

### Overview

The Arkansas Public Employees Retirement System (APERS) was established by the General Assembly in 1957 as a multi-employer defined retirement plan for employees of the state of Arkansas. The system provides a defined benefit (DB) pension for its 45,937 active employees, and 29,282 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 5.0% of salary to APERS.\*\*\*
- Employers contribute 14.88% to the fund.
- Each dollar invested by Arkansas taxpayers in APERS supported \$5.39 in total economic activity in the state.



## Key APERS Data<sup>1</sup>

The chart below summarizes the key APERS data, as of June 30, 2012:

Total active employees*	45,937
Total retired members and survivor beneficiaries**	29,282
Average annual retirement allowance	\$13,644
Employer contribution rate	14.88%
Employee contribution rate ***	5.0%
Actuarial value of assets	\$5.6 billion
Funded ratio	68.9%
Unfunded actuarial accrued liability	\$2.5 billion

\* Does not include district judges.

\*\* Includes Deferred Retirement Option Plan (DROP) participants.

\*\*\* All employees hired after July 1, 2005 contribute 5%. Employees hired earlier have the option of the contributory or non-contributory plan.

## The Economic Impact of Arkansas Pensions<sup>2</sup>

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

- 17,395 jobs that paid \$678.8 million in wages and salaries
- \$2.5 billion in total economic output
- \$335.8 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.75 in total economic activity in Arkansas.

Each dollar “invested” by Arkansas taxpayers in these plans supported \$5.39 in total economic activity in the state.

<sup>1</sup> All data, unless otherwise noted, as of September 30, 2011.

<sup>2</sup> 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 **Arkansas Public Employees Retirement System (APERS)**. APERS provides retirement benefits for state employees. 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.

**\$5.39 billion** The total economic activity in Arkansas for each dollar invested by Arkansas taxpayers in ATRS.

**\$2.5 billion** Total economic output in Arkansas created in 2012 when public sector retirees spent their pension income.

**\$335.8 million** Federal, state and local tax revenues generated by spending of Arkansas public pension income.

**17,395** Jobs created from pension income spending by Arkansas state and local government retirees.

**45,937** Total active members of APERS.

**\$13,644** Average annual pension benefit for an APERS retiree.

**5.0** Percentage of salary that APERS employees hired after 2005 contribute from every pay-check to their pension benefit to share the funding responsibility.

**5.0** Median employee contribution rate nationally.

**61** Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a new 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 APERS or the National Institute on Retirement Security.



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### Overview

The Arkansas Teacher Retirement System (ATRS) was established in 1937. The system provides defined benefit (DB) pension benefits Arkansas's public school and education employees, including 71,195 active employees and 34,160 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 6.0% of salary to ATRS.\*\*
- Employers contribute 14.0% of salary to the fund.
- Each dollar invested by Arkansas taxpayers in ATRS supported \$5.39 in total economic activity in the state.



## ▶ Key ATRS Data<sup>1</sup>

The chart below summarizes the key data for ATRS, as of June 30, 2012:

Total active employees	71,195
Total retired members and beneficiaries*	34,160
Average annual retirement allowance	\$20,760
Employer contribution rate	14.0%
Employee contribution rate**	6.0%
Actuarial value of assets	\$11.5 billion
Funded ratio	71.2%
Unfunded actuarial accrued liability	\$4.7 billion

\* Includes teacher deferred retirement option plan (T-DROP) participants.

\*\* All employees hired after July 1, 1999 contribute 6%. Employees hired earlier have the option of the contributory or non-contributory plan.

## ▶ The Economic Impact of Arkansas Pensions<sup>2</sup>

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

- 17,395 jobs that paid \$678.8 million in wages and salaries
- \$2.5 billion in total economic output
- \$335.8 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.75 in total economic activity in Arkansas.

Each dollar “invested” by Arkansas taxpayers in these plans supported \$5.39 in total economic activity in the state.



<sup>1</sup> All data, unless otherwise noted, as of fiscal year ended June 30, 2012.

<sup>2</sup> 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 **Arkansas Teacher Retirement System (ATRS)**. ATRS provides retirement benefits for public school employees in Arkansas. 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.

**\$5.39 billion** The total economic activity in Arkansas for each dollar invested by Arkansas taxpayers in ATRS.

**\$2.5 billion** Total economic output in Arkansas created in 2012 when public sector retirees spent their pension income.

**\$335.8 million** Federal, state and local tax revenues generated by spending of Arkansas public pension income.

**17,395** Jobs created from pension income spending by Arkansas state and local government retirees.

**71,195** Total active members of ATRS.

**\$20,760** Average annual pension benefit for an ATRS retiree.

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

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

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

**\$1.8 million** Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either ATRS or the National Institute on Retirement Security.



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### 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."<sup>1</sup>

### Key Facts

- Employees contribute 6.0% of salary out of each paycheck to the contributory pension plan.
- The average retirement benefit is \$20,760 per year, or \$1,730 per month.
- ATRS covers 71,195 active school employees and 34,160 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The ATRS pension replaces 64.5% 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.<sup>2</sup>

All public school teachers in Arkansas have pension coverage through the Arkansas Teacher Retirement System (ATRS).

ATRS covers 71,195 active public school and education employees, and 34,160 retired school employees and beneficiaries. Employees contribute 6.0% out of each of their paychecks to the pension fund, if they participate in the contributory plan. The average retirement benefit is \$20,760 per year, or \$1,730 per month.

The ATRS contributory pension replaces 64.5% 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.<sup>3</sup> More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.<sup>4</sup> 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.<sup>5</sup>

## ▶ Pensions Help Retain Quality Teachers in Arkansas<sup>6</sup>

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 Arkansas:

- The cost of turnover in Arkansas is \$10,015 per teacher.
- 182 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$1.8 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.



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

<sup>3</sup> 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.

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

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

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