

Bond Case Briefs

Municipal Finance Law Since 1971

The Wrong Way to Keep Cops and Firefighters on the Job.

As Dallas has learned with a gold-plated pension enhancement, it would be smarter to just pay better salaries.

The systems we live under vary from place to place, but no system can change the human impulse to shift problems to someone else. Yet another example of this comes from Dallas, where the Police and Fire Pension System has indefinitely suspended admission to its breathtakingly costly Deferred Retirement Option Plan (DROP) beginning on April 1.

Like most public-safety DROPs, Dallas' version was designed as a recruitment tool and an incentive to keep experienced police officers and firefighters on the job. It allows officers and firefighters who have served for at least 20 years to collect a pension even as they continue to work. Instead of going into employees' pockets, however, the payments are deposited into separate accounts with guaranteed interest rates of 8-10 percent annually that are paid by the pension system. Police officers and firefighters can contribute to DROP for as long as they continue to work.

The plan is certainly a potent incentive for attracting and retaining public-safety personnel. One DROP member has an account of more than \$3 million, 13 have accumulated over \$2 million and 283 have more than \$1 million socked away. The average account contains \$422,000.

But it isn't so good for the Police and Fire Pension System. Maintaining the plan has cost the system about \$325 million and threatens its long-term viability. The \$1.35 billion invested in DROP accounts for more than 40 percent of the pension system's assets.

DROP was created in 1993 because Dallas police and fire salaries were — as they continue to be — lower than those in other north Texas municipalities. The problem is that the pension incentive ends up costing the taxpayers far more than simply raising police and fire salaries would. But salaries are paid out of police and fire budgets, whereas the DROP approach shifts the burden to the pension system.

Employees become eligible for DROP after 20 years because that's the point at which police officers and firefighters can retire and begin collecting a pension. Although experience is surely important, the miracle of compound interest creates an incentive for 60-somethings to stay as long as possible in very physically demanding jobs. As Lee Kleinman, who is a member of both the Dallas city council and the Police and Fire Pension System board, told the Dallas Morning News, the city could hire two younger officers, who might be more attuned to the latest policing technologies, for the cost of an older, better-paid officer.

DROP also shines a light on the underlying problem of a system that allows public workers to begin collecting pensions after 20 years, regardless of age. While I have no problem with enhanced pensions for public-safety workers, taxpayers should not be expected to provide ex-police officers and firefighters in their 40s with pensions for life as those former public employees embark on second careers.

It's easy to shift the burden of attracting and retaining police officers and firefighters from department budgets to the Dallas Police and Fire Pension System, but it's not right. Political leaders' have a fiduciary responsibility to city taxpayers, and that responsibility should lead them to take the far more cost-effective approach of ensuring a high-quality public-safety workforce by offering competitive police and fire salaries.

GOVERNING.COM

BY CHARLES CHIEPPO | JANUARY 23, 2015

Charlie_Chieppo@hks.harvard.edu

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com