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AN UPDATE ON LOCALLY-ADMINISTERED PENSION PLANS

*By Alicia H. Munnell, Jean-Pierre Aubry, Josh Hurwitz, and Laura Quinby**

Introduction

The financial crisis and ensuing recession have had an enormous impact on *state-administered* pension plans. Funded levels declined sharply, the Annual Required Contribution (ARC) increased to make up for the fall in funding, and the percent of ARC paid declined as the bottom fell out of state revenues. In response, states have increased employer and employee contributions, cut employment, slowed wage growth, and lowered benefits for new employees (and in a few instances reduced COLAs for current employees, but these initiatives have been challenged and are currently in the courts). Less is known about how *locally-administered* plans have fared in the last four years. This *brief* attempts to fill that gap.

The discussion proceeds as follows. The first section describes our sample of 97 locally-administered plans from 40 states, which was collected initially in 2006 and updated to 2010 for this *brief*. The second section presents the change in the funded status of local plans over the last four years, looking separately at plans for police/fire, teachers, and general employees. It also reports the changes in the ARC and the percent of ARC paid during this period. And it compares the experience of locally-administered plans with those of state-administered plans. The third section reports on the impact of pension contributions to local budgets. This analysis is complicated by the fact that, in aggregate, only 40 percent of local pension contributions go to locally-administered plans, while 60 percent go to state plans. While good data are available for local-to-local contributions, local-to-state contributions are less explicit and in some cases must be estimated. Our calculations suggest that total local pension contributions for our sample account for about 8 percent of local budgets. The final section concludes that despite the perils facing cities such as Atlanta, Chicago, Philadelphia, and Omaha,[1] locally-administered plans, overall, are as well-funded as

* *Alicia H. Munnell is director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences in Boston College's Carroll School of Management. Jean-Pierre Aubry is the assistant director of state and local research at the CRR. Josh Hurwitz and Laura Quinby are research associates at the CRR.*

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those administered by the states. But the demands of local plans are only half the story in terms of pressure on local budgets; local contributions to state plans will be a major driver of future budget burdens.

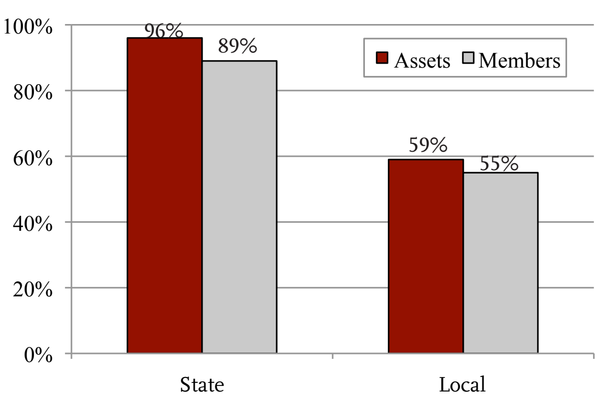
Locally-Administered Plans

This *brief* updates an earlier survey of locally-administered public pension plans. In general the data are for 2006 and 2010, but many localities report only every other year, so the years vary slightly. The intent was to include the two largest plans from each state.[2] Because of data availability issues, the original sample consisted of 84 local plans from 37 states. The updated sample includes 13 additional plans, extending the coverage to 97 plans and 40 states. The data for 20 of these plans come from the *Public Plans Database* (PPD); the variables for the other 77 are newly collected (see Appendix).

Locally-administered plans range enormously in size. Three plans – the New York City Employee Retirement System, the New York City Teachers plan, and the Los Angeles County Employee Retirement System – have assets in excess of $30 billion. The three smallest plans, Pocatello (ID) Police Retirement Pension Plan, City of Spartanburg (SC) General Employees Retirement Plan, and Owensboro (KY) City Employees' Pension Funds – each hold less than $15 million.

Figure 1 shows the comprehensiveness of our state-administered and locally-administered databases. The state sample covers 96 percent of assets and 89 percent of workers relative to the totals reported by the U.S. Census Bureau. The sample of locally-administered plans represents 59 percent of local plan assets and 55 percent of local workers. This outcome is to be expected given that state-administered plans are few and large, while locally-administered plans are many and often small.[3]

Figure 1. Sample Plans as a Percent of Total Assets and Members, by Level of Administration



Sources: Authors' calculations from the U.S. Census Bureau (2006a); and the *Public Plans Database* (PPD), 2006.

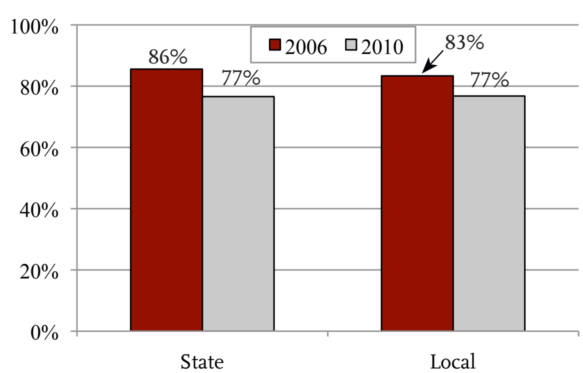
How Funding for Local Plans Measures Up

In determining the financial health of public plans, it is useful to look at two measures: 1) the funded ratio, which measures the portion of the plan's liabilities covered by assets; and 2) whether the employer covers the ARC, which measures the extent to which the sponsor is keeping up with benefits as they accrue and paying down unfunded obligations.

Funded Ratio

The funded ratio – plan assets divided by the actuarial accrued liability – is a snapshot of the plan's funding status at a given moment in time.[4] Figure 2 presents the aggregate funding information for state- and locally-administered plans for 2006 and 2010. For both state and local plans, funded levels dropped from the mid-80-percent range in 2006 to 77 percent in 2010. Of course, the magnitude of the liabilities – and the funded ratios – depends on the rate used to discount promised benefits. Discounting by a riskless

Figure 2. Aggregate Funded Ratios for State- and Locally-Administered Plans, 2006 and 2010

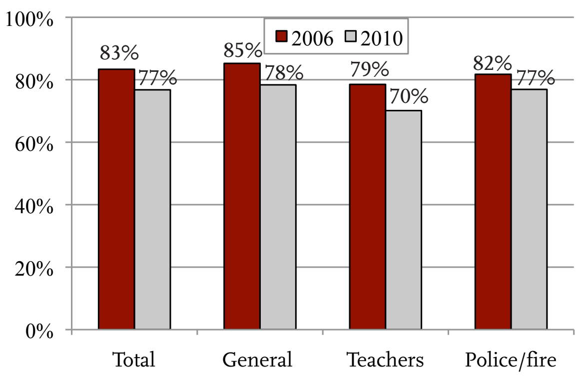


Sources: Authors' calculations from the PPD (2006 and 2010); and various financial and actuarial reports.

rate, which reflects the fixed nature of the benefit commitments, increases the liabilities significantly and reduces the funded ratios to the 50-percent range. But the major message from the exercise is that the experience of local plans on average has been very similar to that of state plans.

Figure 3 shows the funded ratios for the three main types of locally-administered plans: general employees, teachers, and police/fire employees. Of the three, general employees are the best funded, while teachers' plans have the lowest funded ratio and suffered the greatest decline between 2006 and 2010.

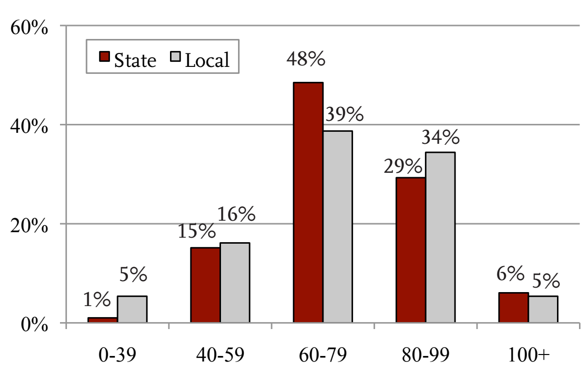
Figure 3. Funded Ratios for Locally-Administered Plans by Type of Plan, 2006 and 2010



Sources: Authors' calculations from the PPD (2006 and 2010); and various financial and actuarial reports.

Finally, Figure 4 shows the distribution of funded ratios for state- and locally-administered plans in 2010. Compared to state plans, local plans have nearly the same percentage of plans that are fully-funded and a greater percentage of plans with very low levels of funding. The locally-administered plans with the lowest funded ratio in our sample are listed in Table 1.[5]

Figure 4. Distribution of State- and Locally-Administered Plans, by Funded Ratio, 2010



Sources: Authors' calculations from the PPD (2006 and 2010); and various financial and actuarial reports.

Table 1. Sample Plans with Lowest Funded Ratios

State	Plan	Funded ratio
GA	Atlanta Board of Education Fund[a]	17.4
RI	Providence Employees Retirement System	34.0
PA	Pittsburgh Municipal, Police, and Firemen Pension Funds	34.3
AK	Little Rock City Police Pension and Relief Fund[b]	39.0
NE	Omaha Police and Fire Pension Fund	39.5
DE	Dover General Employee Pension Plan	43.7
PA	Philadelphia Municipal Retirement System	47.0
AK	Little Rock City Firemen's Relief and Pension Fund[b]	48.0
IL	Chicago Municipal Employees Annuity Benefit Fund	50.8
NE	Omaha Employees Retirement System	52.9

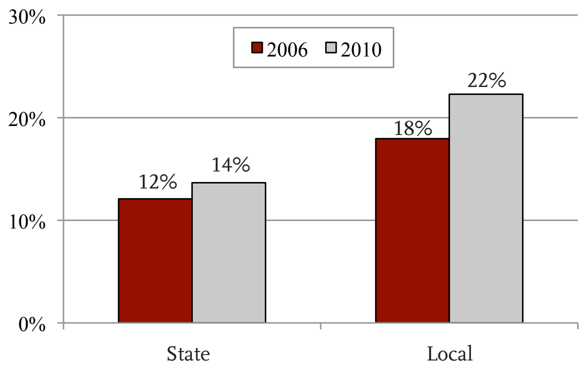
Sources: Various financial and actuarial reports.
[a] Most Atlanta school employees are covered by the Georgia Teachers Retirement System (TRS). The Atlanta Board of Education Fund, which is administered by the City of Atlanta General Employees' Pension Fund, covers the minority of school district employees who are not covered under the TRS.
[b] Closed to new hires in 1983.

The ARC

While the funded ratio provides a snapshot, the question remains whether the plan sponsor has a funding strategy and is sticking to it. One measure of funding discipline is whether the sponsor makes the ARC, which the Government Accounting Standards Board (GASB) defines as the normal cost plus a payment to amortize the unfunded liability, generally over a 30-year period.[6]

The first question is what has happened to the ARC since 2006. As shown in Figure 5 on the next page, because of the deterioration in the funded status of plans, the ARC increased over the four-year period at both the state and local levels.

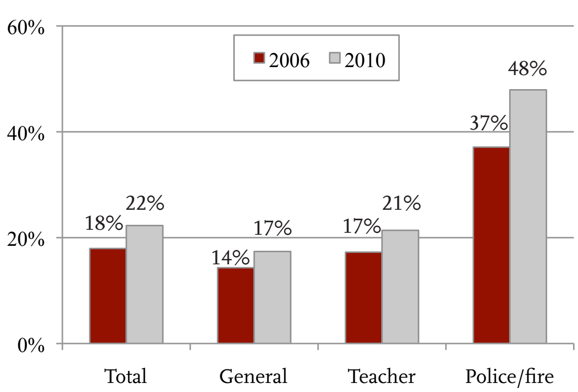
Figure 5. ARC as a Percent of Payroll for State- and Locally-Administered Plans, 2006 and 2010



Sources: Authors' calculations from the PPD (2006 and 2010); and various financial and actuarial reports.

In addition to change over time, it is important to note that the ARC at the local level is substantially larger than at the state level. A part of the explanation is that police and fire plans, which are more common at the local level, are expensive because participants retire at younger ages and receive benefits for a longer time. But, as shown in Figure 6, the ARC for general employees and teachers is also more expensive at the local level. We suspect, but cannot fully confirm, that this pattern reflects lack of Social Security coverage at the local level.[7]

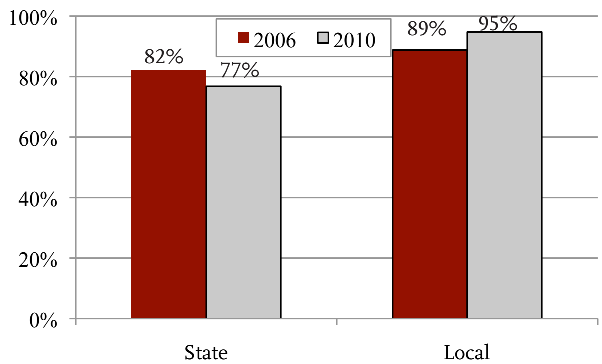
Figure 6. ARC as a Percent of Payroll for Locally-Administered Plans, by Type of Plan, 2006 and 2010



Sources: Authors' calculations from various financial and actuarial reports.

Each year, plan sponsors report the ratio of the employer's actual contribution to the ARC. Figure 7 shows the percent of the ARC paid by state- and locally-administered plans. While sponsors at the state level significantly reduced the percent of ARC paid, locally-administered plans appeared to do a better job in covering the ARC. Therefore, while local plans in general have a higher ARC per dollar of payroll, they also contribute a higher percentage of total ARC each year. These offsetting factors explain why the funded ratios for local plans declined less than state plans between 2006 and 2010.

Figure 7. Percent of ARC Paid by State- and Locally-Administered Plans, 2006 and 2010



Sources: Authors' calculations from the PPD (2006 and 2010); and various financial and actuarial reports.

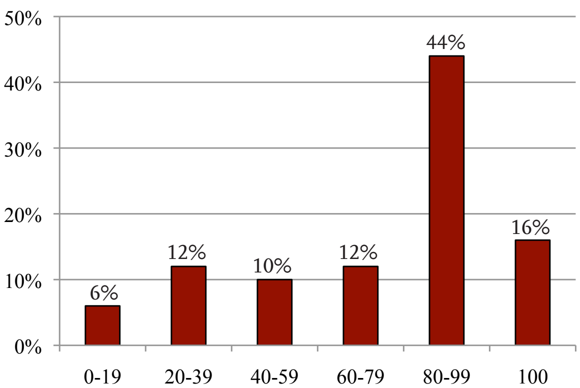
How Burdensome Are Pension Plans on Local Budgets?

While the previous section focused on how well sponsors were funding their commitments; this section explores the size of those commitments relative to the sponsor's budget. Pension contributions as a percent of local budgets provide a framework for understanding how pensions will affect other locally-financed activities.

The financial commitment of local governments consists of two components: 1) required contributions to the locally-administered plans (which comprise virtually all the contributions to these plans); and 2) contributions that localities are required to make to state-administered plans.

Many local governments make considerable contributions to state systems. In the aggregate, these payments account for 61 percent of total local contributions. But, as shown in Figure 8, these percentages vary enormously across states. They range from zero in Vermont – where the entire state retirement system is financed at the state level – to 100 percent in Alaska, Hawaii, Maine, Mississippi, Montana, Nevada, New Mexico, and Wyoming – where all localities are covered under the state plan.[8]

Figure 8. Local Governments' Contributions to State-Administered Plans as a Percent of Their Total Contributions, by State, 2008



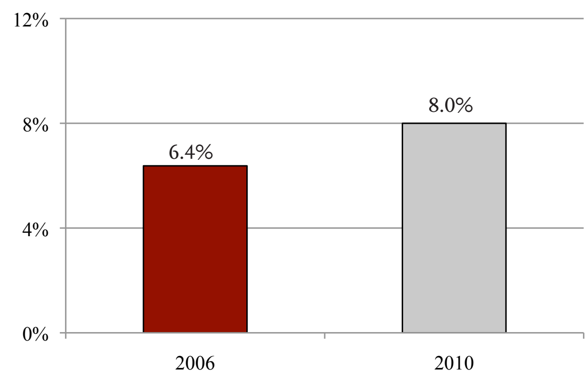
Source: Authors' calculations from the U.S. Census Bureau (2006a, 2008a).

The central question is how much pension plans are currently costing localities. Answering that question requires two steps. The first step, which involves employer contributions to local plans, is straightforward. Each city in the sample publishes a Comprehensive Annual Financial Report (CAFR) that lists the payment the city made to all of its local plans.

The second step, which involves local contributions to state plans, is more challenging. City CAFRs for our sample include contributions made directly by the city to the state for general employees and police and fire, but typically not for teachers. For most teachers, pension contributions are made by an independent school district, each of which produces its own CAFR. Since these reports are not readily available, we were able to collect the data for only 49 of our 72 localities. For those localities without school district data, the best we could do was to apply the statewide percentages from the Census, adjusted according to the data we had for the 49 localities.[9]

To assess the burden of these contributions on local finances, total pension contributions were divided by budget data for the sponsoring entity for 2006 and 2008 (the latest available) from the Census.[10] The results show that pensions on average accounted for 6.4 percent of total local expenditures in 2006 and 8.0 percent in 2010 (see Figure 9).

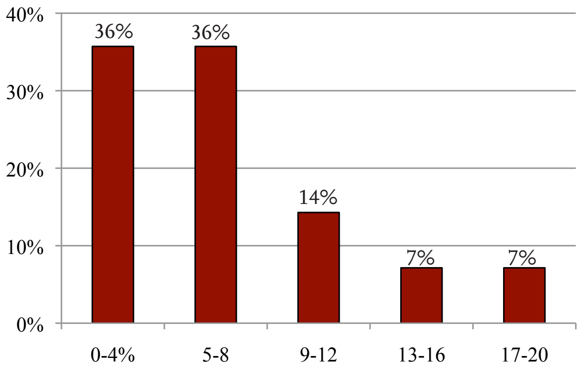
Figure 9. Local Government Contributions to Locally- and State-Administered Plans as a Percent of Budget, 2006 and 2010



Sources: Authors'calculations from various financial and actuarial reports; the U.S. Census Bureau (2006a, 2008a); and the U.S. Census Bureau (2006b, 2008b).

As always, aggregate data hide a lot of variation. Localities that have seriously underfunded plans and/or generous benefits or participate in state plans with these characteristics contribute significantly more. As shown in Figure 10 on the next page, pension contributions account for more than 12 percent of total budget outlays in 14 percent of the sample. The important point is that significant pressure comes from localities' participation in state-administered plans, as well as from required contributions to their own plans.

Figure 10. Distribution of Localities by Pension Contributions as a Percent of Local Budgets, 2010



Source: Authors' calculations from various financial and actuarial reports; and the U.S. Census Bureau (2006b, 2008b).

Conclusion

Press accounts would suggest that locally-administered plans would be significantly less well-funded than those administered by the state. But our sample of 97 plans from 40 states indicates that, in 2010, locally-administered plans were as well-funded as state plans.

It would be a mistake to be too sanguine. A number of city plans are significantly underfunded and will require substantial increases in their contribution rates to eliminate the unfunded liability. And localities are a major contributor to state-administered plans. So their fate is as much tied to what happens to plans at the state level as it is to the plans they sponsor themselves.

Endnotes

1 See, for example, Dardick (2010); Neumann (2010); and Stirgus (2010).

2 The survey data were collected from Actuarial Reports, Comprehensive Annual Financial Reports for the individual plans, and Comprehensive Annual Financial Reports for the locality that administers the plan.

3 State-administered plans account for only 9 percent of total state and local plans, but 84 percent of assets and 89 percent of active members. In total, the Census reports 218 state-administered and 2,332 locally-administered systems, compared to 107 and 97 in our samples, respectively. (See U.S. Census Bureau, 2008a.)

4 These ratios are not quite comparable across plans in that actuarial cost methods differ. For example, plans using the entry age normal (EAN) cost approach will report a larger accrued liability and a lower funded ratio for any level of assets than plans using the projected unit credit (PUC) approach. Of particular concern in the earlier survey was the use of the aggregate cost method, which always shows a funded ratio of 100 percent. However, in recent years, many plans using the aggregate cost method have also begun to report liabilities using the EAN or PUC method. Currently, just one plan in our sample continues to show only a method similar to aggregate cost – St. Louis School Employees Retirement System – and it is excluded from the funding discussion.

5 The Portland (OR) Fire and Police Disability Retirement Fund has a funded ratio of less than 1 percent because the sponsor purposely finances the plan on a pay-as-you-go basis. For this reason, it is not included in the table.

6 See Government Accounting Standards Board (1994a, 1994b).

7 We sent out an inquiry to the 72 localities in our sample. So far, 24 have responded. Among the plans in these localities, nearly 60 percent were not covered by Social Security – much greater than the percentage without coverage at the state level. Interestingly, within a single state the coverage among local plans does not necessarily align with the coverage for state-administered plans. For example, Atlanta General Employees and Police & Fire are not covered by Social Security, while employees of the State of Georgia are covered. Similarly, in Florida, employees of the city of Jacksonville are not covered while their counterparts who work for the state are covered.

8 Alaska does have the Anchorage Police and Firemen Retirement Plan, but it is closed to new hires.

9 Our sample focuses on localities that administer their own large pension plans and therefore contribute less to state plans than most localities reported in the Census. In order to adjust for this difference between our sample and the Census totals, we took the *aggregate* percent of local contributions made to the state for the 49 localities with full data, and divided it by the *aggregate* percent of local contributions made to the state indicated by the Census. Then, for each locality for which we did not have full data, we adjusted the percentage from the Census by this aggregate ratio.

10 The Bureau of Economic Analysis reports aggregate expenditures from local governments up to 2009 in the *National Income and Products Accounts*. These data show that total expenditures decreased by 2.2 percent between 2008 and 2009. Substituting 2008 Census data for 2010 budgets is imperfect; however, we assume that the drop in expenditures between 2008 and 2009 was offset by an increase in expenditures in 2010, implying that the 2008 and 2010 budgets may not differ substantially.

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APPENDIX

Table. Funded Ratio and Annual Required Contribution as Percent of Payroll for Sample of Locally-Administered Plans, 2006 and 2010

State	City	Plan name	Funded ratio (%)		ARC/payroll (%)	
			2006	2010	2006	2010
AK	Anchorage	Police and Firemen Retirement Plan [a]	112.0	85.1	0.0	118.3 [b]
AL	Birmingham	Retirement and Relief System	94.9	84.1	8.4	9.1
AR	Little Rock	Firemen's Relief and Pension Fund [a]	69.0	48.0	2608.4 [b]	N/A [c]
		Police Pension and Relief Fund [a]	50.2	39.0	N/A [c]	N/A [c]
AZ	Phoenix	Employee Retirement System	81.3	69.3	10.7	15.7
CA	Contra Costa County	County Retirement System	84.3	83.8	27.5	28.2
	Los Angeles	Employees Retirement System	77.8	75.9	13.1	14.2
		Fire and Police Pension System	94.6	91.6	13.2	18.5
	Los Angeles County	Employee Retirement System	90.5	88.9	16.4	12.9
	Marin County	Employees' Retirement Association	80.6	70.9	23.4	26.1
	Orange County	Employees Retirement System	73.8	68.8	21.0	20.9
	San Diego County	County Retirement System	83.6	84.3	20.7	17.2
	San Francisco	City and County Retirement System	109.0	97.0	6.6	4.7
CO	Denver	Employees Retirement System	98.6	88.4	10.8	13.7
		School Retirement System	88.3	88.3	14.0	11.9
CT	Greenwich	Town Retirement System	101.0	81.0	0.9	9.8
	Hartford	Municipal Employee Retirement Fund	101.9	88.6	13.6	7.2
	New Haven	Employee Retirement Fund	59.6	56.3	14.8	19.8
		Police and Fireman's Retirement Fund	59.4	55.6	20.5	30.6
DC	District of Columbia	Police and Fire Retirement Fund	91.6	108.0	35.4	31.2
		Teachers' Retirement Fund	111.2	118.3	5.0	0.0
DE	Dover	General Employee Pension Plan	38.2	43.7	26.6	26.8
	New Castle County	Employees Retirement System	91.1	87.8	10.9	11.9
	Wilmington	Police Pension Fund [a]	53.2	57.8	67.6 [b]	79.7 [b]
FL	Jacksonville	Retirement System	86.7	73.4	11.6	13.4
	Miami	Firefighters and Police Officers Retirement Trust	100.0	69.8	56.0	30.3
	Pensacola	General Pension and Retirement Fund [a]	67.8	69.5	34.4 [b]	57.4 [b]
	Tallahassee	Retirement System	108.8	108.2	11.1	11.3
GA	Atlanta	Board of Education Fund	19.5	17.4	166.3	148.2
		Fire Fund	64.3	60.5	56.3	52.0
		General Employees Pension Fund [a]	52.6	59.5	37.7 [b]	28.2 [b]
		Police Fund [d]	60.2	59.8	58.6	52.5
	Cobb County	Government Employees' Pension Plan	67.6	55.0	7.9	10.6
ID	Pocatello	Police Retirement Pension Plan [a]	95.5	87.7	N/A [c]	N/A [c]

State	City	Plan name	Funded ratio (%)		ARC/payroll (%)	
			2006	2010	2006	2010
IL	Chicago	Municipal Employees Annuity Benefit Fund	68.7	50.8	22.1	32.9
		Teachers Plan	78.0	73.6	16.9	14.2
KS	Wichita	Employees Retirement System	110.2	95.5	4.7	8.4
		Police and Fire Retirement System	101.2	92.7	18.4	20.8
KY	Lexington	Police and Firemen Retirement Fund	62.8	69.4	22.1	50.4
	Owensboro	Employees' Pension Funds[a]	134.1	116.5	N/A[c]	N/A[c]
LA	Baton-Rouge	City Parish Retirement System	84.2	74.0	18.4	21.3
MA	Boston	Retirement Board	66.5	60.2	17.8	19.1
MD	Baltimore	Employees Retirement System	92.2	76.0	9.3	12.2
		Fire-Police Employees Retirement System	92.5	83.2	20.0	29.9
	Montgomery County	Employees Retirement System [e]	76.2	76.6	25.9	26.4
MI	Detroit	Employees General Retirement System	98.2	92.5	11.9	11.6
		Policemen and Firemen Retirement System	104.7	93.5	25.3	26.4
	Wayne County	Employees' Pension Plan [f]	89.4	67.2	4.0	10.9
MN	Duluth	Teachers Plan	84.1	81.7	8.0	12.0
	Minneapolis	Employee Retirement Fund [a]	92.1	65.6	64.4[b]	823.8[b]
		Police Relief Association [a]	85.7	64.1	886.1[b]	465.3[b]
	St. Paul	Teachers Plan	69.1	68.1	17.8	12.6
MO	St. Louis	Police Retirement System	94.1	88.1	25.2	21.3
		Retirement System	79.6	81.8	13.2	12.3
		School Retirement System	87.2	88.4	6.5	17.1
NC	Charlotte	Firefighters Retirement System	97.8	90.5	13.3	13.1
ND	Bismarck	Employees' Pension Plan	96.7	79.4	8.9	11.7
	Fargo	Employees Retirement System [a]	73.8	57.1	11.6	12.6
		Police Pension System	70.6	64.7	10.2	27.7
NE	Omaha	Employees Retirement System	80.7	52.9	12.9	23.2
		Police and Fire Pension Fund	63.4	39.5	33.9	48.6
		School Employee Retirement System	79.4	75.3	9.8	8.4
NH	Manchester	Employees' Contributory Retirement System	73.2	62.4	13.3	17.7
NJ	Jersey City	Municipal Employees Pension Fund	52.4	N/A[g]	12.8	N/A[g]
NY	New York City	Employee Retirement System	88.4	78.7	10.1	18.1
		Fire Department Pension Fund	98.5	56.4	65.3	74.2
		Police Pension Fund	75.5	71.3	47.5	59.3
		Teachers Fund	77.1	64.1	18.9	27.7
OH	Cincinnati	Employees Retirement System	87.4	76.7	13.2	25.3
OK	Oklahoma City	Employees Retirement Fund	104.0	95.1	8.2	5.0
	Tulsa	Employees Retirement Fund	96.5	80.0	5.8	6.3

State	City	Plan name	Funded ratio (%)		ARC/payroll (%)	
			2006	2010	2006	2010
OR	Portland	Fire and Disability Retirement Fund [h]	0.8	0.7	146.8 [b]	154.3 [b]
PA	Philadelphia	Municipal Retirement System	51.6	47.0	29.9	40.9
	Pittsburgh	Municipal, Police, and Firemen Pension Funds	41.7	34.3	22.0	20.7
RI	Providence	Employees Retirement System	37.4	34.1	40.7	37.4
SC	Greenville	Fire Department's Pension Plan	91.2	75.2	19.3	18.2
	Spartanburg	General Employees Retirement Plan [a]	87.2	68.0	80.5 [b]	78.9 [b]
SD	Sioux Falls	Employees Retirement System	95.8	89.5	11.1	13.0
TN	Knox County	Employees' DB Plan [a]	100.0	80.6	0.0	2.1
		Teachers' DB Plan [a]	99.8	87.8	14.1	18.9
	Memphis	Retirement System	100.0	77.3	4.5	23.1
	Nashville-Davidson County	Employees Benefit Trust Fund	87.1	84.6	15.3	11.0
TX	Austin	Employee Retirement System	75.9	71.8	12.6	18.5
	Dallas	Employees Retirement Fund	109.0	95.0	4.2	10.5
	Houston	Firefighters Plan	87.0	93.0	22.3	27.9
		Police Officers Pension System	74.0	78.5	32.9	31.7
VA	Fairfax County	Police Officers Retirement System	87.9	81.7	25.4	27.7
		School System	86.4	76.5	3.1	3.1
		Supplemental Retirement System	82.0	73.6	13.0	15.1
	Newport News	Employees Retirement System	76.0	57.0	14.2	14.5
	Norfolk	Employees Retirement System	93.8	78.1	16.2	20.3
	Richmond	Retirement System	69.5	58.3	18.8	23.4
VT	Burlington	Employees Retirement System	77.1	72.9	15.6	13.9
WA	Seattle	Employees Retirement System	88.8	62.0	8.0	8.0
WI	Milwaukee City	Employees Retirement System	122.9	112.8	0.0	10.9
	Milwaukee County	Employees Retirement System	79.0	93.3	23.6	12.8
WV	Wheeling	Employees' Retirement Funds	100	N/A [g]	0.0	N/A [g]

[a] Plans that are closed to new hires.
[b] ARC-to-payroll is abnormally high for closed plans with few remaining active employees and very small payrolls.
[c] Closed plans with zero remaining active employees and therefore no payroll.
[d] Employees hired as of June 30, 2011 are enrolled in a new hybrid plan. For the DB benefit, the multiplier was reduced from 3 percent to 1 percent and the vesting period was increased to 15 years. The employee will contribute 8 percent. For the 401(k), the employee will contribute 3.75 percent with a 100 percent employer match.
[e] Closed to new hires except for public safety bargaining unit employees and participants in the Guaranteed Retirement Income Plan.
[f] Effective October 1, 2001, the defined benefit plan was closed to new hires and replaced by a hybrid retirement plan.
[g] Updated reports could not be found for these plans.
[h] As of November 7, 2006, new hires are enrolled in the Public Employees Retirement System (PERS) of Oregon. The Fire and Disability Retirement Fund makes payments to PERS on a pay-as-you-go basis.

About the Center

The Center for Retirement Research at Boston College was established in 1998 through a grant from the Social Security Administration. The Center's mission is to produce first-class research and educational tools and forge a strong link between the academic community and decisionmakers in the public and private sectors around an issue of critical importance to the nation's future. To achieve this mission, the Center sponsors a wide variety of research projects, transmits new findings to a broad audience, trains new scholars, and broadens access to valuable data sources. Since its inception, the Center has established a reputation as an authoritative source of information on all major aspects of the retirement income debate.

Affiliated Institutions

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The Brookings Institution
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Syracuse University
Urban Institute

Contact Information

Center for Retirement Research
Boston College
Hovey House
140 Commonwealth Avenue
Chestnut Hill, MA 02467-3808
Phone: (617) 552-1762
Fax: (617) 552-0191
E-mail: crr@bc.edu
Website: http://crr.bc.edu

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