

**Effects of the Elimination of Defined Benefits to Law
Enforcement Recruitment and Retention**

A Futures Study for Command College

By

**James A. O'Connell
Vallejo Police Department**

April 2012

Command College Class 50

The Command College Futures Professional Article is a study of a particular emerging issue of relevance to law enforcement. Its purpose is not to predict the future; rather, to project a variety of possible scenarios useful for strategic planning in anticipation of the emerging landscape facing policing organizations.

This article was created using the futures forecasting process of Command College and its outcomes. Defining the future differs from analyzing the past, because it has not yet happened. In this article, methodologies have been used to discern useful alternatives to enhance the success of planners and leaders in their response to a range of possible future environments.

Managing the future means influencing it—creating, constraining and adapting to emerging trends and events in a way that optimizes the opportunities and minimizes the threats of relevance to the profession.

The views and conclusions expressed in the professional article are those of the author, and are not necessarily those of the CA Commission on Peace Officer Standards and Training (POST).

Effects of the Elimination of Defined Benefits to Law Enforcement Recruitment and Retention

A Futures Study for Command College

The motivation necessary for public service in the law enforcement field is found in a special and unique breed of person who would lay their lives on the line for others, often someone they have never met, asking nothing in return. The draw to the profession, to public service, is often so strong that it has frequently been referred to as a calling. Given their desire to serve and to be a law enforcement officer, many in the industry would say they would do it for free. In fact, some of them do. The number of paid sworn officers hovers around the 700,000 range; while volunteer reserve officer numbers have been reported be 250,000.¹

As society has changed, the pool of qualified police officers and candidates has changed as well. With increasing levels of drug use, obesity and debt, coupled with expanded skill requirements of today's police officer, and the need to provide a demographic balance with employees and communities, it is not always easy to find good people to fill our police officer ranks.² Traditionally, the "bargain" struck for those entering policing was the demand to perform dangerous, demanding work with a guarantee of both job security and a pension after 25 to 30 years of service. As salaries accelerated, though, the focus of professionals and communities has been the burden of promised benefits, and concerns about the solvency of retirement systems intended to fulfill the promise made at hire. The question of the day is: will municipalities be able to pay these employees the defined benefits that have been promised? Will municipalities and other public employers be capable and willing to uphold their end of the bargain?

¹ Richard Weinblatt, Reserve Law Enforcement in the United States

² Jeremy M. Wilson, Erin Dalton, Charles Scheer and Clifford A. Grammich, *Police Recruitment and Retention for the New Millennium, The State of Knowledge, Rand Corporation, 2010.*

Most men and women who enter law enforcement can look back to some sort of defining moment or series of events that drew them to the badge. For some, it is the appeal of action and being the person people call when they are in trouble. For others, it is the positive impact that a mentor, role model, parent or acquaintance in the business had upon them. In the book “Legacy Leadership-Transforming Organizations by Transforming Lives”, Dr. Mark Warner noted there were three different types categories of personal motivation. Extrinsic motivation is derived from external influences and rewards such as money, approval and salary. Prehistoric motivation stems from a need for power, authority and the need to be the boss. The last, and the one most applicable to a career in law enforcement, is that of intrinsic motivation, which can be traced to a fulfillment, a sense of accomplishment, personal growth and satisfaction.³

Regardless of how law enforcement officers enter the business, by virtue of the job requirement to keep law and order, these men and women possess strong internal feelings of right and wrong. They buy into the social contract that they will put themselves in harm’s way to come to the aid of another regardless of the danger they may encounter, because that is their job. They uphold their end of the deal. Sadly, when it comes to the pension obligations of their employers, the emerging reality indicates their expected retirements may be significantly altered because of the insolvency of plans intended to reward a career of solid work.

Looking at the report card of the various pensions across the nation, there is simply no guarantee. According to a 2004 study that polled 125 state pension systems, 84 of them are underfunded⁴. More disconcerting is the historical perspective that funds have been operating at a deficit for some time now. According to the same 2005 report, the market value of assets in these systems was reportedly less than the pension liabilities, with those liabilities exceeding \$164 billion.

³ Mark Warner, PH.D, Legacy Leadership-Transforming Organizations by Transforming Lives”

⁴ Julia K. Bonafede, Steven J. Foresti and Benjamin J. Yang, 2005 Wilshire Report on State Retirement

In California, all State and most municipal employees enter into a defined benefit retirement system at the time of employment. The California Public Employee Retirement System (CALPERS), the largest public pension plan in the Nation, is a behemoth in the financial industry, with more than 220 billion dollars invested.⁵ Contributions by employees vary, ranging from the employee paying up to 13% of their pre-tax income, while some municipal employers contributing 100% of the employee's contribution pursuant to the bargaining group's specific benefits.

Over the years, CALPERS consistently earned double-digit returns on investment dollars, and pension obligations were met with ease. Cities often were able to remit lower sums to CALPERS due the level of earnings allowing the plan to defer or lower its costs. Employees counted on those pensions and planned their lives and futures accordingly. In fiscal year 2010-2011, the total reported investment return was 21.7 percent.⁶ Even with those reported returns, the Certified Annual Financial Report (CAFR), noted the Public Employee's Retirement Fund was only 83.4 percent funded. This reflects only a 0.1 percent increase of the total funded at the end of the 2008-2009 fiscal year in June 2009. Even with this remarkable rate of return, employer contribution rates will likely increase (although at a slower rate than it would if CALPERS returns were lower). In the last few days, the San Diego Union Tribune reported that CALPERS Board voted to lower its projections for the coming year from 7.75 to 7.5 percent. Although at initial glance, it may appear to be inconsequential, that dip may cost the State an additional \$300 million dollars a year, with more than half coming from the CALPERS General Fund.⁷

Only surprising to those who may have been in a medically induced coma these last five years, though, is the fact that things have changed. Our economy has changed from one that relied upon the housing industry as an anchor of stability, to a state where municipalities find their revenues sinking precipitously due to declining

⁵ The Los Angeles Time, *CalPERS, CalSTRS Post Solid Investment Returns*, January 20, 2011

⁶ CalPERS Comprehensive Annual Financial Report, December 2011.

⁷ The San Diego Union Tribute, *CALPERS SEES DIP IN INVESTMENT RETURN*, March 15, 2012

property values. In hindsight, we know our reliance on this industry was unwise. As we work to regain our balance today, we seem to have factored those recent mistakes into our plans in the near and distant future. For instance, the City of Stockton, California is teetering on the verge of bankruptcy. In a recent article in Bloomberg Magazine, Stockton Vice Mayor Kathy Miller recalled “Money was just pouring into the city coffers for development fees and permits. Property taxes were going through the roof. It was a boom-time”.⁸ Certainly, even with looming layoffs for City employees (including police officers), Stockton’s future is muddled at best.

The housing bubble that we experienced between 1996 and 2006 produced National housing prices that rose 53 percent. In the Golden State during that same period of time, home prices more than tripled.⁹ Over the last 5 years, The City of Oakland reported a drop in general fund revenues from \$476 million to \$407 million, a loss of \$69 million during fiscal year 2010-2011. The vast majority of that lost revenue was due to a decline in property values, which accounts for about 30% of the General Fund. Consistent with other cities, Oakland reported staggering drops in real estate taxes during that time frame, shriveling to \$28 million from \$80 million.¹⁰ This number seems to be consistent with other large California cities. For example, in fiscal year 2010, San Diego reported that property taxes accounted for 33.9 % of the general fund.¹¹ Following Oakland’s example, San Diego and other municipalities could see similar declines.

Based in part on projections of property values, CALPERS returns and similar revenue streams, California municipalities made long term decisions and entered into contracts and agreed to increased retirement benefits for employees, which today are called unsustainable and decadently generous. San Jose Mayor Chuck Reed said “We are draining money out of services and pouring them into retirement

⁸ Bloomberg, *Stockton Going Broke Shows Cop Pay Rising as Property Collapsed*, February 29, 2012.

⁹E.L Glaeser, D. Gottlieb, J. Gyourk, *Can Cheap Credit Explain the Housing Boom?*, NBER Working Paper 16230, 2010.

¹⁰ City of Oakland, Budget Facts: Fiscal Year 2010-2011.

¹¹ City of San Diego, Fiscal Year 2010 Annual Budget.

benefits. However you define unsustainable, it's unsustainable".¹² To make the best decisions for our agencies and employees as we move into the future, we have to keep the realities of our world in mind, and never forget how heavily the management, growth and competence of policing agencies rely on the interdependence of social norms, finances and the need for some sort of stability in funding. To find this stability and balance, many municipalities are looking to their labor forces and asking for salary and benefit concessions.

Oakland has eliminated 237 jobs and fired an additional 150 workers. The California City of laid off all city employees in 2010 and contracted all city services.¹³ It is not easy for anyone to give up something they have; a benefit they had counted upon in their life plan. A union or association of some design represents the majority of public employees. For those remaining on the Oakland staff, many have had to take furlough days, in essence unpaid, forced days off. These cuts are not just affecting larger California cities. In Loma Linda, City Manager T. Jarib Thaipejr plans to lay off two employees and cutting four and a half other jobs in an effort to offset the loss of \$7.6 million dollars in redevelopment tax money. As a result, the City of Loma Linda plans on closing the east wing of city hall.¹⁴

Although the housing bust is almost 6 years old, local governments still will have to deal with the fallout of shrinking revenues. The taxes realized through property assessments are often slow to adjust downward. But as they do become more representative of true market values, the revenues decline. As an example, the City of Baltimore collected \$815 million in property taxes in the last fiscal year. In following years, it is expected to constrict successively to \$805 million, \$773 million, \$735 million and finally down to \$729 million in 2015. Bill Vorhees, the city's director of revenue and tax analysis warned, "I don't see any quick fixes over the

¹² *NPR News, As U.S., Europe Hack At Budgets, Pensions Get Sliced*, 1 December, 2011.

¹³ *The Los Angeles Times, Maywood To Lay Off All City Employees, Dismantle Police Department*, June 22, 2010.

¹⁴ *The Press Enterprise, Loma Linda: City to Cut Jobs, Close City Hall Wing*, March 9, 2012.

next four or five years, to be honest. Obviously, it means we have much lower revenues than we had in the past. It's creating gaps in our budget,...it's a very large problem."¹⁵

While it was initially the preferred action of choice to simply ignore the growing crimson deficit and defer corrective measures, that tactic eventually was swept out into the open air. Once it became evident that deferring the pain was impossible, municipal governments have sought cost savings anywhere they could find them, starting with the least painful and least contested. In Phoenix, the city eliminated tree pruning from its budget, along with youth sports, and elderly shuttle services.¹⁶ According to the same article, even in more affluent communities, the budget shortfalls have affected services. In Aspen, Colorado, the city delayed the construction of a \$360,00 foam pit for training snowboarding in a city owned recreation center. Many municipalities are investigating retirement options that do not contain defined employee benefits, but instead rely more on individual contributions and market performance.

The State of California has considered a retirement system for employees that do not include defined benefits. Governor Arnold Schwarzenegger during his time in office, presented a plan to reduce the state's \$9.1 billion deficit by privatizing California's pension fund.¹⁷ Even today, the State hopes to offer employees defined *contribution* plans, which would eventually reduce the unfunded obligations of the state. On October 27, 2011, Governor Jerry Brown presented a Twelve Point Pension Reform Act. If adopted, this plan would offer immediate financial relief to the state and municipal employers by requiring all new and current employees to transition to a contribution level of at least half of the annual costs of the pension.¹⁸ Because of the various contracts in place, it is impossible to predict with any

¹⁵ Brady Dennis, *The Washington Post*, *Housing Crisis Starts to Hit Cities*, December 26, 2011.

¹⁶ *The Washington Post*, *City Budget Cuts Hit Every Sector*, Monday, October 20, 2008.

¹⁷ Kate Berry, *Schwarzenegger Embraces Idea of Private Retirement Accounts*, *Los Angeles Business Journal*, February 21, 2005, 38.

¹⁸ Governor Jerry Brown, *Twelve Point Pension Reform Plan*, October 27, 2011.

specificity, but with the employee adopting a large portion of contributions towards both the pension itself, as well as benefits, the savings will be substantial and will only increase over time.

Financial planners look at a transition from defined benefits to a retirement program funded by the employee and dependent upon the strength of the market as the new reality. In a recent interview, Brian Belcastro, President and Investment Advisor with The \$ Coach, LLC, stated, "With the current level of financial distress in our municipalities and in the general economy, we will continue to see less and less of the traditional pension. Where once long-term employees could expect a lifetime of income as a reward for dedicated service upon retiring, sponsored retirement plans requiring self-funding by the individual have become more common. This shift puts a major burden on the individual to amass wealth and properly manage it throughout their lifetime."¹⁹ Belcastro also pointed toward employees who might not be disciplined investors, "The sad truth is that this change will have a very negative effect on many people's quality of life in retirement. It can be very difficult to replace the income stream provided by a traditional pension. With interest rates at historic lows, many retirees are being impacted substantially".

The implications on the future of California law enforcement recruitment and retention cannot be quantified with any degree of certainty, although there are indeed indicators. While it is clear that defined benefits, as we know them today, are quite likely to change in the very near future, it is the effects on recruitment and retention that are unknown. Most employees will be required to pay more into their retirement funds, the largest of which is the California Public Employee Retirement System (CALPERS). As an example, a police officer with the Vallejo Police Department presently contributes 9% of his or her salary toward retirement. That percentage subsidizes the larger payment that the City of Vallejo makes to CALPERS. If the employee contribution increases by another 3%, the cost to the City is hence

¹⁹ Brian Belcastro, professional interview, October, 2011

reduced that same amount. Of course, employees could negotiate to receive reduced future retirement benefits to lower their monthly costs; it is unknown how many might elect to choose that option.

Will an additional 3% create a noticeable change in recruiting and retention of qualified personnel? Without the benefit of a crystal ball, one would likely speculate that the change would be minimal. In a 2009 study, Michael Verro, a PH.D from Walden University, found that most people who enter the law enforcement field are not primarily motivated by pay and benefits. Instead, their motivation is typically public service, honor and the search for an action- oriented career. People who enter into a career in law enforcement typically do so for altruistic reasons.²⁰ Retirement benefits are not an afterthought, but are certainly not the predominant source of motivation.

Of course, like everything else, the effect on recruitment and retention based upon some deviation in the defined benefit packages is dependent upon a number of factors that might be specific to the individual and their circumstances. An established employee with solid experience and an exemplary work record who is interested in moving to a different agency (one of the benefits of statewide retirement systems like CALPERS) would certainly consider the benefits offered to new employees. They would be wise to balance those benefits against what they were being provided at their present employer before making the decision to leave or stay. However, job seekers who have not landed their first job in the industry are more likely to accept a position that offers reduced pay and benefits, simply to get their foot in the door of the profession.

The police officers that serve today, as well as future officers, are motivated to protect our society for largely altruistic reasons, however the pensions will likely look thinner than previous retirees. As noted in Governor Brown's Twelve Point

²⁰ Michael A. Verro, PH.D, *Psychosocial Motivation of Career Choice for Contemporary Law Enforcement Officers*, Walden University, 2009, 126 pages.

Pension Reform Plan, there is an expectation that in the near future, California public safety employees will work into their 60s. The changing norms and expectations of our Generation X, Generation Y and the Millennial police officers will adapt and conform to the societal changes. Law enforcement agencies of the future will still count on an educated, caring work force that will display the flexibility to grow with the times, as did the generations that came before them.

Will the police officers of tomorrow be different than what we have today? Other than some generation nuances, we will have the same dedicated, driven men and women who answer that calling. Fears that pension reform will drive quality applicants into other pursuits are largely without substance. If we tell them from the beginning what the rules are, and then stick to those rules in a fiscally responsible way, we will have a dedicated police force to service, willing to put their lives on the line for us, day in and day out.