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REEXAMINING THE LENGTH OF LAW ENFORCEMENT CAREERS

by

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March 2022

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Law enforcement agencies from all sectors, including local, state, and federal agencies, are experiencing a dramatic decrease in staffing. Concurrently, recruitment of new officers has also significantly declined. As law enforcement staffing decreases, agencies struggle to meet the needs of the populations they serve. Reduced staffing also impacts law enforcement's ability to conduct front-line and collaborative homeland security functions. This thesis examines how changes to law enforcement retirement systems impact the recruiting and retention of officers. This thesis utilizes existing academic literature from varied disciplines to examine the impact that changes in benefits will have on law enforcement staffing and the ability of law enforcement as a sector to participate in homeland security activities. The intent of this thesis is to predict the success or failure of benefits reforms as they relate to recruitment and retention of staff in law enforcement careers.

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REEXAMINING THE LENGTH OF LAW ENFORCEMENT CAREERS

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ABSTRACT

Law enforcement agencies from all sectors, including local, state, and federal agencies, are experiencing a dramatic decrease in staffing. Concurrently, recruitment of new officers has also significantly declined. As law enforcement staffing decreases, agencies struggle to meet the needs of the populations they serve. Reduced staffing also impacts law enforcement's ability to conduct front-line and collaborative homeland security functions. This thesis examines how changes to law enforcement retirement systems impact the recruiting and retention of officers. This thesis utilizes existing academic literature from varied disciplines to examine the impact that changes in benefits will have on law enforcement staffing and the ability of law enforcement as a sector to participate in homeland security activities. The intent of this thesis is to predict the success or failure of benefits reforms as they relate to recruitment and retention of staff in law enforcement careers.

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EXECUTIVE SUMMARY

Public safety, particularly law enforcement, is increasingly impacted by decreased personnel and qualified applicants. Law enforcement agencies from all sectors—federal, state, and local—are simultaneously experiencing dramatic decreases in staffing along with a significant decline in recruitment.[1] As law enforcement staffing decreases, agencies struggle to perform necessary functions. Reduced staffing affects law enforcement's ability to conduct frontline and collaborative homeland security functions. To combat this decline, law enforcement agencies across the country employ various strategies to recruit and retain staff.[2] Some of these strategies include increasing salaries, establishing better working conditions, or appealing to the needs of a younger work force. The strategy this thesis focuses on is the pension plans offered to current and prospective employees.

The traditional pension system for state and local government workers has been the defined benefit pension plan, in which participants contribute a portion of their salary to the state or local government pension plan and, in return, receive benefits, including a guaranteed annual payment for the rest of their lives post-retirement.[3] According to Katz, Fornia, and Rhee, defined benefit plans provide the most financial security for employees for several reasons, including the employing body assuming the responsibility of providing pension benefits to retired employees.[4] Defined pension plans also provide the option for

[1] Sarah Mostyn, *The Workforce Crisis, and What Police Agencies Are Doing About It* (Washington, DC: Police Executive Research Forum, 2019), https://www.policeforum.org/assets/WorkforceCrisis.pdf.

[2] Martin Kaste, "Shortage of Officers Fuels Police Recruiting Crisis," podcast, accessed October 13, 2019, https://www.npr.org/2018/12/11/675505052/shortage-of-officers-fuels-police-recruiting-crisis.

[3] Pension Benefit Guaranty Corporation, *A Predictable Secure Pension for Life: Defined Benefit Pensions* (Washington, DC: Pension Benefit Guaranty Corporation, 2000), 3, https://www.pbgc.gov/documents/a_predictable_secure_pension_for_life.pdf; Monique Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," *Economic Policy Institute* (blog), March 2015, 3, https://www.epi.org/publication/will-switching-government-workers-to-account-type-plans-save-taxpayers-money/.

[4] Michael Katz, "Public Employees Overwhelmingly Choose Pensions Over 401(k)s," Chief Investment Officer, August 25, 2017, https://www.ai-cio.com/news/public-employees-overwhelmingly-choose-pensions-401ks/; William B. Fornia and Naria Rhee, *Still a Better Bang for the Buck: An Update on the Economic Efficiencies of Defined Benefit Pensions* (Washington, DC: National Institute on Retirement Security, 2014), 2, https://www.nirsonline.org/reports/still-a-better-bang-for-the-buck-an-update-on-the-economic-efficiencies-of-defined-benefit-pensions/.

an annuity to be paid to the employee's spouse or immediate family member upon the employee's death. To cut costs, several agencies have attempted to transition from a defined benefit pan to a defined contribution plan, which consists of an employee contributing to their individual retirement account as opposed to the pooling of funds in a defined benefit plan. Often, employers match employee contributions up to a certain percentage. Employees then direct where the funds they contribute are invested from options contained within the defined contribution plan. A third option, the hybrid plan, combine components of both defined benefit and defined contribution plans and are structured to provide the employee with the security of a defined benefit plan and the self-direction and portability of a defined contribution plan.[5]

This thesis examines these economically and generationally innovative hiring and retention practices and evaluates their effectiveness in assisting law enforcement agencies combating their staffing shortages. To do so, this thesis uses Bardach and Patashnik's eightfold path to examine six case studies as to the feasibility of altering long-established pension systems and career lengths in law enforcement. The cases studied represent agencies of various sizes and encompass the local, state, and federal levels of law enforcement. Additionally, the cases cited demonstrate various outcomes related to pension reforms by public safety agencies. From the evidence presented, effectiveness, cost, and implementation were the three criteria established to assist in comparing three policy options. The three policies analyzed include maintaining the status quo of the traditional defined benefit plan, offering a defined contribution plan, and offering a hybrid pension plan.

The criteria were weighed, reviewed, analyzed, and scored for each policy option. After assessing potential alternatives through the evaluative criteria, each policy option was ranked, revealing a defined benefit plan as the most promising policy to assist law enforcement. A defined benefit plan is proven to be an effective tool in recruiting and

[5] "Hybrid Public Pension Plans," Pew Charitable Trusts, April 2015, https://www.pewtrusts.org/~/media/assets/2015/04/hybrid-public-pension-plans_brief.pdf.

retaining officers. It also provides cost savings to the employers and is politically accepted by politicians and decision-makers.

Law enforcement agencies need effective strategies to recruit and retain dedicated and high-quality staff. Adopting policies that enable law enforcement agencies to reduce staffing shortages and provide incentives for employees to devote their careers to public service not only save agencies money but also create stronger and safer communities. A defined benefit plan provides law enforcement agencies the best option to recruit and retain law enforcement officers, increasing their ability to better protect and serve their communities.

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I. INTRODUCTION

A. OVERVIEW

Public safety, particularly law enforcement, has been impacted by decreased personnel and qualified applicants. This thesis examines the changes agencies have had to make to recruit and retain sufficient personnel, particularly in the areas of benefits and length of service required to receive benefits.

B. PROBLEM STATEMENT

This thesis examines the feasibility of changing the paradigm of the length of service in public safety, specifically law enforcement careers. Law enforcement agencies from all sectors—federal, state, and local—have experienced a dramatic decrease in staffing while, at the same time, recruitment has also significantly declined.[1] As law enforcement staffing decreased, agencies struggled to perform their necessary functions. Reduced staffing affects law enforcement's ability to conduct frontline and collaborative homeland security functions.

Among the factors impacting law enforcement staffing, attrition and retention are the most prevalent.[2] First, many officers hired in the late 1980s and early 1990s under federal grant programs have reached the age and time in service to be eligible for retirement, resulting in 8.5% of officers currently being eligible for retirement at the time of writing, in late 2021, increasing to 15.5% by 2024.[3] The number of officers retiring earlier in their careers, often before maximizing their retirement benefits, has increased.[4] Likewise, agencies have experienced significant losses of members to other law enforcement agencies through promises of increased salaries and better working conditions. As a result, law enforcement agencies began actively recruiting members from other agencies, an act previously considered a violation of unspoken norms. For example, the Seattle Washington

[1] Mostyn, *The Workforce Crisis, and What Police Agencies Are Doing About It*.

[2] Mostyn, 7.

[3] Mostyn, 8.

[4] Mostyn, 2.

Police Department embraced seeking lateral transfers by advertising in locations as far away as Indianapolis, Indiana, and Honolulu, Hawaii, extolling higher salaries for both new and veteran officers.[5] Receiving agencies enjoy a substantial financial and operational advantage of hiring a fully trained officer who can skip the basic training academy. The newly hired officer can thus begin their duties much sooner and at a lower cost than an officer hired with no prior experience. Through attrition, the loss of veteran members hampers agencies from performing their required functions to the expected level.

Another key staffing challenge has been a lack of qualified applicants to law enforcement agencies at the federal, state, and local levels. Many studies concerning law enforcement recruiting draw on studies of generational views and workplace behaviors.[6] Members of Generation Y, known as "millennials," exhibit a willingness to change employment several times throughout their professional lives, unlike previous generations who would stay with one organization for all or most of their working career to obtain lifelong pension benefits.[7] Although pensions are a significant benefit, millennials may see pensions as a trap that locks employees into multi-year contracts with their employer.[8]

Law enforcement officers experience burnout, defined as emotional exhaustion, depersonalization, and lack of personal accomplishment at 16–25 years of service, often representing the midpoint of their careers.[9] Officers experiencing the effects of burnout are often forced to continue their careers in law enforcement due to the limitations of the predominant retirement systems.

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[5] Kaste, "Shortage of Officers Fuels Police Recruiting Crisis"; Honolulu Civil Beat, "Honolulu Is Short on Cops—And Seattle Is Poaching," Labor Relations Information System, January 11, 2019, https://lris.com/2019/01/11/honolulu-is-short-on-cops-and-seattle-is-poaching/.

[6] Mike McGough, *Recruiting the Y Generation in Law Enforcement* (Huntsville, TX: Law Enforcement Management Institute of Texas (LEMIT), 2009), http://hdl.handle.net/20.500.11875/1983.

[7] Sarah Landrum, "Millennials Aren't Afraid to Change Jobs, And Here's Why," *Forbes*, November 10, 2017, https://www.forbes.com/sites/sarahlandrum/2017/11/10/millennials-arent-afraid-to-change-jobs-and-heres-why/.

[8] Mike Endres, "Why Pensions Are Bad for Cops (and What to Replace Them With)," Law Enforcement Today, February 22, 2019, https://www.lawenforcementtoday.com/pensions-bad-cops/.

[9] Thomas A. Cannizzo Jr. and Peter Liu, "The Relationship between Levels of Perceived Burnout and Career State among Sworn Police Officers," *Police Studies* 18, no. 3 and 4 (1995): 53–68.

The police-involved death of George Floyd in Minneapolis, Minnesota, in March of 2020 led to nationwide anti-police protests and calls for police reform.[10] Two of the most - echoed demands of the protests are the end of the legal doctrine of qualified immunity that is applied to police officers and a call to defund law enforcement agencies by decreasing funding for law enforcement agencies and redirecting the assets to social programs. The doctrine of qualified immunity was established in the 1967 Supreme Court decision *Pierson et al. v. Ray et al.*, stating that government officials, including police officers, have qualified immunity as long as they were acting in "good faith."[11] The Supreme Court narrowed the interpretation of qualified immunity in the 1982 *Harlow et al. v. Fitzgerald* decision, which stated that a government officials would be granted qualified immunity as long they did not violate "clearly established statutory or constitutional rights of which a reasonable person would have known."[12]

Proponents of the defund the police movement seek to reduce funding to law enforcement agencies and redirect those funds to social service programs.[13] Anti-police protests and sentiment was prevalent throughout 2020 and into 2021.[14] Seattle, Washington, experienced significant protests including the establishment of an "autonomous zone" that declared itself independent of police authority.[15] The Major Cities Chief's Association estimates 2,000 officers were injured during the protests.[16]

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[10] Derrick Bryson Taylor, "George Floyd Protests: A Timeline," *New York Times*, November 5, 2021, sec. U.S., https://www.nytimes.com/article/george-floyd-protests-timeline.html.

[11] Pierson et al. v. Ray et al., 386 U.S. 547 (1967).

[12] Harlow et al. v. Fitzgerald, 457 U.S. 800 (1982).

[13] "Defund The Police," Defund The Police, accessed February 24, 2022, https://defundthepolice.org/.

[14] Taylor, "George Floyd Protests."

[15] Valerie Richardson, "Seattle Police Reclaim Autonomous Zone After Wave of Violence, Two Deaths," *Washington Times*, July 1, 2020, https://www.washingtontimes.com/news/2020/jul/1/seattle-police-reclaim-autonomous-zone-after-wave-/?utm_source=GOOGLE&utm_medium=cpc&utm_id=chacka&utm_campaign=TWT+-+DSA&gclid=EAIaIQobChMIlfX8jfeY9gIVR_fjBx01qAELEAMYASAAEgLMN_D_BwE.

[16] Major Cities Chiefs Association, "MCCA Report on the 2020 Protest And\ Civil Unrest" (Major Cities Chiefs Association, October 2020), 9, chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/viewer.html?pdfurl=https%3A%2F%2Fmajorcitieschiefs.com%2Fwp-content%2Fuploads%2F2021%2F01%2FMCCA-Report-on-the-2020-Protest-and-Civil-Unrest.pdf&chunk=true.

After a period of strong anti-police sentiment, law enforcement agencies experienced a significant decrease in staffing; according to the *New York Times*, between April 2020 and March 2021, police officer retirements increased by 45% and resignations rose by 18%.[17]

In issues of retention and recruitment in law enforcement, this thesis questioned if the current pension-based system is outdated and needs to be reimagined.

C. RESEARCH QUESTIONS

What economically and generationally innovative hiring and retention practices might benefit law enforcement? For example, does a change in pension systems impact recruitment and retention?

D. RESEARCH DESIGN

A thorough analysis of the feasibility of altering long-established pension systems and career lengths in law enforcement must address current policies and proposed policy changes. The methodology applied Bardach and Patashnik's eightfold path to case studies to examine the research questions.[18] The cases studied were chosen to represent agencies of various sizes and encompass the local, state, and federal levels of law enforcement. The cases cited also demonstrate various outcomes related to pension reforms by public safety agencies. The research addressed whether changing current law enforcement employment and retirement policies would benefit either law enforcement agencies or officers. What economically and generationally innovative-driven hiring and retention practices might benefit law enforcement? The research revealed conceivable policy options ranging from making no changes and addressing recruitment and retention issues by other means to revamping the entire employment and retirement system. Analyzing policy options

[17] Neil MacFarquhar, "Departures of Police Officers Accelerated During a Year of Protests," *New York Times*, June 11, 2021, sec. U.S., https://www.nytimes.com/2021/06/11/us/police-retirements-resignations-recruits.html.

[18] Bardach and Patashnik's eightfold path consists of: 1. defining the problem; 2. assembling the evidence; 3. constructing alternatives; 4. selecting criteria for evaluation; 5. projecting the outcomes; 6. confronting trade-offs; 7. choosing the best solution; 8. explaining your recommendation. Paul M. Pitman, "Research Methods, Part II: Policy Options Analysis" (lecture module, Naval Postgraduate School, Monterey, CA, 2017), https://www.chds.us/coursefiles/NS4081/lectures/methods_policy_options_analysis_v02/methods_policy_options_lec_v02.pdf; Eugene Bardach and Eric M. Patashnik, *A Practical Guide for Policy Analysis*, 6th edition (Thousand Oaks, CA: SAGE Publications, 2020), xvi.

determined whether agencies needed to change current policies to accommodate these new practices or if the creation of new policies was required.

1. Current Policy Options

a. Defined Benefit Pension Plans

The traditional pension system for state and local government workers has been the defined benefit pension system.[19] According to Katz, Fornia, and Rhee, defined benefit plans provide the most financial security for employees for several reasons, including the employing body assuming the responsibility of providing pension benefits to retired employees.[20] Participants in a defined pension system contribute a portion of their salary to the state or local government pension plan and, in return, receive positive benefits, including a guaranteed annual payment for the rest of their lives post-retirement.[21] Defined pension plans also provide the option for an annuity to be paid to the employee's spouse or immediate family member upon the employee's death. Public safety employees who participate in defined benefit pension plans do not contribute to Social Security. As a result, defined benefit pensions often include higher payments to offset the lack of Social Security benefits.[22] In addition, benefits received under a defined benefit pension are not dependent on the pension fund's performance; state or local governments assume the risk for fund performance, placing a significant financial responsibility on the employing entity.[23]

Enrollment in a defined benefit pension plan traditionally leads to longer lengths of employment with a single employer due to the employee's pension being dependent on that employer or pension system.

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[19] Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," 3.

[20] Katz, "Public Employees Overwhelmingly Choose Pensions Over 401(k)s"; Fornia and Rhee, *Still a Better Bang for the Buck*, 2.

[21] Pension Benefit Guaranty Corporation, *A Predictable Secure Pension for Life*, 3.

[22] Olivia S. Mitchell and Gary Anderson, eds., *The Future of Public Employee Retirement Systems* (Oxford: Oxford University Press, 2009), 15.

[23] Nigar Hashimzade, Gareth Myles, and John Black, "Defined Benefit," in *A Dictionary of Economics*, 5th ed. (Oxford: Oxford University Press, 2017), https://www.oxfordreference.com/view/10.1093/acref/9780198759430.001.0001/acref-9780198759430-e-752.

b. Defined Contribution Plans

Defined contribution plans consist of an employee contribution to their individual retirement account (IRA) as opposed to the pooling of funds in a defined benefit plan. Often, employers match employee contributions up to a certain percentage. Employees then direct where the funds they contribute are invested from options contained within the defined contribution plan. As a result, defined contribution plans purportedly place less financial burden on employers as they are not responsible for lifelong payments to employees or their heirs, as is the case with defined benefit plans. Due to defined contribution plans being primarily funded by the employee, employees are not held to long vesting periods and length of service to receive benefits, as is often the case with defined benefit plans, resulting in employees having the freedom to separate from employers at virtually any time.

c. Hybrid Plans

Hybrid plans combine components of both defined benefit and defined contribution plans. Hybrid plans are structured to provide the employee with the security of a defined benefit plan and the self-direction and portability of defined contribution plans. Hybrid plans consist of an employee-funded defined contribution account, often with the employer matching of a percentage of funds. Hybrid plans also consist of a defined benefit component, providing a lifelong benefit for employees that meet vesting and length of service requirements. The defined benefit portion of hybrid plans is significantly less than in defined benefit only plans. Some hybrid plan participants contribute to Social Security, providing a third source of income for retirees.

2. Proposed Policy Options

a. Policy Option A: Maintain the Status Quo

The first policy option is not to make any changes to the predominant employment and retirement systems, the defined benefit pension plan in which employees receive a pension payment for the remainder of their lives post-retirement if specific criteria are met. Maintaining the status quo is the option that requires the least amount of effort, as it requires no policy changes.

b. Policy Option B: Eliminate the Defined Benefit Pension System and Institute a Defined Contribution Plan

The second policy option analyzed was eliminating the widespread defined benefit plan and replacing it with a defined contribution plan in which the burden of retirement shifts from the employer to the employee. Defined contribution plans allow the individual employees to have investment control over their retirement funds and enjoy the portability of their accounts, potentially eliminating the "golden handcuffs" effect of defined benefit pensions.[24]

c. Policy Option C: Eliminate the Current Defined Benefit Pension System and Institute a Hybrid Contribution Plan

The third policy option analyzed was shifting from a defined benefit plan to a hybrid plan that combines elements of both the defined benefit plan and the defined contribution plan. A hybrid plan's direct contribution portion is immediately available to employees with any interest gained if they separate from their employer to take as a lump sum or roll into another defined contribution plan.

Hybrid pension plans allegedly allow greater mobility for employees who want some of the benefits of a defined benefit plan, such as guaranteed lifetime income, but may also wish to separate from an employer without losing all of the financial gains accumulated in their pension accounts.[25] As in a defined benefit plan, the shift to a hybrid plan may provide substantial savings to the employer while providing a benefit to the employee through employer contribution matching, at the same time reducing pension liabilities.

3. Criteria for Judging Success

The change in policy this study proposed represents a change that aims to benefit employing state and local government agencies financially while providing an avenue for

[24] John G. Kilgour, "Public Sector Pension Plans: Defined Benefit Versus Defined Contribution," *Compensation & Benefits Review* 38, no. 1 (February 2006): 20–28, https://doi.org/10.1177/0886368704273214; Thom Reilly, "Comparing Public-Versus-Private Sector Pay and Benefits: Examining Lifetime Compensation," *Public Personnel Management* 42, no. 4 (December 2013): 539, https://doi.org/10.1177/0091026013505504.

[25] Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," 1.

employees to realize the benefits of a retirement pension account without an "all or nothing" pension system that forces them into extended careers. The criteria for judging the success of each option were the feasibility of each option, based on

1. Is the option effective in recruiting and retaining officers?

2. Is the option cost-effective?

3. Considering political influence and logistics, is the option feasible?

In the majority of locales, the status quo has already been evaluated and documented by rising pension liabilities. Therefore, the evaluation of the cost-efficiency criteria was by the costs to employers currently contributing to defined benefits plans compared to the costs incurred by a defined contribution or a hybrid plan.

The political acceptability of employment and pension reform is a crucial factor in changing the current defined benefit system. Political support will be needed to rewrite employment contracts with collective bargaining unions and accept the change in financial responsibilities.

Policy option analysis of case studies is represented in Table 1, which allows grading for the stated criteria.

Table 1. Analysis Criteria

Policy	**Effectiveness for recruitment and retention**	**Cost-effectiveness**	**Politically acceptable**
A: Status Quo; maintain a defined benefit plan			
B: Introduce a defined contribution model			
C: Introduce a hybrid model			

Chapter II reviews the literature related to public service, particularly law enforcement pensions, as well as describing the defined benefit, defined contribution, and hybrid pension plans. Chapter III presents case studies pertaining to the implementation and consequences of changing pension plans from the defined benefit model to either the defined contribution or hybrid model. Chapter IV analyzes the defined benefit, defined contribution, and hybrid pension plans. Finally, Chapter V summarizes the research performed throughout this thesis.

Once the options are scored, I examine and rank the feasibility of each and then recommend the most effective option.

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II. LITERATURE REVIEW AND BACKGROUND

This chapter examines the background behind the different types of pension plans currently available to U.S. public sector employees and the arguments made by experts and scholars about the advantages and disadvantages of the various plans. This chapter presents scholarly works that compare the widely used defined benefit pension system to the defined contribution pension system as well as with the less-common hybrid system. The following sections include background information for the various types of public safety pensions, followed by a review of the literature concerning public safety pensions.

A. PENSION SYSTEMS: SCHOLARLY DEBATE

Scholars have debated the benefits and liabilities of various pension systems in both the private and public sectors, including the defined benefit, defined contribution, and hybrid plans.[26] Each of the referenced pension plans has its unique advantages and detriments.

1. Defined Benefit Plans

The traditional pension system for state and local government workers has been the defined benefit pension system.[27]

According to Katz, Fornia, and Rhee, defined benefit plans provide the most financial security for employees for several reasons, including the employing body assuming the responsibility of providing pension benefits to retired employees.[28] Participants in a defined pension system contribute a portion of their salary to the state or local government pension plan and, in return, receive positive benefits, including a

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[26] National Conference on Public Employee Retirement Systems, *Don't Dismantle Public Pensions Because They Aren't 100 Percent Funded* (Washington, DC: National Conference on Public Employee Retirement Systems, 2017); Tyler Bond, "The Great Recession and Public Pensions," NPPC, July 11, 2016, https://protectpensions.org/2016/07/11/great-recession-public-pensions/.

[27] Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," 3.

[28] Katz, "Public Employees Overwhelmingly Choose Pensions Over 401(k)s"; Fornia and Rhee, *Still a Better Bang for the Buck*.

guaranteed annual payment for the rest of their lives post-retirement.[29] Defined pension plans also provide the option for an annuity to be paid to the employee's spouse or immediate family member upon the employee's death. Public safety employees who participate in defined benefit pension plans do not contribute to Social Security. As a result, defined benefit pensions often include higher payments to offset the lack of Social Security benefits.[30] In addition, benefits received under a defined benefit pension are not dependent on the pension fund's performance; state or local governments assume the risk for fund performance.[31]

Waldman argues that the traditional system of defined benefits pensions creates what is known as "golden handcuffs."[32] Defined benefit systems force many officers to remain in law enforcement for significant lengths of time, often 10 years, to be vested in the retirement system and 20 years at a minimum to realize retirement benefits.[33] For example, suppose an officer leaves before reaching the vesting date of their pension plan. In that case, they typically receive only the amount of principal they have contributed to the plan with no future benefit, often referred to as "cliff vesting." This cliff vesting can result in officers feeling compelled to remain with their employer longer than they would prefer to prevent a loss of benefits.

Mitchell et al. state that due to the physically demanding nature of public safety professions, including law enforcement, public safety pensions typically allow for retirement at younger ages than other professions. Forcing officers to extend their careers past the point they may wish for financial reasons does not address declining abilities due to aging.[34] Research by Belbase, Sanzenbacher, and Gillis of the Boston College Center

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[29] Pension Benefit Guaranty Corporation, *A Predictable Secure Pension for Life*, 3.

[30] Mitchell and Anderson, *The Future of Public Employee Retirement Systems*, 15.

[31] Hashimzade, Myles, and Black, "Defined Benefit."

[32] Jeffrey H. Waldman, "From Golden Handcuffs to Pig Iron: Projecting Pension Reform's Impact on the Homeland Security Enterprise" (master's Thesis, Naval Postgraduate School, 2019), 69, http://hdl.handle.net/10945/64092.

[33] Waldman, 69.

[34] Olivia S. Mitchell et al., "Developments in State and Local Pension Plans," in *Pensions in the Public Sector*, ed. Olivia S. Mitchell and Edwin C. Hustead (Philadelphia: University of Pennsylvania Press, 2001), 15.

for Retirement Research constructed a "susceptibility index" that places police detectives and airline pilots in the same percentile, defining them as very susceptible to age-related decline.[35] In addition, a study conducted by Cannizzo and Liu found that officers experience the highest level of burnout, defined as emotional exhaustion, depersonalization, and lack of personal accomplishment at 16–25 years of service, which often represents the midpoint of their careers.[36] Due to the nature of law enforcement work, officers' careers resemble military service more closely than private-sector careers. In his MBA report comparing military retirement options to the California Highway Patrol retirement system, DiCaro recognizes this similarity.[37]

Enrollment in a defined benefit pension plan traditionally leads to longer lengths of employment with a single employer due to the employee's pension being dependent on that employer or pension system. Lazear has suggested that employers could use the structure of pension plans to influence turnover rates.[38] He found that employees with no pension plan experienced a turnover rate twice that of employees with an established pension plan.[39] He proposed that employers strategically use pension plans to encourage workers to retire at what the employer considers appropriate ages.[40] Similarly, Cunha, Menichini, and Crockett studied the Australian military's change from a defined benefit pension system to a hybrid pension system.[41] They found that removing the 20-year length

[35] Anek Belbase, Geoffrey T. Sanzenbacher, and Christopher M. Gillis, *Does Age-Related Decline in Ability Correspond with Retirement Age?*, CRR WP 2015–24 (Boston: Center for Retirement Research, Boston College, 2015), 14, http://www.ssrn.com/abstract=2665830.

[36] Cannizzo Jr. and Liu, "The Relationship between Levels of Perceived Burnout and Career State among Sworn Police Officers."

[37] Peter J. DiCaro, "Comparing Military Retirement to the California Highway Patrol Pension Plan" (master's thesis, Naval Postgraduate School, 2014), http://hdl.handle.net/10945/42610.

[38] Edward P. Lazear, "Pensions and Deferred Benefits as Strategic Compensation," *Industrial Relations* 29, no. 2 (March 1990): 263, https://doi.org/10.1111/j.1468-232X.1990.tb00754.x.

[39] Lazear, 269.

[40] Lazear, 265.

[41] Jesse Cunha, Amilcar Menichini, and Adam Crockett, "The Retention Effects of High Years of Service Cliff-Vesting Pension Plans," *Economic Letters* 126 (2015): 6–9, https://doi.org/10.1016/j.econlet.2014.11.005.

of service cliff-vesting requirement from the defined benefit system resulted in consistently higher attrition rates over time.

Defined benefit plans place a significant financial burden on employers. Under a defined benefit plan, after employees meet specific criteria, they are entitled to receive pension payments for the rest of their lives. As a result, governmental agencies must meet the financial burden of fulfilling their obligations to retirees by adequately funding the retirement system. According to Brainard and Brown, in 2007 the state and local fund asset values across the United States were $3.15 trillion; after the great recession of 2008, the state and local fund assets had been reduced to $2.19 trillion.[42] Dr. Nation of the Stanford Institute for Economic Policy Research's U.S. Pension Tracker website reports the FY2018 pension debt of the U.S. public employee pension systems to be $4,726,504,919.[43]

To combat growing pension liabilities, scholars and financial experts such as Barro advocate changing pension systems from defined benefit plans to defined contribution plans to shift the state and local government's financial burden to the individual employees.[44] Barro notes that several state and local governments have changed from defined benefit plans to hybrid plans that combine both defined benefit and defined contribution plans.[45] For example, Jacksonville, Florida, the first community in the United States to shift public safety agencies to a purely defined contribution system from a defined benefit plan, estimated the eventual elimination of a $2.85 billion pension liability.[46]

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[42] Keith Brainard and Alex Brown, *Significant Reforms to State Retirement Systems* (Lexington, KY: National Association of State Retirement Administrators, 2018), 1.

[43] Joe Nation, "Pension Tracker," U.S. Pension Tracker, accessed June 29, 2020, https://us.pensiontracker.org/index.php.

[44] Josh Barro, "How Congress Can Help State Pension Reform," *National Affairs*, Summer 2012, 93, https://www.nationalaffairs.com/publications/detail/how-congress-can-help-state-pension-reform.

[45] Barro, 93.

[46] Nate Monroe, "In Major Breakthrough, Jacksonville Police, Fire Unions Reach Tentative Pension Deal," *The Florida Times-Union*, February 10, 2017, https://www.jacksonville.com/news/2017-02-10/major-breakthrough-jacksonville-police-fire-unions-reach-tentative-pension-deal.

2. Defined Contribution Plans

Defined contribution plans allegedly reduce costs to employers by placing more responsibility for saving onto individual employees. A common assumption is that defined contribution plans have lower administrative costs when compared to defined benefit plans. Interestingly, Almeida and Fornia argue that when compared side by side, defined benefit pension plans can provide the same level of benefit at 49% of the cost of defined contribution plans.[47] However, Almeida and Fornia only compared defined benefit and defined contribution plans; they did not include hybrid models. Defined benefit plans can leverage the resources gained through employee contributions and investment earnings to pay benefits to the plan participants receiving benefits and their heirs through an average life expectancy. Defined contribution plans, however, only require sufficient resources to provide benefits for the actual lifetime of the individual plan recipients. As a result, defined benefit plan members can contribute less to their plan due to the pooling of resources and still realize maximum benefits. Government employee defined benefit pensions enjoy the stability of an entity, usually one of the states or commonwealths, to weather financial downturns. Yang and Huang point out that as life expectancies continue to rise, participants in defined contribution plans may find their financial resources running out in old age.[48] Defined contribution plan members need to invest sufficient funds to prepare for their actual life span and choose investments wisely to minimize the risks associated with market volatility or the risk of running out of assets later in life. Defined contribution plan members also need to be disciplined and not sell off investments during market downturns. Also, the selling of assets during market downturns depresses the economy even further. In his book *Irrational Exuberance*, Shiller cites the transition from defined benefit pension plans to defined contribution plans and inexperienced investors' behaviors as one of the causes of asset price

[47] Beth Almeida and William Fornia, "Defined Benefit Plans: A Better Bang for the Buck," *Journal of Pension Benefits* 16, no. 1 (2009): 11–15.

[48] Sharon S. Yang and Hong-Chih Huang, "The Impact of Longevity Risk on the Optimal Contribution Rate and Asset Allocation for Defined Contribution Pension Plans," *The Geneva Papers on Risk and Insurance. Issues and Practice* 34, no. 4 (2009): 677.

bubbles that occurred during the late 1990s.[49] On the other hand, defined benefit plans, by their very structure, are designed to weather the storm of economic downturns by design, investing heavily in stable assets and relying on the plan's longevity.

The National Conference on Public Employee Retirement Systems (NCPERS) states that one of the most commonly used metrics of a pension fund's viability, funding ratios, are in fact not directly correlated to the ability of a defined benefit pension plan to meet its obligations.[50] According to NCPERS, many of those calling for pension reform erroneously believe pension programs must be 100% funded to be viable. Sgouros states that public pensions can operate without being fully funded and that the full funding of pensions cannot be actuarially justified.[51] The funding for defined benefit pension plans comes from three sources: employee contributions, employer contributions, and investment income.[52] In fact, NCPERS states that defined benefit pension plans do not need to be 100% funded to provide retirees' payments.[53] According to NCPERS, rather than being 100% funded, a pension plan's ability to fulfill its obligations depends on contributions and investments, bringing in more funds than have to be paid out to meet commitments and having sufficient reserves to weather periodic economic downturns.[54] Eliminating defined benefit pensions and forcing new or mid-career employees into defined contribution plans is not an immediate fix to the perceived problem of pension funding gaps. Due to labor unions and strong pushback from employees later in their careers, it is easier for employers to force changes of pension plans to new and mid-career employees. Employers are still responsible for the payment of benefits to

[49] Robert Shiller, *Irrational Exuberance*, 3rd ed. (Princeton, NJ: Princeton University Press, 2015), 68.

[50] "NCPERS_2017 Economic Loss," National Conference on Public Employee Retirement Systems, May 2017, 3, https://www.ncpers.org/files/NCPERS_2017%20Economic%20Loss.pdf.

[51] Tom Sgouros, *Funding Public Pensions: Is Full Pension Funding a Misguided Goal?* (Berkeley, CA: Haas Institute, 2017), 12.

[52] "State and Local Government Pensions," Urban Institute, March 23, 2015, https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/projects/state-and-local-backgrounders/state-and-local-government-pensions.

[53] National Conference on Public Employee Retirement Systems, *Don't Dismantle Public Pensions Because They Aren't 100 Percent Funded*, 11.

[54] National Conference on Public Employee Retirement Systems, 11.

recipients who have left their employ and have earned pension benefits for the rest of their lives.

A number of organizations and experts have argued that eliminating defined benefit plans would have serious negative consequences. NCPERS takes the stance that if eliminating public pensions occurred, it could cause $3 trillion in damage to the U.S. economy by 2025.[55] A study conducted by NCPERS in 2015 demonstrated that when defined benefit pension plans are eliminated in favor of other alternatives, income inequality in the area rises by 15%.[56]

3. Hybrid Pension Plans

Hybrid plans appear to satisfy employees seeking the stability of defined benefit plans and the mobility of defined contribution plans, presumably at a lower cost to the employer.[57] Hybrid pension plans consist of components of both defined benefit and defined contribution plans. At the time of writing, in late 2021, only three states, Alaska, Michigan, and Oklahoma, force employees into mandatory, defined contribution plans.[58] All other states utilize either a defined benefit or a hybrid defined benefit/defined contribution model. Hybrid pension plans consist of employee contributions to a 401(a) or 403(b) plan as in a defined contribution plan as well as a pension benefit from their employer, albeit a much smaller benefit than if the employee's employer-provided a defined benefit plan.[59] Employees can dictate how much they contribute to the defined contribution portion of the hybrid plan, often with employers matching contributions up to a certain percentage. In Virginia, for example, employees in the hybrid pension plan must contribute a minimum of 1% of their salary and the employer will match contributions up to 5% of the employee's salary.[60] The hybrid model is intended to

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[55] National Conference on Public Employee Retirement Systems, "NCPERS_2017 Economic Loss," 17.

[56] National Conference on Public Employee Retirement Systems, 6.

[57] "Hybrid Public Pension Plans."

[58] "Defined Contribution Plans Administered by State Retirement Systems or Available to State Employees," NASRA, April 2019, https://www.nasra.org/files/Topical%20Reports/DC%20plans/statewidedcplans.pdf.

[59] Alicia H. Munnell, Jean-Pierre Aubry, and Mark Cafarelli, *Defined Contribution Plans in the Public Sector: An Update* (Washington, DC: Center for State and Local Government Excellence, 2014), 14.

[60] Munnell, Aubry, and Cafarelli, 3.

provide some financial security to the employee by providing a lifetime benefit that is guaranteed but smaller than that of a defined benefit plan while allowing the mobility of a defined contribution plan. Hybrid plans still do not provide a benefit on par with defined benefit plans.[61]

A benefit of defined contribution and hybrid plans like the federal government's Federal Employees Retirement System (FERS) plan is the employees' ability to separate from their employer at the time of their choosing with no substantial loss of benefits as opposed to the all-or-nothing approach of defined benefit plans.[62] These models seek to attract a younger workforce that seeks movement over their professional lives. According to a Gallup poll, members of generation Y, typically described as born between 1984 and 1996,[63] changed jobs at a rate three times higher than non-millennials.[64]

The Civil Service Retirement Act, established in 1920, created the Civil Service Retirement System (CSRS), which provided a defined benefit, contributory retirement system plan for designated federal employees.[65] Employees enrolled in the CSRS did not pay Social Security tax, disqualifying them from Social Security benefits. In January 1987, FERS replaced The Civil Service Retirement Act.[66] The FERS program contains three sources of benefits: Basic Benefit Plan, Social Security, and the Thrift Savings Plan offered to federal employees, which is equivalent to an IRA. Two sources of benefits, Social Security and the Thrift Savings Plan, can remain with the employee if they leave federal service before they

[61] Erik Carter, "Choosing Between A Defined Benefit And Defined Contribution Retirement Plan," Forbes, accessed January 13, 2021, https://www.forbes.com/sites/financialfinesse/2018/09/16/should-you-choose-a-defined-benefit-or-defined-contribution-plan/.

[62] Gregory B. Lewis and Rayna L. Stoycheva, "Does Pension Plan Structure Affect Turnover Patterns?," *Journal of Public Administration Research and Theory* 26, no. 4 (October 2016): 788, 793, https://doi.org/10.1093/jopart/muw035.

[63] "Millennials: The Job-Hopping Generation," Gallup, May 12, 2016, https://www.gallup.com/workplace/231587/millennials-job-hopping-generation.aspx.

[64] Michael Dimock, "Defining Generations: Where Millennials End and Generation Z Begins," Pew Research Center, January 17, 2019, https://www.pewresearch.org/fact-tank/2019/01/17/where-millennials-end-and-generation-z-begins/.

[65] "Retirement Services: CRS Information," U.S. Office of Personnel Management, accessed September 3, 2020, https://www.opm.gov/retirement-services/csrs-information/.

[66] "Retirement Services: FERS Information," U.S. Office of Personnel Management, accessed September 3, 2020, https://www.opm.gov/retirement-services/fers-information/.

are eligible for retirement.[67] In a 2016 study, Lewis and Stoycheva studied the transition from the Federal Civil Service Retirement System to FERS, tracking the change's impact on employee retention.[68] They observed that employees in their late 30s to early 50s were one-third more likely to retire under the FERS system than the CSRS.[69] According to Jamie Cowen, former chief counsel to the U.S. Senate Subcommittee on Civil Service, the drafting of FERS encouraged portability to promote employees entering and leaving governmental service, lessening the "golden handcuffs" scenario.[70]

As of January 1, 2018, it is compulsory for all members joining the U.S. military to be automatically enrolled in the Blended Retirement System, a hybrid system that combines a defined benefit and a defined contribution plan provided by the Thrift Savings Plan. The Blended Retirement System also includes a matching contribution of up to 5% of the total employee contribution.[71]

B. CONCLUSION

This chapter revealed that economic and generational factors exist that impact the hiring and retention of police officers. The pension system currently employed by a majority of agencies, the defined benefit pension plan, benefits the individual but places a financial burden on the state or local government agency providing the benefit. Defined contribution and hybrid pension plans lower financial liability for employers but reduce benefits and financial security for employees. Hybrid plans attempt to bridge the gap between defined benefit and defined contribution plans by providing a lesser defined benefit with lower employer liability combined with participants contributing to a defined contribution plan.

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[67] U.S. Office of Personnel Management.

[68] Gregory B. Lewis and Rayna L. Stoycheva, "Does Pension Plan Structure Affect Turnover Patterns?," *Journal of Public Administration Research and Theory* 26, no. 4 (October 2016): 797, https://doi.org/10.1093/jopart/muw035.

[69] Lewis and Stoycheva, 787.

[70] Jamie Cowen, "Twenty-Five Years After Federal Pension Reform," *EBRI Issue Brief*, no. 359 (2011): 13.

[71] "Retired Pay," Military Compensation, accessed January 13, 2021, https://militarypay.defense.gov/Pay/Retirement/.

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III. CASE STUDIES

This chapter presents case studies of organizations that have taken steps to address pension liabilities perceived by these organizations as insurmountable. The following case studies demonstrate organizations that 1) transitioned from a defined benefit plan to a defined contribution or hybrid plan and returned to a defined benefit plan; 2) transitioned from a defined benefit to a defined contribution or hybrid plan; and 3) explored the possibility to transition from a defined benefit plan to a defined contribution or hybrid plan.

The cases cited were chosen because they represent agencies of various sizes and encompass the local, state, and federal levels of law enforcement. The cases cited also demonstrate various outcomes related to pension reforms by public safety agencies. These case studies are further reviewed in Chapter IV.

A. PALM BEACH, FLORIDA

The town of Palm Beach, Florida, exemplifies situations in which governments have attempted to address pension liabilities by transitioning to allegedly lower-cost pension plans, which resulted in unintended negative consequences. These negative results included both high administrative costs and employee turnover.

In 1999, Palm Beach, Florida, addressed perceived critical deficits in pension funding by creating two separate defined benefit pension plans: one for the police department and one for the fire department. On May 1, 2012, the Palm Beach Town Council passed pension reforms that froze employees' retirement benefits in the defined benefit system at current salary rates and implemented a hybrid pension plan.[72] The benefits proposed under the new plan were significantly lower than under the defined benefit plan. As a result, the number of retirements increased.[73] Younger employees cited the lack of a defined benefit plan and low benefits as reasons to transfer to agencies with

[72] Diane Oakley, *Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions* (Washington, DC: National Institute on Retirement Security, 2018), http://bbffp.org/docs/announcements/Final-Palm-Beach-Feb-2018.pdf.

[73] Oakley, 1.

defined benefits plans. Motivated by the increase in retirements and transfers, a study commissioned by the Palm Beach City Council found that the 2012 hybrid pension plan provided benefits 50–65% lower than pension plans offered in neighboring communities.[74] In the four years between 2007–2011, the police department had 12 unvested officers separate from service and one officer retirement. Between 2011 and 2015, the number of unvested separations and retirements rose to 25 and 24, respectively. The fire department experienced similar losses, having had three unvested separations from service and one retirement between 2007–2011, increasing to 31 and 29, respectively, between 2011 and 2015.[75]

In 2016, the Palm Beach Town Council voted to repeal the hybrid plan and return to a defined benefit plan that increased benefits and lowered the retirement age from 65 to 56.[76] The employee contribution to the pension plan was increased from 2.47% under the hybrid plan to a range between 8% and 12% for the reinstated defined benefit plan.[77]

B. MEMPHIS, TENNESSEE

The city of Memphis, Tennessee's, attempt to address a drop in pension funding led to the unforeseen reduction in the number of sworn officers among the Memphis Police Department.

In 2014, the city of Memphis, Tennessee, attempted to address a decline in pension investments, from 104.5% funded to 79.8% funded.[78] As a result, Memphis city leaders instituted a hybrid pension plan, requiring officers with less than 7.5 years of service to transition from the defined benefit plan to the new hybrid plan. After July 1, 2016, new

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[74] Jane Struder, "Town of Palm Beach: Information for Town Council Meeting on April 12, 2016," Town of Palm Beach, April 8, 2016, https://www.townofpalmbeach.com/DocumentCenter/View/4747/4-12-16-Supplemental-Backup?bidId=.

[75] Oakley, *Retirement Reform Lessons*, 9.

[76] William Kelly, "Palm Beach Council Adopts Pension Overhaul for Police, Firefighters," *Palm Beach Daily News*, accessed January 14, 2021, https://www.palmbeachdailynews.com/news/local-govt--politics/palm-beach-council-adopts-pension-overhaul-for-police-firefighters/l1liyDgup1OKcTydfYeJ5L/.

[77] Oakley, *Retirement Reform Lessons*, 11.

[78] Timothy W. Martin, "Pension Fight Comes to a Head in Memphis; Public Workers Take Grievances to the Streets," *Wall Street Journal*, March 15, 2015, sec. Markets, 2, ProQuest.

hires were enrolled automatically in the hybrid plan.[79] Officers with more than 7.5 years of service remained in the defined benefit plan.

From 2014 through 2016, approximately 100 officers impacted by the change in pension plans left the police department, which consisted of approximately 2,100 officers.[80] Between 2014 and 2017, the number of sworn officers staffing the Memphis Police Department decreased from 2,131 to 1,959.[81]

To address low morale and the loss of trained officers, in 2019, the city of Memphis passed the Public Safety Referendum, part of which allowed officers hired between January 1, 2009, through June 30, 2016, a one-time opportunity to transfer to the defined benefit plan previously offered.[82] After June 30, 2016, newly hired officers would be required to enroll in the hybrid plan with no opportunity to participate in the defined benefit plan. The city's attempt to change incumbent officers' benefits led to a decrease in police officer staffing.

C. JACKSONVILLE POLICE AND FIRE PENSION

The city of Jacksonville, Florida, successfully transitioned from a defined benefit plan to a defined contribution plan for new hires. By allowing current employees to remain in the defined benefit plan, the city of Jacksonville did not suffer a loss of personnel due to their transition.

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[79] City of Memphis, *City of Memphis Retirement System: 2016 Cash Balance Plan and 2016 Defined Contribution Plan, Summary Plan Description Commissioned Officers (Police and Fire)* (Memphis, TN: City of Memphis, 2016), 2, https://totalrewards.memphistn.gov/wp-content/uploads/2018/12/Hybrid_Police_and_Fire_Summary.pdf.

[80] Heather Gillers and Zusha Elinson, "Ill-Funded Police Pensions Put Cities in a Bind," *Wall Street Journal*, July 4, 2017, sec. U.S., 2, https://www.wsj.com/articles/ill-funded-police-pensions-put-cities-in-a-bind-1499180342.

[81] Memphis Police Department, *2014 MPD Annual Report* (Memphis, TN: Memphis Police Department, 2015), 35, https://memphispolice.org/wp-content/uploads/2020/02/2014_Annual_Report_web.pdf; Memphis Police Department, *2017 MPD Annual Report* (Memphis, TN: Memphis Police Department, 2018), 29, https://memphispolice.org/wp-content/uploads/2020/02/2017_MPD_Annual_Report_Web.pdf.

[82] "Pension Restoration Open Enrollment," Memphis Police Association, January 11, 2021, https://memphispoliceassociation.org/pension-restoration-open-enrollment/.

In 2017, the city of Jacksonville, Florida, attempting to address $2.85 billion in pension debt, closed the defined benefit pension plan for police officers to new members and transitioned to a defined contribution plan for all officers hired after October 1, 2017.[83] Employees hired prior to October 1, 2017, remained in the defined benefit plan. Included in the transition was a 19.5% pay raise over three years, effective October 2017, and reinstatement of pension benefits reduced in 2015 for employees hired prior to October 1, 2017.[84] Employees enrolled in the defined contribution plan contribute 10% of earnable compensation, .3% of which will fund disability and survivor benefits.[85] The city of Jacksonville contributes 25% of earnable compensation, .3% of which will fund disability and survivor benefits.[86] Participants in the defined contribution plan are immediately entitled to 100% of their contributions and are fully vested in three years.[87] The Jacksonville Sheriff's Office staffing is 141 officers higher than it was in 2015, prior to the implementation of the defined contribution plan.[88] The Jacksonville Sheriff's Office maintains dual retirement plans: a defined benefit and a defined contribution plan. At the time of writing, in late 2021, no data was available as to how the change in pension plan impacted retention at the Jacksonville Sheriff's Office. The only data available was the increase in staffing from 2015 levels.

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83 Monroe, "In Major Breakthrough, Jacksonville Police, Fire Unions Reach Tentative Pension Deal," 1.

84 City of Jacksonville, Florida, *Agreement Between the City of Jacksonville and the Fraternal Order of Police: F.O.P. Police Officers Through Sergeants* (Jacksonville, FL: City of Jacksonville, FL), 50, accessed March 6, 2021, https://www.coj.net/getattachment/Departments/Employee-Services/Labor-Relations/FOP-POLICE-R-F-Final-2017-2020.pdf.aspx?lang=en-US.

85 General Employees and Corrections Officer Pension Plans and All Employees Defined Contribution Retirement Plans, Chapter 120, accessed March 6, 2021, https://library.municode.com/fl/jacksonville/codes/code_of_ordinances?nodeId=TITVADPE_CH120GEEMCOOFPEPLALEMDECOREPL.

86 General Employees and Corrections Officer Pension Plans and All Employees Defined Contribution Retirement Plans.

87 General Employees and Corrections Officer Pension Plans and All Employees Defined Contribution Retirement Plans.

88 Jim Piggott, "Fact Check: How Many Police Officers Are on Jacksonville's Streets?," WJXT, February 19, 2019, https://www.news4jax.com/news/2019/02/19/fact-check-how-many-police-officers-are-on-jacksonvilles-streets/.

D. PHOENIX, ARIZONA

In 2014, government officials in the city of Phoenix attempted to pass a pension reform proposition for the second year in a row.[89] Proposition 487 sought to eliminate defined benefit pensions. Unfortunately, however, the measure was perceived by many as being poorly written, costly to the citizens, strongly opposed by government officials and public safety groups, and ultimately failed to pass.[90]

In response to a city actuarial report stating the Phoenix public employee retirement system was funded at 56%, the Phoenix City Council proposed pension reform.[91] In 2013, the city of Phoenix adopted Proposition 201 that increased employee contributions to pension plans from 5%–16%. The contribution rates were later lowered to a capped rate of 11%.[92] In addition, earnings included for benefits in the defined benefit were capped at $125,000, with earnings above placed in a "stacked hybrid" program/.[93]

In 2014, the city of Phoenix attempted to pass proposition 487, which would have changed pensions from a defined benefit to a defined contribution plan.[94] Voters defeated Proposition 487 at the ballot box, and the defined benefit pension remained in place. Opposition to Proposition 487 was not limited to public safety groups; the mayor, three city councilors, the City Pension Reform Task Force, as well as police and fire department groups all publicly opposed the proposition. Strong support for public safety personnel and aggressive information campaigns from public safety unions contributed to the defeat of Proposition 487 in November of 2014.

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[89] City of Phoenix, "November 2014 Ballot Initiative," City of Phoenix, accessed January 17, 2022, https://www.phoenix.gov:443/citymanager/pension-reform/november-2014-ballot-initiative.

[90] Maricopa County, *Precinct Canvass* (Maricopa County, AZ: Maricopa County, 2014).

[91] "City of Phoenix Initiative to Amend Pension Plan, Proposition 487 (November 2014)," Ballotpedia, accessed March 5, 2021, https://ballotpedia.org/City_of_Phoenix_Initiative_to_Amend_Pension_Plan,_Proposition_487_(November_2014).

[92] "The Houston Pension Question: How the City's Pension Liability Grew and the Options for Reform," Rice Kinder Institute for Urban Research, 22, accessed March 3, 2021, https://kinder.rice.edu/sites/default/files/documents/pension%20report.pdf.

[93] Rice Kinder Institute for Urban Research, 22.

[94] Ballotpedia, "City of Phoenix Initiative to Amend Pension Plan, Proposition 487 (November 2014)."

E. ALASKA STATE PENSION SYSTEM

As a result of pension reform enacted for all public employees in the state of Alaska, the Alaska State Police is facing extremely high employee turnover leading to the unintended consequence of a critical shortage of troopers.

In 2005, the Alaska state legislature, facing a $6 billion pension deficit, passed Senate Bill 141, which was designed to alleviate unfunded pension liabilities effective July 1, 2006.[95] As a result, the Alaska Department of Retirement Management implemented a direct contribution pension plan to replace the defined benefit plan that was in place at the time. Participants enrolled in the defined benefit plan prior to July 1, 2006, were allowed to remain in the current defined benefit plan. Employees hired on or after July 1, 2006, were enrolled in the new defined contribution plan.[96]

The Alaska Department of Public Safety stated in its 2017 recruitment and retention plan overview that the Alaska State Police had experienced a high attrition rate.[97] The report states that 72% of non-retirement separations were officers transferring to other law enforcement agencies: one of the reasons for the large number of officers transferring to another agency was the availability of a defined benefit plan.[98] The cost and length of time associated with selecting, training, and certifying an Alaskan State Trooper are estimated to be valued at $190,000, with the process taking 12 to 18 months, illustrating the financial and operational burdens of replacing officers lost to inferior retirement benefits.[99] The National Police Foundation cites similar statistics. Estimating the cost to recruit, select, train, and equip a new officer could surpass $100,000, take up to 18 months to complete,

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[95] National Institute on Retirement Security, *Public Pension Resource Guide: Case Studies of State Pension Plans That Switched to Defined Contribution Plans* (Washington, DC: National Institute on Retirement Security, 2015), 8.

[96] Senate Journal, 24th Legislature, First Session and First Special Session, Final Supplement (2005), 1804, http://www.akleg.gov/basis/Journal/Pages/24?Chamber=S&Page=1779&pageEnd=1809#SB%20141.

[97] Alaska Department of Public Safety, "Recruitment and Retention Plan Overview: 2018–2023," Alaska Department of Administration Retirement and Benefits, November 14, 2017, 3, https://dps.alaska.gov/getmedia/ca76d118-d1ca-43c4-85be-49600a4fb8d0/Recruitment-Retention-Plan-Overview-2018-2023.

[98] Alaska Department of Public Safety, 4.

[99] Alaska Department of Public Safety, 4.

and require three to five years of service to recoup the department's investment.[100] According to the report, the retention of five state troopers eliminates a financial outlay of up to $1 million to train and certify their replacements.[101] The Alaska Department of Public Safety also reported a lack of applicants for a state trooper's position, a situation experienced across the law enforcement profession at the time of writing, in late 2021.[102] Similar to the police and fire pension plans in Jacksonville, Florida, the state of Alaska maintains dual pension plans: a "legacy" defined benefit plan, and a defined contribution plan. The Alaska Department of Public Safety has determined that reinstating a defined benefit plan for new hires is the number one external factor that needs to change to increase recruitment among law enforcement.[103]

F. FEDERAL EMPLOYEES RETIREMENT SYSTEM

The Federal Employees Retirement System (FERS) was established to provide federal employees with a retirement plan that consisted of three parts: Social Security, defined benefit, and defined contribution benefits.[104]

Prior to implementing FERS, federal employees had to contribute to Social Security and the Civil Service Retirement System. The purpose of FERS was to reduce the financial impact of contributing to both Social Security and the Civil Service Retirement System**.** Introduced in January 1987, a hybrid plan named FERS replaced the Civil Service Retirement System and impacted all employees hired after December 31, 1983.[105] FERS consists of Social Security, a defined benefit plan that provides reduced benefits than under the Civil Service Retirement System, and a defined contribution plan known as the Thrift

[100] Brett Meade, "Recruiting, Selecting, and Retaining Law Enforcement Officers" National Police Foundation, March 17, 2016, https://www.policefoundation.org/recruiting-selecting-and-retaining-law-enforcement-officers/.

[101] Alaska Department of Public Safety, "Recruitment and Retention Plan Overview: 2018–2023," 7.

[102] Alaska Department of Public Safety, 7.

[103] Alaska Department of Public Safety, 6.

[104] U.S. Office of Personnel Management, "Retirement Services: FERS Information."

[105] Lewis and Stoycheva, "Does Pension Plan Structure Affect Turnover Patterns?," October 2016, 789.

Savings Plan.[106] The Thrift Savings Plan is a tax-deferred savings vehicle similar to a 401K. Participants in the Thrift Savings Plan have the option of investing in target-date funds or five individual funds.[107]

While the Thrift Savings Plan was intended to give employees greater control over their retirement funds, a 1998 study revealed that the number one reason employees did not contribute to the Thrift Savings Plan was because they could not afford to.[108] The inability to contribute affected women more than men: more than 34% of women compared to 29% of men said they could not afford to participate in the plan.[109] Following not being able to afford to contribute, the top four reasons for not contributing to the Thrift Savings Plan were “prefer other investments,” “the employee was too close to retirement,” “did not understand the Thrift Savings Plan,” and “don’t want to tie money up.”[110]

Lewis and Stoycheva found that employees enrolled in the FERS voluntarily separated from federal service at a slightly higher rate in the 30–40-year age group.[111] As demonstrated in Figure 1, this trend reverses when federal employees reach the normal retirement age for either the Civil Service Retirement System, 62 years of age, or the FERS, 57 years of age.

[106] Lewis and Stoycheva, 789.

[107] “Plan for a Lifetime with the TSP,” Thrift Savings Plan, accessed March 3, 2021, https://www.tsp.gov/.

[108] John Turner, *Designing 401(K) Plans That Encourage Retirement Savings: Lessons From Behavioral Finance*, IB No. 80 (Washington, DC: AARP Public Policy Institute, 2006), 4, https://assets.aarp.org/rgcenter/econ/ib80_pension.pdf.

[109] Turner, 4.

[110] Turner, 4.

[111] Lewis and Stoycheva, “Does Pension Plan Structure Affect Turnover Patterns?,” October 2016, 793.

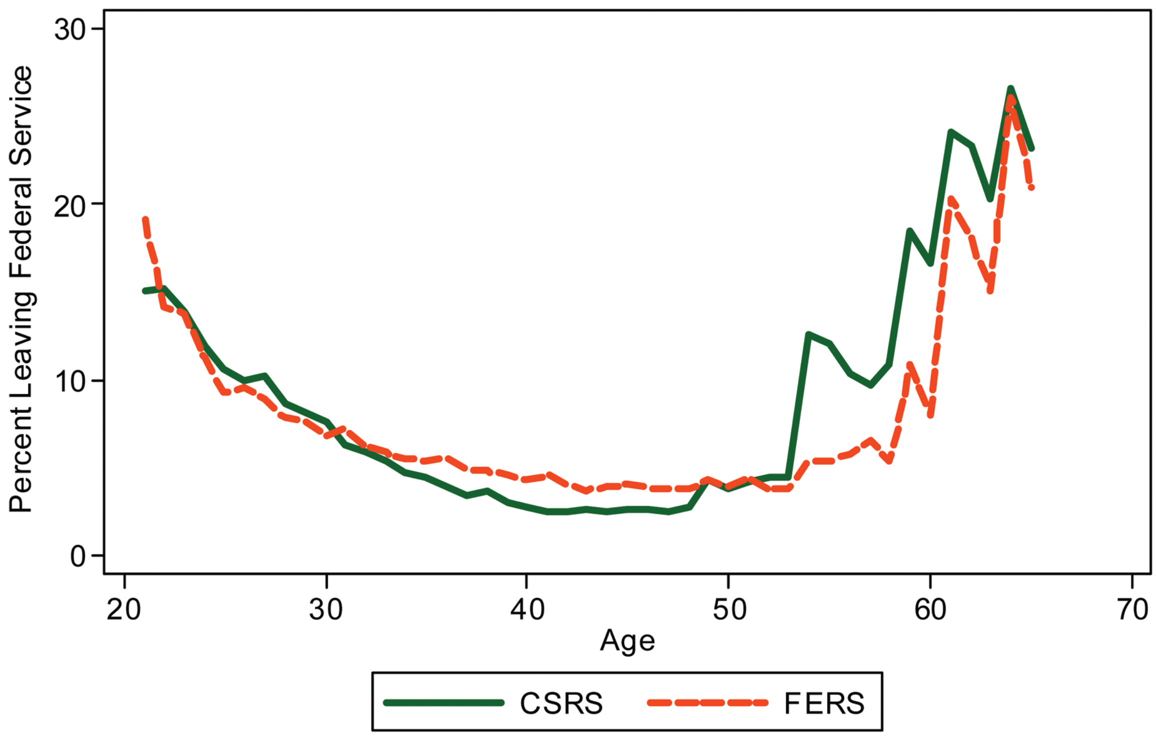

Figure 1. FERS and CSRS Exit Rates by Age[112]

The portability of the FERS allows mid-career employees to separate from service at a slightly higher rate than employees enrolled in CSRS; however, employees that remain in service until the late stage of their careers retire later than those enrolled in the Civil Service Retirement System, showing the benefits of both systems.[113] At the time of writing, in late 2021, FERS remains the retirement system for federal employees.

G. CONCLUSION

These case studies illustrate that the financial crisis of 2008 significantly impacted pension fund investments and increased the amount of pension debt of numerous agencies.[114] As a result, several agencies have attempted to change the pension benefits offered to employees to address seemingly insurmountable pension debt. Frequently, the

112 Lewis and Stoycheva, 791.

113 Lewis and Stoycheva, 791.

114 Bond, "The Great Recession and Public Pensions."

agencies in question have been forced to restore benefits to employees due to unforeseen consequences.

Entities such as the city of Memphis, Tennessee, and Palm Beach, Florida, that changed from defined benefit pensions to defined contribution pensions, found that they had to reverse their decision to stem a significant loss of employees. The Alaska State Police is facing critical staffing shortages due to the transition away from defined benefit pension plans in favor of defined contribution plans.

It should be noted that there are entities that have transitioned from the defined benefit model to either the defined contribution or hybrid models that have not had to reverse their actions. FERS is a hybrid model that has stood since 1987. The Jacksonville Florida Police Department experienced an increase in staffing after transitioning from a defined benefit to a defined contribution plan.

These case studies demonstrate that there is no single successful approach to pension benefits or pension reform. Although some agencies experience success with defined contribution and hybrid pension plans, the defined benefit pension emerges as the most sought-after pension plan by employees.

IV. ANALYSIS

Public safety pension reform has the potential to impact recruiting and retention and affect the financial stability of both employers and employees. Elimination of defined benefit plans that provide secure lifetime payments in favor of defined contribution plans that may see employees outliving their assets, requiring costly public assistance, could harm both the employer and the employee. Due to perceived shortcomings in pension funding, political pressure often drives decisions regarding public safety pensions.

I conducted an analysis of the pension plans discussed in Chapter II to determine their feasibility and effectiveness when applied to public safety agencies. I used Bardach and Patashnik's eightfold path to evaluate the feasibility of the previously discussed pension plans.[115] I applied their eightfold path to establish criteria and assess policy options. I evaluated policy options against established criteria, which resulted in recommendations for the most effective options.

A. ESTABLISH CRITERIA

Public safety agencies face the continuing challenges of officer recruitment and retention, providing financial stability for public safety personnel, and doing so in fiscally responsible ways. After analyzing the prevalent public safety plans and the alternatives, I developed three criteria for evaluation: 1) Is the option effective in recruiting and retaining officers?; 2) Is the option cost-effective?; 3) Considering political influence and logistics, is the option feasible?

1. Is the Option Effective in Recruiting and Retaining Officers?

Recruitment and retention of personnel are vital to the operational capabilities of any public safety agency. For public safety agencies to adequately provide services, they must operate 24 hours a day, 365 days a year. An appropriate number of trained, qualified personnel is necessary for agencies to achieve their mission of providing services to their

[115] Bardach and Patashnik, *A Practical Guide for Policy Analysis*.

communities. This criterion evaluates the positive or negative effect the discussed pension plans have on the recruitment and retention of public safety personnel.

2. Is the Option Cost-Effective?

As public entities, public safety agencies' finances are open to public scrutiny. These agencies must balance fiscal responsibility to the taxpayers that fund them by providing adequate benefits and protections to their personnel. This criterion evaluates if the option is in the best financial interest of both the employer and the employee.

3. Considering Political Influence and Logistics, Is the Option Feasible?

Decisions regarding pension plans are often not in public safety agencies' hands but rather the elected officials that oversee them. Along with the political will to make needed changes, employers must have the logistical infrastructure to manage any proposed change in plan. This criterion evaluates if the proposed pension plan is feasible given the employer's logistics capabilities and any political pressure on elected officials.

B. EVALUATE OPTIONS

This section discusses the potential policy options and evaluates each pension plan option against the selected criteria. The table used to evaluate the pension plan options lists the three options along the left side of the table and the three criteria used to assess the options are along the top (Table 2). Each plan option is given a score of either -1, 0, or +1. A plan option is given a score of -1 if the criterion did not meet the objective, a 0 if the option's performance was inconclusive, and a +1 if the option met the criterion. The evaluated options were then ranked according to score; the higher the score, the more promising the option.

Table 2. Policy Option Assessment Template

Policy	Effectiveness for recruitment and retention	Cost Savings	Politically Acceptable
Option A: Status Quo; maintain a defined benefit plan			
Option B: Introduce a defined contribution plan			
Option C: Introduce a hybrid plan			

1. Policy Option A: Maintain the Status Quo (Defined Benefit Plan)

The first option is to maintain the prevailing status quo of defined benefit pension plans among public safety agencies. While some public safety agencies have changed pension plans, the majority of public safety agencies maintain defined benefit plans as either the primary plan or for "grandfathered" employees.[116] Defined benefit pensions that provide a financial benefit for the rest of a contributor's life have long been considered one of the most desirable aspects of public service. Defined benefit pensions usually have a long vesting period, often ten years, and require contributors to meet length of service and age requirements to maximize retirement benefits. Likewise, such pensions are an "all or none" proposition; if officers terminate their employment before they meet length of service requirements, they only receive the principal they contributed to their retirement account; the interest belongs to the employer. As a result, many officers know their eligibility date for full pension benefits and remain in their position past the point when they otherwise would have retired or left their employing agency to obtain their pension benefits.[117] Consequently, it may be the most attractive course of action due to significant obstacles in changing current retirement systems.

[116] NASRA, "Defined Contribution Plans Administered by State Retirement Systems or Available to State Employees."

[117] Endres, "Why Pensions Are Bad for Cops (and What to Replace Them With)."

a. Is the Option Effective in Recruiting and Retaining Officers?

According to a study conducted by the National Institute on Retirement Security focusing on state and local employees, "80 percent say a pension is better than a 401K for maintaining their standard of living in retirement."[118] A majority of state and local employees, 58%, stated that transitioning from a defined benefit plan to a defined contribution plan would likely lead to them leaving their current employer.[119] The study further stated that 74% of millennial-aged state and local employees cited a pension benefit as a primary reason they chose a public sector position, while "85% say they plan to stay with their current employer until they are eligible for retirement or can no longer work."[120] Ninety-four percent of law enforcement professionals stated that pensions encourage longer careers.[121] Defined benefit plans traditionally provide more significant benefits than defined contribution plans. Benefits provided by defined benefit plans are not just financial; benefits include disability and death benefits, both of which are highly valued by law enforcement officers.[122]

In a 2018 interview, the commanding officer of the Alaska State Troopers, Colonel Hans Brinke, stated that retention of personnel in Alaska's defined contribution plan is minimal because personnel "want to have the security of a defined benefit package."[123] Between 2014 and 2018, 72% of non-retirement, voluntary resignations from the Alaska Department of Public Safety resulted from employees accepting positions with other law enforcement agencies.[124] The Alaska Department of Public Safety reported that potential

[118] Tyler Bond and Kelly Kenneally, *State and Local Employee Views on Their Jobs, Pay and Benefits* (Washington, DC: National Institute on Retirement Security, 2019), 3.

[119] Bond and Kenneally, 3.

[120] Bond and Kenneally, 3.

[121] Bond and Kenneally, 14.

[122] Mark C. Olleman, "Defined Contribution Experience in the Public Sector," *Benefits & Compensation Digest* 44, no. 2 (February 2007): 21; CalPERS, "The Impact of Closing the Defined Benefit Plan at CalPERS," NASRA, March 2011, 8, https://www.nasra.org/files/State-Specific/California/closing-impactCalPERS.pdf.

[123] James Brooks, "Starved for Recruits, Alaska Police Pin Blame on Retirement System," *Juneau Empire*, September 7, 2018.

[124] Alaska Department of Public Safety, "Recruitment and Retention Plan Overview: 2018–2023," 4.

candidates for law enforcement positions in Alaska were also seeking options outside of Alaska that offered defined benefit packages instead of a defined contribution-only plan.[125]

Several agencies across the country that provide defined contribution or hybrid pension plans have selected, hired, and trained new officers at substantial costs only for those new hires to leave for agencies that offer a defined benefit plan. According to Bond and Kenneally, "Ninety-two percent of state and local employees say eliminating pensions for the public workforce will weaken the government's ability to attract and retain qualified workers to deliver public services."[126]

b. Is the Option Cost-Effective?

Despite calls for reform often being based on perceived pension plan liabilities, defined benefit plans are more cost-effective than defined contribution plans. According to Almeida and Fornia, defined benefit plans can provide the same benefit as a defined contribution plan at 46% lower cost.[127] Contrary to popular belief, defined benefit plans do not require full funding to be viable. As long as the fund is taking in revenue sufficient to allow required payments, the fund can continue to function indefinitely. Defined benefit pension plans receive funding from three sources: 1) the employer's contribution, 2) the employee's contribution, 3) returns on the fund's investments. Tom Sgouros of Brown University created a visual simulation demonstrating that contributions perpetually exceed benefit liabilities in defined benefit plans due to the number of active participants versus the number of members receiving benefits.[128]

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[125] Alaska Department of Public Safety, 3.

[126] Bond and Kenneally, *State and Local Employee Views on Their Jobs, Pay and Benefits*, 31.

[127] Almeida and Fornia, "Defined Benefit Plans: A Better Bang for the Buck," 11–15.

[128] "Pension Fund Modeling," Sgouros.com, accessed January 24, 2021, https://sgouros.com/haas-jmf/piggy/.

If an employer decided to transition from a defined benefit to a defined contribution plan, it would take approximately 30 years to fully transition and realize any savings.[129] If a defined contribution plan does not provide 7.5% of an employee's salary, the employee must enroll in Social Security. The cost of enrollment in Social Security is 12.4% of earnings split evenly between the employee and the employer, costing the employer 6.2% of an employee's earnings, up to $142,800 in 2021.[130] If membership in defined benefit plans decreases, the financial burden on the employer will rise until a majority of employees become enrolled in either defined contribution or hybrid plans.

Defined benefit plan investments consist of large pools of participants across all age groups; thus, the plan enables assets to be held in balanced portfolios for long periods, allowing them to experience both bear and bull markets.[131] Conversely, participants in defined contribution plans have to manage their investments based on individual risk.

Collective bargaining agreements reached with the various unions representing officers would require negotiation to allow a change in the retirement system. Such negotiations require state and local governments to come to an agreed-upon plan or face costly and time-consuming litigation, leading some lawmakers to resist changes to retirement systems. State and local governments that have fully funded their retirement systems, such as South Dakota, do not need to engage in time-consuming and potentially costly negotiations to change employees' current retirement systems.[132] However, most states do not share this enviable position.

The often-heard claims of significant savings for employers after a defined benefit plan transition to a defined contribution plan are dubious at best and, at times, outright

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[129] Robert Kleine and Mitch Bean, "A Cost Benefit Comparison of Defined Benefit and Defined Contribution Retirement Plans" (Great Lakes Economic Consulting, LLC, June 2014), 14, http://www.csr-mi.com/uploads/8/2/2/3/8223818/csr_report.pdf.

[130] Social Security Administration, *How Is Social Security Financed* (Washington, DC: Social Security Administration), accessed March 15, 2021, https://www.ssa.gov/news/press/factsheets/HowAreSocialSecurity.htm.

[131] Almeida and Fornia, "Defined Benefit Plans: A Better Bang for the Buck," 12.

[132] Nation, "Pension Tracker."

false. In side-by-side analysis, transitioning from a defined benefit to a defined contribution plan would increase costs to the employer, making the transition not cost-effective.[133]

c. Considering Political Influence and Logistics, Is the Option Feasible?

Maintaining defined benefit plans is often seen as a political "hot potato"; politicians do not want to be responsible for perceived pension liabilities, particularly in times of financial hardship, such as the recession of 2008. Politicians seek to pass the problem of pension liabilities to someone else as quickly as possible. Outstanding pension liabilities are often presented in a way that makes them seem overwhelming and about to crush the employing entity's annual budget. However, every employee participating in a defined benefit plan would have to retire at the same time to initiate a total pension plan liability, an inherently impossible feat. Vesting requirements combined with retirement ages make it impossible for all employees to seek benefits simultaneously. Transferring from a defined benefit to a defined contribution or hybrid plan would appear to alleviate pension liability but would actually increase costs. I discuss increased costs associated with a defined contribution/hybrid in the next section.

While public safety workers, particularly law enforcement officers, are held in high regard, their budgets and benefits are among the first to be scrutinized in times of financial hardship. However, a 2017 opinion study by the National Institute on Retirement Security found that 90% of Americans "strongly support pensions for public sector workers and see these retirement plans as a strong recruitment and retention tool."[134] Many public employees who participate in defined benefit plans do not contribute to Social Security, preventing them from obtaining Social Security benefits later in life.[135] Due to this lack of a revenue stream, many public employee-defined benefit plans offer more generous payments post-retirement than their private sector counterparts. Law enforcement pensions

133 Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," 1.

134 Diane Oakley and Kelly Kenneally, *Retirement Security 2017: Americans' Views of the Retirement Crisis* (Washington, DC: National Institute on Retirement Security, 2017), 2, https://www.nirsonline.org/reports/retirement-security-2017-americans-views-of-the-retirement-crisis/.

135 Munnell, Aubry, and Cafarelli, *Defined Contribution Plans in the Public Sector: An Update*, 6.

are often more generous than other public employee plans while also allowing officers to retire at an earlier age than other public employees. As data suggests, due to the physical and mental demands placed upon them and compounded by the loss of effectiveness as they age, law enforcement officers are allowed to retire earlier.[136] Factors such as the constant danger inherent in law enforcement, the physical and mental toll suffered by law enforcement officers, and the need to have officers work during ages of peak efficiency create a sense of sympathy for them in the eyes of many.

Public safety pensions, particularly law enforcement officers' pensions, are an issue fraught with political danger for politicians. It is often more beneficial for policymakers to make incremental changes to current defined contribution plans, such as increasing the years of service needed to be vested and increasing the participant's contributions to the pension plan. Through vesting and eligibility requirements, defined benefit plans encourage longer lengths of service than other options. Savvy politicians understand that defined benefit plans are a mainstay of public service and that removing them alienates part of their constituency, leaving the status quo as the most politically astute choice.

d. Conclusion

Defined benefit plans have proven to be effective tools for the recruitment and retention of law enforcement personnel. Agencies currently offering a defined benefit plan would not experience any cost savings by transitioning to either a defined contribution or hybrid retirement plan due to higher administrative fees and the need to maintain two different pension systems for "grandfathered" employees. Maintaining a current defined benefit plan is the option that results in the least political backlash for politicians and decision-makers (see Table 3). Changes can be made to current defined benefit plans for new hires, leaving current employees with the retirement plan they and the employer agreed upon, preventing costly litigation and negative exposure.

136 Belbase, Sanzenbacher, and Gillis, *Does Age-Related Decline in Ability Correspond with Retirement Age?*

Table 3. Pension Plan Option A Assessment

Policy	**Effectiveness for recruitment and retention**	**Cost Savings**	**Politically Acceptable**
Option A: Status Quo; maintain a defined benefit plan	+1	+1	+1

2. Policy Option B: Eliminate the Current Defined Benefit Pension System and Institute a Defined Contribution Plan

Attempting to address perceived gaps in pension funding, several public safety employers across the country have transitioned from defined benefit plans to defined contribution plans, with varied results.[137] Defined contribution plans have become one of the most popular alternatives to defined benefit plans. Shifting to a defined contribution plan appears to provide substantial savings to the employing state or local government while providing a benefit to the employee through employer contribution matching, while allegedly reducing pension liabilities. However, participants in defined contribution plans do not benefit from the financial resources pooled by all contributors in a defined benefit system that guarantees pension payments for the rest of the participant's life. As a result, state and local governments expose employees to increased financial risks by shifting the financial burden to the employee. Nobel laureate Merton points out that changing to a defined contribution plan forces employees who have little to no financial knowledge to make decisions that shape their financial future.[138] Merton predicts that the change from defined benefit to defined contribution systems increases the likelihood of a financial crisis as the number of retirees increases.[139]

[137] NASRA, "Defined Contribution Plans Administered by State Retirement Systems or Available to State Employees."

[138] Robert C. Merton, "The Crisis in Retirement Planning," *Harvard Business Review* 92, no. 7/8 (August 2014): 1403.

[139] Merton, 1402.

a. Is the Option Effective in Recruiting and Retaining Officers?

Does the removal of defined benefit pensions help or hurt recruitment and retention?[140] After the great recession of 2008, many governmental entities became concerned about the amount of pension liability created by defined benefit plans for which they were responsible. Fearing the inability to fund outstanding pension benefits, some employers reduced benefits while others sought to alleviate pension liability by changing to a defined contribution pension plan. Some entities implemented a change to defined contribution pension plans for all employees, such as in Alaska and Michigan; other agencies, such as Palm Beach, Florida, altered pension plans specific to police and fire services pension plans.

Implementing a pension plan change is no easy matter; issues such as which specific members of a law enforcement agency will be affected by pension plan changes become critical when considering pension plan changes. Employers attempting to change pension plans face the obstacle that members of public safety agencies are often union members and changes in working conditions must be negotiated. In most instances, members already enrolled in a defined benefit plan either automatically remain in or have the choice to remain in the current plan. New hires, however, have no choice and participate in whatever plan administrators have implemented. The states of Alaska, Michigan, and Oklahoma have changed from a defined benefit plan to a defined contribution plan for new hires after a specific date. The state of Michigan allowed members already enrolled in the defined benefit plan the option to transition to the defined contribution plan at the time of implementation.[141]

Opponents of changing pension plans from defined benefit to defined contribution point out unconsidered expenses, thus creating unforeseen financial burdens. For example, the costs to recruit, select, train, and equip new officers are substantial. According to an article for the National Police Foundation, the estimated cost to recruit, select, train, and

[140] Lewis and Stoycheva, "Does Pension Plan Structure Affect Turnover Patterns?," October 2016.

[141] "State Employees Retirement System," Michigan Office of Retirement Services, accessed January 14, 2021, https://www.michigan.gov/ors/0,4649,7-144-6183---,00.html.

equip a new officer can surpass $100,000 and take up to 18 months.[142] The Alaska Department of Public Safety estimates the cost to recruit and train new troopers is approximately $190,000 per officer and takes between 12 and 18 months.[143] The nature of public safety duties requires 24-hour staffing; losses in personnel result in increased overtime and financial hardship to the agency, precisely what pension reform intended to address. Public safety personnel hiring is a time-consuming and expensive process, requiring entrance examinations, background investigations, physical and psychological testing, and initial academy training. Recruit training consists of a basic training academy followed by on-the-job training upon graduation from an academy. As a result of the challenges previously discussed, public safety agencies cannot fill vacancies caused by pension plan changes as quickly as non-public safety agencies.

b. Is the Option Cost-Effective?

Transferring from a defined benefit pension plan to a defined contribution plan would not be cost-effective for employers or employees. Employers have a choice to implement a "soft freeze," closing a defined benefit plan to new hires, or a "hard freeze," closing a defined benefit plan to all employees, both current and future hires.[144] Employers, however, would have to maintain the defined pension plans of all employees currently or formerly enrolled in the plan until the last recipient of benefits, or their heirs, dies, forcing the employer to maintain the original defined benefit plan and the defined contribution plan at the same time. If there are cost savings, it could take decades to realize any savings from converting from a defined benefit plan to a defined contribution plan. According to Great Lakes Consulting, funding a targeted retirement benefit under a defined benefit plan costs 12.5% of payroll.[145] Providing the same benefit under a defined contribution plan constitutes 22.2% of payroll.[146]

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[142] Meade, "Recruiting, Selecting, and Retaining Law Enforcement Officers."

[143] Meade, 5.

[144] CalPERS, "The Impact of Closing the Defined Benefit Plan at CalPERS," 2.

[145] Kleine and Bean, "A Cost Benefit Comparison of Defined Benefit and Defined Contribution Retirement Plans," 2.

[146] Kleine and Bean, 2.

Employees, therefore, incur negative financial impacts when participating in a defined contribution plan. In defined contribution plans, the employee bears all the risks.[147] Defined benefit plans enjoy professional management and resource pooling that allows for diversification across several sectors. Participants in the plan belong to diverse age groups with varying risk tolerance.[148] Financial professionals manage defined benefit plans as opposed to direct contribution plans, in which the employee directs their own investments. Participants in defined contribution plans often choose stable value funds that experience a lower rate of return than managed defined benefit plans.[149]

According to Kleine and Bean, defined benefit plans enjoy higher average returns at lower costs than defined contribution plans.[150] The combination of lower returns and higher fees can result in losses of 20% over a 25-year-long career.[151]

Defined contribution plans often do not offer disability or survivor benefits, which is highly problematic for public safety personnel. Defined contribution plans or their participants must purchase disability or survivor insurance from a third party, increasing their costs.[152]

According to Sonnanstine et al., half of all retirees will outlive the average life expectancy, in many cases, by decades.[153] Thus, in a defined contribution plan, employees bear the financial risk of outliving accumulated assets.[154] According to Merton, defined contribution plan retirees rarely convert any of their accumulated assets to guaranteed

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[147] Alaskan Public Pension Coalition, *Returning Alaska to a Defined Benefit System: A Benefit for Alaskans and a Savings for the State* (Juneau, AK: Alaskan Public Pension Coalition, 2010), 13, http://www.rpea.apea-aft.org/pdf/APPC%20DB%20White%20Paper_February_2010.pdf.

[148] Kleine and Bean, "A Cost Benefit Comparison of Defined Benefit and Defined Contribution Retirement Plans," 10.

[149] Olleman, "Defined Contribution Experience in the Public Sector," 22.

[150] Kleine and Bean, "A Cost Benefit Comparison of Defined Benefit and Defined Contribution Retirement Plans," 10.

[151] Kleine and Bean, 10.

[152] Kleine and Bean, 17.

[153] Alan Sonnanstine, Brian Murphy, and Paul Zorn, "List of Advantages and Disadvantages for DB and DC Plans" (Southfield, MI: Gabriel, Roeder, Smith & Company, November 17, 2003), 3.

[154] Sonnanstine, Murphy, and Zorn, 3.

lifetime income, such as an annuity.[155] Merton goes on to describe the accumulation of assets as opposed to income as a pension crisis.[156]

A study by the Alaskan Public Pension Association showed that poorly funded defined contribution plans caused a significant increase in the use of social services among retirees.[157] As opposed to defined benefit plans, defined contribution plans do not include cost of living adjustments, without which retirees are not protected from inflation costs.[158]

Transitioning from a defined benefit plan to a defined contribution plan is not cost-effective for either the employer or the employee. Any perceived financial benefit for the employer does not take into account increased administrative costs and the need to maintain both the original defined benefit plan and the defined contribution plan until all participants in the defined benefit plan or their heirs stop receiving benefits.

c. Considering Political Influence and Logistics, Is the Option Feasible?

Transitioning from a defined benefit to a defined contribution plan negatively affects the recruitment and retention of public safety personnel.

Several agencies across the country that provide defined contribution pension plans have selected, hired, and trained new officers at substantial costs only for those new hires to leave for agencies that provide a defined benefit plan. According to Bond and Kenneally, "Ninety-two percent of state and local employees say eliminating pensions for the public workforce will weaken the government's ability to attract and retain qualified workers to deliver public services."[159]

A study conducted by the National Conference on Employee Retirement Systems revealed that "if state and local governments continue to dismantle public pensions, the

[155] Merton, "The Crisis in Retirement Planning," 1403.

[156] Merton, 1403.

[157] Alaskan Public Pension Coalition, *Returning Alaska to a Defined Benefit System: A Benefit for Alaskans and a Savings for the State*, 3.

[158] Kleine and Bean, "A Cost Benefit Comparison of Defined Benefit and Defined Contribution Retirement Plans," 7.

[159] Bond and Kenneally, *State and Local Employee Views on Their Jobs, Pay and Benefits*, 31.

national economy will suffer $3 trillion in financial damages by 2025."[160] As a result of my research, transitioning from a defined benefit to a defined contribution plan is not logistically and politically implementable.

d. Conclusion

From an employer standpoint, the goal of transferring from a defined benefit plan to a defined contribution plan is to reduce pension liability and reduce the financial burden on the employer. However, analysis of this option reveals that the employer receives no substantial savings (see Table 4). In the examples cited of employers transitioning from defined benefit plans to defined contribution pension plans, future financial liability to the employer may have been reduced. However, unexpected costs arose, making any financial crisis for the employer more immediate. Employers are still responsible for defined benefit plan payments to "grandfathered" employees until those employees or their heirs have ceased to receive benefits. The defined benefit plans must continue to operate with lower or no contributions into the defined benefit pension system to fund owed benefits. The number of employees leaving defined contribution systems for defined benefit systems or lack of applicants is attributable to employers offering a defined contribution plan as the only pension option. Defined contribution systems have also increased costs to select and train replacements for officers who have received training and taken that certification to another agency. Officers who receive training and certification and leave for other agencies do not remain with the hiring agency long enough for the employer to recoup the cost of selection and training.

Table 4. Pension Plan Option B Assessment

Policy	**Effectiveness for recruitment and retention**	**Cost Savings**	**Politically Acceptable**
Option B: Introduce a defined contribution plan	-1	-1	-1

[160] National Conference on Public Employee Retirement Systems, *Don't Dismantle Public Pensions Because They Aren't 100 Percent Funded*, 2.

3. Policy Option C: Institute a Hybrid Pension Plan

The hybrid pension plan is a compromise between defined benefit and defined contribution plans, incorporating traits from both plans. Hybrid plans have gained popularity with several agencies adopting the model, including the federal government.[161] Hybrid plans were selected for analysis because they provide the guaranteed post-retirement income of defined benefit plans and the portability of defined contribution plans.

A hybrid plan's direct contribution portion is immediately available to employees with any interest gained if they separate from their employer to take as a lump sum or roll into another defined contribution plan. If employees had been enrolled in a defined benefit plan and separate from their employer before the vesting period, they would receive only the amount contributed to the plan with no financial benefit.

As with a defined contribution plan, many politicians and administrators believe that shifting to a hybrid plan will provide substantial savings to the employing state or local government while providing a benefit to the employee through employer contribution matching, at the same time allegedly reducing pension liabilities.

a. Is the Option Effective in Recruiting and Retaining Officers?

One of the goals of defined contribution and hybrid plans is to attract a younger, more mobile workforce by eliminating the all-or-nothing "cliff-vesting" that occurs with defined benefit plans. Hybrid plans, containing both a defined benefit component and a self-directed, defined contribution plan, allow employees who separate from service before retirement to take funds saved in the plan as either a lump sum or transfer to their new employer.

Morrissey states that if given a choice, 75% to 95% of new hires choose defined benefit plans over a hybrid or defined contribution plan.[162] In addition, the state of Alaska reported that 72% of non-retirement separations were officers transferring to other law

[161] U.S. Office of Personnel Management, "Retirement Services: FERS Information."

[162] Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," 17.

enforcement agencies: one of the reasons for the large number of officers transferring to another agency was the availability of a defined benefit plan.[163] The city of Memphis, Tennessee, experienced a significant loss in personnel when the defined benefit plan was eliminated for officers with less than 7.5 years of service in favor of a hybrid plan. The city of Memphis was forced to offer impacted officers a one-time opportunity to re-enter the defined benefit plan to stop the loss of officers. The city of Palm Beach, Florida, was forced to reverse the decision to transition from a defined benefit to a hybrid plan due to a significant loss of police and fire personnel.

As a result of the reasons discussed in this section, it is believed that a hybrid pension plan is not effective at recruiting and retaining officers.

b. Is the Option Cost-Effective?

While transferring from a defined benefit plan to a defined contribution or hybrid plan would appear to alleviate pension liability, it actually increases costs to both employer and employee. Transitioning from a defined benefit to a hybrid pension plan incurs transition costs and higher administrative costs for the employer.[164] Additionally, if current employees are allowed to remain in a defined benefit plan when a new plan is implemented, employers would be forced to manage and fund two retirement plans simultaneously. The employer will be faced with increased costs due to fewer employees contributing to the pension fund, reducing assets needed to fund payments to retirees or their heirs.

When transitioning from a defined benefit to a defined contribution plan, employers would ultimately reach a point when they would no longer be responsible for providing lifelong benefits to retirees or their heirs; employers would only be responsible for matching employer's contributions to their specified investments and managing the plans. Employers providing a hybrid plan would be responsible for both the defined benefit portion of the plan and matching employee contributions to their specified investments as

[163] Alaska Department of Public Safety, "Recruitment and Retention Plan Overview: 2018–2023," 4.

[164] Fornia and Rhee, *Still a Better Bang for the Buck*.

well as costs to manage both the defined benefit and defined contribution portions of the plan.[165]

From the employee's perspective, the need to consciously contribute to a hybrid plan leaves the possibility of an employee not maximizing their benefits. As part of a hybrid plan is a defined contribution account, retirees can outlive the savings they have accumulated in the defined contribution portion of the hybrid plan and be forced to rely on the smaller defined benefit portion of the hybrid plan. The state of Alaska found that underfunded retirement planning led to an increase in the use of social services of retirees, thereby not eliminating a financial burden to the state but merely shifting it from one area, pension funding, to another, social services.[166]

As a result of the reasons discussed in this section, it is believed that a hybrid pension plan is not cost-effective for either the employer or the employee.

c. Considering Political Influence and Logistics, Is the Option Feasible?

On the surface, adopting a hybrid pension plan appears to be desirable for both the employer and the employee through alleged lower costs to the employer and the portability of funds for the employee, thus making the option politically acceptable. However, communities such as Palm Beach, Florida, and Memphis, Tennessee faced significant opposition from public safety personnel when a defined benefit plan was transitioned to a hybrid plan.

Through analysis of the case studies, it appears that a transition from a defined benefit plan to a hybrid plan is frequently met with resistance and caveats. One common caveat is allowing current employees to remain in defined benefit plans, which creates a financial burden for employers who must maintain two pension plans simultaneously.

However, transitioning a defined benefit pension plan to a hybrid plan appears more acceptable than transitioning a defined benefit plan to a defined contribution plan. The

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165 Morrissey, "Will Switching Government Workers to Account-Type Plans Save Taxpayers Money?," 7.

166 Alaskan Public Pension Coalition, *Returning Alaska to a Defined Benefit System: A Benefit for Alaskans and a Savings for the State*, 3.

lifelong benefit provided by the defined benefit portion of a hybrid plan coupled with the portability and ability to choose from a selection of investments of the defined contribution portion of hybrid plans makes them more acceptable than defined contribution plans.

Analysis of hybrid pension plans reveals that for a transition from a defined benefit plan to a hybrid plan to be accepted, the most acceptable course of action appears to be the "soft freeze" approach when a defined benefit plan is closed to new hires and allows current employees to remain in the defined benefit plan.

d. Conclusion

The hybrid pension plan combines aspects of the defined benefit plan and defined contribution plan in an attempt to cater to employers and employees simultaneously. Employees enrolled in hybrid plans enjoy, to a lesser degree than a defined benefit plan participant, the lifelong benefits of a defined benefit plan. However, employees enrolled in hybrid plans are exposed to more investment risk than those in defined benefit plans due to their investments not being pooled with other members of the plan and subject to returns on their individual investments. As opposed to defined contribution plans that rely solely on individual investments, threatening the future financial security of retirees, employees enrolled in hybrid plans receive cost of living adjustments within the defined benefit portion of hybrid plans, allowing retirees a level of financial security.

By combining aspects of defined benefit and defined contribution plans, hybrid plans appear to be a logical successor to defined benefit plans that provide some financial security to retirees while alleging to reduce pension costs to employers (see Table 5). These factors make hybrid plans politically acceptable if implemented through a "soft freeze."

While potential employees prefer defined benefit plans to either defined contribution or hybrid plans, hybrid plans appear to be more acceptable for recruitment and retention than defined contribution only plans by combining defined benefit and defined contribution plans.

Table 5. Pension Plan Option C Assessment

Policy	Effectiveness for recruitment and retention	Cost Savings	Politically Acceptable
Option C: Introduce a hybrid plan	-1	-1	+1

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V. CONCLUSION

This thesis sought to analyze the implications of pension benefits relating to the recruitment and retention of public safety personnel, particularly law enforcement officers. To accomplish this task, this thesis focused on and examined three pension options common among public safety agencies. The agencies chosen for analysis represent agencies of various sizes at the local, state, and federal levels that have attempted some form of pension reform, with varying degrees of success in retaining and recruiting law enforcement officers. The financial impact to the employing agencies as a result of pension reform was also considered.

As a result of the data analyzed, three criteria were established to evaluate the effectiveness of pension benefit policies: recruitment and retention, cost savings, and political acceptability. These criteria were then used to evaluate the efficacy of three policy options: option A, maintain the status quo (the traditional defined benefit pension plan); option B, transition to a defined contribution pension plan; and option C, transition to a hybrid pension plan. The criteria were analyzed, weighed, and scored for each policy option (see Table 6).

Table 6. Analysis of All Options

Policy	**Effectiveness for recruitment and retention**	**Cost Savings**	**Politically Acceptable**	**Total Score**
A: Status Quo; maintain a defined benefit plan	+1	+1	+1	+3
B: Introduce a defined contribution plan	-1	-1	-1	-3
C: Introduce a hybrid plan	-1	-1	+1	-1

After applying Bardach and Patashnik's eightfold path model to the analysis conducted in Chapter IV and analyzing all three options, option A arose as the most promising option to address recruitment and retention issues, cost savings, and political acceptability. Options B and C failed to meet the criteria as well as option A. Policy option B scored a -3, and option C scored a -1, while policy option A received the highest score of 3 due to meeting all three judging criteria.

Of the policy options presented, maintaining the status quo of the predominant defined benefit plan was the only one that showed positive results in each of the three criteria. Option A was the only option that obtained a positive score in retaining and recruiting law enforcement officers. The criteria of retaining and recruiting law enforcement officers represent the most important of the judging criteria due to the significant numbers of law enforcement personnel separating from service either through retirement or voluntarily.

While it may seem to many that the financial burden placed on employing agencies by defined benefit plans necessitates the transition to either a defined contribution or a hybrid pension plan, the research performed for this thesis has shown that defined pension plans need not ever be 100% funded. By its very design, a defined benefit pension plan would virtually never have to provide benefits to all the participants in a plan at the same time. Transitioning from a defined benefit plan to either a defined contribution or hybrid plan actually increases the financial burden placed on employers for significant lengths of time. According to Kleine and Bean, "Depending on the level of unfunded accrued liability a closed plan has, and rates of return on investment, expenses will increase for about 10 to 15 years and net savings from closing a DB plan and converting to DC may take as long as 30 years."[167] Since political and financial circumstances are always in a state of change, a decision that financially impacts an employing agency for up to 30 years with no benefit for the first 10 to 15 years can be difficult to implement.

[167] Kleine and Bean, "A Cost Benefit Comparison of Defined Benefit and Defined Contribution Retirement Plans," 3.

Future research into the impact of pension reform on the lengths of law enforcement careers should focus on agencies that ceased offering defined benefit plans to new hires and how that decision impacts the lengths of careers of officers. If more agencies continue to cease offering defined benefit pensions, future research will need to focus on the number of officers leaving law enforcement altogether, not just transferring to agencies offering better benefits.

As a result of the analysis contained in this thesis, decision-makers faced with calls for pension reform in the public safety sector must look beyond the immediate future. Decision-makers seeking to transition between pension plans must consider the amount of time needed for the agency to obtain any financial benefit, how their decisions will impact the recruitment and retention of officers, and how their decisions will affect the length of law enforcement officer's careers.

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