THE ROLE OF DEFINED BENEFIT PENSIONS IN RECRUITING AND RETAINING PUBLIC SAFETY PROFESSIONALS

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EXECUTIVE SUMMARY

Police officers in New York City were the first public employees in the United States to be offered a defined benefit pension. While public pension plans eventually were established to cover teachers and general government employees, pension plans have remained an essential component of a career in public safety. Pension benefits, including crucial death and disability benefits, are seen as a vital element of the total compensation package offered to police officers and firefighters.

Defined benefit pensions help with the three Rs of workforce management: recruitment, retention, and retirement. This especially matters for public safety where there is a real need, due to the physically demanding and dangerous nature of the work, for these workers to separate from service and retire at earlier ages. This report shows that pension plans largely succeed in this workforce management, as more than half of new hires are expected to retire from their public safety pension plan.

This report examines data from a nationally representative sample of 28 police and fire pension plans, as well as some national datasets. It considers a number of aspects of pension plans that are significant for public safety professionals, including Social Security coverage and whether or not a Deferred Retirement Option Plan (DROP) is available.

The report's key findings are:

- More than half (52%) of new hires are expected to retire from the pension plan. This far surpasses levels of employee retention seen in the private sector.

- While pension plans generally have strong recruitment and retention effects for police officers and firefighters, states and localities that have made significant changes to their pension plans in recent years have seen a marked increase in the amount of employee turnover.

- Sponsorship of public safety pension plans varies significantly with some states almost exclusively providing plan coverage at the state level, while others almost exclusively provide coverage at the local level. The remaining states have a mix of sponsorship at the state and local levels, with the difference sometimes being between police plans and fire plans.

- Public safety pension plans are largely similar to all state and local government pension plans in terms of funded status, demographic ratio, and assumed rate of return on investments. The main differences lie in benefit provisions relating to retirement eligibility.

- Many firefighters and police officers, as many as two-thirds by some estimates, don't participate in Social Security through their public safety job, although the majority of non-covered public safety professionals are highly concentrated in several states.

INTRODUCTION

Police officers, firefighters, and other public safety professionals are among the most visible public employees. Children become acquainted with them at early ages, and they are often seen in the community, even when they are not saving people from emergencies. Taken together, police officers and firefighters account for more than a million full-time workers across the nation. Estimates vary, but there are approximately 700,000 full-time police officers with the power of arrest in the United States.[1] When other police department employees are included, the number is more than 900,000 full-time employees.[2] Nearly two-thirds of firefighters in the U.S. are volunteer firefighters and some states, like Delaware, are served almost entirely by volunteer fire departments.[3] Full-time professional firefighters account for approximately 315,000 workers nationally.[4]

Firefighters and police officers also were among the first groups of public employees to be offered defined benefit pensions. The first public pension plan in the U.S. was established for police officers in New York City in 1857.[5] A decade later that pension coverage was extended to New York City firefighters. Another decade later the pension plan was converted from a lump sum payment to a life annuity.

These public safety professionals differ in some important ways from public service employees like teachers, sanitation workers, civil servants, and others. Because of the physical demands and often dangerous nature of their work, police officers and firefighters tend to have shorter public service careers and retire earlier from these jobs. Death and disability benefits offered as part of pension plans are also of greater importance to these workers in high risk jobs. This report provides an overview of the pension plans offered to public safety professionals and highlights the ways pensions help maintain a robust public safety workforce.

I. AN OVERVIEW OF PUBLIC PENSION PLANS FOR PUBLIC SAFETY PROFESSIONALS

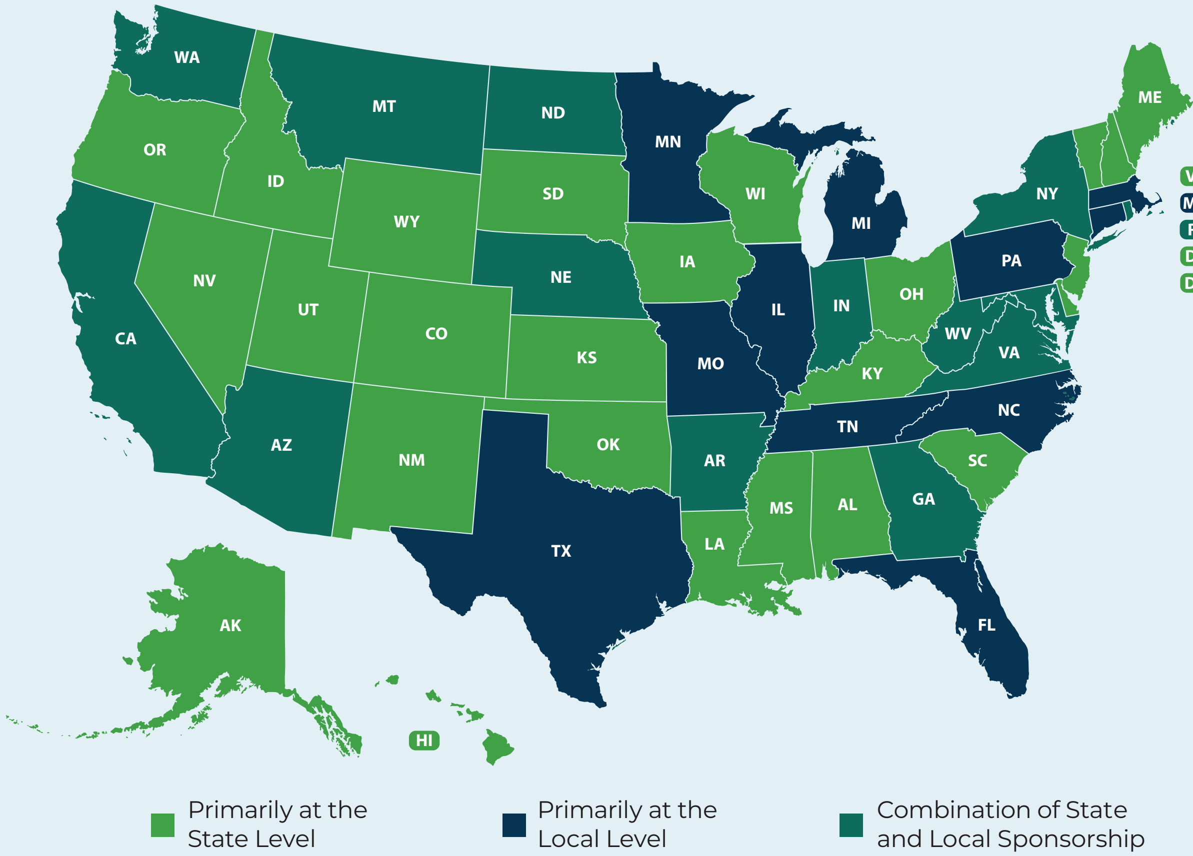
A few years ago, the National Institute on Retirement Security (NIRS) surveyed public employees, including both firefighters and police officers, about retirement and pension benefits.[6] Unsurprisingly, the survey found that firefighters and police officers have strongly favorable views of pension benefits. Among firefighters, 98 percent had a favorable view of defined benefit (DB) pensions, with a whopping 74 percent having very favorable views. For police officers, the comparable numbers were 97 and 61 percent, respectively.

Half of police officers and more than half of firefighters in that survey said the ability to earn a pension benefit was a reason they chose a public sector job, and more than 60 percent of both groups of workers said the pension was a major reason they stayed at their job. Overwhelming numbers of both police officers and firefighters agree that pensions are a good tool to recruit (97% for police and 99% for fire) and retain (99% for both groups) their fellow public safety professionals.

There are many public pension plans sponsored by state and local governments across the nation that cover public safety professionals, either exclusively or with other public employees. Some states almost entirely cover public safety at the state level, while other states have mostly local sponsorship of police and fire plans. The remaining portion provide a mix of state and local sponsorship of these plans. It's uncommon for public safety professionals to be in the same plan as teachers and general employees, but some statewide retirement systems have separate plans for different categories of public employees within the same overall system.

Figure 1 displays the variability among state and local sponsorship of these retirement plans, and it's important to consider the implications of these differences. If a police officer works in a state where all police officers participate in the same statewide plan, then that officer may choose to move to a different police department for better pay or a promotion, but that officer wouldn't receive a different pension formula. However, if that same officer worked in a

Figure 1: Sponsorship of Public Safety Pension Plans

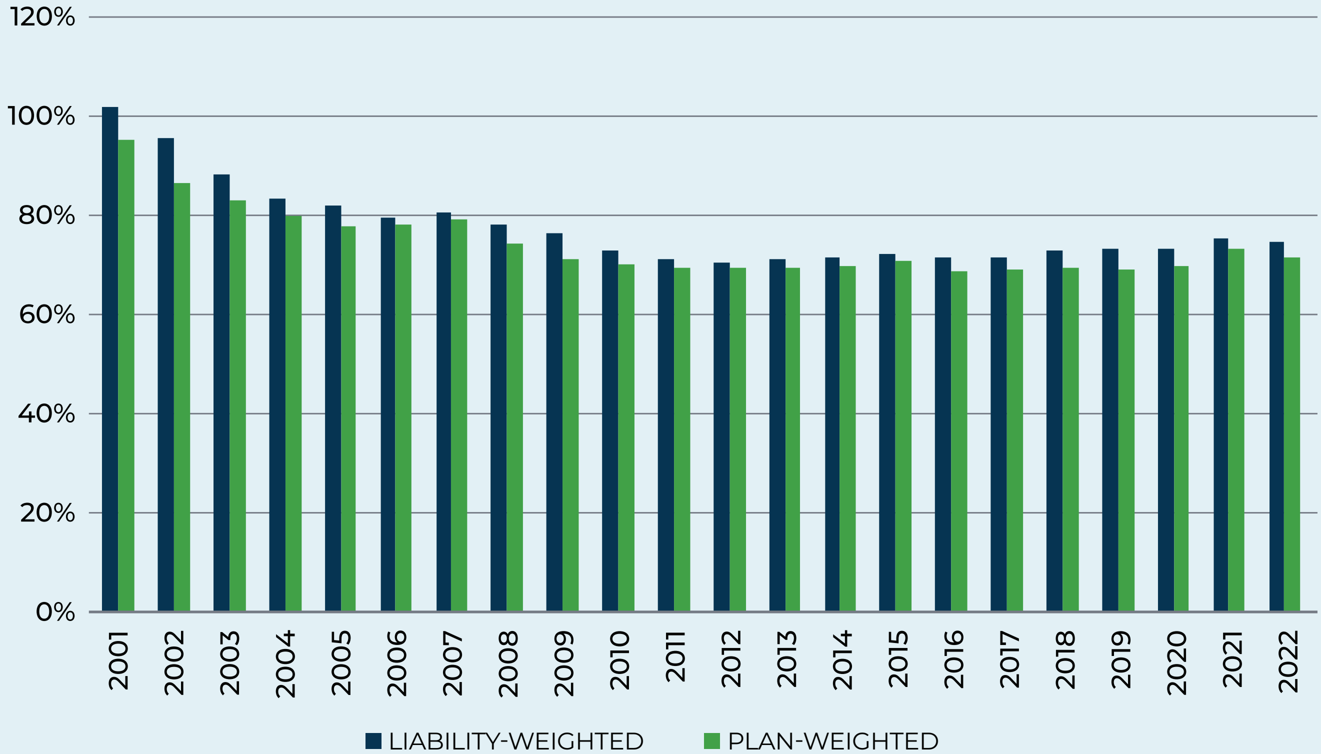


state where retirement plan sponsorship is primarily at the local level, then the officer could easily be incentivized to move to a department offering better retirement benefits. This situation can play out when one jurisdiction closes its pension plan, but neighboring jurisdictions continue to offer pension plans.[7]

While there are interesting variations, public safety plans are broadly similar to state and local public pension plans as a whole. Public safety plans span the whole range of funded ratios (assets divided by liabilities), from a few plans that are poorly funded to some plans that are more than 100 percent funded. The aggregate average funded status for these plans is nearly the same as the aggregate average funded status for all public pension plans.[8] **Figure 2** shows how the average funding ratio has changed among police and fire pension plans over the past two decades.

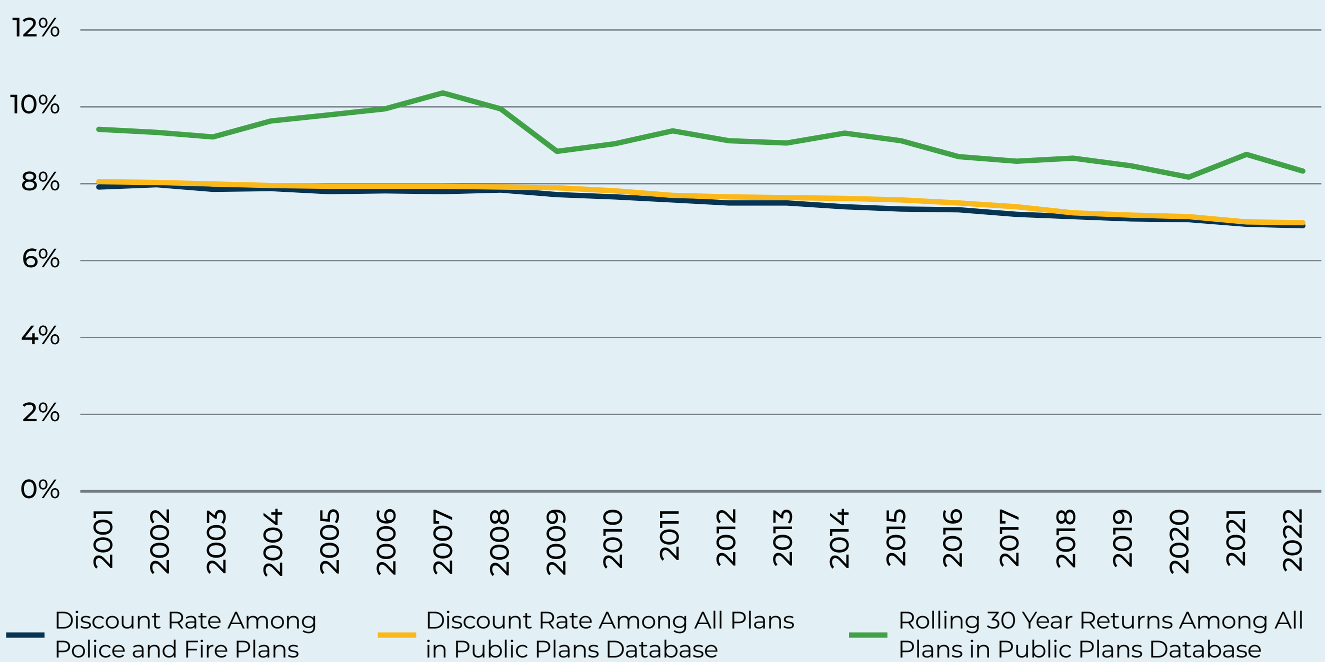
The average discount rate assumed by public safety plans is not appreciably different either. **Figure 3** displays both the discount rate used by public safety plans and the discount rate used by all public plans and shows that they have followed the same trajectory from around eight percent at the beginning of the century to seven percent today. Figure 3 also shows that rolling thirty year investment returns for all public pension plans have consistently been above the average assumed rate of return. The downward trend in discount rates in Figure 3 explains why the average funded ratio has remained relatively flat in Figure 2: plans have paid for lowering their assumptions by maintaining a lower funded ratio. This should position public plans for future success as capital markets assumptions anticipate lower investment returns in the future than in the past. Similarly, neither the demographic ratio of active members to retired members nor the history of actuarially determined employer contributions (ADEC) are significantly different from all public pension plans. Public safety plans are largely like all public pension plans, except for some important distinctions regarding benefit provisions and employment patterns among the members.

Figure 2: Average Funding Ratio Among Police and Fire Pension Plans



*Liability-weighted funding ratios are calculated by adding all plan assets and dividing by the total plan liabilities, which gives more weight to larger plans. Plan-weighted averages are simply the average of each plan's funding ratio.

Figure 3: Assumed Rates of Return Compared with Actual Returns: 2001 – 2022



II. SPECIAL CONSIDERATIONS FOR PUBLIC SAFETY PENSION PLANS

Public safety professions tend to be dangerous. Police officers and firefighters face the real risk of physical harm in the course of performing their work. These jobs also are physically demanding. Even if a public safety worker never experiences an injury on the job, they still are subject to routine physical strain and effort. The unavoidable realities of aging mean that many older workers in these demanding jobs simply are not physically capable of performing the frontline work of policing and firefighting. As a result, public safety professionals historically have tended to have shorter tenures and retire earlier than other public employees.

To examine the characteristics of public safety plan participants, this report analyzes data from a representative sample of 28 police and fire pension plans. These 28 plans represent every region of the country and include state plans as well as both large and mid-sized municipal plans. Some plans were specific to either police or fire, while other plans include both categories of employees. These plans accounted for more than a quarter million participants in 2022. The analysis of the data from these plans yielded key findings for this report.

The public safety workers joining these pension plans tend to be 27 or 28 years old when they enter the plan. Among current, active employees, the average length of service was 12 years, but one key datapoint examined was the average tenure within these public safety plans. The analysis found that police officers had an average tenure of 18 years, firefighters had an average of 20 years, and all public safety workers combined had an average of 17.6 years of service. It should be noted that all public safety workers include some corrections officers who tend to have much shorter tenures than police officers or firefighters.

It's also noteworthy how many workers are expected to leave their job via retirement rather than by quitting. More than half (52%) of new hires among all the public safety plans in the dataset are projected to leave via retirement, while another six percent will leave via disability or death. This means that only 42 percent are expected to leave for another reason, likely quitting. This contrasts sharply with experience in the private sector, where the median tenure in 2022 was 4.1 years.[9] Over the past 40 years, the median tenure of all wage and salary workers ages 25 or older has stayed at approximately five years.[10] **Figure 4** displays this data for all public safety pension plans, while **Figures A1** and **A2** in the Appendix display this data for police and fire, respectively.

Figure 4: Projected Reason for Leaving Employment Among New Hires in Public Safety Plans

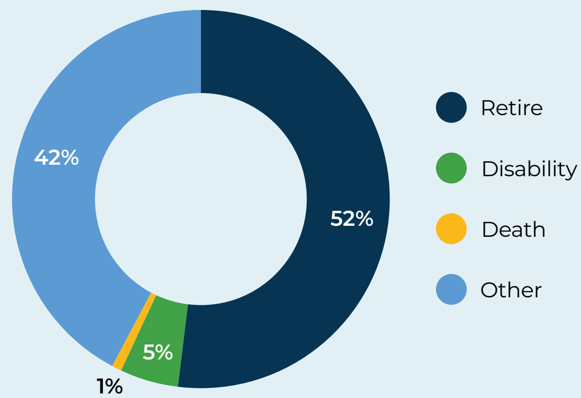


Figure 5 below shows the percentage of current, full group workers expected to leave via retirement for each plan in the dataset. Every plan in the dataset except for two expects to have more than half leave by retiring, and those two plans had 48 percent and 49 percent retiring from the plan. Figure 5 displays the data by both plan type and plan size and reveals that the patterns are fairly consistent.

While Figure 5 below shows the expected retirements of the current active population within those plans, **Figure 6** displays the percentages of new hires, aged 25, expected to leave via retirement. These numbers are noticeably lower than for the total population of current active workers. This is due to the relatively high rate of turnover in public safety professions during a member's first several years of employment.

Figure 5: Percentage of Current Workers Expected to Leave via Retirement

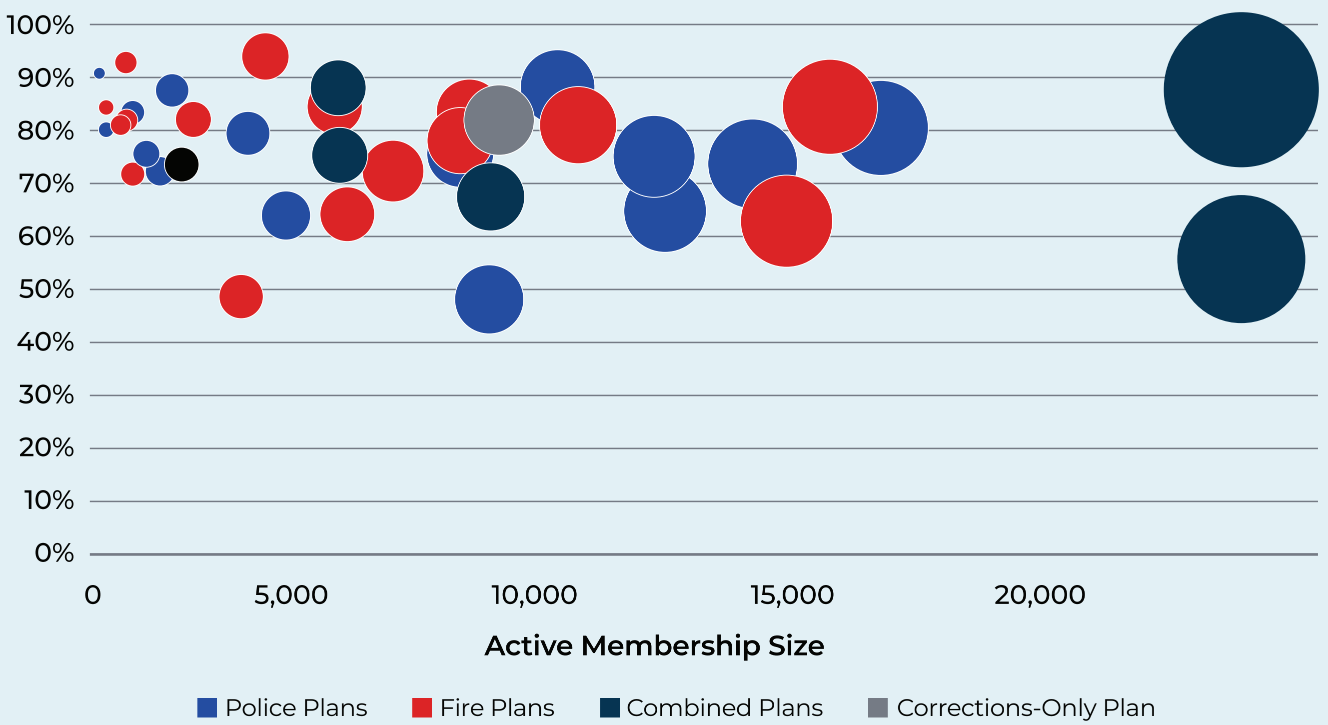
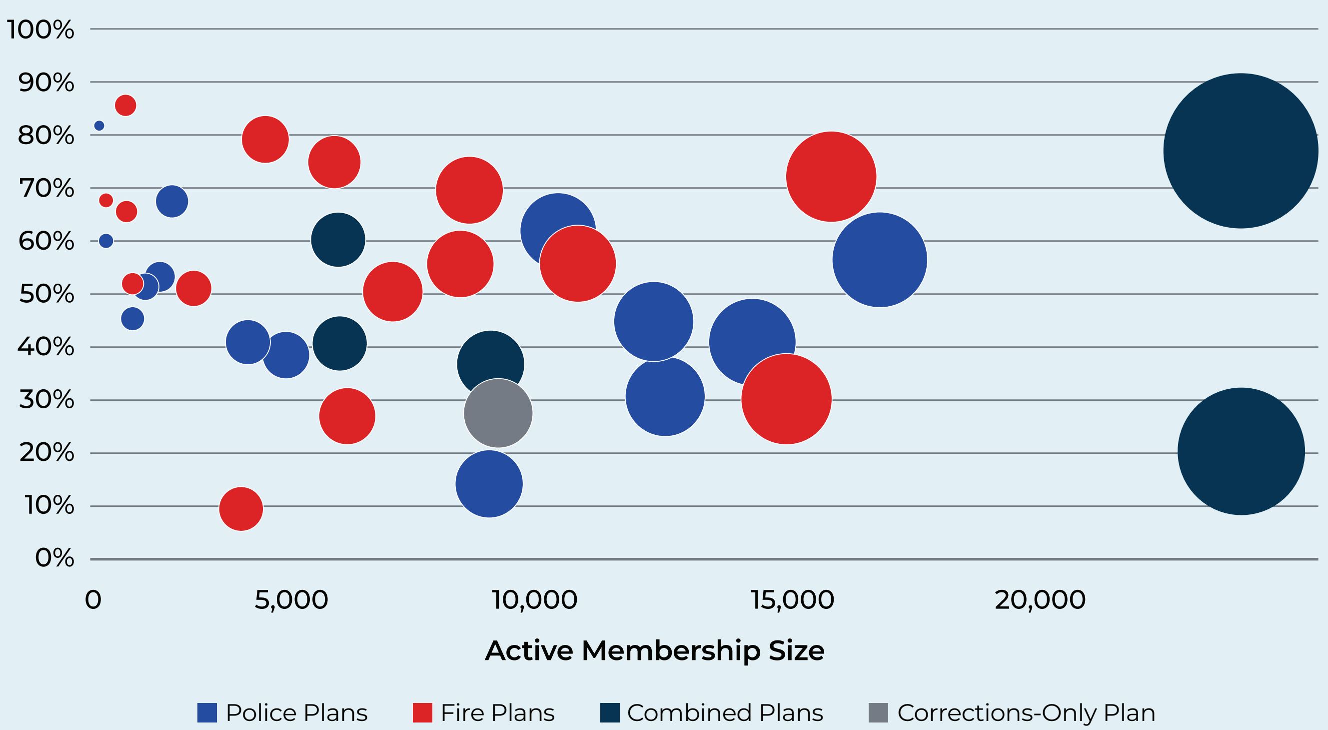


Figure 6: Percentage of Newly Hired Workers at Age 25 Expected to Leave via Retirement



These findings regarding average tenure and retirement from the plan largely fit with expectations, as do the findings relating to average age when claiming retirement benefits. The average age at retirement—that is, when claiming a retirement benefit—was 55 within the dataset for this report. This is likely not the same age as when the public safety professional leaves their public safety job. A firefighter, for example, might leave or "separate" at age 47 after 20 years of service, but would not be eligible to claim retirement benefits until age 55, depending on plan provisions.

The average life expectancy at age 55 for plan participants in the dataset was another 28 years, which means these workers are expected to live into their early to mid-80s. This life expectancy data suggests an interesting paradox. The physically dangerous nature of the job means that one tragic event can result in disability or death for some, but most will leave their public safety career without serious injury. Nevertheless, public safety professionals face high levels of stress and that can take its toll on the body over time. It is also the case, though, that there generally is a requirement to maintain physical strength and health during their careers that may have a longevity effect in retirement. It is also known that the employed population of the U.S. tends to have a longer average life expectancy than the U.S. population as a whole.

There is a longstanding academic debate regarding life expectancy for police officers. This is a relatively understudied area, so the available research is rather thin. However, the first major report that examined police life expectancy found that retired police officers tended to live as long as other retired public employees, rather than having shorter lives.[11] This finding was rebutted decades later by researchers affiliated with the National Institutes of Health (NIH) who found the life expectancy of male police officers from Buffalo, NY, was significantly shorter than the U.S. population.[12] Additionally, firefighters on average live ten years less than other Americans, due in large part to much higher rates of cancer due to exposure to chemicals on the job.[13] The Center for Retirement Research examined public pension plan actuarial reports regarding the average life expectancy of public safety professionals and found that the life expectancy assumptions were nearly identical to other groups of public employees.[14]

Because police officers and firefighters tend to leave or retire from their public safety jobs at earlier ages than other public employees, it is quite common for these workers to have second careers. The Illinois Public Pension Fund Association (IPPFA) conducted a survey of police and fire pension plan members in Illinois and found that three-fourths of firefighters and more than four-fifths of police officers continued working or started working again after retirement from their public safety career.[15]

Another important aspect of pension plans for public safety professionals is the availability of death and disability benefits. These workers are more likely to get injured or die on the job at younger ages due to the inherently dangerous work they perform. Therefore, it is important for them to have these benefits as part of their pension plan or as a separate stand-alone plan. Access to a disability or death benefit through the pension plan is especially important in those states in which public safety professionals do not participate in Social Security. It's important to remember that Social Security is a social insurance program that not only provides retirement income but insures against disability and provides survivor benefits. Pension plan provisions related to disability benefits vary depending upon whether the disability occurred in-service or out-of-service. Often there is no vesting requirement for in-service disability and the benefit frequently can be a flat percentage of salary rather than a benefit based on service, which is more valuable to a younger, low service member. The value of the disability benefit and how it is awarded varies substantially from plan to plan and can even include presumptive conditions such as heart conditions or cancers that are presumed to be in the line of duty due to exposures to hazardous conditions. The public safety plan dataset from the National Association of State Retirement Administrators (NASRA) provides an informative resource of how disability benefits are calculated in different plans.[16]

III. EMPLOYEE BEHAVIOR PATTERNS FOR PUBLIC SAFETY PROFESSIONALS

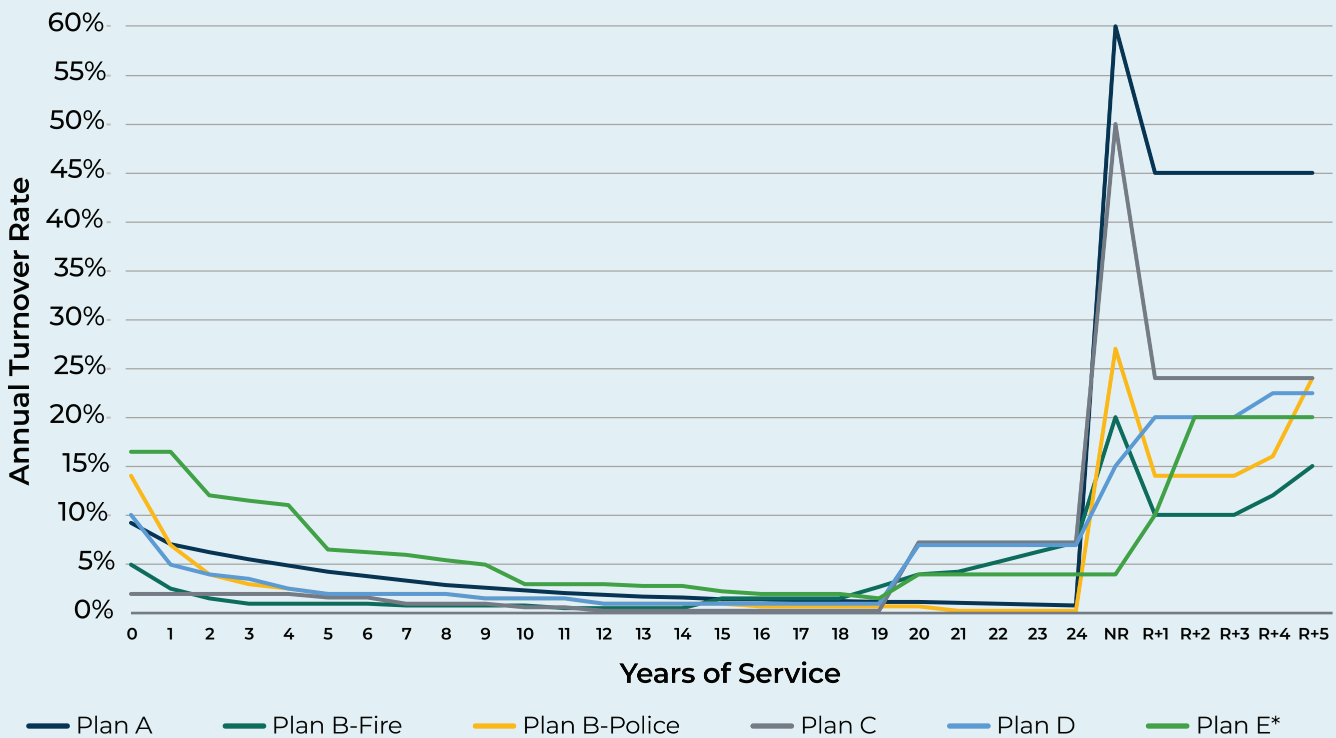
Public safety professions continue to emphasize a career model of employment. A majority of the plans analyzed for this report expect 75 percent or more of current workers to retire from the plan, and more than half of new hires are expected to retire from the pension plan. That retention rate is substantially higher than what is typical in the private sector today where tenures with individual employers tend to be shorter and workers change jobs more frequently.[17]

There is a real return on investment for the communities that support these firefighters and police officers and that, in turn, benefit from their service. It costs a significant amount in terms of both money and time to fully train a new firefighter or police officer. The pension plan acts as an incentive to keep these professionals in their careers so the public can benefit from the advantages of having an experienced and well-trained public safety workforce.

Additionally, many of these plans expect to receive more than 15 years of service from their new hires, with some expecting to receive more than 20 years of service. As is seen in other public sector careers, such as teaching, turnover is highest in the earliest years of service, when a new hire is deciding if this is truly the right career for them, but turnover decreases notably after those early years.

Figure 7 below uses data from five of the plans included in the dataset for this report to show the levels of assumed turnover across years of service. The chart shows that while turnover is higher in the first few years of service, after about the fifth year of service, it flattens and is incredibly low until a public safety worker reaches the point at which retirement provisions take effect. The chart then shows the expected higher levels of employees leaving once they reach the service years at which they are eligible to retire. This demonstrates that the pension plans are working as intended: they are retaining workers during their career and then helping them transition to retirement when it is appropriate.

Figure 7: Annual Turnover Rates for Public Safety Professionals Hired at Age 25



*Plan E includes corrections officers.

IV. WORKFORCE CHALLENGES FOR PUBLIC SAFETY PLANS

Public pension plans are an important workforce management tool. While originally established to help older public employees transition into retirement, pension plans proved to have valuable recruitment and retention impacts as well. Pensions have helped to promote a career model of employment in the public sector, and this is especially true for public safety jobs where there are fewer direct counterparts in the private sector. Additionally, there are large sunk costs for training new police officers and firefighters. Thus, retaining these workers for a career helps create a return on investment for taxpayers.

While pensions do much to recruit and retain public safety professionals, these professions are experiencing the same workforce challenges as many others today. The labor market has been tight throughout the U.S. recently. In part, this has been driven by a greater than expected number of retirements following the pandemic.

Public safety departments have struggled to find new workers and keep current workers in recent years. The Police Executive Research Forum (PERF) in a survey of its members found that both resignations and retirements had increased over the four-year period from 2019-2022. The survey also found that while hiring bounced back following the pandemic, police agencies are losing officers quicker than they can hire them.[18] Fire departments also are finding it hard to replace retiring workers, especially in volunteer fire departments that serve many rural areas.[19] Survey data from MissionSquare Research Institute indicated that policing was the most difficult position to fill, according to state and local government human resources professionals.[20]

While there are clearly broader social and economic factors at work, moving away from pension plans in some jurisdictions has contributed to increased turnover among public safety professionals. Alaska closed both of its statewide DB public pension plans in 2006, and now is realizing the unfortunate workforce consequences. Firefighters and peace officers participate in the Public Employees' Retirement System (PERS), which switched from a traditional DB pension to a defined contribution (DC)-only plan following the closure. Municipalities throughout Alaska have struggled to recruit and retain firefighters and peace officers in the years since and, in some jurisdictions, it has reached crisis levels.

For example, the City of Fairbanks does not have police officers on duty between 8 am and 12 pm due to severe staff shortages.[21] The Matanuska-Susitna Borough Assembly passed a resolution urging residents to arm themselves due to limited law enforcement.[22] In a November 2017 presentation of its recruitment and retention plan, the Alaska Department of Public Safety specifically cited the lack of a defined benefit pension plan as an "impediment to success."[23]

NIRS examined the increase in turnover among peace officers in Alaska since the switch to the DC plan.[24] That research found far lower levels of retention among both male and female peace officers in the DC plans. The DB plan would be expected to keep 63 out of 100 male peace officers after 25 years of service, whereas the DC plan is only expected to retain 17 out of 100 (**Figure 8**). For female peace officers, the numbers are 40 out of 100 for the DB plan and 9 out of 100 for the DC plan (**Figure 9**). And most PERS participants who are separating from service are quitting, not retiring.

Figure 8: Retention of Male Peace Officers in Alaska: DB & DC Plans Based on Ultimate Termination Rates

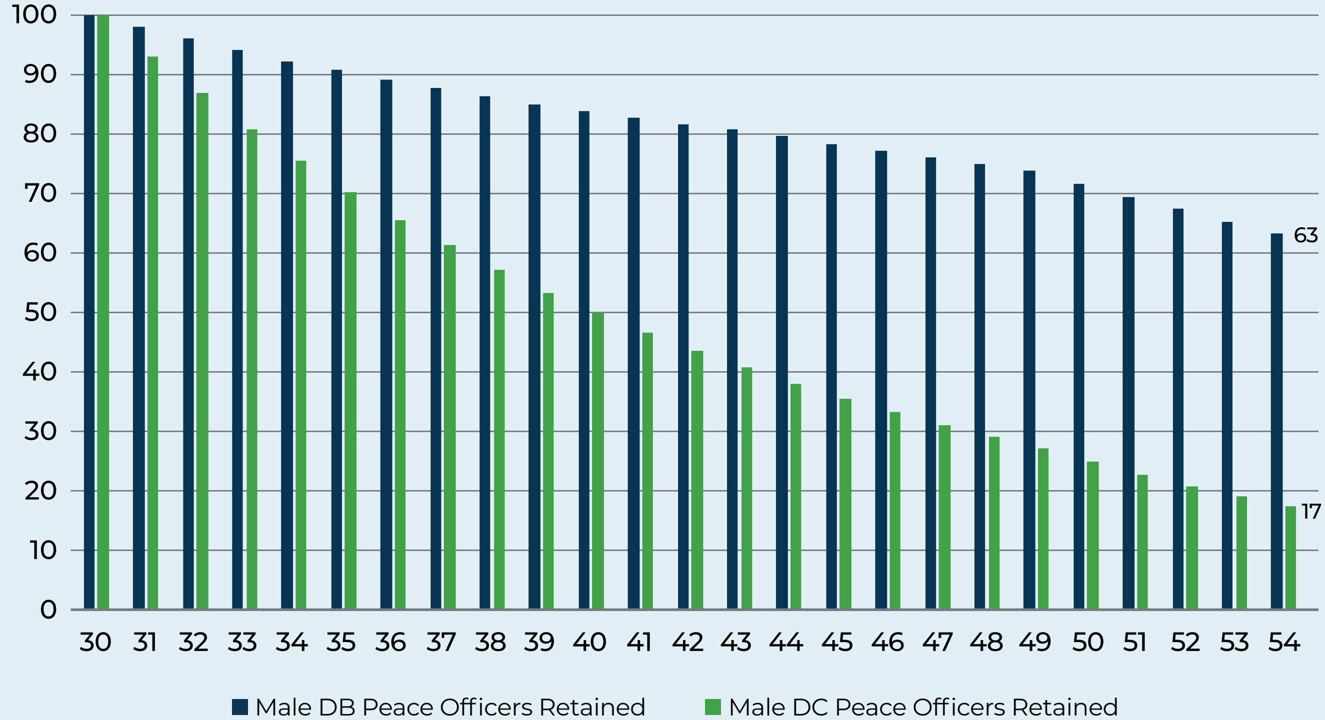
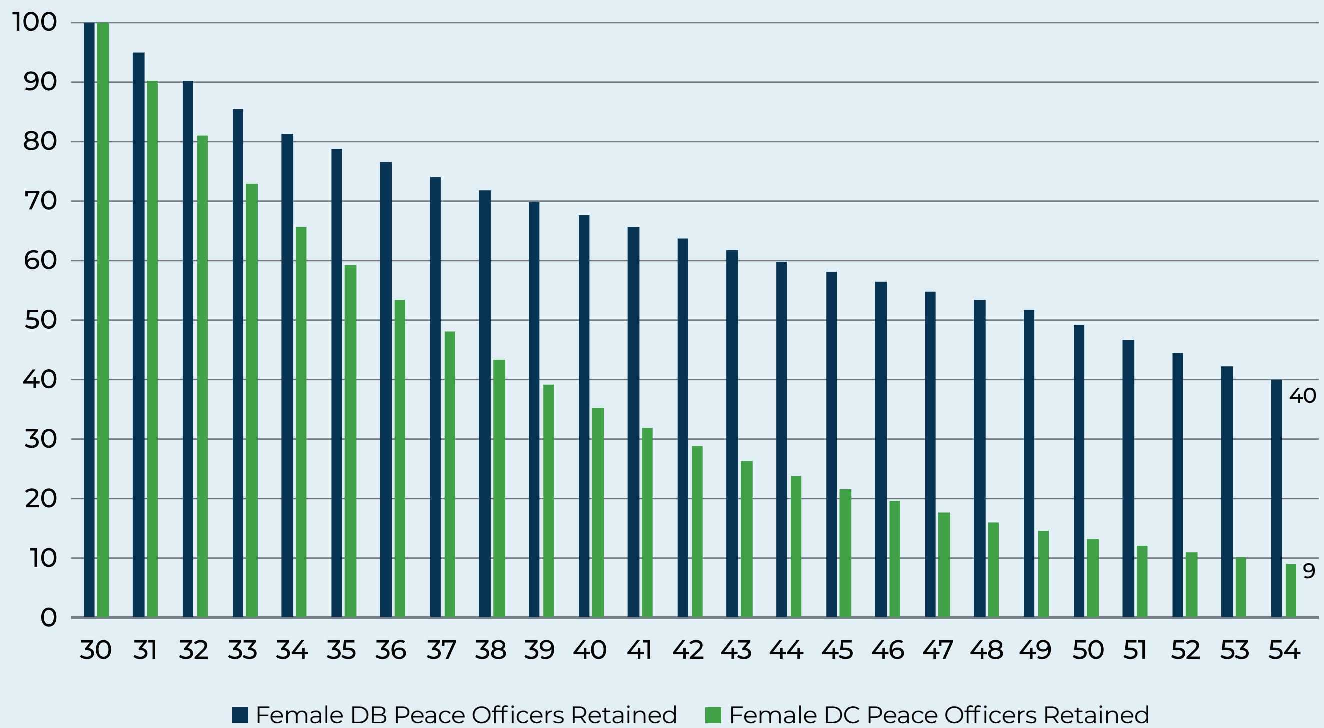


Figure 9: Retention of Female Peace Officers in Alaska: DB & DC Plans Based on Ultimate Termination Rates



NIRS has uncovered similar patterns in other states. The state of Rhode Island changed its retirement plan design from a traditional DB plan to a DB-DC hybrid plan beginning in 2012. In the years since, turnover has increased noticeably among police officers and firefighters.[25] Turnover was substantially higher among the police officers and firefighters with the fewest years of service (zero to four years) in the most recent actuarial experience study than in the previous four studies (**Figure 10**). While turnover followed the same trendline of declining with more years of service, as seen in the previous studies, it remained at higher levels in the most recent study. This means fewer experienced workers are retained to maintain public safety and fewer total years of public service are provided.

In some jurisdictions, public safety professionals can simply move to a neighboring city or town in response to pension changes. This happened in Palm Beach, Florida. The city council changed the pension plan in 2012, switching to a hybrid DB-DC plan with much smaller pension benefits. Crucially, the switch affected both current active workers as well as future hires. This led to a large, swift exodus of experienced workers. From 2011 to 2012, the number of departures among police and fire employees quadrupled.[26] Over a four-year period from 2011 to 2015, the number of withdrawals among firefighters increased tenfold from three to 31, while the departures of vested firefighters went from one to 29. This led to a change in the composition of the workforce with less experienced employees replacing those with more years of service.

Turnover has been increasing, but only modestly across all the plans included in the dataset for this report. **Figure 11** below shows the change in turnover during the past five years. Turnover across all plans has increased slightly over this period. The turnover rate is higher for the total plans in the dataset because that includes a broader range of public safety employees than just police officers or firefighters.

Figure 10: Turnover Experience in Rhode Island MERS Police and Fire Plan: 2004 - 2022

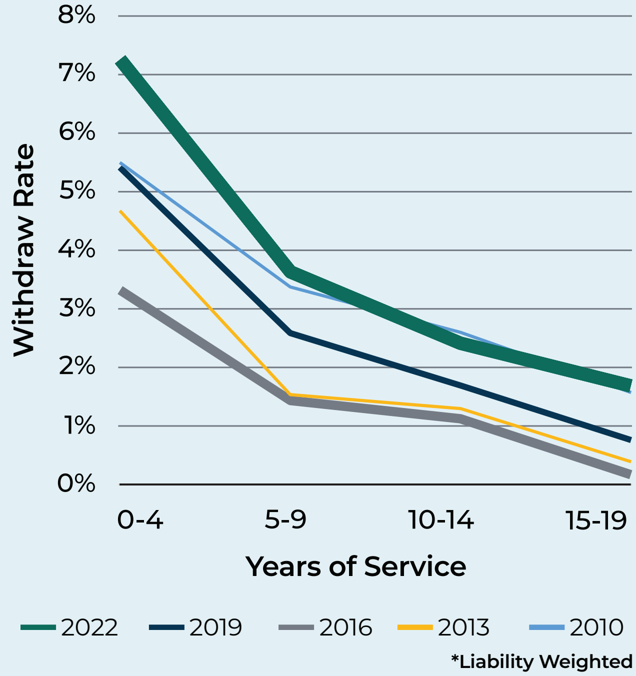
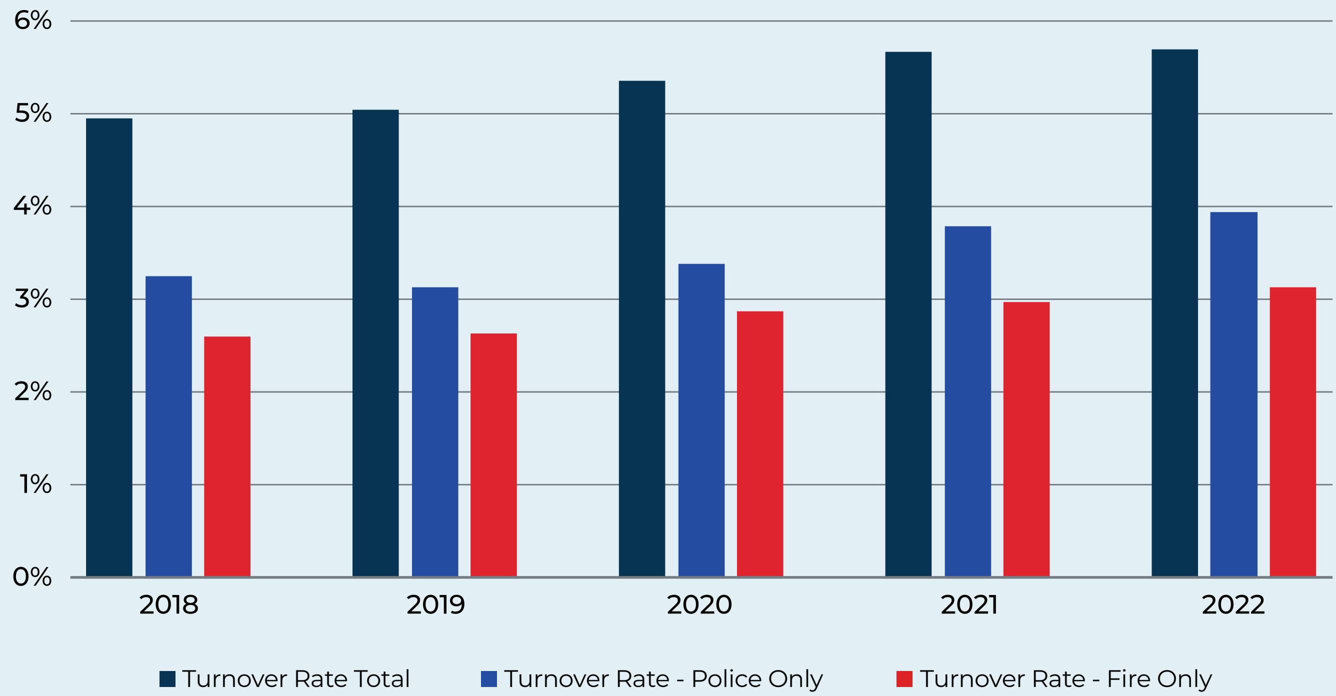


Figure 11: Change in Turnover Among Select Public Safety Pension Plans: 2018 – 2022



Arizona Public Safety Personnel Retirement System

As has been documented in this report, changes to public pension plans often lead to increased employee turnover as workers have less incentive to stay in a plan with less generous benefits. Whether or not current active employees are affected also matters, as does the tenor of the debate around making changes. One interesting example of these dynamics is the Arizona Public Safety Personnel Retirement System (PSPRS).

PSPRS covers police officers, firefighters, and other public safety employees throughout Arizona. These public safety members have long participated in a traditional defined benefit pension plan. The Arizona legislature passed a bill in 2011, which was altered by a subsequent court ruling that had the effect of creating a second benefit tier for those members hired on or after January 1, 2012. Additional legislation passed in 2016 provided Tier 2 members who do not contribute to Social Security through their employer a "hybrid" benefit by adding a defined contribution plan (with an employer match) to their retirement benefits.

Tier 2 only remained in effect for five-and-a-half years, though, as the same 2016 legislation also created a new Tier 3 benefit structure effective for all hires on or after July 1, 2017. Tier 3 still retains the DB plan as the default option for new hires and implements the hybrid DB and DC plans for those who do not participate in Social Security. It also added a seldomly selected DC-only plan as an option. Notably, both the Tier 2 and Tier 3 benefit structures established minimum ages to draw pension benefits (52.5 and 55 years of age, respectively) and did not include the popular Deferred Retirement Option Plan (DROP) made available to Tier 1 members. The Tier 3 membership also pays a dynamic and currently higher contribution rate than its Tier 1 and Tier 2 predecessors, as actuarially required contributions are split evenly between members and their employers in Tier 3.

Alongside the implementation of Tier 2 and then Tier 3 was the passage of a ballot measure in 2016, Proposition 124, that eliminated the Permanent Benefit Increase (PBI), a type of cost of living adjustment (COLA) based on investment returns, for all retirees of PSPRS and replaced it with a new COLA going forward. The ballot referral, which amended the state constitution, followed a legislative attempt to eliminate the PBI through statute that was ultimately overturned by the courts. Interestingly, many plan participants supported Prop 124 through the urging of member association leadership that shared the belief that the benefit increases brought by the PBI were unsustainable and partially responsible for declining plan funding levels. Member organizations campaigned in support of the measure and the removal of the PBI was made possible by cooperation between members and employers.

The dynamics around how and why these changes are made seems to matter. Analyzing turnover data for police officers and firefighters in Tier 1 and Tier 2 revealed that the actual turnover aligned with the expected turnover almost exactly. As noted, Tier 2 retained the DB structure with some adjustments to plan provisions.

The implementation of Tier 3 came after the passage of Prop. 124. Tier 3 is still a fairly young tier, so there aren't as many years of data available yet, but it does appear that actual turnover has been somewhat higher than expected in Tier 3. It will be interesting to see if this trend continues as more data becomes available. Early data indicates less than four percent of Tier 3 members are choosing the DC plan. Those who are defaulting into the DB plan are paying more than their predecessors, while waiting longer to be able to claim benefits. This is occurring while many public safety departments are struggling to increase pay, but mandating overtime due to a shortage of workers.

As noted in this report, public safety departments across the nation have struggled to maintain full staffing levels in recent years. Some of the increased turnover may be indicative of the broader national challenge to sustain a robust public safety workforce. But this can easily become a vicious cycle as those currently doing the work can become burnt out or disgruntled when forced to work longer hours for stagnant pay while contributing more to their retirement benefit. The prestige of becoming a police officer has declined in recent years due to the stresses and strains of the job. If this trend continues and spreads to impact firefighters, then that would affect the number of candidates applying to fill these jobs in the future.

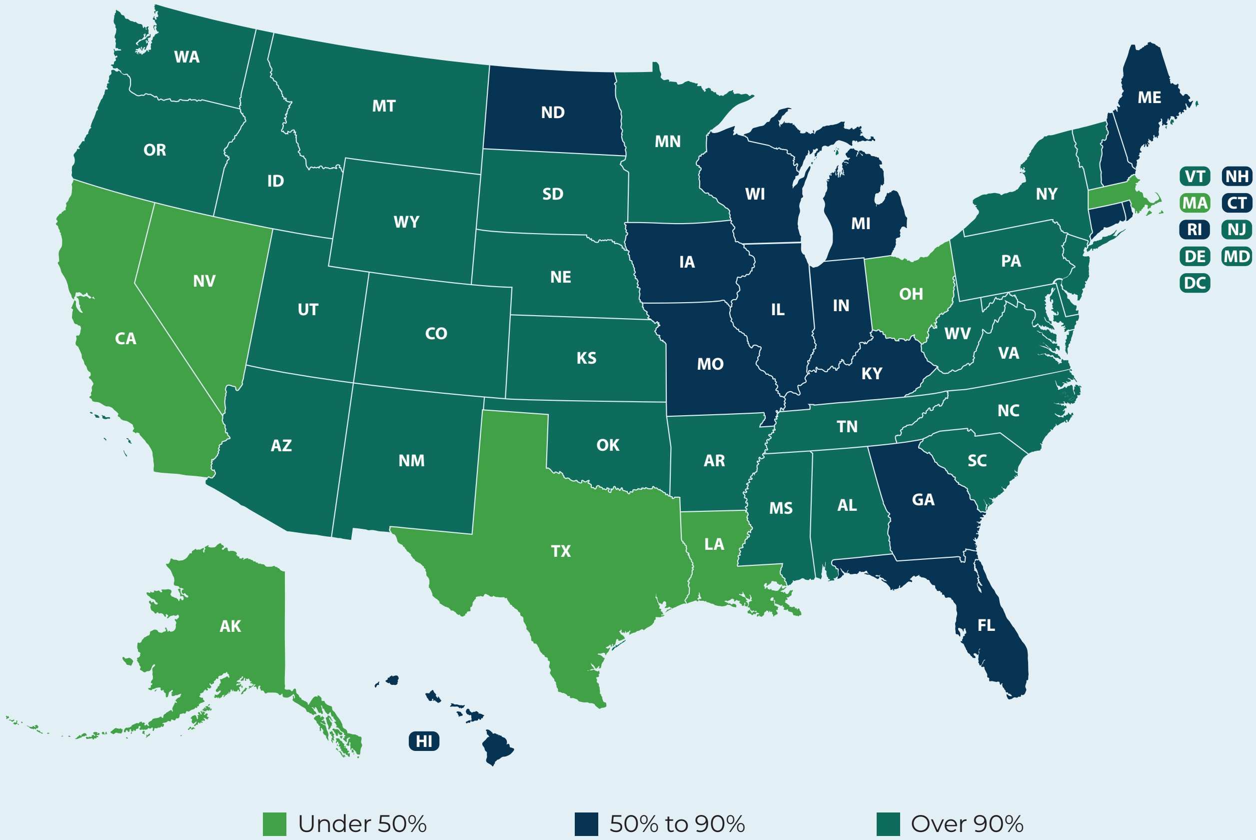
PSPRS represents a unique example where plan changes were made both proactively for the long-term health of the plan and by legislative mandate to reduce costs for employers and share more risk with workers. Importantly, the core DB plan has been retained throughout this process and the early data suggests the vast majority of new hires are choosing the DB plan. Other social and economic factors are bearing down on the public safety workforce at the moment, and the pension plan can experience some unexpected outcomes as a result, but losing the pension benefit likely would have contributed to even higher rates of turnover, as has been seen in other states.

V. PUBLIC SAFETY INTERACTION WITH SOCIAL SECURITY

Many public safety professionals do not participate in Social Security as part of their public safety employment. When Social Security was established in the 1930s, it covered less than half of the workforce and did not include any local, state, or federal government employees. It was only after the Social Security amendments of 1950 that state governments were given the option to include their public employees in Social Security. Many states immediately opted to begin participating in Social Security. All states now have what is called a Section 218 agreement with the Social Security Administration that details which public employees in that state will or will not participate in Social Security. While Social Security participation varies widely across states, some estimates maintain that two-thirds of police officers and firefighters nationwide do not participate (teachers are the third group of public employees that have high rates of non-participation in Social Security).

A number of states had already established public pension plans for teachers, police officers, and firefighters before the Social Security amendments of 1950. In some of these states, the decision was made to not have those three groups of public sector employees participate in Social Security because they were already covered by a pension plan. The states with the highest concentrations of public employees not participating in Social Security are: Alaska, California, Colorado, Louisiana, Massachusetts, Nevada, Ohio, and Texas (**Figure 12**).

Figure 12: Social Security Coverage Among State and Local Government Employees



Social Security requires 40 credits, or 10 years of work, to be "insured" and eligible for benefits. The Primary Insurance Amount, or PIA, uses the highest 35 years of pay to calculate the Average Indexed Monthly Earnings (AIME). Any years of compensation under 35 years are considered as zero pay in the average. The AIME only considers earnings up to the Social Security contribution and benefit base (also known as the taxable maximum), which is indexed every year according to the national average wage indexing series. Amounts above the contribution and benefit base are excluded.

Social Security benefits are designed with two "bend points" that result in participants with the lowest AIME amounts getting approximately 90 percent of coverage. People with a high AIME get approximately 40 percent to even as low as 30 percent in Social Security coverage if they have earnings that exceed the taxable maximum. Social Security was designed to give lower income individuals a higher percentage of AIME in their benefit.

Many police and fire personnel do not participate in Social Security as part of those public safety jobs. Therefore, some of these individuals only obtain jobs that participate in Social Security either after they retire from public safety or in a part-time capacity while working their full-time public safety job. Because these employees may have worked 20 or more years in non-participating employment, they likely will not obtain a full 35 years of Social Security earnings. This will result in their AIME mimicking someone who has a low AIME either due to not working for several years or simply earning a very low wage over many years. That relatively low AIME will pass through the bend points of the PIA formula and result in public safety personnel receiving a high percentage of coverage.

Social Security currently has an offset called the Windfall Elimination Provision, or WEP, that is intended to take into consideration that earners such as these (who have service and earnings that were not Social Security eligible) are different from people such as stay-at-home parents, individuals who were lifetime low earners, or those that were just generally underemployed. The earnings for these public safety members that Social Security does not include typically are going towards a pension benefit for them and so the WEP reduces the preliminary PIA calculation by approximately 50 percent. This means the initial Social Security benefit calculation for a public safety member who may have worked 20 years in a non-participating plan and then worked 15 years in a participating plan may be approximately 90 percent of AIME. The WEP adjustment attempts to differentiate them from actual low earners by considering that they likely have an additional pension earned in those non-covered years and adjusts their coverage percentage closer to the "40 percent of AIME" target.

The WEP has been the subject of much debate since it was introduced in 1983. Many retired public employees, who had years of non-covered public sector employment, assert that the WEP is overly broad and reduces their Social Security benefits too much. There have been a number of pieces of legislation introduced over the years that would either repeal the WEP altogether or would replace it with a formula that aims to more accurately adjust Social Security benefits for the actual number of years of non-covered employment. While not discussed in this report, a related provision called the Government Pension Offset (GPO) affects the Social Security benefits of spouses of retired public employees who had years of non-covered employment. The GPO is subject to the same calls for action to either repeal or replace.

VI. RETIREE HEALTHCARE AND OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Retiree healthcare is of particular interest to public safety retirees because they generally retire younger, sometimes well before age 65 and, therefore, before eligibility for Medicare unless they qualify for Medicare earlier than age 65 due to disability. Paying for healthcare costs in general represents a significant portion of a retiree's pension benefit dollars and can be particularly expensive for pre-65 retirees. Absent group retiree health coverage, a pre-65 retiree can purchase insurance on the Affordable Care Act (ACA) exchanges, but the premium can be based on age and can be up to three times what a younger person would pay. For retirees aged 65 and older, there is not the same issue around Medicare as there is for Social Security because state and local government employees hired (or rehired) after March 31, 1986, are subject to mandatory Medicare coverage and should be eligible for free Medicare Part A (hospital insurance) when they retire. Medicare Part B (medical insurance) and Part D (prescription drug insurance) coverage is generally available to anyone age 65 and over if they pay the premium.

Similar to pension plan offerings, there are some interesting variations within plan coverage for retiree healthcare for public safety professionals. Many states offer statewide plans that cover all state retirees, including police officers and firefighters, sometimes together in one plan and other times in separate plans, whereas in other states retiree healthcare plan coverage for police officers and firefighters is almost exclusively provided at the local level. Additionally, there is wide variation among the different retiree health plans such as:

- access only, which means retirees may purchase coverage at "full cost" in a state or local health plan, or
- subsidized coverage in the statewide or local group health plan, or
- flat dollar stipends or HRA contributions for members to either participate in the state or local health plan and/or find their own coverage.

"Full cost" is in quotations in the first bullet point because it is important to note that average health costs increase as a population ages and, therefore, retirees as a group have higher healthcare costs than active employees. This makes offering retirees pre-Medicare coverage in a group health plan a good deal for the retirees, while at the same time increasing overall costs for active members, even if retirees pay the full premium rate. This good deal for retirees is called an implicit subsidy while any additional subsidization beyond access only is called an explicit subsidy. This is important because, as noted previously, public safety members often retire at younger ages than other similarly situated state employees and have more years to access the state or local government-sponsored group health plan as a pre-Medicare retiree.

Most public safety retirees are offered the same post-retirement benefits as general state, teacher, or local employees, depending on which plan they are in, with some examples of differences that will be mentioned later. Many subsidized post-retirement health plans that offer either premium support or flat dollar contributions are based on service at retirement. Since public safety employees can typically retire at younger ages with less service than other employees in the same state or locality, they not only have more years as a pre-Medicare eligible retiree, which is more costly than once they qualify for Medicare, but they could also have a lower explicit subsidization due to fewer years of service. The increased pre-Medicare costs impact both the retiree health plan and the retiree. In some instances, the state or local government-sponsored health plan could even have additional higher service requirements for retiree healthcare than for pension benefits; for example, 30 years regardless of age, making lower service public safety retirees unable to access the plan at all.

As noted previously, some public safety retirees, particularly those who retire relatively young, continue to work in other non-hazardous duty jobs, either in government or the private sector, and may receive health insurance as an active employee at their new job. Some public sector sponsored retiree health plans allow such members to access the health plan either while working elsewhere or when they retire fully and some do not, often depending on whether they remain in public sector employment in the same state or go to the private sector. Therefore, some public safety retirees could be at a disadvantage when they ultimately do retire if they have lost the right to retiree coverage in their state or local health plan.

There is a wide variety of retiree health coverage offered to public safety retirees and much of the time the coverage is the same as that offered to other non-hazardous duty retirees. One example of an exception is the Kentucky Public Pensions Authority where retirees whose participation began after July 1, 2003, receive a flat dollar monthly contribution times years of service to pay their healthcare premiums. As of July 1, 2023, the flat dollar contribution amount was $14.41 for non-hazardous service and $21.62 for hazardous service. Frequently, however, public safety and hazardous duty retirees receive the same healthcare benefits as other state and local government retirees with the only potential enhancement being line of duty death and disability benefits that provide health insurance and/or life insurance for members and their beneficiaries that are disabled or killed in the line of duty. There is an existing federal tax law called the Healthcare Enhancement for Local Public Safety Act (HELPS) that allows eligible retired public safety officers to exclude from gross income up to $3,000 in annual distributions from a governmental retirement plan to pay qualified health care insurance or long-term care insurance premiums, which can cover some of the premium costs.

Just like pension benefits, retiree healthcare benefits can be an important retention tool for public safety employees, but there is variability around benefit offerings and subsidization. In addition, there is a large impact on healthcare costs to both the public sector plan and the public safety retiree based on age at retirement and eligibility for Medicare at age 65. Not only that, retiree healthcare benefits are not necessarily guaranteed by state or local law and in some cases may potentially be terminated with no rights to a future benefit. This is particularly concerning for pre-Medicare eligible public safety retirees who would have higher premiums if they have to purchase their own coverage.

VII. DEFERRED RETIREMENT OPTION PLANS (DROPS)

DROPs are a feature of some defined benefit plans that allow employees who are eligible for retirement to continue working. In many cases the employee has obtained the maximum benefit formula multiplier offered through the plan design so a DROP can be used by the employer as a means to incentivize employees to work additional years beyond their retirement age. Historically, DROP arrangements have been more prevalent in plans covering public safety workers because these members tend to reach their retirement age and maximum-available formula multiplier sooner than their counterparts in non-public safety retirement systems. However, municipalities have considered (and implemented) DROP programs to address workforce management challenges in order to incentivize long-tenured workers to remain on the job before transitioning into retirement.

In a typical DROP arrangement, an employee "enters the DROP" in lieu of retiring from active service. The employee continues to work and the value of their pension benefits are allocated to a hypothetical account, instead of being paid to the employee. Depending on the specific terms of the DROP, these accounts may receive an annual interest credit allocation or participate in a gain-sharing mechanism. Also dependent upon the design, the DROP allocations may increase in accordance with any COLA provided under the terms of the plan.

When the employee eventually retires (commonly referred to as "exiting the DROP"), they receive the full value of this hypothetical account as a lump sum payment in addition to their established pension annuity payments. Most employers impose a limit on the number of years that an employee can participate in a DROP. For example, a common period of allowable DROP participation is up to four years, but an employer may design a DROP for a longer or shorter period based upon workforce management goals or financial considerations. One by-product is that the actual retirement of these individuals can be very predictable as they are scheduled to leave after a predetermined period once they enter DROP.

Some critics of DROP claim that they create "double dipping" where a member can stay active and also receive pension payouts, but this ignores the fact that the pension payouts are received at retirement in a manner that mimics a partial lump sum payment. Those arguments also typically do not point out that the employer would be hiring the member's replacement if they did retire thus paying salary and pension payouts anyway. The annual cost of a successful DROP program, after adjusting for retirement, often is lower than for a plan without a DROP.

CONCLUSION

DB pension plans have been offered to police officers and firefighters for more than a century. Pension plans play a critical role in managing the public safety workforce as they enable public safety employees to transition out of their physically demanding jobs at younger ages. While an educator may teach for over thirty years, it is uncommon to find a firefighter working past twenty years. And pension plans include disability and death benefits that are essential for workers performing dangerous jobs.

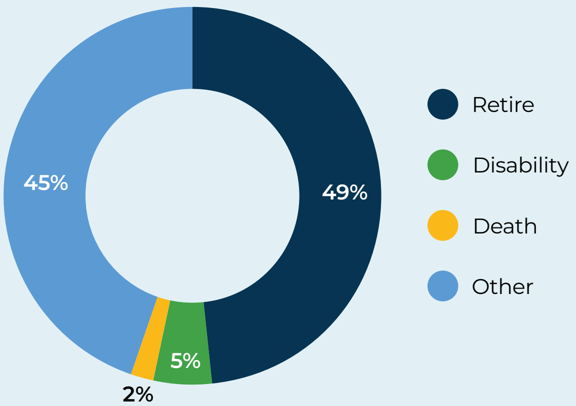
While public safety pension plans are largely like all public pension plans, they differ in several key ways relating to benefit provisions, typically allowing their beneficiaries to claim their retirement benefits at an earlier age. These pension benefits are especially important for the high percentage of firefighters and police officers who do not participate in Social Security through a public safety job.

In addition to helping manage the transition into retirement at the end of a career, pension plans have critically important recruitment and retention effects for public safety personnel. While public safety departments across the country are struggling with employee recruitment and retention, especially in the years since the onset of the Covid-19 pandemic, those jurisdictions that recently have made significant changes to their public pension plans have experienced higher levels of employee turnover. These recruitment challenges have gotten the attention of Congress, which recently passed Senate bill 546, the "Recruit and Retain Act", which requires the Government Accountability Office (GAO) to conduct a study to consider the comprehensive effects of recruitment and retention on federal, state, tribal, and local law enforcement agencies in the U.S.[27]

A pension benefit is earned through years of hard work and dedication to public service. Firefighters and police officers exemplify this dedication by putting their lives on the line to keep communities safe. The pension provides them with dignity and security in retirement in exchange for this service.

APPENDIX

Figure A1: Projected Reason for Leaving Employment Among New Hires in Police Pension Plans



*The figures may not add to 100% due to rounding

Figure A2: Projected Reason for Leaving Employment Among New Hires in Fire Pension Plans

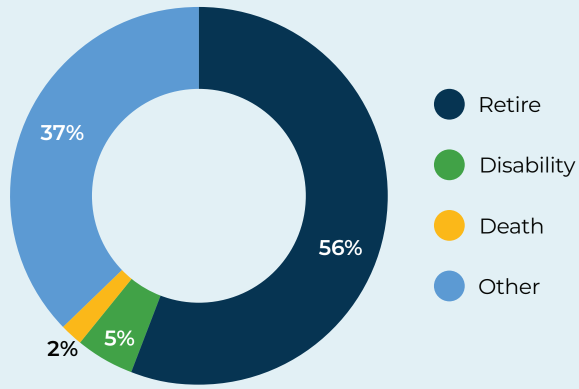
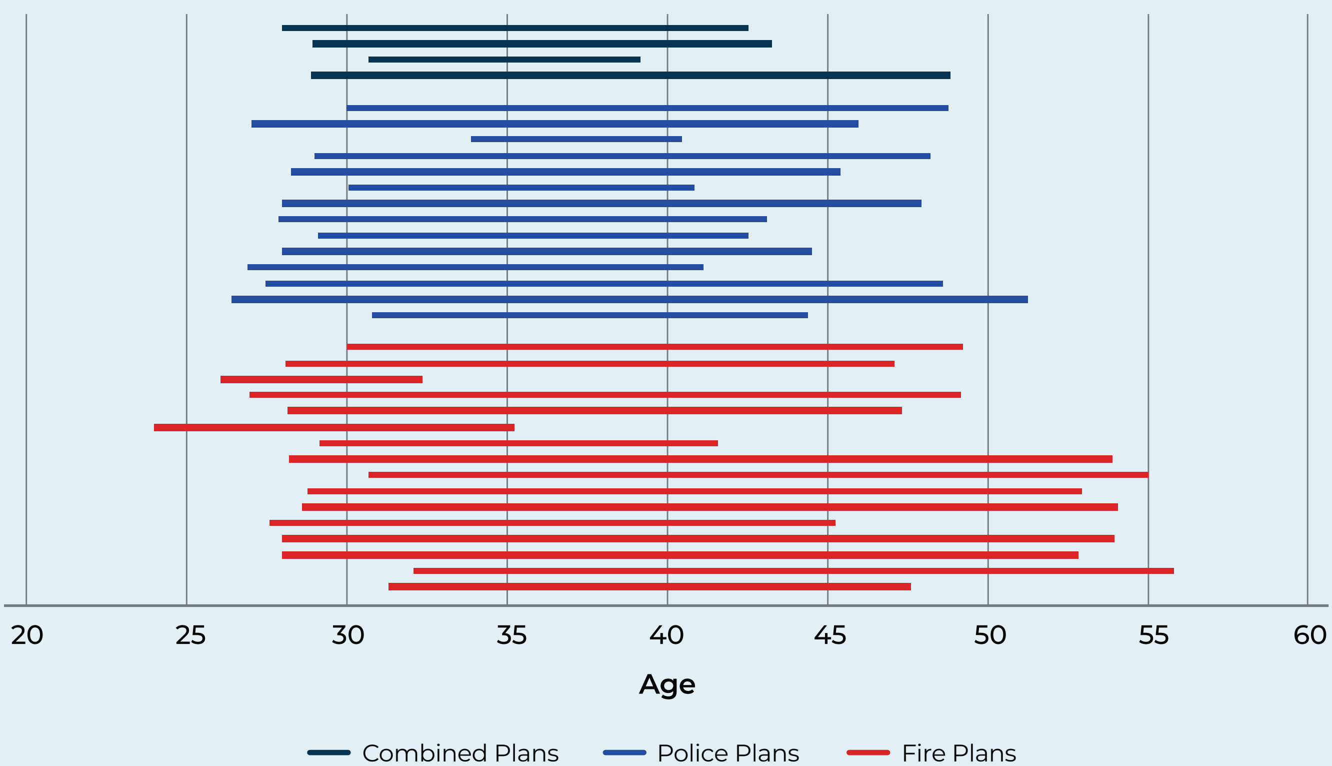


Figure A3: Average Hire Age and Tenure Among Select Public Safety Pension Plans



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2. According to the U.S. Census Bureau's Annual Survey of Public Employment & Payroll, there are over 900,000 full-time employees employed in police protection, and over 700,000 of those have the power of arrest. The American Community Survey (ACS) reported in 2021 an estimate of 784,000 police officers in the U.S.: https://www.census.gov/newsroom/stories/police-week.html.
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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:

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