

Retirement and Benefits: Where From Here?

By Valerie Martin Conley

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Today's complex retirement and benefits landscape is characterized by irreversible shifts in program plan design and pension reform. A return to generous pre-recession benefits levels is unlikely for most, even if the economy rebounds completely from the Great Recession. Cost is a primary driver; retirement and health care are the most expensive benefits. It is difficult to generalize about the priority given to these benefits in the states and at higher education institutions. Planning and allocation decision makers may consider retirement and health care together, or see these benefits as trade-offs with other competing state and institutional priorities. They are sometimes even pitted against one another for funding.

An aging population—projected to be twice as large in 2030 as in 2000—also weighs against a return to pre-recession benefits levels. These projections, consistent over the past decade, incorporate increased life expectancies and labor policies encouraging working longer.

Planners understand that one size does not fit all when it comes to retirement and benefits for higher education employees. Dependence

on retiree health care is intertwined with Social Security and Medicare benefits that also vary by state. Pitted against a desire for equity are tensions related to the productivity of older workers, the need to individualize buy-outs and phased retirement options, and the growing acceptance of encore careers. These pulls make it difficult to develop equitable, though flexible policies.

At the same time, a hiring shift from full-time tenured or tenure-track faculty appointments, with commensurate benefits, to part-time faculty, with minimal or no benefits, is stimulating renewed activism. So is the push by the Trump administration and a Republican Congress to repeal and replace the Affordable Care Act. The time is right for collective bargaining to spotlight the importance of benefits, especially retirement and healthcare, to all higher education employees.

Previous *NEA Higher Education Almanacs* provided members and leaders with up-to-date information and analyses about the status of benefits and retirement policies. This chapter includes updated data on employer costs for employee compensation for state and local

government workers, by industry group. It then summarizes recent benefits reforms for continuing higher education employees and new hires. This section highlights the importance of legal protections. Finally, the need to align retirement planning and participant confidence with fiscal realities requires leaders who can answer the question: “Where from here?”

EMPLOYER COSTS FOR EMPLOYEE COMPENSATION

The Bureau of Labor Statistics collects detailed information about civilian nonfarm private industry, and state and local government employers and workers. The Employer Costs for Employee Compensation (ECEC) measures the average cost to employers for compensation per employee hour worked. ECEC provides summary data on three major groups of state and local government workers: 1) management, professional, and related occupations, including teachers; 2) sales and office occupations, including clerical workers; and 3) service occupations, including police and firefighters. Professional and administrative support occupations (including teachers) account for two-thirds of the state and local government workforce, but only one-half of private industry.

Compensation includes two elements: wages and salaries, and benefits. ECEC for all workers averaged \$34.15 in September 2016. But total compensation for state and local government workers averaged \$45.93 per hour, including \$29.06 in wages and salaries, and \$16.87 in benefits (Table 1). These amounts reflect an approximately \$0.60 increase from 2015. Public sector college and university employees averaged \$53.05 per hour worked, including \$35.49 for salaries and wages, and \$17.56 for benefits. ECEC for employees in education and health services averaged \$48.00 per hour, including \$31.57 in wages and salaries, and \$16.44 in benefits (Table 1).

Figure 1 shows the costs of total benefits as a percentage of total compensation for state and local government workers, by selected industry

groups, over the last decade. Benefits as a percentage of total compensation for state and local government workers increased from 31 percent to 37 percent between 2004 and September 2016, including a one percent increase between 2015 and 2016.

Public administration workers showed the highest percentage of total compensation attributable to benefits among state and local government workers (41 percent). But total employer costs for public administration employees (\$43.84 per hour) were lower than for education and health services employees (Table 1).

Within education and health services, ECEC varied considerably, but employers’ hourly costs were usually higher for educational services (total compensation = \$49.27) than for health care and social assistance (\$40.08), and for hospital workers (\$42.52). Employer costs for junior college, college, and university employees averaged \$53.05 per hour worked in September 2016. Wages and salaries averaged \$35.49 and benefits averaged \$17.56 (Table 1).

Table 1 also shows that costs by type of benefit vary by industry group. Supplemental pay costs, for example, are lower for educational services employees than for health care and social assistance or public administration workers. Employer costs for supplemental pay in September 2016 averaged \$0.18 per hour worked for educational services employees, \$0.64 per hour worked for health care and social assistance workers, and \$0.61 for workers employees in state and local government public administration.

Insurance costs averaged \$5.55 per hour for state and local government employees. The educational services industry group was represented at the high and low end of the range. Employer-paid insurance costs ranged from \$5.18 per hour for employees in junior colleges, colleges, and universities to \$5.96 per hour for elementary and secondary school workers. Employer costs for retirement and savings ranged from \$3.21 per hour for health care and social assistance workers to \$5.30 per hour for elementary and secondary workers, and \$5.17

Table 1. Employer Costs Per Hour Worked for Employee Compensation: State and Local Government Workers, by Industry Group, September 2016

	Benefit Costs							
	Total Compensation	Salaries and Wages	Total Benefits	Paid Leave	Supplemental Pay	Insurance	Retirement and Savings	Legally Required Benefits
	Cost Per Hour Worked							
State and Local Government Workers	\$45.93	\$29.06	\$16.87	\$3.28	\$0.38	\$5.55	\$4.98	\$2.67
Industry Group								
Education and Health Services	48.00	31.57	16.44	2.89	0.25	5.73	4.98	2.58
Educational Services	49.27	32.68	16.59	2.77	0.18	5.80	5.26	2.58
Elementary and Secondary Schools	48.22	31.91	16.31	2.42	0.19	5.96	5.30	2.45
Junior Colleges, Colleges, and Universities	53.05	35.49	17.56	4.03	0.15	5.18	5.17	3.03
Health Care and Social Assistance	40.08	24.61	15.47	3.65	0.64	5.35	3.21	2.62
Hospitals	42.52	26.26	16.26	3.90	0.79	5.68	3.23	2.66
Public Administration	43.84	25.79	18.05	4.02	0.61	5.41	5.22	2.80

Source: U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation, September 2016*. BLS News Release, USDL-16-2255, Table 4.

per hour for public sector college and university employees.

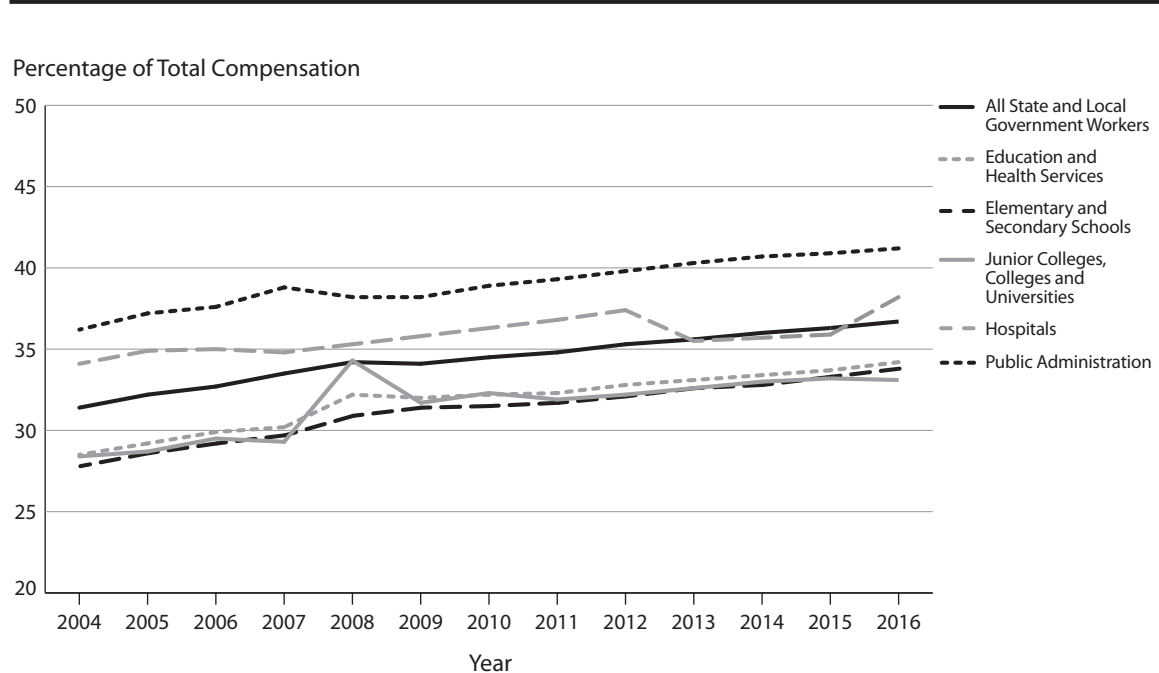
Costs of total benefits as a percentage of total compensation varied by industry group. Figure 1 shows trend lines for major groups of state and local government workers: public administration, education and health services, elementary and secondary schools, junior colleges, colleges, universities, and hospitals. Benefits account for one-third or more of total compensation for state and local government workers across the industry groups. Benefits accounted for one-third of total compensation for public sector college and university employees, and 34 percent of total employer compensation for education and health services employees. These proportions are less than the 37 percent of compensation costs for all state and local government workers and the 38 percent of compensation costs for state and local government workers employed in hospitals in September 2016 (Figure 1).

Figure 2 shows the *distribution of benefits costs* as a percentage of total benefits for state and local government workers in September 2016. Not

surprisingly, insurance, and retirement and savings accounted for the largest proportions of employer's total benefit costs—each accounting for approximately one-third of costs. A closer examination reveals variations by industry group. For example, the percentage of employer total costs for insurance averaged between 29 percent (junior colleges, colleges, and universities) and 37 percent (workers in elementary and secondary schools). Employer costs for retirement and savings ranged between 20 percent (hospital workers) and 32 percent (workers in elementary and secondary schools).

Figure 3 shows the amount of change in employer costs for salaries and wages, and for total benefits, by industry group between September 2015 and September 2016. Employer costs for total compensation for state and local government workers increased \$1.27 during this period with the costs for salaries and wages (\$0.61) and for total benefits (\$0.66) evenly distributed. By contrast, employer costs for total compensation in the educational services industry increased \$1.75 in the same period

Figure 1. State and Local Government Workers, by Industry Group: Total Benefits Costs as a Percentage of Total Compensation, 2004–16



Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, *Employer Costs for Employee Compensation Historical Listing, March 2004–September 2016, Quarter 3–September*, Tables 5 and 8.

Note: Excludes federal employees.

(salaries and wages = \$0.98; total benefits = \$0.66). Employer costs for employee benefits represented 44 percent of the total increase.

ECEC for state and local government health care and social assistance workers declined by \$1.70 between September 2015 and September 2016 (salaries and wages = -\$1.84; total benefits = +\$0.14). Employer costs decreased for salaries and wages and total benefits for hospital workers. Two-thirds of the total increase for public sector college and university employees between September 2015 and September 2016 went to salaries and wages (\$1.35); one-third went to benefits (\$0.61).

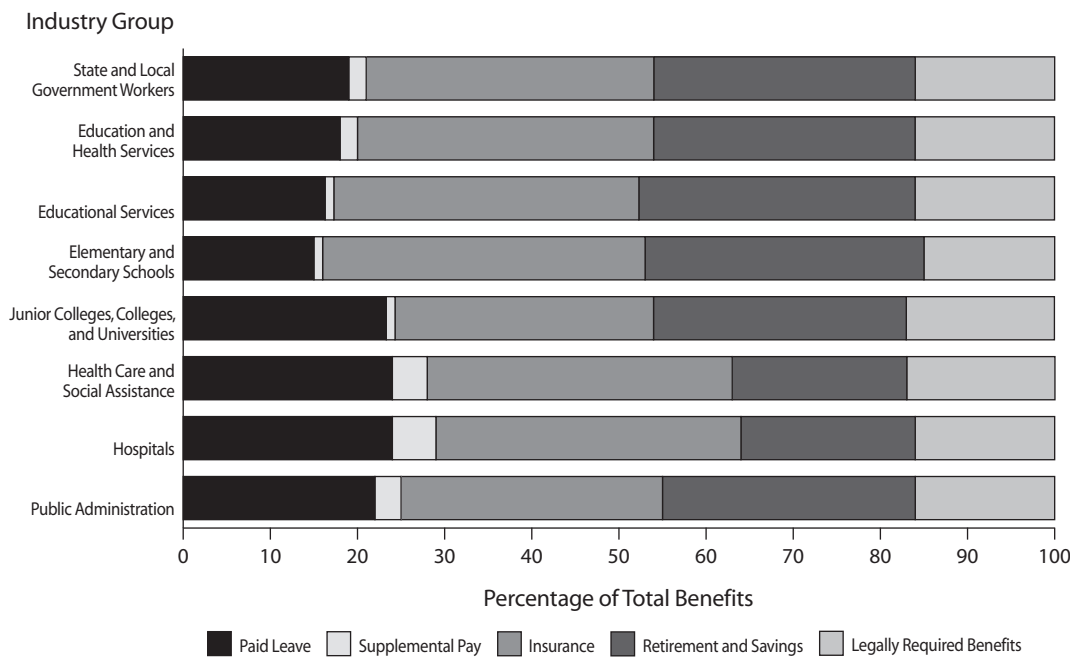
Public sector college and university employer costs for benefits increased between September 2004 and September 2016. Insurance costs increased from eight percent to ten percent, and retirement and savings costs increased from seven percent to ten percent of total ECEC (Figure 4).

The portion of employer compensation costs attributable to retirement and savings increased for all state and local government workers, though the rate of the increase varies by industry group (Figure 5). For example, the increase for state and local government hospital workers increased from five percent to eight percent between 2004 and 2016, while the increase for workers in elementary and secondary schools was five percent (5.7 percent in 2004 and 11.0 percent in 2016). These increases suggest efforts to reform state and local pensions will continue. The next section summarizes benefits reforms in higher education since the Great Recession.

STATE AND LOCAL PENSIONS

The majority of state and large local plans have reduced retirement benefits since the Great Recession.¹ Nearly three-quarters of state plans (74 percent) and more than half of large local

Figure 2. State and Local Government Workers, by Industry Group: Distribution of Benefits Costs as a Percentage of Total Benefits, 2016



Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation, September 2016*, BLS News Release, USDL-16-2255, Table 4.

Note: Excludes federal employees.

plans (57 percent) cut benefits or increased employee contributions between 2009 and 2014. The majority of plans cut benefits only for new hires, but about one-quarter of plans cut benefits for current employees as well. Cuts were *not* uniform. States with the strongest legal protections for current employees were more likely to initiate smaller cuts for new hires, though no state protects the benefits of new employees. Figure 6 shows the percentage of states that changed benefits for new hires and continuing employees, by type of change.

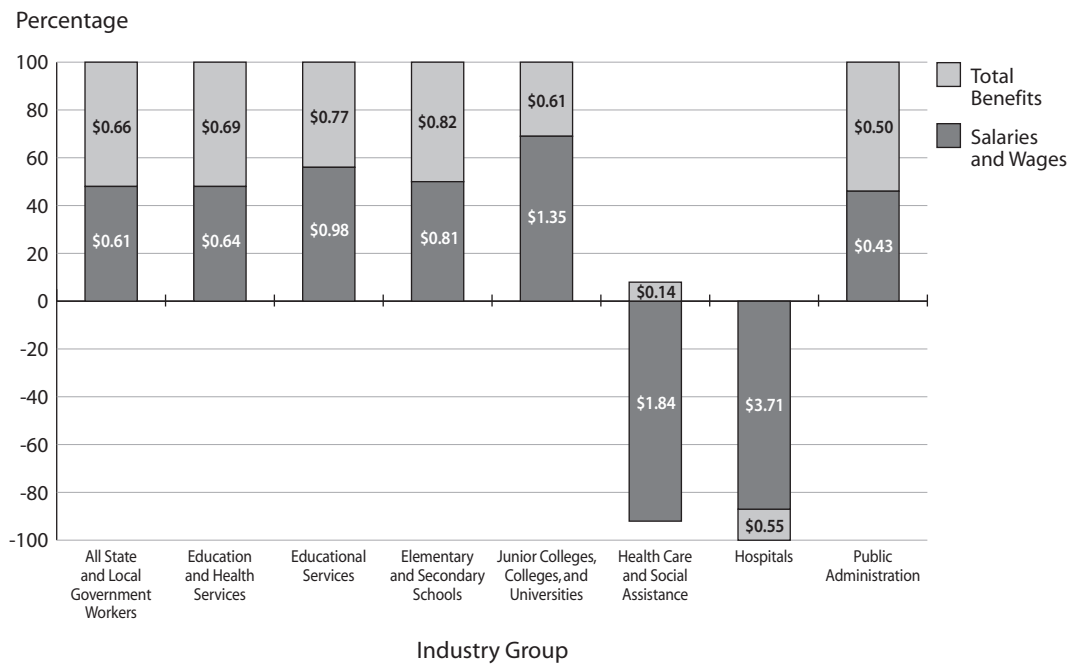
Among the hardest hit retirement benefits for continuing employees: the amount of pension contributions, and reductions to the Cost of Living Adjustment (COLA). Many states do not view COLA as a “core” benefit, so these adjustments have less legal protection than the benefit factor, the final average salary period,

or retirement age or tenure provisions. Nine percent of state plans cut COLAs for current employees, and 26 percent reduced or eliminated COLAs for new hires (Figure 6). Fewer than ten percent of state plans made other changes to retirement benefits affecting continuing employees.

The most prevalent changes for new hires included increasing the age and tenure required for full benefit eligibility (60 percent of state plans), reducing the benefit factor (30 percent), extending the period used to calculate final average salary (42 percent)—from the last three years to the last five years, for example—increasing the required employee contribution (33 percent), and changing the COLA (26 percent) (Figure 6).

Substantial variance in funding levels limits the effectiveness of changing benefits to contain

Figure 3. Ratio of Change in Salaries and Wages to Total Benefits: State and Local Government Workers, by Industry Group, September 2015 to September 2016



Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics, *Employer Costs for Employee Compensation*, BLS News Release, USDL-15-2329, Table 4 and USDL-16-2255, Table 4.

Note: Excludes federal employees.

costs. Employers and employees share responsibility for keeping pension plans funded. A recent survey estimates that \$0.21 of every dollar of public pension receipts comes from employer contributions, \$0.11 comes from employee contributions, and \$0.68 comes from investment earnings. Failure to contribute the dollars needed to generate the return on investment to keep a pension plan funded, concludes the survey, is like “putting the pension plan obligations on a credit card.”²

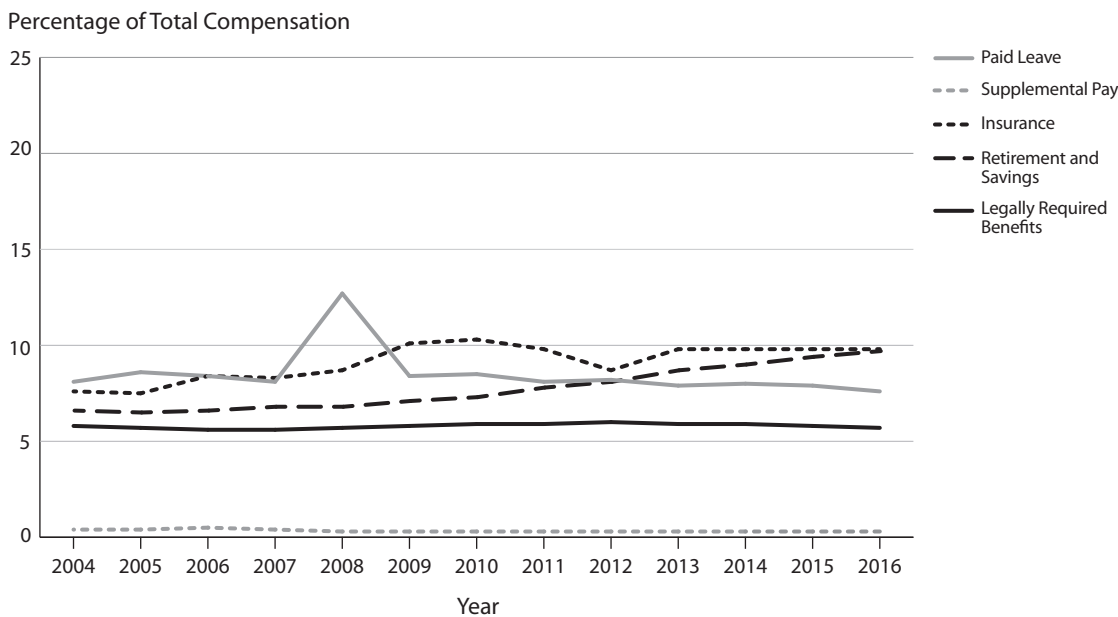
A comprehensive report lauds the economic efficiencies of defined benefit plans.³ A group pension, claims the report, can achieve a target retirement benefit at about half the cost of individual, defined contribution accounts. Group pension plans achieve better investment returns by pooling and professionally managing their assets.

Which states and cities have been responsible (and irresponsible) in funding public plans? One comprehensive database contains detailed information about state and local pensions, and retiree health plans.⁴ Figure 7 shows the distribution of funded ratios for the 150 public plans in the database for FY2014. “Although many of the poorly funded plans are relatively small, several large plans, such as those in Illinois and Connecticut, had funded levels below 50 percent.”⁵

Connecticut’s State Employees Retirement System and its Teachers’ Retirement System also face rising pension costs. A recent report recommended four adjustments to the current funding plan to address budget shortfalls:

1. Separately finance—over a long time horizon—the liabilities associated with members hired prior to the pre-funding.

Figure 4. State and Local Government Workers in Junior Colleges, Colleges, and Universities: Benefits by Type as a Percentage of Total Compensation, 2004–16



Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey: *Employer Costs for Employee Compensation Historical Listing, March 2004–September 2016, Quarter 3–September*, Table 8.

Note: Excludes federal employees.

2. Shift to level-dollar amortization of unfunded liabilities.
3. Replace the current 2032 full-funding date with a reasonable rolling amortization period, and
4. Lower the long-term assumed investment return.⁶

The first strategy addresses the costs associated with years of unfunded benefits. The other three strategies prevent future funding shortfalls.

RETIREMENT PLANNING AND CONFIDENCE

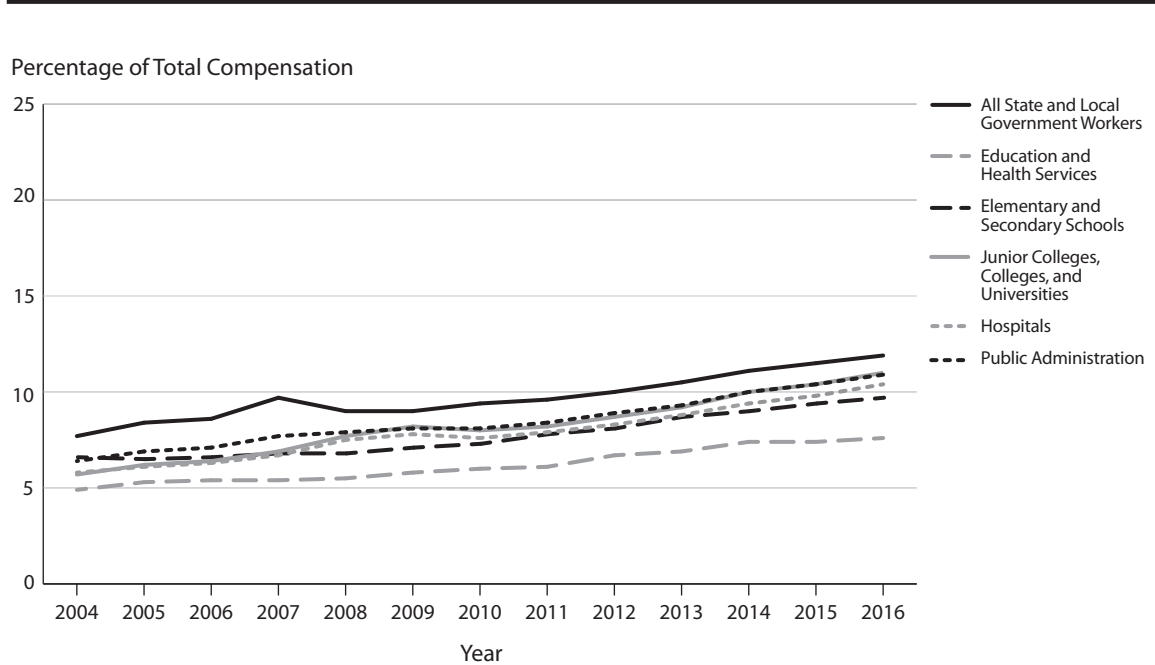
Results from a 2016 survey show retirement planning and confidence remain high for state and local government employees (Figure 7). Nineteen percent of surveyed state and local government workers reported being “very confident” they would have enough money to live comfortably throughout retirement; a decline

from 21 percent in 2012. Another 57 percent reported being “somewhat confident.” The percentage of state and local government employees reporting “not at all confident” declined from ten percent in 2012 to four percent in 2016.

The majority of state and local government employees answered “somewhat confident” when asked if they would have enough money to live comfortably in retirement in each of three surveys conducted in 2012, 2014, and 2016. When asked about their confidence in having enough money to cover medical expenses during retirement, respondents offered similar answers: 17 percent answered “very confident;” only five percent answered “not at all confident.”⁷

Higher percentages of state and local government workers expressed concern they would outlive savings. Only 16 percent were “very confident” they will not outlive their savings; 53 percent answered “somewhat confident,” and

Figure 5. State and Local Government Workers, by Industry Group: Retirement and Savings as a Percentage of Total Compensation, 2004–16



Source: Derived from U.S. Department of Labor, Bureau of Labor Statistics, *National Compensation Survey: Employer Costs for Employee Compensation Historical Listing, March 2004–September 2016, Quarter 3–September*, Tables 5 and 8.

Note: Excludes federal employees.

31 percent said they were “not too/not at all confident.” Responses varied by age group with the youngest state and local government employees expressing the least confidence (Figure 8).

Respondents answering “very or somewhat confident” in retirement income prospects cited possession of an adequate pension (60 percent). Reasons cited for lacking confidence in retirement income prospects included: not saving enough (45 percent), worry about retirement health care expenses (29 percent), inadequacy of Social Security (28 percent), and actual and potential changes in retirement benefits (11 percent).⁸ Financial planning increases awareness of the amount of wealth needed to live comfortably throughout retirement.

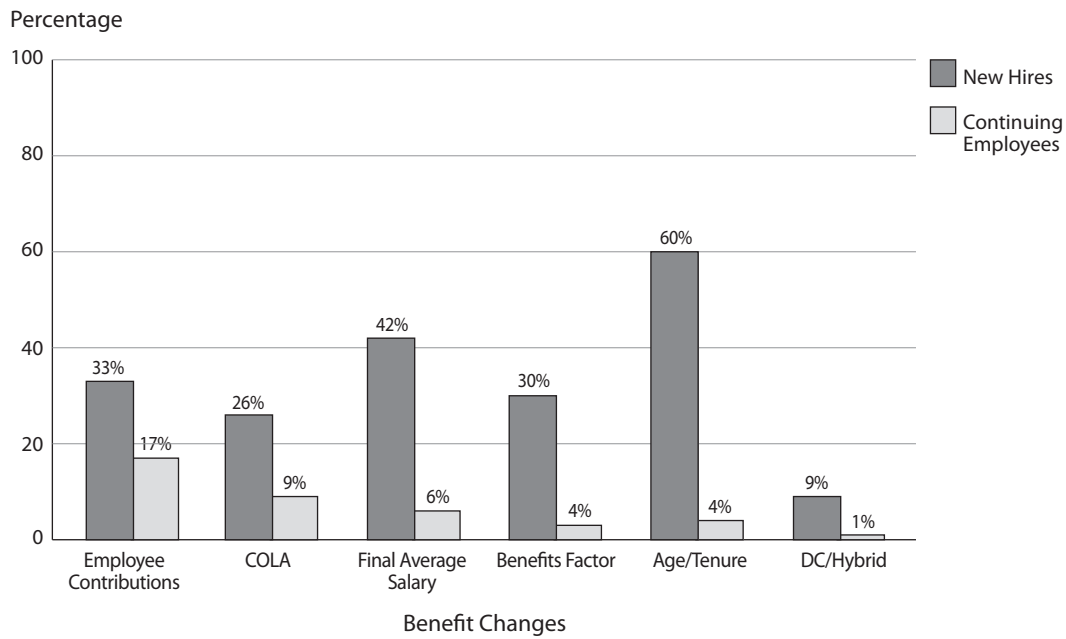
WHERE TO GO FROM HERE?

This chapter updated trends in employer costs for employee compensation; public pension plans

data, and retirement planning and confidence. Employer costs for insurance and for retirement and savings continue to rise as a percentage of total compensation. Retirement planning and confidence remain high for state and local government employees, especially those having a large retirement account.

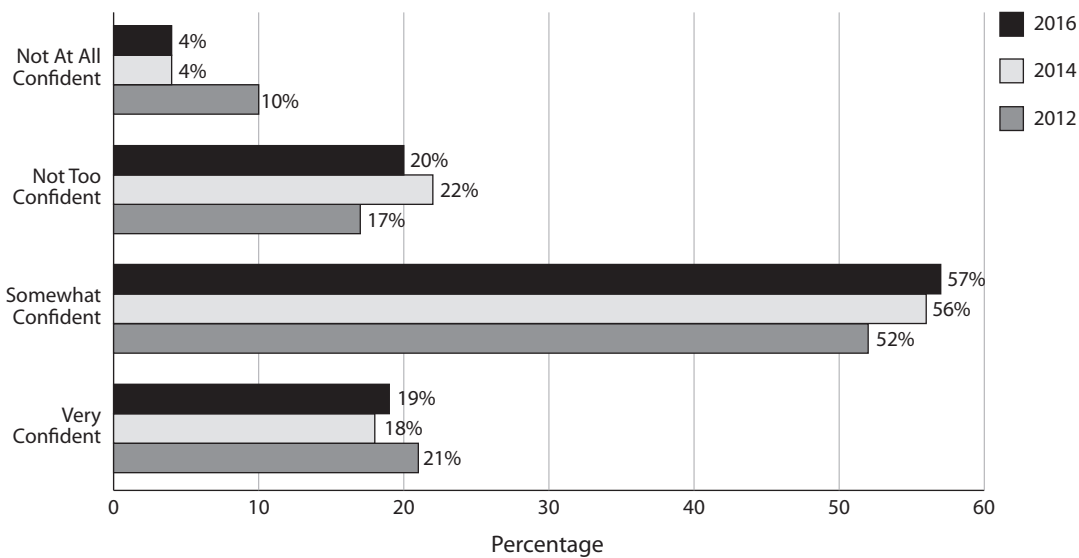
One size does not fit all when it comes to retirement and benefits for higher education employees—especially among tenured faculty. New findings suggest relatively generous pensions help reduce the “quality gap,” making it easier for state and local employers to recruit and retain high-earning workers from the private sector. The effect is similar regardless of whether employer or employee contributions finance the benefits, but the study urges caution when states contemplate cuts to their pension benefits or shifts of costs onto employees.

Figure 6: Percentage of State Plans Making Retirement Benefit Changes for New Hires and Continuing Employees, by Type of Change, 2009–14



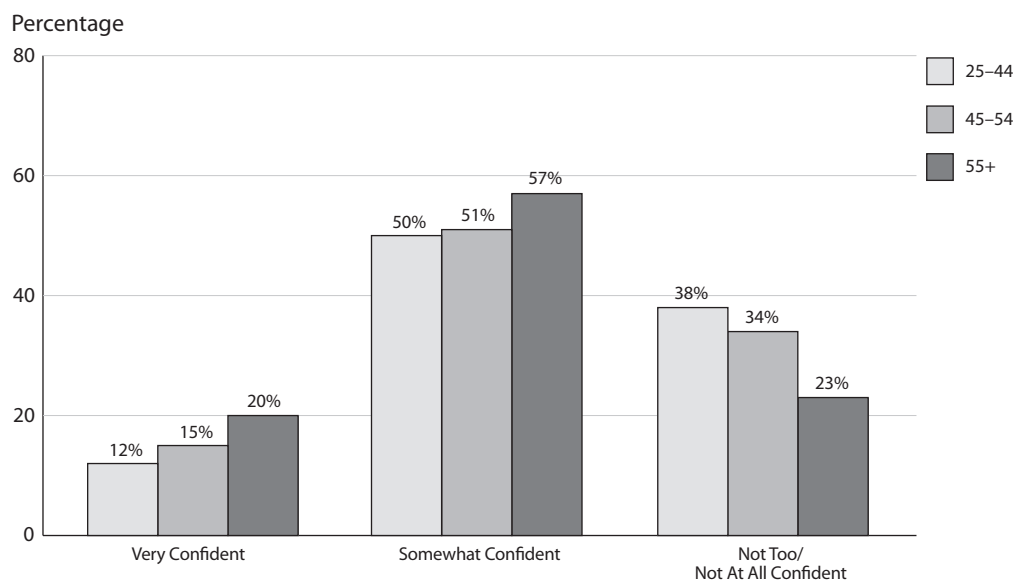
Source: Center for Retirement Research, Boston College. *State and Local Pension Reform Since the Financial Crisis*.

Figure 7. Percent of State and Local Government Employees by Overall Retirement Income Confidence, 2012–16



Source: Derived from TIAA-CREF Institute, *2016 Retirement Confidence Survey of the State and Local Government Workforce*.

Figure 8. Percentage of State and Local Government Employees Expressing Confidence that They Will Not Outlive Savings, by Age Group



Source: Derived from TIAA-CREF Institute, *2016 Retirement Confidence Survey of the State and Local Government Workforce*.

The time is right for a call for leadership. Collective bargaining can and should lead the way forward in negotiations that emphasize the importance of benefits, especially retirement and healthcare, to higher education employees.

NOTES

- ¹ Munnell and Aubrey, 2015.
- ² National Retired Teacher's Association, n.d., 2.
- ³ Almeida and Fornia, 2008.
- ⁴ The Center for Retirement Research at Boston College, in partnership with the Center for State and Local Government Excellence and the National Association of State Retirement Administrators, compiles the database, entitled Public Plans Data (PPD).
- ⁵ Munnell and Aubrey 2015, 4.
- ⁶ Aubrey and Munnell, 2015.
- ⁷ Yakoboski and Franzel, 2016, 17.
- ⁸ Ibid, 18.

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