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Reductions in the Generosity of State and Local Employee Pensions: Comparison of Plans with and without Social Security Coverage

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Key Findings and Policy Implications

This paper documents the history of state and local pension plans over the past 20 years and their generally decreasing generosity over time. The study is based on a survey of 85 state-managed plans that cover state, municipal and county workers, and teachers. It finds that:

- Since 2000, virtually all public plans have become less generous. Policy reforms have reduced the benefit multiplier, increased the number of years in the final average salary calculation, raised the normal retirement age, reduced benefits more steeply for those retiring before the normal retirement age, capped cost-of-living adjustments, required higher employee-paid contributions, or replaced the plans with defined contribution or hybrid plans.

- Of the 67 plans that retained a defined-benefit framework, 45 plans amended the formula in a way that reduced initial retirement benefits, 20 had no change in the formula, and two increased benefits. For retirees with 30 years of service, initial retirement benefits have declined by an average of 15 percent since 2020. Fourteen of the plans reduced initial benefits by at least 30 percent, seven plans by at least 40 percent, four plans by at least 50 percent, and one plan by more than 60 percent. These reductions are magnified further, if one accounts for the elimination or reduction in cost-of-living adjustments adopted in some plans.

- The average benefit reduction in the 23 teacher-only plans was smaller than in the 44 other plans in our study. In addition, the average benefit reduction in the 52 plans that supplement Social Security was smaller than the decline in plans that substitute for Social Security. Also, more deeply underfunded plans had benefit declines that were about twice the size of plans with a healthier funding ratio.

The trend toward less generous pensions has been driven in part by the rising fiscal burden they impose on state and local governments. This is reflected in part in the sharper cuts made to more deeply underfunded plans. This study surveys the plan changes made, and their resulting impact on retiring public employees.

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