Nebraska Firefighter Retirement Experiment Fails

The Grand Island Independent (Nebraska)
Created: December 17, 2012

In 1983, at the urging of Nebraska cities who failed to fund their retirement obligations to firefighters, the Nebraska unicameral embarked on an experiment to fund firefighter retirement benefits based on a defined contribution model. That experiment took effect on Jan. 1, 1984.

Twenty-eight years later, the results are in and by any measure, the experiment has failed.

The chairman of the Retirement Committee at that time stood on the floor of the Legislature and told firefighters that under the new system, they would be able to work until age 55 and be able to retire with retirement benefits “roughly equivalent” to what the firefighters were getting at the time, which was a 50 percent of salary retirement benefit under the old defined benefit plans initially established in 1896.

The Nebraska League of Municipalities invited the firefighters under the new system to “gamble” with their retirement benefits by eliminating a level percentage of salary benefit and replacing it with individual accounts funded by employer and employee contributions.

In a recent survey conducted by the Nebraska Professional Fire Fighters Association covering three large first class cities, the average age of their most senior members is 53 years, the average years of service is 24.3 years, and the average value of their retirement accounts on hand is roughly $367,000.

The average annual salary in this composite, which includes not only firefighters but fire chiefs, is about $65,723. Based on this composite, employees will be attaining age 55 in less than two years and at that point, pursuant to current mortality rates, the annuity that can be purchased with money available at retirement will provide them with an annual retirement income of approximately $16,129, placing them below the poverty line when monthly health insurance premiums are factored in.

What these cities are now providing to the employee is a promise that when the firefighter becomes eligible to retire, that firefighter will immediately become eligible for public assistance in the form of food stamps, public housing and other needs-based programs.

When one considers that those employees of first class cities generally are not eligible for retiree health coverage through their employers, they will be paying for health insurance, roughly $500 a month for single coverage or $1,100 a month for family coverage or more, which eats up almost all of their retirement income and leaves them very little to meet their basic needs.

According to a report released on Dec. 5, 2012, by the National Institute on Retirement Security, these types of defined contribution accounts “entail fundamentally greater overall risk and marked inefficiencies compared to (defined benefit) pensions.” The report went on to state that:

“These risks and inefficiencies translate to significantly higher funding costs for a given level of retirement benefit, and a high level of risk for individual employees. This means that for each taxpayer dollar spent on retirement benefits, a DC system yields a substantially lower value compared to a DB system.”

The failure of this experiment is compounded by a misuse of tax dollars. The amount of contributions being paid into these retirement benefit accounts by the cities and by the employees should be sufficient to fund a retirement benefit that is able to provide at least a living wage.

Policy makers should question why annual contributions of 19.5 percent of the firefighter’s salary only produce a retirement annuity that pays the retired firefighter 24.5 percent of his wage rather than the 50 percent that was provided by cities for over 80 years. That is not the “roughly equivalent” benefit that the Legislature claimed would be available when the senators created this flawed system.

For our composite firefighter under present conditions, he would have to work another 10 years past his retirement date to finally obtain that 50 percent benefit.

First class city firefighters in Nebraska are not covered by Social Security and do not receive Social Security credit for hours worked as firefighters and we now expect those firefighters to live on a pre-tax income of $1,344 a month when they retire and that is before they pay for health coverage.

The end result is that we have firefighters being in a position where retirement is not an option when they reach retirement age and they are left to do dangerous work well past their retirement age, increasing the risk of disabling injury to those firefighters.

The fact that the firefighters’ retirement places them in a position to be eligible for public assistance demonstrates this drain on economic activity in first class cities.

First class cities have seen firefighters gain experience and training and then leave rural towns to take employment in cities that offer retirement benefits that they can live on. Those families would have generated economic activity and tax revenue in rural Nebraska but that has evaporated.

The Legislature needs to revisit this experiment and develop a solution so that these dignified professionals are able to retire after long and distinguished careers without immediately slipping into poverty.