Retire the stereotype of the six-figure public-sector pension, say academics

By Editor Test *Thu, Oct 20, 2011*

About two-thirds of state and local workers leave public employment with little or no pension, according to a new research brief from Alicia Munnell and colleagues at the Center for Retirement Research at Boston College.

The retired cop with a $100,000 pension has joined the Cadillac-driving welfare mom in the pantheon of social stereotypes that Americans love to resent. But the rich cop, like the rich welfare mom, is the exception not the rule, according to the staff of the Center for Retirement Research at Boston College.

That's because only a minority of public employees have enough longevity to reap the maximum pension.

There is a "widespread perception is that state and local government workers receive high pension benefits which, combined with Social Security, provide more than adequate retirement income," write Alicia Munnell, Jean-Pierre Aubry, Josh Hurwitz and Laura Quinby in a new research brief.

"The perception is consistent with multiplying the 2% benefit factor in most plan formulae by a 35- to 40-year career and adding a Social Security benefit," they add. "But this calculation assumes that individuals spend enough of their career in the public sector to produce such a retirement outcome."

This brief summarizes the results of a paper that uses the publicly-available Health and Retirement Study (HRS) and actuarial reports published by state and local pension systems to test the hypothesis that state-local workers have more than enough money for retirement.

"Most households with state-local employment end up with income replacement rates in retirement that, while on average higher than those in the private sector, are well below the 80% needed to maintain pre-retirement living standards. Even those households with a long-service state-local worker who spent more than half of their careers in public employment have a median replacement rate, including Social Security, of only 72%. And this group accounts for less than 30% of households with a state-local worker. The remaining 70% of households with a short- or medium-tenure state-local worker have replacement rates of 48% and 57%, respectively. Adding income from financial assets still leaves most households short of the target," the brief said.

"Only 32% percent of workers who leave state-local employment each year claim an immediate benefit. These individuals have more than 20 years of service on average and receive a benefit equal to 49% of their pre-retirement earnings. But another 27% leave state-local employment with a deferred benefit based on their earnings at termination, which will decline in value between termination and claiming as wages and prices rise, so it will amount to less than 10% of their projected earnings at retirement," the paper continued.

"And 40% leave without any promise of future benefits. The other part of the explanation is that most households with a state-local worker contain a person employed in the private sector, and replacement rates for private sector workers are considerably lower since many end up with nothing more than Social Security."

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