

Overview

The Employees' Retirement System of Alabama (ERS) is a component of the Retirement Systems of Alabama. ERS was established in 1945 to provide benefits to state employees, state police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The system provides a defined benefit (DB) pension for its 85,633 active employees, and 41,793 retirees and beneficiaries.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby **both employees and employers contribute to the pension fund** over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have greatest opportunity to achieve financial security in retirement.

Key Facts

- General employees contribute 7.25% of salary to ERS.
- Employers contribute 9.42% to the fund for general employees.
- Each dollar invested by Alabama taxpayers in ERS supported \$7.79 in total economic activity in the state.



Key ERS Data¹

The chart below summarizes the key ERS data, as of September 30, 2011:

Total active employees	85,633
Total retired members and survivor beneficiaries*	41,793
Average annual retirement allowance	9.42% for state employees; 29.92% for state police
Employer contribution rate	7.25% for general employees; 8.25% for law enforcement, corrections officers, and fire- fighters; 10.0% for state police
Employee contribution rate **	5% for non-hazardous employees 8% for hazardous employees
Actuarial value of assets	\$9.4 billion
Funded ratio	65.8%
Unfunded actuarial accrued liability	\$4.9 billion

*Includes employees of the Deferred Retirement Option Program (DROP).

**Effective October 1, 2011.

The Economic Impact of Alabama Pensions²

Expenditures made by retirees of state and local government provide a steady economic stimulus to Alabama communities and the state economy. Within the state of Alabama, 2012 expenditures stemming from state and local pensions supported:

- 36,063 jobs that paid \$1.4 billion in wages and salaries
- \$4.8 billion in total economic output
- \$559.2 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.63 in total economic activity in Alabama.

Each dollar “invested” by Alabama taxpayers in these plans supported \$7.79 in total economic activity in the state.

¹ All data, unless otherwise noted, as of fiscal year ended September 30, 2011.

² Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures*. Washington, DC: National Institute on Retirement Security.

The following provides a snapshot of key data relative to the **Employees' Retirement System of Alabama (ERS)**. ERS provides retirement benefits to state employees, state police, and, on an elective basis, to qualified persons of cities, towns, and quasi-public organizations. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

\$7.79 The total economic activity in Alabama for each dollar invested by Alabama taxpayers in ERS

\$4.8 billion Total economic output in Alabama created in 2012 when public sector retirees spent their pension income.

\$559.2 million Federal, state and local tax revenues generated by spending of Alabama public pension income.

36,063 Jobs created from pension income spending by Alabama state and local government retirees.

85,633 Total active members of Employees' Retirement System of Alabama.

\$16,682 Average annual pension benefit for an ERS retiree.

7.25 Percentage of salary that ERS general employees contribute from every paycheck to their pension benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

60.375 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service.

80 Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data come from either the Retirement Systems of Alabama or the National Institute on Retirement Security.



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Overview

The Teachers' Retirement System of Alabama (TRS) is a component of the Retirement Systems of Alabama. TRS was established in 1939 to provide benefits to qualified persons employed by state-supported educational institutions. The system provides defined benefit (DB) pension benefits for its 135,768 active school employees and 80,248 retirees and beneficiaries.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby **both employees and employers contribute to the pension fund** over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have greatest opportunity to achieve financial security in retirement.

Key Facts

- Employees contribute 7.25% of salary to TRS.
- Employers contribute 10% of salary to the fund.
- Each dollar invested by Alabama taxpayers in ERS supported \$7.79 in total economic activity in the state.



▶ Key TRS Data¹

The chart below summarizes the key data for TRS, as of September 30, 2011:

Total active employees	135,768
Total retired members and beneficiaries*	80,248
Average annual retirement allowance	\$18,471
Employer contribution rate	10.0%
Employee contribution rate**	7.25%
Actuarial value of assets	\$19.4 billion
Funded ratio	67.5%
Unfunded actuarial accrued liability	\$9.3 billion

*Includes employees of the Deferred Retirement Option Program (DROP).

**Effective October 1, 2011.

▶ The Economic Impact of Alabama Pensions²

Expenditures made by retirees of state and local government provide a steady economic stimulus to Alabama communities and the state economy. Within the state of Alabama, 2012 expenditures stemming from state and local pensions supported:

- 36,063 jobs that paid \$1.4 billion in wages and salaries
- \$4.8 billion in total economic output
- \$559.2 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.63 in total economic activity in Alabama.

Each dollar “invested” by Alabama taxpayers in these plans supported \$7.79 in total economic activity in the state.



¹ All data, unless otherwise noted, as of fiscal year ended September 30, 2011.

² Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures*. Washington, DC: National Institute on Retirement Security.

The following provides a snapshot of key data relative to the **Teachers' Retirement System of Alabama (TRS)**. TRS provides retirement benefits for public school employees in Alabama. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

\$7.79 The total economic activity in Alabama for each dollar invested by Alabama taxpayers in ERS

\$4.8 billion Total economic output in Alabama created in 2012 when public sector retirees spent their pension income.

\$559.2 million Federal, state and local tax revenues generated by spending of Alabama public pension income.

36,063 Jobs created from pension income spending by Alabama state and local government retirees.

135,768 Total active members of TRS.

\$18,471 Average annual pension benefit for an TRS retiree.

7.25 Percentage of salary that employees contribute from every pay-check to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

60.375 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

333 The number of teachers retained each year solely due to the defined benefit (DB) plan.

\$3.7 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Retirement Systems of Alabama or the National Institute on Retirement Security.

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."¹

Key Facts

- Employees contribute 7.25% of salary out of each paycheck to the pension fund.
- The average retirement benefit is \$18,471 per year, or \$1,539 per month.
- TRS covers 135,768 active school employees and 80,248 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The TRS pension replaces 60.375% of pre-retirement income for a teacher with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.²

Public school teachers in Alabama have pension coverage through the Teachers' Retirement System of Alabama (TRS).

TRS covers 135,768 active school employees, and 80,248 retired school employees and beneficiaries. Employees contribute 7.25% out of each of their paychecks to the pension fund. The average retirement benefit is \$18,471 per year, or \$1,539 per month.

The TRS pension replaces 60.375% of pre-retirement income for a teacher with 30 years of service. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

▶ Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.³ More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.⁴ Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 82% of Americans indicated that those with pensions are more likely to have a secure retirement, and 82% believe all workers should have access to a pension plan.⁵

▶ Pensions Help Retain Quality Teachers in Alabama⁶

Better teachers are experienced 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.

In Alabama:

- The cost of turnover in Alabama is \$11,007 per teacher.
- 333 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$3.7 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: AARP's Educator Community is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.



^{1, 2} Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

³ Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

⁴ Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide*. Washington, DC: Economic Policy Institute.

⁵ Oakley, D., and K. Kenneally. *Pensions and Retirement Security 2013: A Roadmap for Policy Makers*. Washington, DC: National Institute on Retirement Security.

⁶ Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.