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Report to Congressional Requesters

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D.C. PENSION BENEFITS

Comparison With Selected State and Local Government Pension Plans

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The Honorable Fortney (Pete) Stark
Chairman, Committee on the District of Columbia
House of Representatives

The Honorable Eleanor Holmes Norton
Chairwoman, Subcommittee on Judiciary and Education
Committee on the District of Columbia
House of Representatives

Pension obligations owed by the District of Columbia to current and retired police officers, firefighters, teachers, and judges exceed the District's pension fund assets by about $5 billion. Inadequate pension funding has resulted primarily from the federal government's transferring, when it enacted the District of Columbia Retirement Reform Act in 1979 (P.L. 96-122), a $2.0 billion unfunded liability for pension benefits to the District government. There is no legal requirement to reduce this unfunded liability. In fact, the 1979 act requires federal and District contributions to the retirement funds, through 2004, that are inadequate to keep the unfunded liability from increasing.[1]

Your offices asked us to assist in your efforts to develop funding alternatives to eliminate the District's unfunded pension liability discussed in our November 1992 report on this issue. As part of this effort, we agreed to augment our previous report's comparison of three of the District of Columbia's retirement plans with plans nationwide by analyzing comparable retirement plans, including other Washington, D.C., metropolitan area jurisdictions, and to obtain more detailed data on the cost-of-living adjustment provisions of these plans. This report presents that comparative data.

Results in Brief

According to our survey of 40 public employee retirement plans, the District retirement plans for police officers and firefighters, teachers, and judges generally provide benefits that are within the range of benefits offered by other public retirement plans covering similar classifications of workers that we examined. (See app. I for a listing of the plans we reviewed.) District police officers and firefighters receive pensions that are slightly higher (as a percent of final salary) than the average provided by similar plans we examined, while District teachers' pensions are slightly lower. District judges' pensions are higher than the average of

[1]See District's Pensions: Billions of Dollars in Liability Not Funded (GAO/HRD-93-32, Nov. 30, 1992).

other plans. However, a comparison of public pension plan benefits is complicated because survivor benefits, disability benefits, and cost-of-living adjustment provisions vary among plans.

The District plans' cost-of-living adjustment provision—retirement annuities are increased twice a year by the full amount of the increase in the consumer price index (CPI)—is more generous than provisions of other plans. Of the 40 plans we studied, only 14 have cost-of-living provisions related to the increases in the CPI. Only one plan increases annuities by the full increase in the CPI, and adjustments are made only once yearly. The other 13 plans limit annuity increases by providing a fraction of the CPI increase.

Background

The Congress instituted defined benefit pension plans[2] for the District's police officers and firefighters in 1916, for teachers in 1920, and for judges in 1970. In 1979, the Congress passed the D.C. Retirement Reform Act. When the act was passed, comparative data for other cities showed that the District's age/service requirement for police officers and firefighters (they could retire at any age after 20 years of service) was among the most generous in the country. Consequently, the act changed these requirements, so that employees hired after February 15, 1980, are required to be age 50 and to have completed 25 years of service for normal retirement. It also changed the cost-of-living adjustment provisions under all three plans to conform to the then-current federal Civil Service Retirement System provision.

Scope and Methodology

For information concerning plan benefits nationwide, we updated the information for the 25 plans listed in our November 1992 report using the Public Pension Coordinating Council's 1992 survey of state and local government employee retirement systems. These plans were for employees who were not covered by Social Security because the employees covered by the three District plans are not covered by Social Security. As agreed with your offices, we also contacted pension fund officials to obtain benefit information for plans covering workers in Oakland, California, and Richmond, Virginia.

To obtain the information in this report concerning benefits provided by plans in the Washington, D.C., metropolitan area, we reviewed information

[2]Defined benefit plans pay specific retirement benefits generally based on years of service, earnings, or both.

concerning retirement plans covering police officers, firefighters, and teachers in Prince George's County and Montgomery County, Maryland; and the city of Alexandria, Arlington County, and Fairfax County, Virginia; and on the judges' retirement plans administered by the states of Maryland and Virginia. Teachers in Maryland and Virginia localities are covered by the respective state teachers' plan. Additionally, all but Prince George's County provide supplemental retirement plans for teachers. We did not include benefits from the supplemental plans in our analysis. Many of the plans we added for this report are for employees who also have Social Security coverage.

We interviewed plan representatives by telephone and reviewed relevant state legislation to obtain information concerning cost-of-living adjustment provisions of the plans.

We conducted our review from February to August 1993 in accordance with generally accepted government auditing standards.

Comparison of Features of D.C. Retirement Plans With Those of Other Jurisdictions

Retirement plans have numerous features. We compared the 3 District plans with the 40 others we examined in terms of normal retirement requirements for age and length of service, pension benefit as a percent of final average salary, and required active employee contributions. Since one plan could be more generous than another in a different jurisdiction in terms of one feature (e.g., lower retirement age) but less generous in a different feature (e.g., higher employee contribution), it is difficult to make an overall judgment as to the relative generosity of plans. An additional complication arises because state and local government employees are not universally covered under Social Security. Covered employees are eligible to receive pension benefits in addition to their Social Security benefits after they meet Social Security's eligibility requirements.[3] Also, retirement plans can differ in important provisons concerning disability benefits and survivor benefits.

Tables 1 through 3 show how the three District plans compare with the others we examined.

[3]Social Security retirement benefits do not begin until age 62. Thus, there could be a long time between retirement from a public plan and receipt of Social Security benefits.

Table 1: Comparison of Features of Retirement Plans Covering Police Officers and Firefighters

Feature	District Police Officer and Fire Fighters Plan	Other plans: Average of 7 metro D.C. plans	Other plans: Average of 19 police and fire plans	Other plans: High	Other plans: Low
Retirement age with 25 years' service (years)	50	52.0[a]	52.4[b]	60	40
Accumulated retirement benefit with 25 years' service[c] (percent)	62.50%	67.50%[d,e]	59.73%[d,f]	70.00%[d]	50.00%[d,g]
Employee contribution required (percent)	7.00%	6.26%[d]	6.35%[d]	12.00%	0.00%

[a]This average is for three plans. Participants in the four excluded plans that permit retirement at any age with 25 years' service theoretically could retire several years before attaining age 52.

[b]Excludes eight plans permitting retirement at any age with 25 years' service.

[c]Benefit is stated as a percentage of employee final average salary.

[d]Excludes one defined contribution plan. A defined contribution plan is a retirement plan that provides an individual account for each participant. Retirement benefits are based solely on the amount contributed to the participant's account.

[e]Excludes three plans whose members are also covered by Social Security. The average for all six plans, including those whose members are also covered by Social Security, is 55.8 percent.

[f]Excludes four plans whose members are also covered by Social Security. The average for all 18 plans, including those whose members are also covered by Social Security, is 56.4 percent.

[g]Low is for plans whose members are not covered by Social Security. The low for plans whose members are covered by Social Security is 37.50 percent.

Table 1 shows that District police officers and firefighters may take service retirement at a slightly lower age than the average of the other plans we examined. However, 8 of the 19 plans allow public safety employees to retire with 25 years' service regardless of age. District personnel receive a slightly higher percentage of final average salary than the average of the 19 police and fire plans we examined, but pay a slightly higher employee contribution. However, in the D.C. metropolitan area, if only the plans whose members are not covered by Social Security are considered, the District retirees receive slightly less.

Table 2: Comparison of Features of Retirement Plans Covering Teachers

		Other plans				
Feature	District Teachers' Plan	Maryland Retirement and Pension System - Teachers' Plan	Virginia Retirement System	Average of 12 teachers' plans	High	Low
Retirement age with 30 years' service	55	Any age	55	58.3[a]	60	55
Accumulated retirement benefit with 30 years' service[b]	56.25%	54.00%[c]	48.04%[c,d]	63.14%[e]	75.00%	56.70%[f]
Employee contribution required	7.00%	7.00%	5.00%	7.37%	10.00%	5.00%

[a]Excludes six plans with no minimum age requirement.

[b]Benefit shown is percent of final average salary.

[c]Members are also covered by Social Security.

[d]Benefit equals 1.5 percent of the first $13,200 of final average salary and 1.65 percent of final average salary in excess of $13,200. Table assumes retiree earns average salary for District of Columbia teachers—$40,700.

[e]Excludes two plans whose members are also covered by Social Security. The average for all 12 plans, including those whose members are not covered by Social Security, is 61.24 percent.

[f]Low for plans whose members are not covered by Social Security. The low for plans whose members are covered by Social Security is 48.04 percent.

Table 2 shows that District teachers may retire on an unreduced pension after 30 years' service at a slightly younger age than the members of the 12 other plans covering teachers that we reviewed. However, as with police officers and firefighters, several plans permit retirement at any age with 30 years' service. District teachers receive a pension that is lower than the average of the 12 other plans (especially if only plans where members are not covered by Social Security are considered) but pay a slightly lower than average employee contribution.

Table 3: Comparison of Features of Retirement Plans Covering Judges

Feature	District Judges' Retirement Program	Other plans: Maryland Retirement and Pension System - Judges' Plan	Virginia Judges' Retirement System	Average of nine judges' plans	High	Low
Retirement age with 20 years' service	50	60	65	61.1	65	60
Accumulated retirement benefit with 20 years' service[a]	66.60%	66.60%[b]	75.00%[b]	62.00%[c]	85.00%	50.00%
Employee contribution required	3.50%[d]	6.00%	5.00%	7.71%	11.00%	0.69%

[a]Benefit is stated as a percentage of employee final average salary.

[b]Members are also covered by Social Security.

[c]Excludes two plans whose members are also covered by Social Security. The average for all nine plans, including those whose members are also covered by Social Security, is 63.96 percent.

[d]Members must contribute an additional 3.5 percent if survivor benefits are desired.

Table 3 shows that District judges can take service retirement with 20 years' service at a considerably younger age than the average in all the other plans examined. However, this situation is somewhat misleading, since judges are usually not appointed when young. The average age of a District of Columbia judge is over 50, while the average length of service is only 9 years. District judges also receive higher retirement benefits and pay lower contributions than the average of the nine other judges' plans we examined.

Comparison of Cost-of-Living Adjustment Provisions

To mitigate the effect that inflation has on retirement income, many public employee retirement systems provide retirees with postretirement cost-of-living adjustments. The District's retirement plans provide cost-of-living increases to annuitants twice per year equal to the full increase in the CPI.

Of the 40 plans we selected for comparison, 14 have cost-of-living provisions related to the increases in the CPI. Only one plan increases annuities by the full increase in the CPI, and adjustments are made only once yearly, while 13 plans limit annuity increases by providing only a fraction of the increase in the CPI, by "capping" the annuity increases (i.e., placing a ceiling on the amount of increase that the employer provides to retirees, even if the CPI increase exceeds the ceiling), or both.

Of the 26 plans that do not increase retirement annuities in relation to CPI increases, 9 provide fixed raises (usually a fixed percent increase per year regardless of inflation). These plans provide for fixed increases of up to 3 percent in retirement annuities regardless of CPI increases. Consequently, if the CPI increase is smaller than the fixed increase, these plans would provide greater increases in annuities than the District's plans. However, the CPI increased by less than 3 percent in only 1 year since 1980.

Four plans link raises to the investment performance of the retirement fund, and three base retirement annuities on the pay of active employees. Another plan is a defined contribution plan. Since retirement benefits in a defined contribution plan are based solely on the amount contributed to the employee's account, postretirement adjustments do not apply. All of the remaining nine plans that had no provisions for increasing retiree annuities reported that increases had been provided at least once by ad hoc acts of the appropriate legislative body.

Table 4 summarizes the postretirement adjustment provisions of the plans we surveyed.

Table 4: Postretirement Annuity Adjustment Provisions of Selected Retirement Plans

Provision	Police/fire plans	Teachers' plans	Judges' plans	Total
Defined benefit plans with annuity increase provisions based on CPI				
Increase equal to increase in CPI	0	1	0	1
Increase equal to increase in CPI but "capped"	3	2	1	6
Increase equal to a fraction of CPI increase	4	0	0	4
Increase both equal to a fraction of CPI increase and "capped"	1	1	1	3
Subtotal	**8**	**4**	**2**	**14**
Defined benefit plans with annuity increase provisions not based on CPI				
Fixed raises	4	4	1	9
Pensions linked to active pay	1	0	2	3
Increases linked to investment performance	2	1	1	4
Subtotal	**7**	**5**	**4**	**16**
Plans without annuity increase provisions				
Defined benefit plans without provisions for increasing annuities	3	3	3	9
Defined contribution plans	1	0	0	1
Subtotal	**4**	**3**	**3**	**10**
Total	**19**	**12**	**9**	**40**

We are sending copies of this report to the Mayor of the District of Columbia, the Chairman of the D.C. City Council, the Chairman of the District of Columbia Retirement Board, and other interested parties. We will make copies available to other interested parties upon request.

Please call me at (202) 512-7215 if you or your staff have any questions concerning this report. Major contributors to the report are listed in appendix II.

Joseph F. Delfico

Joseph F. Delfico
Director, Income Security Issues

Public Employee Retirement Plans Used for Comparison

Washington, D.C., Metropolitan Area Police and Fire Plans (7)	Arlington County (VA) Employees' Supplemental Retirement System II* City of Alexandria (VA) Retirement Income Plan for Firefighters and Police Officers** Fairfax County (VA) Police Officers Retirement System Fairfax County (VA) Uniformed Retirement System* Montgomery County (MD) Government Employees' Retirement System* Prince George's County (MD) Fire Service Pension Plan Prince George's County (MD) Police Pension Plan
Other Police and Fire Plans (12)	Arkansas Local Police and Fire Retirement System City of Milwaukee (WI) Employees' Retirement System City of San Antonio (TX) Fire and Police Plan Detroit (MI) City Police and Fire Retirement System Fort Worth (TX) Employees' Retirement Fund Kansas Police and Fire Retirement System Miami (FL) Police and Fire Retirement Plan New Jersey Police and Firemen's Retirement System Oakland (CA) Police and Fire Retirement System Plymouth County (MA) Retirement Association Portland (OR) Fire and Police Disability and Retirement Fund Richmond (VA) Retirement System
Washington, D.C., Metropolitan Area Teachers' Plans (2)	Maryland Retirement and Pension System—Teachers' Plan* Virginia Retirement System*
Other Teachers' Plans (10)	California State Teachers' Retirement System Connecticut Teachers' Retirement System Kentucky Teachers' Retirement System Public School Teachers' Pension and Retirement Fund of Chicago (IL) Public School Retirement System of Missouri Teachers' Retirement Board of Puerto Rico Teachers' Retirement System of Georgia Teachers' Retirement System of Illinois Teachers' Retirement System of Louisiana Teachers' Retirement System of Texas

Washington, D.C., Metropolitan Area Judges' Plans (2)

Maryland Retirement and Pension System—Judges' Plan*
Virginia Judges' Retirement System**

Other Judges' Plans (7)

California Judges' Retirement Plan
City of Memphis (TN) Retirement Plan
Employees' Retirement System of Georgia—Trial Judges
Illinois Judges' Retirement System
Jefferson Parish (LA) Employees' Retirement Plan
Louisiana State Employees' Retirement System
Public Employees' Retirement Association of Colorado

*The plan members are also covered by Social Security.

**This is a defined contribution plan.

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