plans, it has the reverse effect. The purpose of this case study is to demonstrate this point based on the experience of the town of Palm Beach in Florida. What happened in Palm Beach suggests that other communities should think carefully before moving employees from public pensions and trying to use defined contribution plans to help retain public safety officers.

In 2016, there were 1.4 million police officers, firefighters and other first responders employed by state and local governments across the United States.¹ Police and fire departments make a substantial upfront investment in new officers. First, protective services employees attend a training academy and then they build on that classroom instruction, with a period of supervised on the job experience in the specific duties of their roles.

The median job tenure among all public sector employees was 7.7 years in 2016, compared to just 3.7 years in the private sector that same year.² As shown in **Figure 1**, the trend of public employees having job tenures that are nearly double the tenure private sector workers has been relatively consistent over time.³

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).

More specifically, a survey released by the TIAA Institute and the Center for State and Local Government Excellence (TIAA and SLGE) found that police and firefighters had the longest median tenure with their current employers among public sector employees. Median job tenure for public safety employees was 16 years, compared to the 14-year median job tenure for all public sector employees covered by the survey.⁴

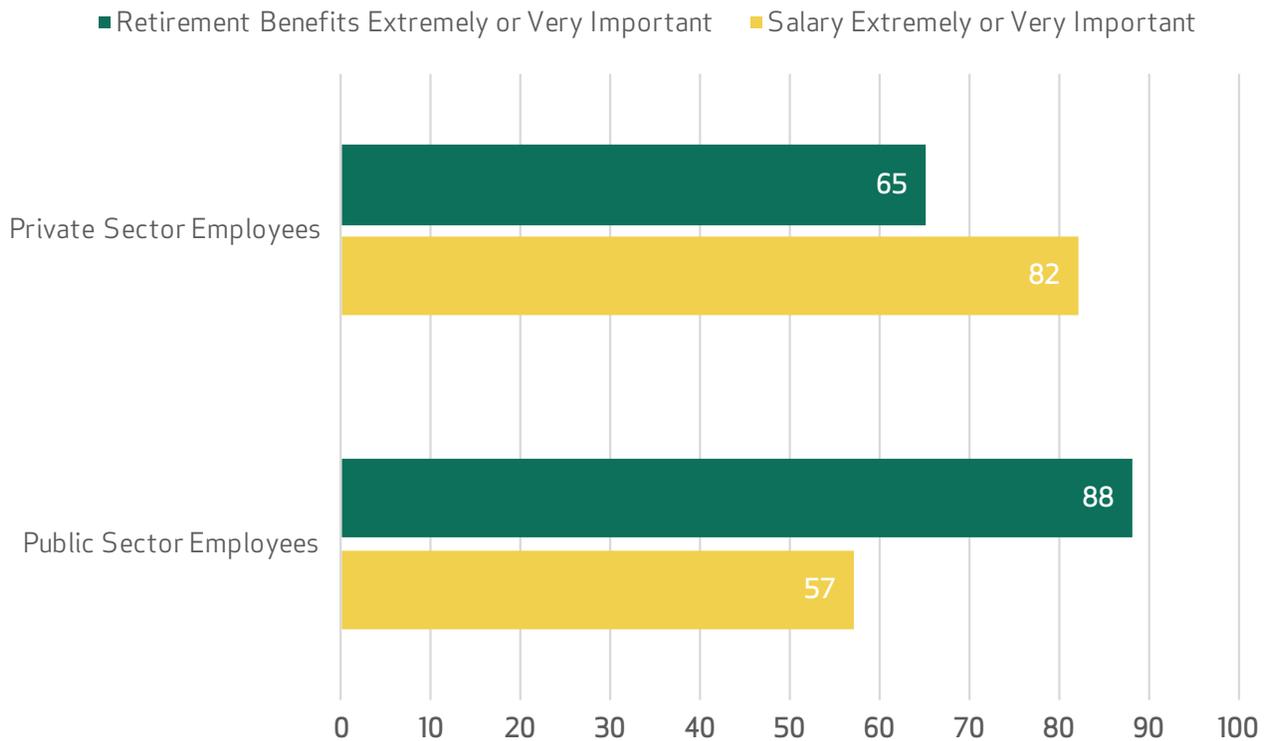
An important factor influencing employment tenure is the type of retirement plans offered to employees, particularly for public sector workers who typically have lower salaries as compared to similar private sector workers. The Bureau of Labor Statistics reported that 85 percent of the state and local employees working in protective services were covered by a retirement plan in 2016.⁵ The overwhelming majority (79%) of protective services officers are covered by defined benefit (DB) pension plans.⁶ DB plans in the public sector are purposefully designed to recruit and retain skilled public sector workers.⁷ So it isn't surprising that there is a corresponding higher level

of median job tenure among public sector employees and first responders, in particular, as compared to private sector workers.

Pensions have a magnetic effect on employees. DB pension plans provide workers with retirement income security, and the benefits are structured to incentivize employees to stay in their jobs.⁸ These retirement plans help to reduce turnover and to build employee attachment. Thus, public pensions provide states and local governments with a critical tool to manage their workforce in terms of recruitment, retention and retirement. Additionally, the retention impact of pensions helps communities maximize the cost effectiveness of their training investment in police, firefighters and other public safety employees.

While public employers value the workforce management benefits of pensions, public employees attach great importance to their pensions. In their 2016 survey of public employees, TIAA and SLGE asked respondents to evaluate the

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.

importance of various job features. Sixty-seven percent of all public sector workers rated retirement benefits as extremely important. Retirement benefits rated slightly higher than salary, which 64 percent considered to be extremely important. Police and firefighters showed an even more substantial preference for retirement benefits. Some 75 percent of police officers and firefighters rated retirement benefits as extremely important while less than 60 percent rated salary as extremely important.⁹

The National Institute on Retirement Security (NIRS) found similarly strong preferences among public employees for retirement benefits over salary, especially when compared to the job feature choices of private sector workers. **Figure 2** illustrates the responses when NIRS posed a survey question on job features to both public and private sector workers. Public sector workers rated retirement much higher (88% as extremely or very important) than salary (57% as extremely or very important), while the responses of private sector workers ranked salary higher than retirement.¹⁰

Importantly, the general public understands that pension plans play an important role in recruiting and retaining public employees. Nearly two-thirds of Americans surveyed strongly agreed that pensions are a good way to recruit and retain qualified teachers, police and firefighters (see **Figure 3**).¹¹

Because DB pension plans play an important role in the compensation of public sector workers, public employers are sticking with DB pension plans. To ensure the long-term sustainability of pensions following the Great Recession, all state legislative bodies proactively modified their statewide public retirement systems, with nearly all keeping a defined benefit plan as the foundation of retirement benefits.¹² Typical modifications to retirement benefits included:

- adjustments to retirement ages;
- reductions to benefit multipliers;
- increases in employee contributions; and,
- limits on cost of living adjustments.

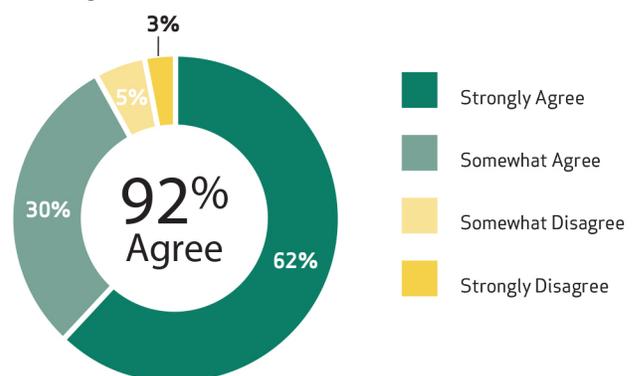
A limited number of state retirement systems have kept the DB pension format but modified it into a “combined plan” approach. Examples of these plan designs include coupling a modest reduction in the DB pension with the addition of a defined contribution (DC) savings account plan or switching to a specific type of DB plan, called a cash balance plan.¹³

Policymakers appear to understand that despite outside pressures to close or “freeze” pensions and switch to 401(k)-type individual DC accounts, making such change does nothing to relieve funding pressure and has not proven an effective approach for government employers and taxpayers. Also, shifting to DC accounts threatens workers’ retirement security, and valued mid-career employees suffer the greatest reduction in benefits.¹⁴

Based on a wide body of retirement research, NIRS and others find that relying on DC accounts as the only or primary retirement benefit can negatively impact the ability of public employers to recruit and retain a qualified workforce to deliver services to taxpayers.¹⁵

Figure 3: 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.



Source: "Retirement Security 2017," NIRS.

II. PALM BEACH'S RETIREMENT PROGRAM FOR PUBLIC SAFETY EMPLOYEES

An important case study comes out of the pension reforms to the two retirement systems for public safety employees adopted by the Palm Beach Town Council in 2012. The Council's action moved these employees from a DB pension plan to new "combined" retirement system that offered a dramatically reduced DB pension benefit and a matching contribution to 401(k)-type individual DC account.

The town of Palm Beach maintained its employee pension plan since 1947. After 1999, the town spun off the public safety employees into two additional separate pension plans providing benefits for police and for firefighters. These two plans covering the town's public safety employees are the focus of this case study.

In the early 1990s, public safety employees of the town of Palm Beach accumulated pension benefits based on a benefit multiplier of 2.75 percent of final average salary that was applied to the years of service to determine the amount of retirement income. The decade of 1990's provided all retirement plans with extremely strong investment returns that helped push most public pension plans to reach full funding levels and, in some cases, over-funded levels.

Palm Beach sought to have a compensation and benefit program that competed with the top programs in the state of Florida. As a result of the pensions' favorable funding levels, the Town Council took several steps to improve pension benefits to meet employment market pressures. The Palm Beach town manager outlined these improvements to the public safety pensions in a report to the Town Council in 2010, as the following:

- In 1995, the multiplier was increased to 3.0%.
- In 2001, the multiplier was increased to 3.25%, and the minimum years of service required for public safety pension eligibility was reduced from 25 years to 20 years.
- In 2005, the multiplier increased again to 3.5% per year of service.¹⁶

This movement to improve retirement benefit levels for police and firefighters was encouraged at the state level in Florida by an amendment to Chapter 175 (for firefighters) and Chapter 185 (for police officers) passed by the Florida Legislature. These Chapters of the Florida Statutes were designed to encourage a uniform retirement system that would be well managed to maximize the protection of the Municipal Police Office Retirement Trust Funds and the Firefighters' Pension Trust Funds.¹⁷ In 1999, the Legislature amended Chapters 175/185 to require that property and casualty insurance premium taxes above a base level be used to provide police and firefighters extra and new retirement benefits. Since that mandate, cities have provided over \$520 million in additional pension benefits for police and firefighters.¹⁸

However, the first decade of the new millennium presented a number of investment challenges for all retirement investors as financial markets experienced severe investment losses during 2001 to 2002 and 2008 to 2009. For the DB pensions of Palm Beach, this caused a dramatic increase in the town's costs for its employee pension funds, which increased by over 600%, from \$1.1 million in FY02 to \$7.5 million in FY10.¹⁹ Moreover, the sharp decline in stock market values during 2008-2009 was accompanied by a financial crisis, which resulted in a much longer recovery period before the values of assets in retirement plans reached the pre-crash levels than plans had experienced during other recent recessions.

III. PALM BEACH PENSION REFORM PROCESS

The Town Manager's Report on pension reforms recapped earlier deliberations of the Town Council's Finance and Taxation Committee, which studied projected increases in the cost of the town's pension plans and identified ways to reduce the town's operating budget as it faced lower revenue projections and budget deficits. The Council also utilized a report by an actuarial firm hired to study the town's pensions and produce a report with possible design options and estimates of possible cost savings from alternative retirement plan models.

Using that information, the town manager identified two priorities - financial sustainability and continued competitiveness - that guided his process in formulating recommendations for reform. The challenge, as summarized in the manager's report, was to identify \$6.1 million in pension savings in FY 2020 and "retain enough value to ensure the Town can continue to attract high quality employees."²⁰ The resulting reform recommendations the manager submitted to the Town Council in April 2010 included the following actions:

- Retain a defined benefit (DB) plan.
- Offer a defined contribution (DC) plan as an option.
- Freeze the current DB plan for all existing employees (as if they separated from Town employment immediately and benefits were frozen until eligible for retirement).
- Modify the current DB plan going forward (for all existing and future employees) in accordance with the following principles:
 - average final compensation for pension purposes should reflect each employee's base earnings and should not include additional compensation
 - multipliers should return to 1990s levels
 - the standard pension benefit should be a life annuity (remove existing automatic 75% survivor benefit and allow employees to purchase protection for a spouse)
 - the age when employees become eligible for retirement benefits should be one that is sustainable.
- Withdraw from the State pension subsidy program provided under Chapter 175 and Chapter 185 that would reduce town revenues by a projected \$575,582 State subsidy for FY12 and in future years.²¹

The Town Manager's Report did not recommend other alternative plan designs such as a combined plan design, which would provide employees both a reduced DB pension and a new DC plan.²² It was interesting that the town was willing to pass up almost \$600,000 in annual state funding support in exchange for more local control and freedom from the conditions and controls the State of Florida requires in exchange for Chapter 175/185 monies.²³ The town manager acknowledged that his proposal would present challenges to the desire to retain and attract qualified employees to serve the citizens of Palm Beach:

"Because the Town is addressing the need for pension reform sooner than most of the other public sector employers in South Florida, we will experience a short-term reduction in the strength of our competitive position for recruiting and retaining top quality employees."²⁴

The above statement proved to be an accurate prediction, but the magnitude of the impact was not fully considered. In the subsequent months, these retirement reform proposals developed into a highly charged situation. The Palm Beach Daily News ran a story on December 25, 2010 under the headline "Police seek public's support for pension funds."²⁵ The article reported on an advertisement in the paper stating the concerns of the Fraternal Order of Police (FOP). The advertisement stated "Our concern is if they lessen the pension and rein in the benefits that all other municipalities in Palm Beach County and South Florida give their officers, they are going to have a problem with recruitment, retention and, eventually, quality of service."²⁶ The police union calculated based on the pension reform proposal that the amount of pension income paid to future police officers would be \$20,094 compared to the average benefit provided under the existing plan of \$56,263.²⁷

This debate and controversy grew during the next 16 months, and came to a head with the Town Council voting to adopt a series of pension reforms at a meeting on April 24, 2012. By that time, the retirement plan changes went far beyond the initial proposal from the town manager in 2010. William Kelly, the Daily News staff writer put it bluntly: "For the

Town of Palm Beach, pension reform is no longer just a debate. It's reality."²⁸ With a 4-0 vote, the Town Council enacted deep cuts to all employee retirement benefits, effective on May 1. While existing employees did not lose retirement benefits they had accrued prior to May 1, the value of those benefits was frozen based on current salary and service at levels much lower than employees expected.

Future retirement benefits for existing and new employees would be under a combined DB pension and DC plan with fresh starts for all employees. From the town's budget perspective, the changes to the pension plan cut costs about 45 percent.²⁹ According to a report by the Palm Beach Civic Association, which supported the changes, the pension reforms were anticipated to save taxpayers \$6.6 million in 2012, and the annual savings would grow to \$10.2 million in 2020.³⁰ While the Civic Association's study concluded that employees still would have a meaningful retirement plan, many public safety employees felt differently.

For existing public safety and other employees, the new structure represented deep cuts in the retirement income that they had planned on having in the future. Employees could not make up for the loss of anticipated retirement income with reasonable additional savings in the DC part of the new plan. This was especially true for employees over age 40. Joe Puleo, a representative of the FOP, described the new retirement plan as "an atrocity" that would diminish public safety pensions by more than 50 percent.³¹ **Table 1** below summarizes some of the major differences in the frozen DB pension and the combined retirement plan going forward:

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.

IV. PALM BEACH AFTER REFORM: POLICE AND FIREFIGHTERS HEAD OUT THE DOOR

The reaction of existing protective service officers to seeing their pension benefits frozen was swift. Retirements accelerated dramatically. Because the only way younger public safety officers could obtain a better pension was to leave the town's police and fire departments, those existing employees who did not retire looked for opportunities in nearby local jurisdictions. The Palm Beach Daily News published a featured story in 2013 about the reaction of the town's police and firefighters. Reporter Michele Dargan found both departments in turmoil and staff levels decimated. Officers now left the Palm Beach forces in high numbers unseen in the years before reform. Twenty-four departures occurred in 2012 alone. **Table 2** provides the published list of the police and fire department departures as reported by Dargan.

A comparison of employee census data in the actuarial valuations before and after the reforms produced for the Police and Firefighters pension plans shows the impact that the high turnover had on the plan and on the distribution of employees. **Table 3** illustrates the trends among former employees who over the four years departed the force with a vested benefit as well as the number of new employees who took a refund of their contributions.

While the contention from the reform debate left many individual employees uncomfortable about talking to

reporters, police and fire union representatives pointed squarely to the pension reductions as driving the exodus of public safety workers. They said that the loss of experience throughout the ranks of police and firefighters put departments and individual firefighters at risk.

Ricky Grau, president of the Professional Firefighters/ Paramedics of Palm Beach County, warned that rookies teaching rookies created a dangerous situation and was “not in the best interest of the safety and welfare of the public.”³² Meanwhile, Joe Puleo predicted a revolving door for new police recruits. He said, “The good officers that get hired here will stay a year or two, get experience and leave.”³³

The figures for 2011 illustrate the more typical work tenure of public safety officers who stay with one department throughout their careers. The data for Palm Beach fire department illustrate a ten fold increase in withdrawals for non-vested firefighters and a twenty-nine fold increase in the number of experienced fire and paramedic officers. **Table 4** below compares how this turnover changed the demographics of the active public safety employees of Palm Beach when broken down by years of experience on the force.

Hiring and training new public safety officers represents a sizeable cost for each public safety recruit. As vacancies in both forces increased, the lag in replacing public safety officers results in increased overtime hours as an added expense to maintain critical services to citizens. For firefighters the Council's solution to the pension impasse came with a 56-hour work week. One Palm Beach firefighter described officers working 72 to 120 hours straight by working up to five twenty-four hour shifts straight through. Under this stressful schedule, vacations were not available because of the short staffing.³⁴

Some police chiefs in Florida have estimated the “all in costs” to bring a new police officer onto the force through their rookie period as costing \$240,000 per officer.³⁵ So it is surprising, in the cost analysis of pension reforms, there was no projection that any large turnover cost would develop from creating new alternative retirement plans. For example, in the four years after the Palm Beach Town Council made

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.

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

its severe pension cuts, 31 firefighters terminated and took refunds from the pension. Replacing these newly trained officers would quickly increase training costs. As they left for neighboring cities and counties, the loss of 56 short-term police and firefighters stuck Palm Beach with a multi-million-dollar tab for training that could likely hit \$20 million.

Losing seasoned public safety officers changed the experience levels of employees dramatically. A presentation at the 2016 Conference of the Florida Government Finance Officers Association indicated that 20 percent of the town's total workforce retired while turnover rates reached 20 percent for firefighters and 14 percent for police officers. It also indicated that ceasing the town's participation in Chapter 175/185 represented a loss of \$800,000 each year and Chapter 175/185 funds could not be restored by going back into the programs.³⁶

At the 2016 Florida Public Pension Plan Trustee Association Annual Meeting, a news hour segment featured an interview with Damon Patrick, a 15-year veteran of the Palm Beach Fire Department. He indicated that the public safety departments lost over 60 people since May 1, 2012.³⁷ Patrick told the audience how the loss of experience takes its toll on employees:

When a critical intervention comes along, everybody looks around the crew, and there's one or two guys that are experienced and they get thrown into the fire. They've got to perform, and if they don't perform they're going to be liable. It happens over and over and over again. It's a very high liability situation. It's very scary on a daily basis.

The comparison in Table 4 of employee data from the actuarial valuations produced for the Police and Firefighters pension plans shows the extensive impact of this high turnover on the distribution of experienced employees.

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.

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.

V. THE FIX: A NEW DEFINED BENEFIT PLAN FOR POLICE OFFICERS AND NON-UNION FIREFIGHTERS

The mass exodus of experienced police, firefighters, and other first responder officers, and the churning of new hires, became an issue that needed the Palm Beach Council’s attention fairly quickly. At the peak of the crisis, more than 60 percent of the town’s employees had less than three years of service.³⁹

In the lead up to the vote on a new pension system, Public Safety Director Kirk Blouin summed up the situation bluntly: “employees did not care about the individual retirement accounts so they were not effective recruitment or retention tools.”⁴⁰ Additionally, the consultant’s comparison of the retirement benefits provided to Palm Beach officers with those offered by 14 police and 12 fire-rescue departments found that benefits were not competitive, with levels 50 to 65 percent below peers.⁴¹

By a 4-1 vote the Council reversed the direction of retirement system reforms after four years and created a new DB pension system that had a 2.75 percent of salary multiplier and lowered the normal retirement age to 56 from age 65.⁴² The new pension also included a reform that most other systems had adopted of requiring employees to make higher contributions to the plan. With the DC plan abandoned, the town could use the matching employer contributions to more than cover the cost of the increased DB pension benefits. In fact, some funds would even be left to pay down the legacy pension’s unfunded liability.⁴³

A summary of the new DB plan that became effective on October 1, 2016 for Police Officers and non-union Firefighters is provided below in **Table 5**. This summary is not intended to be all-inclusive and complete plan details may be found on the Town’s website.⁴⁴ One group remained outside of the new plan adopted in May 2016. That was the rank and file firefighters who were represented by a union, which needed to approve the change.

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)

In approving the new defined benefit pension system for police and firefighters, the Council's Finance and Taxation Committee requested that the actuary prepare cost analyses of several pension benefit scenarios. The cost estimate for the DB pension design adopted by the Council is summarized in **Table 6**.⁴⁵

The June 12, 2016 editorial in the Palm Beach Daily News called for Town Council to ratify its contract with the firefighters union and take the last step to move all public safety workers to participating in the improved DB pension. The Town Council unanimously passed a resolution ratifying an agreement with the International Association of Fire Fighters Local 2928. Town and union representatives had negotiated for more than seven years, and firefighters had been without a contract since the severe cuts to pensions and benefits took effect in 2012.⁴⁶

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>.

VI. CONCLUSION

The earliest public pension plans covered employees who work to protect Americans. Today the overwhelming majority of public safety officers are still covered by DB pensions that provide retirement, death, and disability benefits. Given the risks and physical demands associated with police and fire service, these public safety workers consider their retirement benefits critical to their future financial security. Typically, public safety workers contribute a significant portion of their salary toward their pension benefits.

Americans appreciate that the risks involved in the day-to-day duties of their jobs make their work extremely dangerous. Nine out of ten Americans agree today that DB pensions that cover nearly 80 percent of public safety workers provide a level of compensation for taking those risks while affording police and firefighters a secure retirement.⁴⁷

The experience of the town of Palm Beach has lessons for other communities about fully understanding the human resource consequences of dramatically changing the retirement benefit programs that public sector employees highly value. State and local governments cannot easily replace the experience of seasoned public safety workers. Using the models that cut benefit cost and reduce volatility in DB pensions of corporate America can put our public safety at risk.

An important lesson is offered from the closing of the police and firefighter DB pension plans and the adoption of a combined DB and DC plan by the Palm Beach Town Council as a solution to pension reform. The decision to decimate the retirement benefits that public safety workers need when they no longer can perform their risky jobs had costly consequences that can rival funding challenges of pension plans. After tensions flared, the gutted DB pensions pushed public safety officers in Palm Beach at all levels to seek out other jobs with compensation packages that addressed their future financial security needs. Employee turnover escalated and each year training costs soared.

The new crisis in 2016 was stopping the hemorrhaging from employee turnover. Palm Beach's Town Council learned a lesson that did not surface in the early actuarial cost projections - that valued public safety employees can move to other cities. The healing process in Palm Beach is underway, but restoring trust in the employee-employer relationship is a slow process. An additional unfortunate consequence of the drive to force reforms caused the town to forfeit future access to the more than \$800,000 in annual state financial support for the retirement systems under Chapter 175/185 from the State taxes on insurance products.

The Palm Beach experience reveals some of the detrimental impacts of switching public employees from DB pensions to DC accounts:

- **Employees' reactions to the Town Council dismantling the DB pension benefit were swift and caused a mass exodus of public safety officers.** In addition to the 20 percent of the town's workforce that retired, 109 protective officers, including 53 experienced, vested police officers and firefighters, left before retirement in the next four years.
- **Neighboring towns benefitted from the Palm Beach experience by avoiding similar controversial reforms and by hiring from the experienced talent pool of public safety officers willing to move from Palm Beach.** Newly hired and trained firefighters and police officers left at rates nearly 4 times higher than before Palm Beach changed to offer individual DC retirement accounts.
- **The shift away from the DB pension increased costs in other areas.** The unprecedented loss of new and experienced public safety officers caused the town's training cost to soar, likely reaching upwards of \$20 million.

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 pensions for police officers and firefighters by raising benefits substantially and lowering the retirement age.

Reports from other cities indicate that similar situations have had similar and different outcomes depending on the decisions cities make. Here are some examples to consider:

- In Lexington, Kentucky, the mayor came to understand the importance of the pension for the city's police and firefighters and reached successful compromises on the reform of the city's public safety retirement plans.⁴⁸
- The city of Houston firefighters worked around the clock to assist its citizens in the aftermath of Hurricane Harvey, even though the firefighter union and city were at odds over reforms to pension benefits and involved in a lawsuit over its contract.⁴⁹
- Reforms of the Employees Retirement System of Rhode Island generated a bitter battle, and ultimately after a lawsuit cut benefits for younger state employees and teachers by freezing existing benefits and taking a fresh start with a combined DB/DC retirement plan. While changes to the statewide system did not cause similar drastic turnover increases, recent reports indicate that public employees are working longer, which leaves the state with higher personnel costs that are exacerbating its already-strained budget.⁵⁰
- All state employees hired after July 1, 2006 in Alaska participate in a DC retirement plan. In 2017, the Alaska Department of Public Safety (DPS) issued a report to the state legislature on how the State's DC plan acts as a barrier to attracting and drives up attrition among state troopers. The 40 unfilled trooper positions, in the most recent year, left the force 10 percent below its commissioned staff. This trooper staffing shortfall puts at risk DPS' ability to meet the state's public safety needs. Restoring the defined benefit retirement plan for law enforcement positions is the first critical need required to remedy the state's problem in recruiting and retaining public safety personnel.⁵¹
- The mayor of Sun Prairie in Wisconsin wanted to offer pensions to the town's firefighters and worked to pass a bill to allow municipalities that didn't offer pensions to join the Wisconsin Retirement System.

The DB pension plans used by public retirement systems have a proven record of simultaneously meeting the workforce goals of employers through the recruitment and retention advantages of pensions and the financial goals of employees through the economic security that DB pensions offer employees.

As states and local governments address the funding challenges that they may experience for their public pensions, it is important to also understand the value that DB pensions offer over DC retirement savings plans.⁵² Doing so will help retain the highly skilled workforce needed to fill these critical public safety roles and will help public employers to effectively compete for skilled employees in the future.

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