

# AARP IN THE STATES



## OVERVIEW: Utah Retirement System

The **Utah Retirement System (URS)** provides a combination plan for public employees. It offers participation in both a traditional defined benefit (DB) pension and a defined contribution (DC) retirement plan. A DB pension provides a modest, but stable monthly income over a retiree's life, while a DC plan provides a portable, individual account where the amount of money accumulated at retirement depends on contributions, investment earnings, and age.

### Key facts about the plan and its benefits:



**56,299**

Total active members of Utah Retirement System.



**45%**

After a 30-year career, a retirement benefit from URS will replace 45% of an employee's pre-retirement income. The amount of money accumulated in a DC retirement account at the time the employee decides to retire varies.



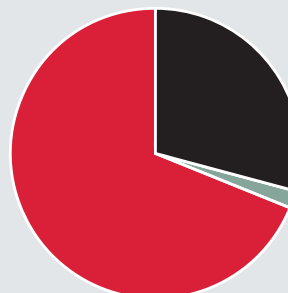
**\$1,910**

Average plan benefit paid to retired URS members each month.

### Public plans are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New URS employees contribute for any DB plan costs that exceed 10% of pay. Over time, investment income earned by the plan does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 29.24% of the cost of the pension benefits in Utah.

**68.9%**  
Investment Earnings



**29.2%**  
Employer Contributions

**1.9%**  
Employee Contributions

### The spending from the retirement checks of the 53,404 retired public employees helps support:



**\$3.3 billion**

in economic output in Utah.



**19,639 jobs**

paying \$934.8 million in wages supported by retirees' spending from public pensions in Utah.



**\$557.6 million**

in federal, state, and local tax revenues based on spending of pension benefits in Utah.

### Pension benefits are a good deal for the economy too:

Each dollar "invested" by Utah taxpayers (employers) in these DB plans supported **\$5.58** in total economic activity in the state.



**\$1.00**



**\$5.58**



All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.



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## PRIMER: Utah Retirement System

The Utah Retirement System (URS) provides benefits to qualified public employees and teachers. It provides a combination plan for public employees that offers a defined benefit (DB) pension and a defined contribution (DC) retirement plan. URS provides a DB pension to employees hired before 7/1/11. Utah's public employees are covered by Social Security.

### The URS Pension Works for Utah Stakeholders



Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.



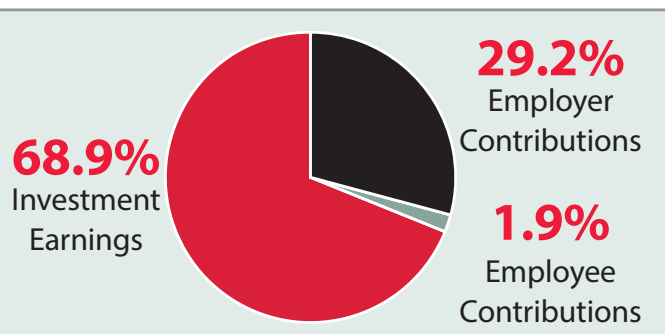
The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.



Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

### Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New URS employees contribute for any DB plan costs that exceed 10% of pay. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 29.24% of the cost of benefits in Utah.



### Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:



### Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

## URS Key Facts



URS serves 56,299 active employees and 53,404 retired members and survivor beneficiaries.



New URS employees contribute for any DB plan costs that exceed 10% of pay.



Employers contribute 10% of pay to the plan.



The average monthly retirement benefit for members is \$1,910.



After a 30-year career, a retirement benefit from URS will replace 45% of an employee's pre-retirement income. The amount of money accumulated in a DC retirement account at the time the employee decides to retire varies.

## Historical URS Funding Experience

Utah established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, URS had \$25.18 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

### Utah Paid 100% of Weighted Average Percent of ADC from FY2001-FY2019 for URS



## Utah Made Plan Changes to URS in Recent Years

Following the global stock market crash in 2008-2009, Utah policymakers proactively made changes to the plan designed to ensure long-term sustainability. These included:

- Utah closed its defined benefit (DB) plan to new employees in July 2011. Employees hired since 7/1/11 can choose a combined DB/DC plan or a DC plan only. The DB Component has lower benefits than the closed plan with maximum cost of living adjustment (COLA), a reduced multiplier, increased requirements for normal retirement and greater reductions for early retirement.
- When the cost of DB plan is less than 10% of employee's salary, the difference is deposited to a DC account. Employees in the DC only account plan receive an employer contribution of 10% of pay.

## The Economic Impact of Utah Pensions:



**\$3.3 billion**

in economic output generated by retirees' spending from public pensions in Utah.



**19,639 jobs**

paying \$934.8 million in wages supported by retirees' spending from public pensions in Utah.



**\$557.6 million**

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### Pensions Help Deliver Quality Education in Utah

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.

Because pensions help attract and retain workers, Utah can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Utah, as enrollment in traditional teacher preparation programs has *declined by 32%* between 2009-2010 and 2017-2018.

### Pensions Disproportionately Benefit Rural Areas

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### Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 19 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 10 percent. In Utah, teachers experience a 23% wage gap when compared to other college graduates in the workforce.<sup>2</sup>



19%  
teacher  
wage gap

offset  
by...



9% teacher  
benefit  
advantage

reduces...



the teacher  
compensation  
gap to 10%

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



83%

83 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



74%

74 percent of Americans agree that teachers deserve pensions to compensate for lower pay.<sup>3</sup>

# Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.<sup>4</sup>

**8.6%**



Percentage of Utah teachers who leave education.

**253**



The number of Utah teachers retained each year due to the DB pension.

**\$1.3M to \$2.9M**



Savings created by the DB system through reduced teacher turnover costs in school districts across Utah.

## URS Key Facts



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Employers contribute 10% of pay to the plan.



The average monthly retirement benefit for members is \$1,910.



URS has \$25.1 billion in assets and \$3.6 billion in unfunded actuarial accrued liability.<sup>5</sup>

## The Economic Impact of Utah Pensions

**\$3.3 billion**



in economic output generated by retirees' spending from public pensions in Utah.

**19,639 jobs**



paying \$934.8 million in wages supported by retirees' spending from public pensions in Utah.

**\$557.6 million**



in federal, state, and local tax revenues based on spending of pension benefits in Utah.<sup>6</sup>

<sup>1</sup> Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

<sup>2</sup> Allegretto, S. A. and Mishel, L. 2020. "Teacher pay penalty dips but persists in 2019." Washington, DC. Economic Policy Institute.

<sup>3</sup> Oakley, D. and Kenneally, K. 2019. "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Washington, DC. NIRS.

<sup>4</sup> Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement." Washington, DC. NIRS.

<sup>5</sup> All data, unless otherwise noted, as of fiscal year ended 2019.

<sup>6</sup> Boivie, I. 2021. "Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.