**Overview of Plan Comparison**

**City of Burlington Retirement Committee**

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**Discussion**

Accompanying this narrative are two files, identified in the title as “Comparison of Retirement Benefits for Employees Hired Previously” and “Comparison of Retirement Benefits for Employees Hired Today.”

“Hired Previously” compares key elements of the retirement benefits in place for a majority of each plan’s active or retired membership count. “Hired Today” compares retirement benefits provided to employees who are hired currently.

The plans chosen as comparatives with the City of Burlington were selected on the basis of one or more similarities with Burlington, including some combination of Social Security participation (or not); geographic location and proximity to Burlington; similar size and proximity to a major urban area; or a statewide plan (which in most cases contains a large number of employers and participants).

In my view, the retirement benefits provided by the comparative plans listed on the accompanying chart are fairly representative of benefits sponsored or provided by municipalities around the US and especially in the northeastern U.S. The information about the plans presented is believed to be accurate.

This comparison features selected core elements of retirement plan design, namely, the age and years of service needed to qualify for a normal (unreduced) retirement benefit; the retirement multiplier(s); the employee contribution rate; and the retirement cost-of-living adjustment (COLA). Other elements of retirement plan design than can affect the cost and level of benefits, but that are not included in this analysis, include the average final compensation (AFC) period, vesting period, definitions of compensation, early retirement provisions, and others.

The City of Burlington’s retirement plans offer retiring workers hired until 2006-08 (depending on the position) a choice at retirement of retirement multipliers matched with automatic cost-of-living (COLA) provisions. Offering workers a choice of a multiplier is unusual, if not unique, among retirement plans sponsored by states and local governments. (I do not recall seeing such an arrangement elsewhere.)

**Class A**

Most public safety personnel in the U.S. participate in retirement plans that are sponsored by local government, as is the case with the City of Burlington’s employees. Also, like the City of Burlington’s Class A workers, a majority of public safety personnel do not participate in Social Security.

Retirement benefits for many municipal public safety workers in the U.S. traditionally have been patterned after the prevailing military retirement benefit model, i.e., a benefit equal to one-half of final average pay after 20 or 25 years of service. This benefit structure remains prevalent today, although most employers have established a minimum retirement age, typically age 50 to 55, for workers to receive a full (unreduced) pension benefit.

Because the city-sponsored retirement benefit is intended as a substitute for Social Security, it is worth mentioning that Social Security, on average, replaces approximately 42 percent of average lifetime earnings for a typical (median) income earner.

**Class A Hired Previously**

Burlington police officers hired before January 1, 2006 and firefighters hired before January 1, 2007 may elect to receive a pension benefit based on one of three multipliers with a corresponding automatic cost-of-living adjustment (COLA). These options, which apply to the plan participant’s first 25 years of service, are as follows:

* A multiplier of 2.75 with a full COLA, tied to CPI, not to exceed six percent annually
* A multiplier of 3.25 with a COLA equal to one-half of the CPI, not to exceed percent annually (i.e., a COLA not to exceed three percent)
* A multiplier of 3.8 with no COLA.

In addition to these multipliers, city firefighters qualify for an additional retirement service credit, equal to 1.17 years of service for each year in which the firefighter worked an average of 53+ hours per week. According to the city’s retirement administrator, most firefighters receive this service credit for the entirety of their career. I am unaware of another public pension plan that provides more than one year of service credit for one year of service.

In response to my question, the city retirement administrator informed me that the salary provided to firefighters who work overtime reflects the additional time they work. Thus, firefighters who qualify for the 1.17 OT service premium essentially are receiving a retirement benefit based on counting the same overtime service: first, through a higher salary that is used to calculate the retirement benefit; then by increasing the number of years of service used to calculate the retirement benefit.

The table below compares the percentage of average final compensation (AFC) that is replaced by each of the three choices available to members of this group who retire with 25 years of service credit. The column titled AFC replacement with 1.17 OT premium presents the percentage of AFC that is replaced in cases where firefighters receive the 1.17 service credit premium for all the 25 years of service credit.

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| --- | --- | --- | --- |
| **Multiplier** | **AFC replacement without additional service credit** | **AFC replacement with 1.17 OT premium** | **COLA** |
| 2.75 | 68.75% | 80.4% | CPI to 6% |
| 3.25 | 81.25% | 95.1% | ½ CPI to 6% |
| 3.8 | 95.0% | 111.2% | No COLA |
| 10 @3.8 + 15 @ 3.6 | 92.0% | 107.6% | No COLA |

The benefit provided by Burlington’s retirement plan for Class A workers hired before 2006 or 2007 substantially exceeds the norm provided by peer plans. This is a result of two elements of the retirement plan design: the multiplier, which is higher than the median or average public sector multiplier; and the COLA, whose limit of six percent exceeds that of most plans (although this is not a major factor as long as inflation remains muted, as it has been in recent years). For firefighters, this higher benefit also is a result of the additional service credit available for working overtime, for those participants who qualify.

Although this benefit level is unusual, it is not unique: some municipal public safety plans, particularly in California and Florida, provide benefits similar to those available to Burlington workers hired previously. Many or most of the plans with multipliers of 3.0 and higher have become relatively expensive to maintain, and in many cases, benefits at this level have been closed to newly hired workers.

The 3.8 multiplier option predictably provides the largest immediate benefit, but, with no COLA, the value of that benefit erodes over time with inflation. Assuming some inflation, the benefit options with a COLA eventually generate a higher benefit payment than that provided by the higher multiplier with no COLA.

The contribution rate paid by Burlington Class A workers, 10.8 percent of pay, is roughly consistent with the rate of pay for the group of comparative plans. Rates for this group range from 5.0 percent to around 20 percent.

**Class A Hired Today**

Burlington police officers hired since 2011 (give or take; see table for specific dates) differ for firefighters and police officers. Specifically, Burlington police officers may retire at age 50 (which is toward the low end of the range, but not unusual) for the peer group, and may accrue a proportionately higher benefit, for working after age 50. The retirement benefit of Burlington police officers is based on a multiplier of 2.5 percent for age 50 at 20 years of service, rising gradually to 3.0 percent for attainment of age 55 and 25 years of service.

Firefighters also qualify for a retirement benefit at age 50 with 25 years of service, calculated with a multiplier of 2.65 percent for all years of service.

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| --- | --- | --- | --- |
| **Multiplier** | **AFC replacement without additional service credit** | **AFC replacement with 1.17 OT premium** | **COLA** |
| 2.65 (for firefighters) | 66.25% | 80.4% | CPI to 6% |
| 3.0(for police @25 years of service) | 75.0% | NA | CPI to 6% |

All Class A workers hired today qualify for a retirement COLA of CPI up to 6 percent, which is higher than most of the plans in the peer group (Nevada employees excepted).

By virtue of retirement multipliers and the COLA, Class A workers today receive a benefit that is greater than that provided to participants in comparable plans, although closer to the mainstream than for the benefit provided to those hired previously. The OT service premium, available to eligible firefighters, increases the value of the benefit available to those workers.

**Hired Previously: Class B**

Retirement benefits for Class B employees hired previously by the City of Burlington are roughly comparable to those provided to similar workers in comparable plans.

Like their public safety personnel counterparts, Burlington workers hired before 2006 or 2008 (depending on the employee’s labor affiliation) are permitted to choose from among different multipliers, ranging from 1.6 plus a full COLA to 2.2 (through 2006 or 2008; 2.0 thereafter) with no COLA. Although this multiplier and COLA combination is slightly higher than that provided by peer plans, the retirement age for Burlington workers also is somewhat higher than for other plans, and the employee contribution rate is lower.

Where employees in comparable plans pay at a contribution rate of 5.0 percent or so, Burlington workers pay 3.05 percent.

Notably, the normal retirement age and the required vesting period for Burlington workers is on the higher end of the range compared to peer plans. A more common arrangement, particularly for workers hired before many reforms were made in recent years, permits a full (normal) retirement benefit at age 60 to 64, usually with five or fewer required years of service.

The COLA available to Class B workers, CPI up to four percent, is somewhat higher than that available in comparable plans. A more common arrangement, if an auto-COLA is available at all, provides a COLA that either is capped at two to three percent, or that is a fraction of CPI, such as one-half.

Not included in the comparable table, but worth mentioning, is that Burlington workers have a seven-year vesting period, somewhat longer than a more typical, five-year vesting requirement.

**Hired Today: Class B**

Retirement benefits for Class B Burlington employees hired today by the city are slightly below those provided to employees in comparable plans. The value of this lower level of benefits is offset, to some extent, by the lower contribution rate (3.05 percent of pay) paid by employees.

As with Class B workers hired previously, the normal retirement age and the required vesting period for Burlington workers is on the higher end of the range compared to peer plans. A more common arrangement, particularly for workers hired before many reforms were made in recent years, permits a full (normal) retirement benefit at age 60 to 64, usually with five or fewer required years of service. However, reforms made in recent years in many states and cities have increased the required age or years of service, or both, needed to qualify for an unreduced retirement benefit.

As with workers hired previously, the COLA available to Class B workers, CPI up to four percent, is somewhat higher than that available in comparable plans. A more common arrangement, if an auto-COLA is available at all, provides a COLA that either is capped at two to three percent, or that is a fraction of CPI, such as one-half.