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STATE RETIREMENT PLANS FOR PUBLIC SAFETY EMPLOYEES

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INTRODUCTION

This report describes the retirement plans that state governments sponsor for state and local governments' public safety employees—those whose duties are hazardous or dangerous and physically and psychologically demanding. The membership of such plans varies from state to state, but includes state and local government law enforcement officers and firefighters, and is likely to include corrections personnel, wildlife wardens and foresters, probation officers, some officers of courts, and members of various other protective occupations.

This report describes basic plan design and employee contribution requirements for the plans in each state that are open to new members, or in some cases will be open to new members in the near future. Like other retirement plans, plans for public safety personnel have been subject to extensive revision in recent years, and many employees belong to plans that are now closed to new enrollment. This report does not include those plans. The National Conference of State Legislatures has reported some changes to public safety retirement plans since 2009 elsewhere.¹ The report is limited to plans sponsored by state governments. Locally-administered plans are not included here.

The table that follows this introduction lists the following information for 104 state-sponsored plans for state local governments' public safety personnel:

- The names of state plans;
- Categories of employees the plans cover;
- Vesting requirements;
- Age and service requirements for normal retirement and early retirement if applicable;
- Benefit formula for normal (unreduced) service retirement;

¹ Ronald Snell, "Changes in Age and Service Requirements for Normal Retirement in State Retirement Plans, 2009–2011," March, 2012.

<http://www.ncsl.org/issues-research/labor/recent-changes-in-the-age-for-retirement.aspx>

- Computation of final average salary;
- Employee contribution requirements; and
- Social Security coverage.

This report includes only the newest tier in states where there is more than one. It includes changes enacted in 2011 and 2012 that will become fully effective in the future.

HOW STATES ORGANIZE THEIR PLANS

The only organizational generalization that holds across all 50 states is that there are different plan provisions for public safety employees than for general state government employees and teachers. (In this report, the term “general employees” includes both general employees and teachers.) Even when local police and firefighters are members of the same retirement plan as general state employees, in almost every case, separate plan provisions apply to police and firefighters. The plan provisions differ in these ways:

- Public safety employees can retire earlier than other employees, which responds to the physically and psychologically demands of their work.
- They are less likely than other categories of employees to be covered by Social Security. In part, the lack of Social Security coverage may reflect the likelihood plan members will retire before they would be eligible for reduced Social Security benefits, let alone full benefits.
- Whether or not public safety personnel are covered by Social Security, their retirement plans are likely to provide higher levels of salary replacement than those of public employees in other occupations .
- Public safety employees contribute more to their retirement plans as a percent of compensation than general employees and teachers.

The 104 plans discussed in this report display substantial structural differences. In many states, at least some local government employees are covered by a state-administered plan. Alaska and Maine have no independent local plans; there are none in New York except (a big exception) those in New York City, or in Wisconsin other than the Milwaukee plans. States may sponsor one system with a uniform plan for all public safety members, as in Florida and Georgia; may maintain several sets of plan provisions with shared administration, as in Montana, or may sponsor a number of separately funded and administered plans, as in Louisiana and Ohio.

States may sponsor separate statewide plans for municipal police and for firefighters, as in Oklahoma. More frequently states group municipal police and firefighters in a plan for local government protective employees, sometimes, as in Texas, along with other municipal and county employees with a wide range of functions.

AGE OF NORMAL RETIREMENT

Retirement plans for public safety members offer retirement at earlier ages than state plans for general employees. Most public plans, regardless of membership, offer the options of normal retirement and early retirement. Normal retirement means that a member complies with specified age and service requirements (sometimes only one or the other) for benefits as calculated by a benefit formula. Many plans offer early retirement to members who are not qualified for normal retirement benefits. Early retirement reduces normal benefits by a percentage or actuarial calculation for each year the applicant is short of normal retirement age. The table that follows this introduction shows the plans that offer the option.

Plans express normal retirement qualifications in various ways. Some explicitly require minimums of age and service, such as a minimum age of 52 with 10 years of service. Some have only a service requirement, such as 20 or 25 years. One plan allows retirement when the benefit reaches 50 percent of final average compensation, based on an annual accrual rate of 2.5 percent. Most offer alternatives, such as different combinations of age and service requirements, or some number of years of service. Assuming for analytic purposes that members begin their employment at age 25, it is possible to calculate the earliest allowed age of normal retirement for 98 plans, as shown in Figure 1.

FIGURE 1. MINIMUM AGE FOR NORMAL RETIREMENT²

| Minimum Age for Unreduced Retirement | Public Safety Plans | Plans for General Employees |
|--------------------------------------|---------------------|-----------------------------|
| 45 – 49 | 23% | 3% |
| 50 | 37% | 7% |
| 51 – 54 | 11% | 10% |
| 55 | 23% | 48% |
| 56-59 | 2% | 13% |
| 60 | 4% | 19% |

As Figure 1 shows, three-fifths of the plans in this study—60 percent—permit normal retirement at age 50 or earlier. Of statewide plans for general employees only 10 percent allow retirement by age 50. Only 6 percent of public safety plans have a minimum age requirement higher than 55. None of them sets a minimum age higher than 60. Thirty-two percent of plans for general employees have minimum age requirements higher than the age of 55.³

²Information on plans for general employees and teachers is an NCSL compilation based on Daniel Schmidt, *2010 Comparative Study of Major Public Employee Retirement Systems* (Madison, Wis.: Wisconsin Legislative Council, 2011), 11-15.

³The table reports on 98 of the 104 plans in the report. The others are state-sponsored plans for local governments that provide a range of optional plans among which local employers may choose. Many plans provide for normal retirement when a person has

BENEFITS AND SOCIAL SECURITY COVERAGE

Members of the retirement plans described in this report are likely to accrue retirement benefits at a faster rate than general state employees and teachers. In almost all state defined benefit retirement plans, benefits are calculated by a formula that provides a percentage of final annual compensation for each year of service. This is the basic formula:

$$\text{Years of service} \times \text{Final Average Salary} \times \text{Formula Multiplier} = \text{Retirement Annuity}$$

“Final average salary” usually means the average of a member’s compensation over three years (44 percent of plans) or five years (30 percent of plans). A few plans, usually for highway patrol members, base final compensation on the member’s last or highest 12 months. The longest periods used are new plan provisions in Florida and Illinois that average salaries over periods of eight years. The importance of the length of the period lies in the effect of averaging: the longer the period, the lower the average compensation is likely to be.

The “formula multiplier” is the percentage of final average salary a person will receive for each year of service. The usual practice is to apply a consistent multiplier to all years of service, but some plans apply different multipliers to different periods of service. A Massachusetts plan, for example, provides a multiplier of 1.45 percent for those who retire at age 50 and increases the multiplier for each year a person delays retirement, up to a multiplier of 2.5 percent at age 57. A New Jersey plan reduces its multiplier after members have earned 25 years of service from 2.5 percent for service up to 25 years to 1 percent for subsequent service.

Figure 2 shows multipliers for 84 of the plans in this report, omitting defined contribution plans, multipliers for the defined benefit component of hybrid plans, and plans in which local governments may choose from among a variety of multipliers. For plans that offer different multipliers for different periods of service, the chart reports the multiplier for the longest period of service.

accrued some specified number of years of service, usually 20 or 25. For such plans, the count in Figure 1 assumes an entry age of 25 and the minimum retirement age for such plans is calculated on that basis.

FIGURE 2. FORMULA MULTIPLIERS FOR PUBLIC SAFETY RETIREMENT PLANS AND PLANS FOR GENERAL EMPLOYEES⁴

| Formula Multipliers | Public Safety Plans | | General Employees' Plans | |
|---------------------|--------------------------------------|--|--------------------------------------|--|
| | Covered by Social Security N = 43 | Not Covered by Social Security N = 41 | Covered by Social Security N = 62 | Not Covered by Social Security N = 14 |
| 1.0 to 1.9 | 26% | - | 84% | - |
| 2 to 2.49 | 28% | 29% | 14% | 50% |
| 2.5 to 2.99 | 35% | 49% | 2% | 50% |
| 3 to 3.49 | 5% | 10% | - | - |
| 3.5 and above | - | 10% | - | - |
| Other | 7% | 2% | - | - |
| Average | 2.20% | 2.57% | 1.95% | 2.20% |

Figure 2 shows formula multipliers for plans according to their Social Security membership because it has an effect on plan design. In all public sector occupations, the 30 percent of public employees who are not covered by Social Security are likely to benefit from higher formula multipliers than those who are covered. (As discussed below, employees outside Social Security are also likely to make higher contributions to their retirement plans).

Public safety employees are less likely to be covered by Social Security than general employees and teachers. In 41 percent of the plans in this report, all members are covered by Social Security. In another 39 percent, no members are in Social Security, and in the remainder, coverage varies by occupation or employer, usually in plans states sponsor for employees of local governments. In contrast, the members of 80 percent of state plans for general employees are covered by Social Security.⁵

When enrollment in Social Security was first made possible for state and local government employees in 1950, governments could choose whether to have employees covered by Social Security and could thereafter remove employees from coverage if they chose to do so. 1983 amendments to the Social Security Act prohibited state and local governments from terminating coverage for their employees.

⁴ Figures for general employees are based on the 87 plans reported in Schmidt, *2010 Comparative Study*, 7-8, 25-28.

⁵ Figures in this paragraph count plans, not the membership of plans. The U.S. Government Accountability Office estimated in 2010 that 71 percent of the earnings of state and local government employees are covered by Social Security. U.S. GAO, *Management Oversight Needed to Ensure Accurate Treatment of State and Local Government Employees* (GAO-10-938, Sep 29, 2010).

Decisions to allow public safety employees to remain outside the Social Security system may have been affected by the existence of state and local retirement plans that provided for retirement before 65 for such employees. Unreduced retirement benefits under Social Security originally were available at age 65, and are now available at ages ranging from 65 to 67, depending on when a person was born. Reduced benefits are available at 62. The retirement ages that public safety plans permit can mean long intervals between a member's retirement from covered employment and eligibility for Social Security benefits.

Figure 2 relates Social Security coverage to public plan design. For public safety plans, the lowest category of multipliers is limited to plans with Social Security coverage for members, and the highest category to plans without that coverage. In both cases, the numbers of plans at the extremes are small. Seventy-eight percent of plans without Social Security coverage, like the 63 percent of plans that include it, have multipliers ranging from 2 percent to 3 percent. Plans for people not covered by Social Security are concentrated at the higher end of that range.

For public safety employees, the average multiplier for plans for people without Social Security is 2.57 percent, and for those with Social Security coverage, 2.2 percent. Of people with identical final average salaries and service records, a person outside Social Security would receive a pension about 17 percent higher than a person under Social Security.

Figure 2 also compares public safety plan multipliers with those of plans for general employees, both with and without Social Security coverage. For the 87 state plans for general employees, in 2011 the average multiplier for those covered by Social Security was 1.95 percent and for those not in Social Security, 2.2 percent.⁶ On average, public safety employees would benefit from a pension differential between 13 percent and 17 percent for equivalent final salaries and service, compared to general employees with the same Social Security status.

CONTRIBUTION REQUIREMENTS

Earlier retirement ages and somewhat higher benefit packages make plans for public safety members more costly per capita than those for general employees. Public safety employees, whether or not covered by Social Security, make higher contributions to their retirement plans than general state employees, as Figure 3 indicates. As is true for other public employees, those who are not covered by Social Security are likely to face higher contributions to their retirement plans than those who are covered.

On average, public safety employees make contributions about 0.6 percentage points higher than general employees when both groups are covered by Social Security, and about 1.2 percentage points higher when both groups are not.

Employees not covered by Social Security pay, on average, higher contributions to their retirement plan than those who are covered, although the difference is not as much as they would contribute for Social Security. (The usual Social Security contribution rate is 6.2 percent for employees and employers both, for a total of 12.4 percent, although the employee rate was reduced for 2012).

⁶ Schmidt, *2010 Comparative Study*, 24-25.

FIGURE 3. AVERAGE CONTRIBUTION RATES AND SOCIAL SECURITY COVERAGE⁷

| | Covered by Social Security | Not Covered by Social Security |
|-------------------------|----------------------------|--------------------------------|
| Public Safety Employees | 6.30% | 9.62% |
| General Employees | 5.66% | 8.86% |

SOURCES AND ACKNOWLEDGEMENTS

The information in this report was taken from retirement system handbooks and other information on the systems' public websites. A list of the websites follows the table. This report is above all evidence of state retirement systems' commitment to transparency and communication.

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⁷ Information on contribution rates and Social Security coverage for general employees and teachers was compiled from Schmidt, *2010 Comparative Study*.