

Overview

The Arizona State Retirement System (ASRS) was established in 1953 to provide retirement, long-term disability, and other benefits to employees of the state, counties, municipalities, universities and community colleges, school districts and other political entities. Today, the system provides a defined benefit (DB) pensions for 536,056 Arizona employees, retirees, and other beneficiaries.

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.

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A 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.

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.

The ASRS includes:

- Defined Benefit Plan for qualified Arizona public employees
- Health Insurance premium benefit program for qualified retired members
- Long Term Disability Income Plan for qualified Arizona public employees
- Defined Contribution Plan (System) for qualified Arizona public employees
- Optional supplemental salary deferral retirement savings plans

The first teacher retired with an Arizona State teacher’s pension in 1912, and the Teachers’ Retirement System was established on July 1, 1943. Today, the ASRS covers the three state universities, community college districts, school districts, and charter schools, in all 15 counties, most cities and towns, and a variety of special districts.

Key ASRS Data¹

The chart below summarizes the key data for ASRA, as of 2010:

	State Employees	Teachers
Total active employees	220,323	70,063*
Total retired members and survivor beneficiaries	98,670	29,271*
Average annual retirement pension benefit	\$19,426	N/A
Employer contribution rate**	10.10%	10.10%
Employee contribution rate**	11.39%	11.39%
Total assets	\$28.8 billion	
Funded ratio	76.7%	
Unfunded actuarial accrued liability	\$8.7 billion	
<small>* Data from 2009 ** Includes contributions to the Retirement Pension & Health Insurance Benefit as well as Long Term Disability Income Plan. In 2011, the employer/employee contribution split was changed from 50/50 to 47/53.</small>		

The Economic Impact of Arizona Pensions²

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

- 42,542 jobs that paid \$1.9 billion in wages and salaries
- \$5.9 billion in total economic output
- \$791.7 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.77 in total economic activity in Arizona. Each dollar “invested” by Arizona taxpayers in these plans supported \$5.93 in total economic activity in the state.

¹ All data as of the 6/30/2010 ASRS valuation.

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 **Arizona State Retirement System (ASRS)**. ASRS was established in 1953 to provide retirement benefits for employees of the state of Arizona. Today, the system provides a defined (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

5.93 Percentage of salary that Arizona employees currently contribute from every paycheck to their pension benefit to share the funding responsibility.

55 Percentage of pre-retirement income replaced by the DB pensions plan for an employee with 25 years of service.

42,542 Jobs created from pension benefit spending by Arizona state and local government retirees.

503 The number of teachers retained each year solely due to the DB plan.

536,056 Arizona employees, retirees, and beneficiaries included in ASRS.

\$5.6 million Teacher turnover cost savings generated by the retention affect of the DB pension.

\$791.7 million Federal, state and local tax revenues generated by spending of Arizona public pension benefit checks.

\$5.9 billion Total economic output in Arizona created in 2006 when public sector retirees spend their pension benefits.

All data comes from either the Arizona State Retirement System or the National Institute on Retirement Security.



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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

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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 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

All public school teachers in Arizona have pension coverage through Arizona State Retirement System (ASRS).

- The plan covers 70,063 retirees and 29,271 beneficiaries.
- Teachers contribute 11.39% of salary out of each paycheck to the pension fund.
- The average teacher benefit is \$19,426 per year, or \$1,619 per month.

The DB pensions plan replaced 55% of pre-retirement income for a teacher with 25 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

Research indicates that workers seem to value pensions so highly that they willingly forego higher wages in order to be ensured guaranteed retirement income. This suggests that teacher pensions play an important role in offsetting the financial impact of lower salaries.

▶ Pensions Help Retain Good Teachers in Arizona⁵

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 Arizona:

- The cost of turnover in Arizona is \$11,070 per teacher.
- 503 teachers are retained each year due to a DB plan.
- The DB pension system saved \$5.6 million in teacher turnover costs in 2003 in school districts across the state.

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

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