Center for State & Local Government Excellence

Issue Brief

Importance of Supplemental Retirement Saving Plans for City and County Employees

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Do local government employees with more generous defined benefit plans contribute less to supplemental retirement plans than those with less generous benefits? Yes, according to research conducted by Robert Clark and his team from North Carolina State University. In this brief, the final in a three-part series, the authors analyze employee participation in primary and supplemental retirement plans, retiree health care benefits, and Social Security in 20 large cities and counties across the country.

Local governments rely on retirement plans and other employee benefits to help recruit, retain, and provide economic security for career employees in retirement. Many local governments offer supplemental retirement plans as a way to help employees build retirement savings; however, participation in these supplemental plans and the characteristics of the plans vary. Factors that contribute to higher participation rates in supplemental plans include employer matching contributions and online enrollment.

The authors conclude that employees consider the value of their retirement benefits when deciding whether or not to enroll in and contribute to supplemental retirement savings plans.

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Importance of Supplemental Retirement Saving Plans for City and County Employees

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Introduction

Public employers rely on retirement plans and other employee benefits to help recruit, retain, and ultimately retire quality workers. While considerable information is available on the employment and compensation policies of state governments, much less information is known about the practices of city and county governments. This Brief is the third in a series of *Issue Briefs* released by the Center for State and Local Government Excellence examining the retirement plans of 20 city and county governments across the country.[1] It examines the relationships between the aspects of the supplemental plans (described in February 2014 Brief) and the primary pension plans and retiree health insurance benefits (described in November 2014 Brief) and the corresponding effect on the average worker participation rates in voluntary supplemental retirement saving plans. The analysis provides some suggestive evidence that workers covered by less generous primary pensions are more likely to contribute to voluntary supplemental retirement plans. In addition, city or county governments that give matching contributions, have multiple plans, and allow online enrollment also have higher participation rates in supplemental plans. There does not seem to be a relationship between the generosity of retiree health benefits and supplemental plan participation, although generosity parameters are difficult to standardize. This Brief begins with an overview of the generosity of retirement plans and then compares participation rates in supplemental plans across the governments.

Generosity of Retirement Benefits

Given the high incidence of defined benefit plans that automatically provide a life annuity along with the promise of subsidized health insurance in retirement, what is the role for voluntary supplemental retirement plans for public employees? This section provides a picture of the relative generosity of retirement benefits for career workers in 20 cities and counties. In the private sector, defined contribution plans (401(k) plans) are now the norm. These plans typically require an active election by employees to enroll in the plan and workers must decide what percentage of pay to contribute to retirement saving.[2] Private sector workers covered only by voluntary retirement saving plans must decide how much they need to contribute to these plans to supplement their Social Security benefits in order to achieve their desired standard of living in retirement. In most firms, employees do not have any other employer provided pension nor are they covered by employer-provided retiree health insurance. Thus, one might expect high participation rates and relatively high contribution rates by private sector employees. Some large private employers still retain their defined benefit plans and, in addition, offer their employees the opportunity to also contribute to a 401(k) plan. Still, findings from studies of retirement saving in the private sector do not necessarily apply directly in the public sector.

In general, city and county governments require their full-time employees to participate in a pension plan. In contrast to private sector employer plans, pensions in the public sector tend to be defined benefit plans and most require employee contributions. These plans typically have relatively low normal retirement ages, particularly for those with long careers. The plans often provide some type of cost of living adjustment (COLA), although these are rarely guaranteed at a certain level. Another important difference between the public and private sectors relates to Social Security coverage. While virtually all private sector workers are covered by Social Security, about one quarter of public employees remain outside of the Social Security. Thus, these public employees must depend entirely on their employer-sponsored plans and private saving for their retirement income. Among the 20 governments in the sample, all provide a defined benefit pension plan for their employees and in 16 of

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the 20 cities and counties examined, employees are also covered by Social Security.

Table 1 provides a snapshot of retirement benefits available to employees of the cities and counties in the sample.[3] The cells are shaded to indicate where one might predict lower levels of participation based on higher relative generosity of the pension benefits. Column 1 indicates whether public employees are covered by Social Security. Four of the governments included in the sample remain outside of the Social Security system. Coverage by Social Security retirement and disability means that workers and employers pay a payroll tax of 6.2 percent of earnings and retirees can expect a retirement annuity from Social Security. Those not covered by Social Security might find they need to save more in a supplemental plan in order to provide adequate retirement income. Since these workers are not subject to the Social Security income tax, they might have more disposable income with which to save for retirement through personal savings.

Table 1, Column 2 reports the estimated replacement rate for retirees at age 62 with 30 years of service (calculation is presented in Issue Brief 2). The shaded cells in Column 2 indicate whether the estimated replacement rate is at or above the median replacement rate (60 percent of final average salary) among the 20 city and county governments. Finally, Column 3 presents corresponding data that adds a 28 percent replacement rate from Social Security to illustrate the combined pension and Social Security benefit.[4] Again, shading indicates at or above median total replacement rate (now 85.39 percent) among the 20 city and county governments.

What level of participation and contributions can be expected from public sector workers who are already covered by mandatory retirement saving plans? Career employees at governments in the sample who are covered by Social Security can expect replacement rates in excess of 80 percent of their final average salary without any additional savings. However, there are several

Table 1. *Pension Benefit Generosity*

	Social Security Coverage (Yes/No)	DB Replacement Generosity (Age 62 & 30 YOS) (Median 60%)	DB Replacement Rate + Social Security (28%) (Median 85.39%)
Local Government	**(1)**	**(2)**	**(3)**
Alexandria, VA	Yes	73.5%	101.5%
Austin, TX	Yes	75.0%	103.0%
Boston, MA	Yes	66.0%	94.0%
Mecklenburg County, NC	Yes	55.5%	83.5%
Cincinnati, OH	No	66.0%	66.0%
Contra Costa County, CA	Yes	60.0%	88.0%
Denver, CO	Yes	75.0%	75.0%
District of Columbia police and fire	No	45.0%	73.0%
Fairfax County, VA	Yes	55.6%	83.6%
Houston, TX firefighters	Yes	80.0%	108.0%
Los Angeles County, CA	No	60.0%	60.0%
Loudoun County, VA	Yes	49.5%	77.5%
Milwaukee, WI	Yes	48.0%	76.0%
New York City, NY	Yes	51.4%	79.4%
Philadelphia, PA	Yes	62.0%	90.0%
Phoenix, AZ	Yes	63.8%	91.8%
San Diego County, CA	Yes	60.0%	88.0%
San Francisco, CA	Yes	59.2%	87.2%
Tacoma, WA	Yes	60.0%	88.0%
Tallahassee, FL	No	57.8%	57.8%

Notes: Data are described in Issue Brief 2, Table 1. Shaded regions indicate where lower participation rates might be predicted based on the relative generosity of pension benefits.

factors that should affect public employees' preferences for contributing to supplemental retirement plans. First, not all employees remain with city or county governments for their entire career and, therefore, they will earn a substantially lower retirement benefit and may not qualify for retiree health insurance. This is especially true of individuals hired at young ages who leave after only a few years of service and individuals hired at older ages who will not remain on the job for 30 or more years. Second, about a quarter of public employees are not covered by Social Security, so their replacement rates are much lower compared to individuals who are covered by both the employer pension and Social Security.

Two other factors associated with employer provided retirement benefits might influence the proportion of public workers interested in contributing to supplemental retirement saving plans. In contrast to private sector defined benefit plans, public plans routinely provide COLAs to their retired employees. Post-retirement increases in benefits are often just annual increases in benefits of a specific amount rather than increases equal to the rate of inflation. The expectation of future cost of living adjustments in pension benefits should reduce the need for additional retirement saving to guard against inflation risk. Without periodic increases in retirement benefits, the real value of pension benefits declines steadily with inflation.

Table 2 describes the COLAs offered by the 20 governments in the sample. As shown in the table, the rules governing COLAs vary substantially. First, not all public plans provide for automatic post-retirement increases in pension benefits. Second, some governments promise a specified benefit increase regardless of the rate of inflation (e.g., Contra Costa County, Houston Firefighters, and Tallahassee). Third, a number of governments cap the COLA at a certain percent of the benefit (typically 2 or 3 percent) or as a fixed percent of the change in the Consumer Price Index (CPI). In the current economic environment, COLAs are one aspect of public pensions that have been targeted by state and local governments for reduction or elimination. If current employees believe that the promise of future COLAs is in doubt, the current rules for COLAs will

Table 2. *Rules for Cost of Living Increases by the Defined Benefit Plan*

Local Government	Cost of Living Increases by the Defined Benenfit Plan
Alexandria, VA	VRS: First 2% of CPI-U, half of additional CPI-U increase up to 2% Max COLA of 3%
Austin, TX	No COLA indicated on the website
Boston, MA	3% (non-guaranteed)
Mecklenburg County, NC	Discretion of the Board for the Local Government Employees' Retirement System
Cincinnati, OH	CPI change; Max COLA of 3%
Contra Costa County, CA	2%
Denver, CO	No COLA indicated on the website
District of Columbia police and fire	Max COLA of 3%
Fairfax County, VA	Change in CPI-U; Max COLA of 4%
Houston, TX firefighters	3% a year flat
Los Angeles County, CA	Varies, Max COLA of 3%
Loudoun County, VA	VRS: First 2% of CPI-U, half of additional CPI-U increase up to 2%. Max COLA of 3%.
Milwaukee, WI	2% increase per year starting 5th year of retirement
New York City, NY	50% of the CPI
Philadelphia, PA	No COLA indicated on the website
Phoenix, AZ	No COLA indicated on the website
San Diego County, CA	Max 3% based on CPI-U San Diego Area + COLA Bank
San Francisco, CA	Max 2% local CPI + supplemental COLA based off actuarial excess
Tacoma, WA	Max 2.125%
Tallahassee, FL	3%

Source: Government website for each plan.

have little or no impact on employees' saving behavior.

Public pensions tend to require employee contributions to the defined benefit plan while such employee contributions are rare in the private sector. Employee contributions reduce consumable income while working and thus likely reduce the willingness of employees to devote more of their earnings to retirement saving. It is expected that higher employee contributions would reduce the proportion of employees who contribute to the supplemental plans. The level of employee contributions for the defined benefit plans for each of the governments is shown in Table 3. Employee contribution rates to the defined benefit plans range from a low of 3.75 percent in Tallahassee and 4 percent of salary in Milwaukee and New York City to a high of 11 percent in Boston. Cincinnati, Houston, San Francisco, and Tacoma have employee contribution rates of around 9 percent of salary.

Table 3. *Employee Contributions to the Defined Benefit Plan as a Percent of Salary*

Local Government	Employee Contribution
Alexandria, VA	7%
Austin, TX	8%
Boston, MA	11%
Mecklenburg County, NC	6%
Cincinnati, OH	9%
Contra Costa County, CA	5% – 9% [1]
Denver, CO	7%
District of Columbia police and fire	8%
Fairfax County, VA	5%
Houston, TX firefighters	9%
Los Angeles County, CA	8%
Loudoun County, VA	5%
Milwaukee, WI	4%
New York City, NY	4%
Philadelphia, PA	6%
Phoenix, AZ	5%
San Diego County, CA	Contribution rate dependent on worker characteristics [2]
San Francisco, CA	9%
Tacoma, WA	9%
Tallahassee, FL	4%

Source: Government website for each plan.

1 Member contribution rates dependent on age of entry (2014-15) http://www.cccera.org/ContributionRatePacket2014-15.pdf

2 Contribution rate calculated based on age of entry, biweekly pay and hours paid biweekly. Formula not mentioned, online calculator provided for employees. http://www.sdcera.org/calculators_contribution.htm

Participation in Supplemental Retirement Saving Plans

The first Brief of this series, "Supplemental Retirement Plans Offered by City and County Governments," described the supplemental retirement saving plans offered by each of the governments in detail. Each of the 20 governments in the sample offered their employees the opportunity to contribute a portion of their earnings to a saving plan, either a 457 plan or a 401(k) plan. The following governments offer multiple retirement saving plans: Mecklenburg County offers two 457 plans (state-managed and locally-managed) and a 401(k) plan and Cincinnati also has two 457 plans, while Los Angeles County, New York City, and Tallahassee each offer a 457 and a 401(k) plan.

The remainder of this Brief presents information on participation rates in supplemental saving plans across the cities and counties in the sample. It compares the proportion of employees who are currently contributing to the supplemental 401(k) and 457 plans to various measures of generosity of the employer-provided retirement benefits. It considers what characteristics of the defined benefit plans and the supplemental plans themselves might influence the proportion of employees who decide to voluntarily contribute to the saving plans. This Brief presents suggestive evidence that, even within the small sample of local governments, public employees who are covered by more generous retirement plans are less likely to contribute additional funds to supplemental retirement saving plans. Similarly, several aspects of the supplemental plans, such as employer matching contributions and online enrollment, are associated with higher participation rates.

First, Table 4 includes information first presented in Issue Brief 1 on what type of saving plan or plans are offered by each of the cities and counties and the plan provider. In most cities and counties with two plans, the governments selected the same provider to manage both of the plans. The last two columns of Table 4 include data on the participation rates for the plans separately and/or the total proportion of workers contributing to any of the plans offered by the employer. Data were collected on both plan-specific enrollment and total participation rates in any plan, where available. The following analyses focus on either the com-

Table 4. *Participation Rates of Public Employees in Supplemental Retirement Plans*

Local Employer	Type of Plan	Plan Provider(s)	Plan Participation Rate	Total Supplemental Plan Participation Rate
Alexandria, VA [1]	457(b)	ICMA-RC	45%	45%
Austin, TX	457(b)	ING	58%	58%
Boston MA	457(b)	Great West Retirement Services		
Mecklenburg County, NC	457(b)	Prudential		
Mecklenburg County, NC	401(k)	Prudential		72%
Mecklenburg County, NC	457(b)	ICMA-RC		
Cincinnati, OH	457(b)	Nationwide	40%	61%
Cincinnati, OH	457(b)	ICMA-RC	26%	
Contra Costa County, CA	457(b)	Hartford	51%	51%
Denver, CO	457(b)	Hartford, ICMA-RC		
District of Columbia police and fire	457(b)	ING		
Fairfax County, VA	457(b)	T. Rowe Price	48%	48%
Houston, TX firefighters	457(b)	Great West Retirement Services		
Los Angeles County, CA	401(k)	Great West Retirement Services	70%	
Los Angeles County, CA	457(b)	Great West Retirement Services	72%	
Loudoun County, VA	457(b)	ICMA-RC	81%	81%
Milwaukee, WI	457(b)	Nationwide	70%	70%
New York City, NY	401(k)	NYCDCP	58%	
New York City, NY	457(b)	NYCDCP	16%	
Philadelphia, PA	457(b)	ICMA-RC		
Phoenix, AZ	457(b)	Nationwide	78%	78%
San Diego County, CA	457(b)	Nationwide	65%	65%
San Francisco, CA	457(b)	Great West Retirement Services	46%	46%
Tacoma, WA	457(b)	ICMA-RC	47%	47%
Tallahassee, FL	457(b)	Prudential	58%	
Tallahassee, FL	401(k)	Prudential	88%	

1 Participation rate calculated as ratio of active participants to total employees.

bined total supplemental retirement plan participation rate or the largest of the individual plan participation rates. The Appendix documents the sources of the retirement saving plan participation rates.[5]

Participation rates in the individual plans range from a low of 16 percent in the 457 plan for New York City to a high of 88 percent in the 401(k) plan in Tallahassee. The last column of the table shows the total participation rate in any of the plans for those governments that provided this rate for their employees. Remember that when an employer offers two or more plans, an employee has the option of contributing to each of the plans. Participation rates in supplemental saving plans range between 45 and 48 percent for Alexandria, Fairfax, San Francisco, and Tacoma. Governments with substantially higher participation rates include Tallahassee with 88 percent contributing to the 401(k) plan and Los Angeles, Loudon County, Milwaukee, and Phoenix with participation rates of 70 percent or higher.

Although the data set covers only 15 cities and counties, it is interesting to speculate on why participation rates vary so widely across the sample. Tables 5 and 6 compare the participation rates in the supplemental saving plans to different measures of generosity of the supplemental plans and the primary pension plans. First, Table 5 compares participation rates in the supplemental plans by the generosity of the mandatory plans along several dimensions. The parameters are classified in Table 1, with the shaded regions indicating where the lower participation rates are anticipated. The first comparison (Panel A), shows that without accounting for Social Security, there is no difference in the supplemental retirement plan participation rates among those with above, versus below, median replacement rates in the primary plans. Next, in Panel B it is noted that the average participation rate in 401(k) or 457 plans by public employees that are not also covered by Social Security is 13.5 percentage points higher than employees of governments who participate in the Social Security system. This difference is expected since the total replacement rate for those included in Social Security is higher than that for employees who are not covered by Social Security. Thus, it would seem that workers outside of Social Security recognize the need for greater additional retirement savings.

Perhaps a better indicator of the effect of expected retirement income on retirement saving is to examine the participation rate in the saving plans with a total replacement rate from the defined benefit plan plus the value of Social Security benefits. To make this comparison, it is assumed that the Social Security benefit at age 62 would be 28 percent of final average salary. This amount is then added to the defined benefit replacement rate for those governments that also are part of the Social Security system. The median total replacement rate, combining the pension and Social Security benefit, for the 20 governments is 85.4 percent. For the cities and counties with a total replacement rate below the median, the proportion of employees who are contributing to the supplemental retirement saving plans is 68.7 percent. This can be compared to the participation rate of 55.8 percent for governments where the total replacement rate is above the median. It can now be seen that below median replacement rates are indeed associated with higher (12.9 percentage points) participation rates in supplemental retirement saving plans.

As noted earlier, in most cases, public employees are required to help finance their defined benefit plans through employee contributions. The higher

Table 5. *Pension Benefit Generosity and Participation in Supplemental Saving Plans*

A. DB Replacement Rate (Age 62 & 30 Years of Service), Median = 60%				
	Below Median (A1)	At or Above Median (A2)	Difference (A1–A2)	P-value (A1) > (A2)
Number of Governments	7	8		
Average Participation Rate	66.1%	59.6%	6.5	0.191
B. Covered by Social Security (Yes/No)				
	Not Covered (B1)	Covered (B2)	Difference (B1–B2)	P-value (B1) > (B2)
Number of Governments	3	12		
Average Participation Rate	73.5%	60.0%	13.5	0.066
C. DB Replacement Rate + Social Security (28%), Median = 85.39%				
	Below Median (C1)	At or Above Median (C2)	Difference (C1–C2)	P-value (C1) > (C2)
Number of Governments	8	7		
Average Participation Rate	68.7%	55.8%	12.9	0.034
D. Employee Contribution to DB Plan, Median = 6%				
	Below Median (D1)	At or Above Median (D2)	Difference (D1–D2)	P-value (D1) > (D2)
Number of Governments	6	9		
Average Participation Rate	70.5%	57.4%	13.1	0.035

Notes: Data are from Issue Brief 2 and Tables 1 and 4. Shaded regions indicate that the participation rate in Column (1) is statistically significantly higher than the participation rate in Column (2) at the 10% level. Only the 15 employers with participation rates reported in Table 4 are included in the calculation, although all 20 employers are used to determine median rates. Where multiple participation rates are available instead of an average, the highest participation rate within a plan is used.

the employee contribution rate as a percent of salary, the less disposable income the worker has for current consumption and additional retirement saving. Thus, one would expect that higher employee contributions would be associated with a lower proportion of employees contributing to the supplemental retirement saving plan. Panel D shows that in those governments that require employee contribution rates of 6.0 percent of pay or less, the average proportion of workers enrolled in supplemental plans is 70.5 percent compared to only 57.4 percent in plans with employee contribution rates greater than the median. Those with below median employee contributions have participation rates that are a statistically significant 13.1 percentage points higher. This suggests that there may be some "crowd-out" or saturation that an employee has when considering what fraction of salary to save for retirement.

The second brief presented a detailed description of retiree health insurance benefits in each of the 20 local governments. While all governments in the sample provide some type of retiree health insurance, the generosity does vary substantially.[6] Individuals that have lower quality health insurance in retirement might choose to save more in a supplemental retirement saving plan to cover health costs in retirement. However, assessing this mechanism is challenging because of the difficulty in quantifying the generosity of retiree health insurance in ways that might matter for retirement wealth accumulation needs. In results not reported, average supplemental plan participation rates were compared by an approximation of the maximum proportion of the premium paid, by dependent coverage, and by the minimum years of service requirements for eligibility. None of these comparisons yielded any statistically significant differences. In considering the impact of current rules for retiree health plans on the saving by active workers, one should note that the employment future of current employees is uncertain and they may not achieve sufficient service to qualify for the maximum subsidy in these plans. Still, it does not appear that average participation rates are influenced by retiree health insurance within the small sample.

Finally, Table 6 considers several characteristics of the supplemental plans themselves, summarized in Issue Brief 1. Here it is noted that employer matching contributions are associated with a 20 percentage point increase in participation rates. For the five governments with multiple plans, the average participation rate is 11 percentage points higher than those with only one plan. While no significant differences associated with the availability of loans or our measure of website quality in Panels C and D, respectively, are found, it is clear that the availability of online enrollment is a strong predictor of participation rates. Finally, it is anticipated that workers with higher incomes are more likely to participate in a supplemental retirement saving plan since they have more disposable income. Although no measure of earnings of the local government workers is available, the local population's per capita income is included as a proxy. Localities with above median per capita income have, on average, participation rates which are about 10 percentage points higher. Thus, there is evidence that some aspects of the supplemental retirement plans are associated with the average participation rates.[7]

Generosity of Retirement Plans and Participation in Saving Plans

This series of three Issue Briefs provides a detailed examination of the supplemental retirement saving plans in 20 cities and counties across the country. This work has provided information on the prevalence of 401(k) and 457 plans as a component of the compensation of local government employees and considered how these plans are used by public employees to achieve their desired retirement income. Together the briefs have produced interesting and important findings. While the 20 governmental units considered are not necessarily a representative sample of the thousands of local governments around the country, the sample does include a wide range of sizes and diverse geographic areas.

First, all of the governments in the sample offered their employees the opportunity to contribute to a supplemental retirement saving plan. The most frequently offered plan is a 457 plan, although 401(k) plans remain an important benefit for some governments.[8] The proportion of workers who contribute to these plans is influenced by the generosity of other retirement benefits offered by the employer and key characteristics of the retirement saving plans. For example, even in the small sample of 15 local governments whose participation rates are observed, the participation rate is about 35 percent higher in the 4 governments that provide employer matching contributions relative to the 11 that do not.

Second, the characteristics of the primary retirement benefits are associated with the participation rates in supplemental plans. All of the governments in the

Table 6. *Participation in Supplemental Saving Plans by Plan Characteristics*

A. Plans with an employer matching contribution				
	Yes (A1)	No (A2)	Difference (A1–A2)	P-value (A1) > (A2)
Number of Governments	4	11		
Average Participation Rate	77.4%	57.3%	20.1	0.003
B. Has multiple plans				
	Yes (B1)	No (B2)	Difference (B1–B2)	P-value (B1) > (B2)
Number of Governments	5	10		
Average Participation Rate	70.1%	58.9%	11.2	0.073
C. Allows loans in at least one plan				
	Yes (C1)	No (C2)	Difference (C1–C2)	P-value (C1) > (C2)
Number of Governments	12	3		
Average Participation Rate	63.2%	60.5%	2.7	0.358
D. Comprehensive information about plan on website				
	Yes (D1)	No (D2)	Difference (D1–D2)	P-value (D1) > (D2)
Number of Governments	11	4		
Average Participation Rate	62.9%	61.9%	1.0	0.451
E. Online enrollment at vendor website				
	Yes (E1)	No (E2)	Difference (E1–E2)	P-value (E1) > (E2)
Number of Governments	4	11		
Average Participation Rate	74.0%	58.5%	15.5	0.026
F. Local population per capita income, Median = $31,294				
	Yes (F1)	No (F2)	Difference (F1–F2)	P-value (F1) > (F2)
Number of Governments	7	8		
Average Participation Rate	67.4%	57.3%	10.1	0.083

Notes: Data are from Issue Brief 1. Shaded regions indicate that the participation rate in Column (1) is statistically significantly higher than the participation rate in Column (2) at the 10% level. Only the 15 employers with participation rates reported in Table 4 are included in the calculation, although all 20 employers are used to determine median rates. Where multiple participation rates are available instead of an average, the highest participation rate within a plan is used.

sample have a defined benefit plan that covers full-time employees. The defined benefit plans promise an annuity to retirees who satisfy age and service requirements. These plans vary considerably in their generosity, as measured by normal retirement ages, the benefit per year of service, and COLAs. In general, one would expect workers covered by more generous defined benefit plans to be less likely to contribute to voluntary supplemental retirement saving plans. However, not all governments participate in the Social Security system. This means that the employer and the employee do not pay the payroll tax for OASDI and employees are not earning credits for future Social Security retirement benefits. Even within the small sample, the evidence found is consistent with higher participation rates in supplemental plans when expected replacement rates are lower. Using the approximations of pension benefit replacement rates plus Social Security, first illustrated in Issue Brief 2, governments in the sample with below median defined benefit pension plan plus Social Security replacement rates have average participation rates that are 13 percentage points higher.

All of the defined benefit plans offered by these governments require employee contributions. These contributions range from a low of around 4 percent of earnings to a high of 11 percent. Employee contributions to defined benefit plans reduce the take-home pay of workers. Workers may also feel as if they are saving more for retirement if they observe contributions being automatically deducted from their paychecks. Thus, higher employee contributions will tend to result in a smaller fraction of employees who contribute to the supplemental retirement saving plans. Again, even within the small sample, the strong evidence is consistent with this prediction.

Finally, all of the governments in the sample offer retired workers the opportunity to continue in the employer health plan. Retiree health plans differ considerably across the 20 governments. It is difficult to characterize the generosity of a health plan beyond a comparison in the proportion of the premium paid by the employer and the years of service required to qualify for premium subsidies. The comparisons did not indicate any effect of the generosity of the retiree health plan on the proportion of current employees who are contributing to a retirement saving plan. This is likely due to the difficulty in assessing the value of the promise of future health insurance by today's workers.

In summary, the findings in this series support the hypotheses that workers consider the value of the retirement benefits offered by their employer when determining whether they need to enroll in and contribute to supplemental retirement saving plans. While many of the plan characteristics considered would apply only to career 30-year employees who are able to earn substantial benefits in the retirement plans offered by public employees, workers must make planning and saving decisions throughout their working life without having complete information on their eventual career path. The full suite of retirement benefits allows public employers to attract and retain high quality workers, many of whom remain with the government for their entire careers. However, these same plans that provide relatively generous benefits to career workers provide benefits of considerably less value to workers with shorter careers. Supplemental retirement saving plans provide these workers with an important opportunity to build retirement wealth.

Endnotes

1 "Supplemental Retirement Plans Offered by City and County Governments" (February 2014) describes the supplemental plans offered by the 20 governments. "Retirement Benefit Decisions by City and County Governments" (November 2014) examines the primary pension plans and retiree health plans of these same governments.

2 Some firms have adopted automatic enrollment and auto escalation provisions in their voluntary supplemental retirement saving plans in an effort to increase saving for retirement by their employees. These provisions are less common in public sector plans, and none of the local governments considered in this study have opted to implement automatic enrollment policies.

3 The data in this table are taken directly from tables in Issue Brief 2, where more details on the authors' calculations are provided.

4 The actual Social Security replacement rate for career workers will vary with their average indexed lifetime earnings and the proportion of their career spent in public employment. Employees of cities and counties that remain outside of the Social Security system may earn Social Security benefits before or after their public sector job.

5 The most appropriate measure for this analysis would be the proportion of employees who contribute to any retirement saving plan offered by the public employer. Unfortunately, some of the governments were only able to provide participation rates separately for the various plans. It would be inappropriate to simply add these two numbers together since it would likely involve some double counting and thus over estimate the proportion of workers contributing to a plan. By choosing to focus on the largest participation rate of the plans, the participation rate in this analysis is likely to be an underestimate of the proportion of workers contributing to a plan.

6 Virtually all public sector employees are covered by the Medicare system. Coverage by Medicare means that employers and employees pay a payroll tax on all earnings and retirees are eligible for Medicare benefits at age 65.

7 Note that these averages are not weighted by population and are conducted at the government level.

8 As described further in the first Issue Brief of this series, local governments may offer a legacy locally-managed 401(k) plan or adopt a state-managed 401(k) but may not add a new locally-managed 401(k) plan. Employers that provide health care or educational services can also offer 403(b) plans.

APPENDIX: Information Sources for Participation Rates

Local Government	Source
Alexandria, VA	Annual Report (Accessed on October 20, 2014) http://www.alexandriava.gov/uploadedFiles/finance/info/CAFR14%20with%20cover.pdf Participation rate calculated as ratio of active participants to total employees.
Austin, TX	Email May 12, 2014: Mr. Will Cornforth, ING
Mecklenburg, NC	Phone May 12 2014: Ms. Jane Thomas, Mecklenburg County
Cincinnati, OH	Email June 4, 2014: Mr. John Dietz, Cincinnati
Contra Costa County, CA	Phone May 8, 2014 : Ms. Sandra Sarrach
Fairfax County, VA	Email April 9, 2013: Mr. Alhassan Elbarasse
Los Angeles County, CA	Email 20 April, 2013: Ms. Usha Archer, GWRS
Loudon County, VA	Phone May 2, 2014 : Mr. Robin York
Milwaukee, WI	Email May 12, 2014: Mr. Witold Dziadowidz
New York City, NY	Email June 6, 2014 : DCP_NYCERA, sent Annual Report http://www.nyc.gov/html/olr/downloads/pdf/deferred/Annual_2013_Report.pdf
Phoenix, AZ	www.phoenixdcp.com (Accessed on May 2, 2014)
San Diego County, CA	Phone and Email May 6, 2014: Mr. Philip Blair
San Francisco, CA	Email May 27, 2014: Ms. Mary Ann McGregor 457 Plan Overview Document sent
Tacoma, WA	Phone May 12, 2014: Ms. Diane Peterson
Tallahassee, FL	Annual Report (Accessed on June 20, 2014) https://www.talgov.com/uploads/public/documents/retirement/pdf/retsys_anlrpt.pdf

Center for State & Local Government Excellence

CENTER FOR STATE & LOCAL GOVERNMENT EXCELLENCE

Helping state and local governments become knowledgeable and competitive employers

About the Center for State and Local Government Excellence

The Center for State and Local Government Excellence helps state and local governments become knowledgeable and competitive employers so they can attract and retain a talented and committed workforce. The Center identifies best practices and conducts research on competitive employment practices, workforce development, pensions, retiree health security, and financial planning. The Center also brings state and local leaders together with respected researchers and features the latest demographic data on the aging work force, research studies, and news on health care, recruitment, and succession planning on its web site, www.slge.org.

The Center's five research priorities are:

- **Retirement plans and savings**
- **Retiree health care**
- **Financial education for employees**
- **Talent strategies and innovative employment practices**
- **Workforce development**

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