

Portable Pensions: Retention Impacts on Florida's State Law Enforcement Officers

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Abstract

This study examines the effect of the addition of an alternative pension plan offered by the Florida Retirement System on the retention of state law enforcement officers. The two plans are 1) the defined contribution (DC) retirement plan; also known as the investment plan, and 2) the defined benefit (DB) plan. Prior to July 1, 2002, members in FRS were only offered the traditional defined benefit plan; also known as the pension plan. However; in July 2002, Governor Jeb Bush signed into law a new plan called the Public Employee Optional Retirement Plan giving state employees a choice of retirement plans. Each plan has benefits and risks. Currently, Florida's Retirement System serves over 920,000 members and has a balance of over 130 billion dollars. This research examines the impact of this new choice of retirement plans on the retention of Florida's state law enforcement officers.

Introduction

In the beginning, Florida legislators created the Florida Retirement System (FRS) and they granted Florida's state law enforcement officers only one option when it came to their retirement plan. The plan was a defined benefit pension plan, which was based on three percent of their gross salary over the officer's 25 year career. The pension plan was good, but was under-funded through the year 1997. In 1998, the pension plan began to show a surplus. When most of Florida's veteran law enforcement officers joined the FRS, they were required to stay with the State of Florida for a minimum of ten years before vesting in the retirement (DB) plan. This ten year benchmark greatly benefited the state, but was not conducive to the retention of younger, college educated law enforcement officers (Kelleher 2003). The legislature realizing this retention issue; reduced the vesting time from ten years to six years in 2001. In 2003, the FRS conducted an experience study (Kelleher, 2003). This study surveyed special risk males and females in the FRS who had between zero and five years of service. The respondent's age range was from 25 years old to 65 years old. Males were found to withdraw from the FRS at a more consistent rate than females. According to Walter Kelleher, Director of Policy, Risk Management and Compliance at Florida's State Board of Administration, this study tended to indicate that if the member became vested in the FRS, salary would be the main factor that would keep the member in the FRS. However, the study did not show conclusive evidence that the member would stay with the same agency. After a record number of law enforcement officers retired at the end of their Deferred

Retirement Option Plan (DROP); the FRS gained a near record \$109.9 billion dollars in valuation or a 10.18% return on the plan's investments in 2005, even after paying \$4.6 billion dollars in benefits! What this information tells us is that the FRS is a very solid system, no matter which plan you choose.

Methodology

Data used in this analysis was collected from a 27 question survey that was posted on the Florida Highway Patrol's Intranet site, *The Trooper Net*. The survey instrument was divided into three sections. First, demographic information was collected such as gender, race, length of service and whether or not the survey respondent was sworn or non-sworn. The second section inquired about their current selection of a retirement plan and whether or not they had or were considering switching plans. Finally, the survey asked whether or not this choice of retirement options would factor into their decision to stay with the agency if they ever thought about leaving. In addition to the survey instrument, personal interviews were conducted with members of the Florida Highway Patrol, State Board of Administration and the Florida Retirement System.

The strength of this instrument was found in the delivery vehicle. Since the instrument was posted on the FHP Intranet, known to its members as *The Trooper Net*, and because the survey did not require the member to login, the survey had the aura of anonymity. It did, however, track the IP address of the computer used to take the survey; thus validating the instrument and insuring that the survey was not taken twice from the same computer terminal.

The main weakness that I found using this electronic method was that the survey was only available for 21 days. There also appears to be a lack of interest on this subject by our members since only 347 members out of a possible audience of 2000 took the survey.

Results

On April 12, 2006 the following data was received from the Florida Highway Patrol's Bureau of Planning indicating the following breakdown of FHP members currently enrolled in the FRS.

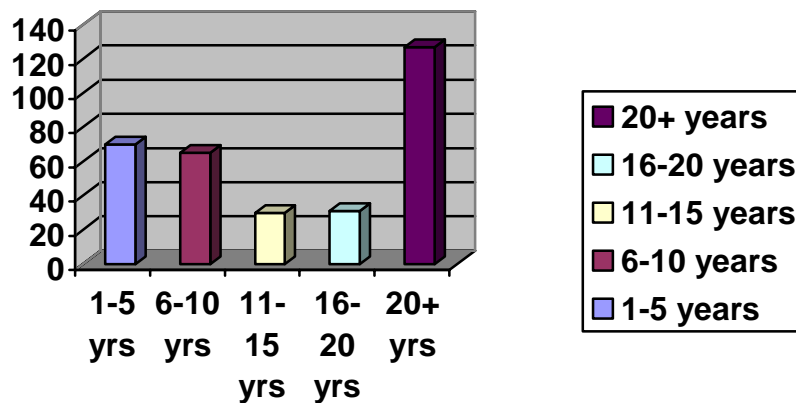
- 365 Investment Plan members
- 1212 Pension Plan members
- 81 DROP members
- 42 Other/Unknown

These numbers tell us that 27% of all FHP members are currently vested in the investment plan. This number is greater than the State of Florida Board of Administration's annual statement (November, 2005) that reports eight percent of

all FRS members are enrolled in the investment plan. Interestingly, this eight percent is a two percent growth over the previous year.

It was interesting to note that three times as many members closer to retirement took the survey than members that were just starting their career. The title of the instrument may have influenced this ratio. Members in the middle of their careers with 11 to 20 years seniority had the least interest in taking the survey. One explanation for this may be that the member may be in a stagnant career phase and/or the member may not have begun serious retirement planning.

"Active" FHP members who took survey



61.06% of the respondents did not know how long it took to become vested in the investment plan; however, 46.97% of the respondents said they plan on switching to the investment plan. This is interesting since 85.02 % indicated that they had at least "some college" education or greater. This leads me to a hypothesis. The greater your education level, the more likely you are to manage your own money, instead of allowing the FRS to do it for you. To support this hypothesis, 32.56% indicated that they were college graduates as opposed to only 14.98% graduating high school.

In conclusion, FHP has been responsive to the trend of members leaving before the end of their 25 year career in two ways. First, the FHP Executive Staff has faded away from the long tradition of sending Academy graduates to a duty station that is far from their home county and increasingly allows Academy graduates to return to their home of record or an adjoining county. The other change that has occurred over the last several years is a trend of staying in your current troop and/or duty station after promotion. Both trends will increase the probability of a member staying with the Patrol and not taking his money with them when they leave prior to retirement.

Captain David Tripp became a member of the Florida Highway Patrol in 1981. During his tenure, he has served as a homicide investigator, FHP's Chief Recruitment Officer and Assistant Chief Public Affairs Officer. During his career, David has been stationed in Ft. Lauderdale, Miami, Sarasota, Lakeland, Tampa and Tallahassee. He is currently assigned as the commander of the Tallahassee Regional Communications Center (TRCC). The TRCC provides dispatch services for eleven state law enforcement agencies in 18 of Florida's panhandle counties. David has a Bachelor of Science degree in Criminology for Florida State University.

References

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APPENDIX

Survey Instrument

Hello, I am Florida Highway Patrol Captain David Tripp and I am doing some research on our choice of retirement options within the Florida Retirement System. Would you take 10 minutes to complete the 24 question survey below? I need your opinions in order to help Colonel Knight and the FHP Executive Staff plan and develop long-range strategies, which will enable the Florida Highway Patrol to better retain both our sworn and non-sworn members. Your identity will be kept completely strictly confidential.

1. Gender: Male _____ Female _____
2. Status: Sworn _____ Non-Sworn _____
3. How many years have you been working for the Florida Highway Patrol or are you retired?

_____ Years
_____ Retired
4. If you are retired, how many years have you been retired?

_____ Years
5. What is the highest level of education you finished?
 - a. High school graduate
 - b. Some college
 - c. College graduate
 - d. Post college work
6. What is your current marital status?
 - a. Single
 - b. Married
 - c. Separated/divorced
 - d. Widowed

7. How familiar are you with the new retirement choices introduced by the Florida Retirement System (FRS) in 2002?

- a. Very familiar
- b. Somewhat familiar
- c. Not too familiar
- d. Not at all familiar

8. What were your primary sources of information about the new retirement choice introduced by FRS in 2002?

- a. Colleague
- b. Meeting at work
- c. FRS website
- d. FRS mailing
- e. Mailing from union/association
- f. Union/association member
- g. Article in newspaper, magazine, etc
- h. General word-of-mouth
- i. Legislation/statute
- j. Other (specify)

9. Which of the following resources have you used to learn more about your retirement options?

- a. Attended a workshop
- b. Called the financial guidance phone line
- c. Used the online choice service
- d. Read the information that was mailed to me/printed materials

10. Based on the information you have received from the FRS and the things you have heard from the FRS, do you feel that both plans have been presented in a fair and balanced manner?

- a. Yes
- b. No, the FRS favors the Investment Plan
- c. No, the FRS favors the Pension Plan

11. Do you spend more, less, or the same amount of time and effort deciding to buy a new car as you do planning for retirement?
- a. More time spent on retirement planning
 - b. Less time spent on retirement planning
 - c. About the same amount of time on each activity
 - d. Don't know

In the next section, for simplicity, we will refer to the current program as the "Pension Plan" and the new program as the "Investment Plan". Under the investment plan, you would be responsible for making investment decisions, so your benefits depend on the performance of your investment funds. If you feel that you do not know enough to answer the question, simply state that you don't know the answer.

12. What is the likelihood that you will continue working for the Florida Highway Patrol for at least five more years?
- 1. Very likely
 - 2. Somewhat likely
 - 3. Somewhat unlikely
 - 4. Very unlikely
 - 5. Don't know
13. What is the likelihood you will keep working for the Florida Highway Patrol until retirement?
- 1. Very likely
 - 2. Somewhat likely
 - 3. Somewhat unlikely
 - 4. Very unlikely
 - 5. Don't know
14. If you were to join, or have already joined, the Investment Plan, do you think you would earn higher, lower, or about the same investment return as the average person, or do you feel that you don't know enough to answer the question.
- 1. Much higher
 - 2.. Somewhat higher
 - 3. About the same as average
 - 4. Somewhat lower
 - 5. Much lower
 - 6. Don't know

15. In your opinion, people who join the Investment Plan are likely to earn what investment return (or rate of interest) over the next 5 years? If you feel you do not know enough to answer the question, just say so.

- a. Less than 5% per year
- b. Somewhere between 5% to 10% per year
- c. Somewhere between 10% to 15% per year
- d. More than 15% per year
- e. Don't know

16. How many years do you think it takes to become vested in the current Pension Plan?

- a. 6 years
- b. 10 years
- c. Other
- d. Don't know

17. How many years do you think it takes to become vested in the Investment Plan?

- a. 1 year
- b. Other
- c. Don't know

16. Using a 1 to 5 scale where 1 means extremely negative and 5 means extremely positive, what is your reaction to having this choice of plans?

- 5 Extremely positive
- 4
- 3
- 2
- 1 Extremely negative

17. Thinking about this information, has it helped you to make a decision on how to plan for your career with the Florida Highway Patrol and do you agree or disagree with the following statements? Using a 1 to 5 scale where 1 means strongly disagree and 5 means strongly agree, please tell me if you agree or disagree that: The FRS has provided you with adequate, accurate, and easy to understand information which helped make your decision?

- 5 Strongly Agree
- 4
- 3
- 2
- 1 Strongly Disagree
- Don't know

18. When you think about financial decisions, do you spend more time thinking about the potential gain or the possible loss?

- a. Much more time on potential gain
- b. Somewhat more time on potential gain
- c. About same amount of time on each
- d. Somewhat more time on possible loss
- e. Much more time on possible loss
- Don't know

19. Do you plan to elect the Deferred Retirement Option Program (also known as "DROP") when you become eligible for retirement or do you not know enough about the program to make a decision now?

- a. I plan to join the DROP program
- b. I don't plan to join the DROP program
- c. I don't know enough about the DROP program to make a decision now
- d. I do know enough about the DROP, but don't know whether I will elect to participate

20. Based on what you know about the FRS retirement options, which of the following do you think you will do?

- a. Choose to stay with the pension plan
- b. Choose to switch to the investment plan
- c. Choose to leave current balance in pension plan and have only new contributions go to investment plan
- d. Nothing –plan to default into the pension plan

21. Would the choice of retirement plans play into your decision making process if you had ever considered leaving FHP?
- a. Yes
 - b. No
 - c. I haven't though about leaving FHP
22. If you have thought about leaving FHP, would a 3-5-7 year salary adjustment plan; which, would result in a significant increase in your salary convince you to stay with FHP?
- a. Yes
 - b. No
 - c. Maybe
 - d. Don't know
23. Are you a member of a union or professional association?
- a. Yes
 - b. No
24. Please select the category that comes closest to your annual household income.
- b. \$25,000-\$34,999
 - a. \$35,000-\$49,999
 - b. \$50,000-\$74,999
 - c. \$75,000 +