Metrics for Measuring Public Employee Retirement Security

Three ways to evaluate how well plans help workers prepare for their futures

Overview

Retirement benefits play a critical role in helping governments attract and retain skilled workforces. Research from The Pew Charitable Trusts has found that most state and municipal employees cite this part of their compensation package as key in deciding to take jobs—and remain—in public service. Survey data also show that these workers generally expect the public sector to provide better retirement packages than those available in the private sector.[1]

Pew's research on state and local public retirement systems analyzes three metrics that help governments evaluate how well their plans are doing at providing retirement security:

- Replacement income, which measures what percentage of a worker's final salary is expected to be replaced, on average, in retirement.
- Retirement savings rate, which captures the level of savings, expressed as the percent of annual salary, that an employee can withdraw when leaving employment.
- Value of lifetime benefits, which measures, at different points over the course of a worker's career, the total amount of government-sponsored retirement income an employee can expect to receive over a lifetime.

Policymakers can use these metrics to assess any type of retirement plan—including traditional defined benefit pensions and hybrid plans—around meeting employer goals of attracting and retaining a strong workforce and putting workers on a path to a financially secure retirement.

Replacement income

Replacement income helps capture how well career workers—those who spend the majority of their work lives with the same employer—are set up for retirement. This metric measures retirement benefits as a share of career-end salary, as well as of take-home pay, which factors in contributions to the retirement plan, Medicare, and Social Security. Replacement income includes Social Security payments if the state is one where public employees pay into the program. In addition, the metric adjusts for the impact of inflation, incorporating any cost-of-living adjustment protections under the plan.

Pew's analysis finds that in most cases career government workers can expect full replacement income, meaning their retirement benefits match their final take-home pay.

Retirement savings rate

For workers with multiple employers over a lifetime, the retirement savings rate provides the best insight into their retirement security. This metric captures the percent of annual salary a worker can withdraw upon separation, depending on whether employees have access only to their contributions or whether they can claim employer contributions as well. The savings rate also takes into account the level of interest provided on the member's account.

For noncareer workers, only a few states report savings rates of more than 10 percent; 10 percent to 11 percent is the average savings rate found in the private sector.[2] Research by Pew shows that the biggest driver of differences in savings rates is whether workers can leave with employer contributions to their plans.

The retirement savings rate is applicable to workers who leave before vesting as well as many vested employees that are a number of years from retirement when they separate. In a few instances, separating employees can choose to leave their account balances with the system and convert them to state-sponsored annuities at retirement. This tends to increase the value of the benefit by giving retirees access to higher annuity rates than typically available in the private sector.

Value of lifetime benefits

The final metric, value of lifetime benefits (VLB), measures the total amount of government-sponsored retirement income an employee can expect to receive over a lifetime. Developed by the Urban Institute, VLB shows how the lifetime benefit value changes based on plan type, service years, start age, and date of separation or retirement. Taking vesting and separation rules into consideration, this metric also calculates whether employees are better off withdrawing their accounts or leaving them with the system until qualifying for a retirement benefit.

Although these measures focus solely on pension benefits, retiree health benefits can vary significantly from state to state.

Conclusion

There is no one-size-fits-all solution when it comes to plan design, but these metrics can help policymakers understand how effectively plans are meeting workforce goals around providing retirement security.

Endnotes

1 The Pew Charitable Trusts, "Retirement Needs and Preferences of Younger Public Workers" (2017), https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/05/retirement-needs-and-preferences-of-younger-public-workers; The Pew Charitable Trusts, "Preparing for Retirement: More findings from a survey of public workers on retirement benefits" (2015), https://www.pewtrusts.org/-/media/assets/2015/10/statelocalemployeesurvey-report.pdf.

2 Vanguard, "How America Saves 2019: The Retirement Savings Behavior of 5 Million Participants," June 11, 2019, https://institutional.vanguard.com:443/VGApp/iip/site/institutional/researchcommentary/article/HowAmericaSaves2019.

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