CalPERS | Retirement Research & Planning Division

Attracting and Retaining Talent in a Post-PEPRA World

October 2015

Introduction

CalPERS believes to be successful, a retirement system must meet the needs of members and employers. CalPERS also believes inadequate financial preparation for retirement is a growing national concern; therefore, all employees should have effective means to pursue retirement security. For more than eight decades, CalPERS has built retirement and health security for more than 1.7 million state, school, and public agency members. These retirement and health benefits have helped participating California public employers attract and retain talented and career-minded employees to the public sector—the cornerstone of delivering quality public service. Recent changes to laws governing public retirement systems in California may, however, impact the attraction and retention of public employees going forward.

The Public Employees' Pension Reform Act of 2013 (PEPRA), among other things, standardizes benefit formulas, places limits on pensionable compensation, and increases the retirement age for "new members."[1] According to a 2014 CalPERS analysis, the typical new member enrolled in CalPERS will receive, on average, $578 to $1,113 less per month in defined benefit (DB) plan retirement benefits than classic members retiring at the same age with the same years of service.[2]

Many public employers are concerned that these reduced pension benefits may impact their ability to attract and retain talented and career-minded employees. This issue is especially important to public employers at a time when almost 43 percent of the public sector workforce is nearing eligible retirement age.[3] In light of these concerns, some public employers have begun to consider additional strategies to attract and retain a quality workforce.

This paper discusses the DB plan's role in attracting and retaining employees. It also outlines several strategies California public employers may consider to attract and retain a quality workforce while supporting retirement security:

- Employer-sponsored defined contribution (DC) plans
- Social Security enrollment
- Retiree healthcare
- Student loan payment assistance
- Signing and retention bonuses

While we have attempted to provide accurate information, there may be legal or other requirements not addressed in this paper that may apply. Employers should consult with legal and financial advisors before adopting any of the strategies discussed in this paper.

Role of DB plans

DB plans generally provide predictable, secure retirement benefits based on a predetermined retirement formula that includes age at retirement, years of service, and final compensation. Among other things, DB plans are intended to attract career-minded workers to public service, retain mid-career and experienced workers, and encourage long-term public service.

Employees consider DB plans an important factor when considering their own employment options. A recent survey found that nearly 60 percent of newly hired employees with DB plans responded that the pension plan was an important factor in accepting the job. Three quarters of the respondents also claimed that pension benefits are a compelling reason to stay with an employer. The majority of respondents (80 percent) plan to stay with their employer until they retire.[4]

Recent pension benefit reductions may limit public employers' ability to attract and retain quality employees,[5] driving some to consider additional attraction and retention strategies focused on increasing retirement security.

Employer-sponsored DC plans

Employer-sponsored DC plans are tax qualified, deferred compensation accounts prescribed by the Internal Revenue Code. Common types of DC plans include 401(k), 403(b), and 457 plans. DC plans can provide employees with a savings vehicle to help supplement their DB benefits. DC plans generally function like individual accounts maintained on behalf of each participating employee where the employee, employer, or both contribute. Contributions, however, may not exceed state and federal limits.[6]

As PEPRA reduces benefits for new DB plan members, DC plans may assume a more prominent role in retirement planning. Public employers who sponsor a DC plan may be able to use the increased importance of saving for retirement as an attraction and retention strategy. If a public employer, however, adopts a new DC plan on or after January 1, 2013, the new plan must conform to the requirements of PEPRA.

Public employers can establish an employer-sponsored DC plan through a third-party administrator. California public employers have the option of adopting CalPERS' 457 plan.[7] Employees may benefit from employer-sponsored DC plans as they generally have lower participant fees than individual retirement accounts (IRA).[8] Public employers may also consider matching DC plan contributions as a retention strategy and to further encourage retirement savings.

Public agencies may want to consider offering automatic DC plan features, such as auto-enrollment and auto-escalation. These automatic features may be effective methods for increasing retirement savings[9] and may encourage retention among employees who value long-term retirement security. Employers should evaluate these automatic methods prior to implementation as they may not be appropriate for all employees.

Potential considerations related to establishing a DC plan include, but are not limited to:

- Costs related to plan administration and operation
- Fiduciary responsibilities and liability issues
- Costs related to educating and informing eligible employees about the plan
- Legal requirements

If employers are interested in obtaining additional information about enrolling in a DC plan, they should contact a plan administrator directly for participation materials and investment information.

Social Security enrollment

Social Security is another potential retirement income source for public employees. Social Security enrollment is voluntary for public employers that provide other pension benefits. Currently, less than half of CalPERS member agencies participate in Social Security.[10] Employees earning PEPRA benefits may find Social Security participation provides additional retirement security.

Participating employers and their employees each pay 6.2 percent of wages to Social Security, up to the annual salary cap.[11] To be eligible for Social Security benefits, employees must earn at least 40 credits (10 years of work). Upon reaching the minimum Social Security age, participants are eligible to receive a monthly benefit based on age, lifetime earnings, and Social Security credits. The benefit formula is also progressive, replacing a larger share of income during retirement for those earning less during employment.

Public employers can enroll in Social Security using one of two methods. The first method is a referendum where all eligible employees vote whether to participate. If a majority votes to participate, all employees will participate – even those who vote against participation. The other method is division, where each existing employee makes a personal choice whether to participate. Only those choosing to participate are enrolled in Social Security. All new employees hired after the coverage effective date are enrolled in Social Security.

Potential considerations related to Social Security enrollment include, but are not limited to:

- Once a public employer enrolls in Social Security, it must continue participation and make payments regardless of its budgetary situation.
- Social Security credits are portable.
- Enrollment could adversely impact older public employees who might not earn enough credits for Social Security benefits by the time they retire. This could be avoided if an employer chooses to enroll using the division method, allowing current older employees to choose whether to participate based on their individual needs.

Employers interested in obtaining additional information about enrolling in Social Security should contact their state Social Security administrator. Employers should also consult with legal and financial advisors to determine whether enrolling in Social Security is appropriate for their agency.

Retiree healthcare

Retirement security depends on both the retiree's income sources and consumption needs. As many public employees plan for reduced defined benefits in retirement, they also have to plan for certain increasing needs, including rising healthcare costs. Personal healthcare related expenses increase with age throughout life, but after the age of 50 expenses increase exponentially.[12] As a result, retiree health benefits are an important factor for many employees when making retirement decisions and some employees may delay retirement until eligible for Medicare because they may be unable to afford post-retirement healthcare costs.

While Medicare covers a significant portion of healthcare costs for retirees age 65 and older, it does not cover costs such as premiums and long-term care services resulting in significant out-of-pocket expenses for retirees. A couple without employer-sponsored retiree health benefits retiring in 2014 will need an estimated $220,000 (in 2014 dollars) to cover healthcare costs in retirement.[13]

Public employees who worry about rising healthcare costs often look to their employers for solutions and assistance.[14] As an attraction and retention strategy, public employers may consider contributing towards retiree health benefits or long-term care coverage, offer health care savings accounts, or offer life insurance as a way to provide their employees with additional retirement security.

Public employers that offer retiree healthcare may increase their other post-employment benefits (OPEB) liabilities, but may be able to reduce costs by pre-funding this benefit. California public employers may consider participating in CalPERS' California Employers' Retiree Benefit Trust[15] or similar investment vehicles to pre-fund OPEB costs such as retiree healthcare.

Employers should consult legal and financial advisors to determine how offering these benefits would impact the agency, as well as to discuss any legal requirements or restrictions before making a decision to offer these benefits.

Student loan payment assistance

Rising education costs and student debt have the potential to drive recent college graduates and professionals away from the public sector and toward higher paying private sector jobs. In 1990, about 30 percent of students used student loans to pay for their education, compared to about 50 percent in 2014. In 2004, the average student loan amount was $24,000. By 2012, that amount increased to $30,000.[16]

Many borrowers carry student loans into retirement. The student loan debt for Americans age 65 and older grew from about $2.8 billion in 2005 to about $18 billion in 2013, and educational debt among seniors is eroding retirement security for many Americans. Borrowers age 65 and older hold defaulted federal student loan debt at a much higher rate than younger borrowers.[17]

Public employers may have the ability to use student loan repayment assistance as a tool to attract recent graduates and retain well-educated and qualified individuals in the public sector. Public employers may be able to use student loan repayment programs to support retirement security by helping employees reduce debt, allowing them to save for retirement.

As an example, federal laws allow federal agencies to repay, at their discretion, their employees' student loans as a means to attract and retain talent. Federal agencies indicate that the student loan repayment program has a strong effect on attracting and retaining talent.[18]

Other federal laws provide some advantages for graduating students who choose to work in the public sector, including state and local governments. These laws allow borrowers working in the public sector to pay 10 percent of their income toward their student loans, and after working 10 years in the public sector their student loans are eligible for forgiveness.[19, 20]

Public employers interested in offering this benefit should consult with legal advisors to determine whether this option is available to them. In addition, employers may want to consider whether to use the program as a broad-based attraction and retention tool, or use it on a case-by-case basis for only highly qualified and skilled employees.

Signing and retention bonuses

Immediate financial concerns preoccupy many Americans more than the future prospect of retirement security.[21] Monetary incentives, such as signing and retention bonuses, may provide an opportunity for public employers to attract and retain talent while also helping their employees increase their retirement savings.

Signing and retention bonuses may help attract highly specialized staff and incentivize employees to stay with the organization. Signing bonuses are one-time, flexible expenses that are adjustable to the needs of the organization. Retention bonuses can be one-time or recurring expenses, but often start after an initial period and can repeat or increase over time. Retention bonuses may be especially useful for highly skilled and technical occupations where the labor market is competitive. Subject to applicable contribution limits, public employers that sponsor a DC plan may be able to offer employees the option to defer any monetary bonus to their DC plan. This creates an opportunity to increase retirement savings and may demonstrate the employers' long-term commitment to their employees' retirement security.

Employers interested in offering this benefit should consult with legal advisors to determine whether this option is available to them. Employers may also want to consider evaluating their attraction and retention needs to determine whether to use the program as a broad-based attraction and retention tool, or use it on a case-by-case basis.

Conclusion

PEPRA's reduced benefits for new members may impact California public employers' ability to attract and retain talented and career-minded employees. This issue may become increasingly important to public employers, as nearly 43 percent of the public sector workforce is nearing retirement and employers will need to replenish their workforce. In light of these concerns, some public employers have begun considering additional options to attract and retain a quality workforce.

The implementation of these strategies may require additional employer financial resources. Public employers implementing new attraction and retention strategies may want to consider developing metrics to measure the effectiveness of each strategy to help them determine whether the implemented strategies continue to meet their needs.

This paper is not meant to be an exhaustive list of the attraction and retention options available to public employers, nor is it intended to be a recommendation of any of the options discussed. Each employer should consider its own needs and any legal restrictions or requirements before making any decisions about whether to implement any of the strategies discussed in this paper.

Endnotes

1 A "new member" is an employee who first becomes a member of any public retirement system on or after January 1, 2013 and (1) was not a member of any other public retirement system prior to that date; (2) was previously a member of another public retirement system not subject to reciprocity with the new system; or (3) began employment with a new employer in the same retirement system after a break in service of more than six months. The six-month condition does not apply to employees who move from one State agency to another, or from one school employer to another. For purposes of this paper, "classic member" means any employee who does not meet the statutory definition of "new member." California Public Employees' Pension Reform Act of 2013 (PEPRA) § 7522.04(f).

2 California. California Public Employees' Retirement System (CalPERS). *The Emerging Role of Defined Contribution Plans for California Public Employees*. CalPERS, April 2014. Web. 5 June 2015.

3 Little Hoover Commission. *From Hiring to Retiring: Strategies for Modernizing State Human Resources*. Little Hoover Commission, February 2014. Web. 10 May 2015.

4 Towers Watson. *Retirement Attitudes, Part III: Attraction and Retention*. Towers Watson, 2010. Web. 6 April 2015.

5 Munnell, Alicia H., Jean-Pierre Aubry, and Geoffrey Sanzenbacher. *Do Public Pensions Help Recruit and Retain High-Quality Workers?* Center for Retirement Research at Boston College, October 2014. Web. 13 August 2015.

6 Cal. Gov. Code § 7522.10(g) and 7522.42(c)

7 California. CalPERS. *CalPERS Supplemental Income 457 Plan.* CalPERS, n.d. Web. 13 March 2015.

8 Unites States. White House Council of Economic Advisors (WHCEA). *The Effects of Conflicted Investment Advice on Retirement Savings.* WHCEA, February 2015. Web. 01 March 2015.

9 Beshears, John, James J. Choi, David Laibson, and Brigitte C. Madrian. "The Importance of Default Options for Retirement Savings Outcomes: Evidence from the United States." *Social Security Policy in a Changing Environment.* National Bureau of Economic Research, June 2009. Web. 10 August 2015.

10 CalPERS. my|CalPERS, September 2015.

11 Maximum Taxable Earning in 2015 is $118,500. United States. Social Security Administration (SSA). *Fact Sheet.* SSA, n.d. Web. 16 August 2015.

12 Alemayehu, Berhanu and Kenneth E. Warner. "The Lifetime Distribution of Health Care Costs." *Health Services Research Journal.* Vol. 39.3. Health Research and Educational Trust, June 2004. Web. 03 December 2014.

[13] Fidelity. "How to Tame Retiree Health Care Costs." *Fidelity View Points.* Fidelity, June 2014. Web. 7 November 2014.

[14] Gardner, Jonathan and Steve Nyce. *Attracting and Keeping Employees: The Strategic Value of Employee Benefits, Results from Tower Watson's 2013/2014 Global Benefit Attitudes Survey.* Towers Watson, May 2014. Web. 11 June 2014.

[15] California. CalPERS. *California Employers' Benefit Trust Fund (CERBT).* CalPERS, n.d. Web. 12 June 2014.

[16] United States. WHCEA. *15 Economic Facts About Millennials.* WHCEA, October 2014. Web. 10 November 2014.

[17] United States. Government Accountability Office (GAO). *Older Americans: Inability to Repay Student Loans May Affect Financial Security of a Small Percentage of Retirees.* GAO, September 2014. Web. 12 October 2014.

[18] United States. GAO. *Federal Student Loan Repayment Program, OPM Could Build on Its Efforts to Help Agencies Administer the Program and Measure Results.* GAO, July 2005. Web. 12 June 2014.

[19] College Cost Reduction and Access Act. Pub. L. 110-84. Sec. 401. GPO, September 2007. Web. 12 June 2015.

[20] Health Care and Education Reconciliation Act of 2010. Pub. L. 111-152. Sec. 2213. GPO, March 2010. Web. 12 June 2014.

[21] Helman, Ruth, et al. "The 2015 Retirement Confidence Survey: Having a Retirement Savings Plan a Key Factor in Americans' Retirement Confidence." *Employee Benefit Research Institute (EBRI) Issue Brief.* No. 413. EBRI, April 2015. Web. 8 September 2015.

Lead Researcher

Gentian Droboniku

Contributors

Kelli Aoki
Stacie Walker
Valerie Wong

Acknowledgements

The authors would like to thank Jeanie Esajian, Ken Hall, Irene Ho, Michael Latino, and Sandra Varela for valuable advice and assistance.

Printed at CalPERS