



Benefit Enhancement in Public Employee Defined Benefit Pension Plans: Evidence from Three Sources

Michael Mannino^a and Elizabeth S. Cooperman^b

a.,b. Business School, University of Colorado Denver, Colorado

Abstract: This study examines the prevalence, costs, and deferred compensation levels associated with pension plan benefit enhancement provisions often referred to as pension padding or spiking. Due to the difficulty to obtain data, three diverse sources of evidence are used: (1) an examination of reports on pension benefit enhancement presented in the financial press; (2) a survey of managers of state and local public employee pension plans; and (3) an empirical evaluation of two unique datasets of retiree characteristics and salary histories. We find evidence of excessive costs in the financial press, prevalence of overtime inclusion and loose limits on salary growth in the survey, and excessive near-retirement salary growth in the retiree data sets. This evidence suggests a strong principal-agent conflict circumventing a primary advantage of defined benefit pension plans, the ability to retain personnel with low costs during the near retirement period.

Key Words: Defined Benefit Plans, Public Pensions, Retirement Policies, Compensation Packages, Public Employees, Pension Padding

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