

The Structure of State and Local Government Retirement Benefits, 2008

by William J. Wiatrowski
Bureau of Labor Statistics

Originally Posted: February 25, 2009

New data from the National Compensation Survey show that 92 percent of government workers have access to one or more types of retirement benefits; 84 percent have access to a traditional defined benefit plan, and two-thirds of those with any retirement benefits have access to more than one plan.

The transition from retirement plans that provide a guaranteed stream of income for life--defined benefit plans--to those that put the risk on employees to contribute, invest prudently, and produce a sufficient account balance for retirement--defined contribution plans--has been well-documented among private companies.¹ Less has been written about the retirement benefits of State and local government workers. New data from the [National Compensation Survey \(NCS\)](#) reveal that these workers are more likely to be part of plans that offer guaranteed retirement income than their private-sector counterparts and more often have multiple plans available to them. The structure of their retirement income benefits further diverge from those offered in private industry in a number of ways, including contribution requirements and plan design.

The [Bureau of Labor Statistics \(BLS\)](#) has been publishing data on State and local government worker benefits periodically since 1987. The publication of results from the 2007 and 2008 surveys marks the first release of these data since 1998. The data reveal some changes in government retirement benefits over the period from 1987 to 2008. Perhaps more importantly, expanded data now available from the 2008 survey reveal more details about the *structure* of these retirement benefits.²

State and local governments are not subject to the same regulations on retirement benefits that are imposed on private sector benefits by the Employee Retirement Income Security Act of 1974 (ERISA). In the past, State defined benefit plans were often operated on a "pay as you go" basis, meaning that specific funds were not set aside to ensure that future benefits could be paid. More recently, States have instituted their own retirement plan regulations, and many States now have provisions for funding their pension liabilities.³

Another difference in retirement benefits between government and private workers is the availability of Social Security. In the past, many governments opted out of Social Security, providing instead a generous pension plan designed to match the benefits that private workers might get from both Social Security and a pension. Following Social Security reforms in the 1980s and 1990s, however, governments could no longer opt out of Social Security and new government workers typically had Social Security coverage. According to Social Security Administration estimates, about 70 percent of State and local government workers are currently covered by Social Security.⁴ Even with this expanded Social Security coverage among government workers, the structure of retirement benefits coming directly from public employers differs considerably from that of private employers.

2008 Survey Results

BLS data on State and local government employees show that 84 percent of workers in 2008 had a defined benefit plan available to them; in contrast, 22 percent of private industry workers had such a plan available to them in the same year. Conversely, 30 percent of government workers had a defined contribution plan available, while such plans were available to 62 percent of private industry workers. These results suggest that, beyond Social Security, the primary form of employer-provided retirement income benefit among the two groups stands in sharp contrast: defined benefit plans for government workers and defined contribution plans for private industry workers.⁵

Just as the structure of retirement plans differs between public and private sector workers, so too has the pace of change in retirement plans differed between the two sectors. From 1986 to 2008, participation in defined benefit plans among full-time workers in private industry declined from 76 percent to 24 percent. Over a similar period (1987--2008), State and local

government employee participation in defined benefit plans declined modestly--from 93 percent of full-time workers in 1987 to 88 percent of full-time workers in 2008.⁶

An interesting and growing phenomenon among government workers is the availability of defined contribution plans that allow employees to defer taxes on their contributions but do not provide any employer contributions. Technically, these plans are defined contribution plans, but because they do not include employer funds, the NCS distinguishes these plans from more traditional defined contribution plans. These employee-contribution-only plans are available to certain government workers based on their employment. Employers process payroll deductions and forward funds to an investment company, but these plans are often administered by the investment company independent of the employer. Often employees have a choice of many companies to administer their plan and invest their contributions. This differs from traditional defined contribution plans with employer funds, which are typically administered by the employer.

BLS benefits surveys have tracked the availability of employee-contribution-only plans for many years, considering them a benefit to the employee because of the tax deferral that is only available due to the employment relationship. These plans exist in both the private and public sectors, but their availability has been low, especially in the private sector. In 2008, for example, only 17 percent of private industry workers had access to such a benefit. But this kind of benefit has become more common among government workers: in 1998, only 22 percent of full-time State and local government workers had access to such a benefit, but by 2008 that figure had climbed to 59 percent. These plans typically allow tax-deferred contributions under section 403(b) or 457 of the Internal Revenue Code, which are similar to 401(k) provisions, but are exclusively for certain government workers.⁷

The availability of employee-contribution-only plans is different for different groups of government workers. Workers in higher education are generally the most likely to have such plans available to them--69 percent of workers in junior colleges, colleges, and universities had access to such plans. One entity that administers such plans is the Teachers Insurance and Annuity Association of America and the College Retirement Equities Fund (TIAA-CREF), an independent organization that provides financial management services for educators and related workers.⁸ Participants work directly with TIAA-CREF and other organizations to determine amounts of contribution, investments, and retirement distributions, including lifetime annuities.

Because the availability of defined benefit plans is high among government workers, both traditional defined contribution plans and employee-contribution-only plans tend to be supplemental plans--that is, they are in addition to defined benefit plans and often, as noted earlier, in addition to Social Security as well. New tabulations from the 2008 NCS show that 67 percent of all those with access to retirement plans have multiple plans. Further, 70 percent of those with defined benefit plans have one or more additional plans, often an employee-contribution-only plan. Looking in more detail at those workers with access to a defined benefit plans, 87 percent of those employed by colleges and universities and 88 percent of those in State government have multiple plans. For those with only one plan, that was most often a defined benefit plan. It was rare for employees to have just a traditional defined contribution plan (3 percent of all workers) or just an employee-contribution-only plan (2 percent of all workers).

Table 1 and table 2 provide an overview of the types of plans available to State and local government workers. Table 1 indicates that 92 percent of all State and local government workers have access to at least one retirement plan. Most of these workers have a defined benefit plan, either with an employee-contribution-only plan (35 percent) or with no other plan (25 percent). Table 1 also shows the percent of workers with access to each type of retirement plan individually, without regard to the availability of other plans. Table 2 presents the same data on retirement plan access in a different way, as each type of plan is considered independently. These data confirm that most State and local government workers have access to more than one retirement plan, and they further confirm that access to a defined contribution plan by itself or an employee-contribution-only plan by itself is rare. Data from both tables demonstrate consistent patterns across many types of workers, with one exception being part-time workers, who tend to have less overall access to retirement plans. For example, 99 percent of full-time State and local government workers have access to a retirement plan, compared with 52 percent of part-time workers.

Employee Contributions

Although government workers have extensive retirement income benefits available to them, such benefits often require employee contributions. Only 4 percent of participants in private industry defined benefit plans were required to contribute toward the cost of the plan in 2008, compared with 77 percent of their State and local government counterparts. Historically, State and local government workers were not in the Social Security system, so the required contribution was thought to be similar to a private sector workers required contribution to Social Security.

Contribution provisions differ by type of plan. Defined benefit plans (for both private industry and State and local government workers) are often mandatory--workers are automatically plan participants as a term of their employment. For government workers with a required plan contribution, the average contribution is 6.3 percent of earnings. This is in addition to required contributions to Social Security, which are currently 6.2 percent of earnings up to an earnings maximum.

Most traditional defined contribution plans require an employee contribution as a condition to becoming a participant. In private industry, the majority of such plans are considered savings-and-thrift plans, which require an employee contribution that is matched by employer funds. Such plans exist among government workers as well, as do plans that are funded entirely by the employer.⁹ Finally, employee-contribution-only plans, by definition, require employee contributions.

Looking at the 92 percent of government workers with some type of retirement plan, 84 percent were in plans with an employee contribution. (See table 3.) Such contributions could be mandatory, such as those to a defined benefit plan (which averaged 6.3 percent of earnings in 2008). Alternatively, contributions could be voluntary--either to a traditional defined contribution plan or to an employee-contribution-only plan--and often range up to 10 or 15 percent of earnings (with a maximum dollar amount specified annually by the Internal Revenue Service). Given that many of these workers are also covered by Social Security, with its mandatory contribution of 6.2 percent of earnings, total employee retirement plan contributions could easily reach 20 percent or more of earnings.

Summary

New [NCS](#) data on State and local government benefits reveal a number of facts about retirement income benefits for its workers:

- The extent of benefits is broad: 92 percent have access to one or more benefits.
- Guaranteed defined benefit plans are prevalent: 84 percent of all workers have access to such plans.
- The extent of multiple plans is substantial--two-thirds of those with any retirement benefits have access to more than one plan--and more widespread than in private industry.
- Plans often involve either mandatory or voluntary employee contributions.

William J. Wiatrowski

Associate Commissioner, Office of Compensation and Working Conditions, Bureau of Labor Statistics.

Telephone: (202) 691-6300; E-mail: Wiatrowski.William@bls.gov.

Notes

¹ See, for example, Stephanie L. Costo, "[Trends in retirement plan coverage over the last decade](#)," *Monthly Labor Review*, February 2006, pp. 58–64.

² Benefits data are from the BLS surveys of benefits provided by employers. The first survey of State and local government workers, in 1987, was part of the BLS Employee Benefits Survey program; results may be found in *Employee Benefits in State and Local Governments, 1987*, Bulletin 2309 (Bureau of Labor Statistics, May 1988). More recent benefits data are part of the BLS [National Compensation Survey](#) program. Results from the 2008 survey may be found in [National Compensation Survey: Employee Benefits in the United States, March 2008](#), Bulletin 2715 (Bureau of Labor Statistics, September 2008).

³ For background information on State and local government retirement plans, see *State and Local Government Retiree Benefits*, Report 07-1156 (U.S. Government Accountability Office, September 2007).

⁴ *Ibid.*

5 Data from the Bureau of Labor Statistics study of employee benefits in private industry may be found in *National Compensation Survey: Employee Benefits in the United States, March 2008*, Bulletin 2715 (Bureau of Labor Statistics, September 2008). Data on the percent of workers with a benefit available to them are referred to by the survey as “access to a benefit.” Workers are counted as having access to a benefit regardless of whether they are currently covered by the plan.

6 Data from the 1987 survey of State and local governments are limited to full-time workers in government units with 50 or more workers and exclude State and local government in Alaska and Hawaii. Data for 2007 include all workers and government units of all sizes in all States, with break-outs for full-time and part-time workers, and other groupings. Similarly, data from the 1986 survey of private industry are limited to full-time workers in larger establishments. Data from the 1986 and 1987 surveys are limited to “benefit participation,” that is those workers who are currently covered by the plan. For consistency, certain comparisons are restricted to participation data for full-time workers. Readers are cautioned that, for much of these data, no variances are available, and no tests of statistical significance were performed on comparisons.

7 Calculations of retirement plan access presented in this article have been updated to reflect changes in definitions first released by BLS in December 2008. For more information, see Natalie Kramer and Alan Zilberman, “New Definitions of Employee Access to Paid Sick Leave and Retirement Benefits in the National Compensation Survey,” *Compensation and Working Conditions Online*, December 2008. In addition, data in this article expand upon the regularly-published BLS benefits data to include employee-contribution-only plans. Table 1 includes estimates for previously unpublished combinations of employee-contribution-only plans with other retirement plans and also previously published combinations of retirement plans with employer contributions. For example, the total in table 1 for all workers is 92 percent; if only those plans that include an employer contribution are considered, the total is 90 percent. BLS only captures data on access to employee-contribution-only plans; no plan participation or provision data are available.

8 For more information on TIAA-CREF, the Teachers Insurance and Annuity Association of America and the College Retirement Equities Fund, visit their website at <http://www.tiaa-cref.org/index.html>.

9 In State and local governments, defined contribution plans that may not require employee contributions are typically money purchase plans. In such plans, which are also available in the private sector, employers contribute a percent of employee earnings to an individual account that is invested and available to the employee at retirement. Other private sector defined contribution plans that may not require employee contributions include profit sharing and certain stock plans.

Table 1. Percent of workers with access to retirement plans, State and local government workers, National Compensation Survey, March, 2008

	Total	Retirement plan with employer contribution	Defined benefit plan with				Defined contribution plan with		Employee-contribution only plan with no other plan	Total defined benefit plans	Total defined contribution plans	Total employee-contribution-only plans
			No other plan	Defined contribution plan	Employee-contribution-only plan	Defined contribution and employee-contribution-only plan	No other plan	Employee-contribution-only plan				
All workers	92	90	25	10	35	14	3	3	2	84	30	54
Worker characteristics												
Management, professional, and related	94	92	26	9	36	16	2	2	2	87	30	56
Professional and related	94	91	27	9	36	15	2	2	2	87	28	55
Teachers	94	91	31	9	36	13	*	2	2	89	24	54
Primary, secondary, and special education	98	97	37	9	43	7	*	*	1	97	16	52

Asterisk equals less than 0.5 percent.

	Total	Retirement plan with employer contribution	Defined benefit plan with				Defined contribution plan with		Employee-contribution only plan with no other plan	Total defined benefit plans	Total defined contribution plans	Total employee-contribution-only plans
			No other plan	Defined contribution plan	Employee-contribution-only plan	Defined contribution and employee-contribution-only plan	No other plan	Employee-contribution-only plan				
school teachers												
Service	86	84	24	10	32	11	4	3	3	77	28	49
Protective service	92	91	23	13	33	15	3	4	2	84	35	53
Sales and office	93	91	20	11	36	14	5	3	2	82	34	56
Office and administrative support	94	92	21	10	37	15	5	3	2	83	33	57
Full time	99	99	26	11	39	16	3	3	1	92	34	59
Part time	52	40	18	2	13	4	2	1	12	38	9	30
Union	98	97	28	10	42	15	1	1	1	96	26	59
Nonunion	87	84	22	9	29	14	5	4	4	74	33	51
Establishment characteristics												
Education and health services	94	91	27	9	36	14	3	2	3	86	28	55
Educational services	94	91	29	8	38	13	1	2	3	89	23	55
Elementary and secondary schools	94	93	35	8	41	8	*	*	2	92	16	51
Junior colleges, colleges, and universities	91	86	10	10	28	29	2	6	6	78	47	69
Health care and social assistance	94	92	13	15	22	22	16	5	2	71	57	51
Hospitals	96	93	11	14	21	22	19	6	3	68	60	52
Public administration	91	89	22	12	34	16	3	3	2	83	33	54
State government	96	93	11	9	37	31	2	3	3	88	45	74
Local government	91	89	30	10	34	9	4	3	2	82	25	48

Asterisk equals less than 0.5 percent.

Table 2. Percent of workers with access to each type of retirement plan by availability of multiple plans (1), State and local government workers, National Compensation Survey, March 2008

	All retirement plans		Defined benefit		Defined contribution		Employee-contribution-only plans	
	Single plan	Multiple plans	With other plans	Without other plans	With other plans	Without other plans	With other plans	Without other plans
All workers	33	67	70	30	89	11	96	4
Worker characteristics								
Management, professional, and related	33	67	70	30	92	8	96	4
Professional and related	34	66	69	31	93	7	96	4
Teachers	36	64	65	35	98	2	96	4
Primary, secondary, and special education school teachers	39	61	62	38	99	1	98	2
Service	35	65	69	31	87	13	94	6
Protective service	31	69	72	28	91	9	97	3
Sales and office	30	70	75	25	85	15	96	4
Office and administrative support	30	70	75	25	85	15	96	4
Full time	30	70	72	28	90	10	99	1
Part time	60	40	53	47	83	17	61	39
Union	30	70	70	30	98	2	99	1
Nonunion	35	65	70	30	84	16	93	7
Establishment characteristics								
Education and health services	35	65	68	32	90	10	95	5
Educational services	35	65	67	33	97	3	95	5
Elementary and secondary schools	39	61	62	38	98	2	96	4
Junior colleges, colleges, and universities	19	81	87	13	96	4	92	8
Health care and social assistance	33	67	81	19	72	28	96	4
Hospitals	34	66	84	16	69	31	95	5
Public administration	30	70	73	27	90	10	97	3
State government	16	84	88	12	96	4	96	4
Local government	39	61	64	36	85	15	96	4

Footnotes:

(1) For each type of plan, denominator is all workers with access to that type of plan.

Table 3. Percent of workers with access to retirement benefits and contributory status, State and local government workers, National Compensation Survey, March 2008

	With access to at least one retirement plan	With access to at least one retirement plan that has mandatory or voluntary employee contribution
All workers	92	84
Worker characteristics		
Management, professional, and related	94	85
Professional and related	94	86
Teachers	94	85
Primary, secondary, and special education school teachers	98	87
Service	86	78
Protective service	92	82
Sales and office	93	85
Office and administrative support	94	86
Full time	99	90
Part time	52	49
Union	98	88
Nonunion	87	80
Establishment characteristics		
Education and health services	94	86
Educational services	94	85
Elementary and secondary schools	94	84
Junior colleges, colleges, and universities	91	88
Health care and social assistance	94	90
Hospitals	96	92
Public administration	91	81
State government	96	93
Local government	91	80