AARP in the STATES

SNAPSHOT: California Public Employees' Retirement System

Overview

The California Public Employees' Retirement System (CalPERS) was established by legislation in 1931, and today is the nation's largest public pension fund. The system provides defined benefit (DB) retirement and health benefit services to more than 1.6 million people and 3,064 school and public employers. CalPERS is comprised of a total of 12 funds, including the Public Employees' Retirement Fund (PERF), whose participants include non-teaching and non-certificated school employees, as well as safety, state industrial, and general employees.

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

- School employees contribute 7% of salary to CalPERS.
- Employers contribute an average of 17.606% to the fund.
- Each dollar invested by California taxpayers in CalPERS supported $5.96 in total economic activity in the state.

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Key CalPERS PERF Data[1]

The chart below summarizes the key CalPERS PERF data, as of June 30, 2011:

	School Employees	Total PERF
Total active employees*	302,422	786,586
Total retired members and survivor beneficiaries*	177,201	543,722
Average annual retirement allowance	$28,089	
Employer contribution rate**	17.606%	
Employee contribution rate *	7.0%	5% to 11% for miscellaneous and industrial employees
Actuarial value of assets	$271.4 billion	$5.6 billion
Funded ratio	82.6%	68.9%
Unfunded actuarial accrued liability	$57.2 billion	$2.5 billion

* As of June 30, 2012.
**Average among all PERF employers.

The Economic Impact of California Pensions[2]

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

- 376,527 jobs that paid $20.8 billion in wages and salaries
- $60.3 billion in total economic output
- $10.9 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.65 in total economic activity in California.

Each dollar "invested" by California taxpayers in these plans supported $5.96 in total economic activity in the state.

[1] All data, unless otherwise noted, as of September 30, 2011.

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

AARP in the STATES

The California Public Employees' Retirement System By the Numbers

The following provides a snapshot of key data relative to the **California Public Employees' Retirement System (CalPERS)**. CalPERS provides retirement and health benefits for state employees, including non-teaching and non-certificated school employees, as well as safety, state industrial, and general 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.

$5.96 The total economic activity in California for each dollar invested by California taxpayers in CalPERS.

$60.3 billion Total economic output in California created in 2012 when public sector retirees spent their pension income.

$10.9 billion Federal, state and local tax revenues generated by spending of California public pension income.

376,572 Jobs created from pension income spending by California state and local government retirees.

788,272 Total active members of CalPERS.

$28,089 Average annual pension benefit for a CalPERS retiree.

7.0 Percentage of salary that CalPERS school employees contribute from every pay¬check to their pension benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

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

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SNAPSHOT: California State Teachers' Retirement System

Overview

The California State Teachers' Retirement System (CalSTRS) was established one hundred years ago, and today is the largest educator-only pension fund in the world. The system provides comprehensive retirement plan that includes a defined benefit (DB) plan, a cash balance plan similar to a 401(k) but with a minimum earnings guarantee, and a defined contribution plan for its 421,499 active public school employees and 262,038 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. **CalPERS members do not participate in Social Security.**

Key Facts

- Employees contribute 8% of salary to CalSTRS.
- Employers contribute 8.25% of salary to the fund.
- Each dollar invested by California taxpayers in CalSTRS supported $5.96 in total economic activity in the state.

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Key CalSTRS Data[1]

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

Total active employees	421,499
Total retired members, disabled members, and beneficiaries	262,038
Average annual retirement benefit	$39,912
Employer contribution rate	8.25% from employers; 2.541% from the state
Employee contribution rate	8.0%
Actuarial value of assets (DB program)	$144.2 billion
Funded ratio (DB program)	67%
Unfunded actuarial accrued liability (DB program)	$71.0 billion

The Economic Impact of California Pensions[2]

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

- 376,527 jobs that paid $20.8 billion in wages and salaries
- $60.3 billion in total economic output
- $10.9 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.65 in total economic activity in California.

Each dollar "invested" by California taxpayers in these plans supported $5.96 in total economic activity in the state.

[1] All data, unless otherwise noted, as of fiscal year ended June 30, 2011.

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

AARP in the STATES

California State Teachers' Retirement By the Numbers

The following provides a snapshot of key data relative to the **California State Teachers' Retirement System (CalSTRS)**. CalSTRS provides retirement benefits for public school employees in California. 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.

$5.96 The total economic activity in California for each dollar invested by California taxpayers in CalSTRS.

$60.3 billion Total economic output in California created in 2012 when public sector retirees spent their pension income.

$10.9 billion Federal, state and local tax revenues generated by spending of California public pension income.

376,572 Jobs created from pension income spending by California state and local government retirees.

421,499 Total active members of CalSTRS.

$39,912 Average annual pension benefit for an CalSTRS retiree.

8.0 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 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. CalSTRS members do not participate in Social Security.

1,825 The number of teachers retained each year solely due to the defined benefit (DB) plan.

$26.1 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

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

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SNAPSHOT: Pensions for California Teachers

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 8% of salary out of each paycheck to the pension fund.
- The average retirement benefit is $39,912 per year, or $3,326 per month.
- CalSTRS covers 421,499 active school employees 262,038 retired and disabled school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The CalSTRS pension replaces 60% 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. CalSTRS members do not participate in Social Security.

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 California have pension coverage through CalSTRS.

CalSTRS covers 421,499 active employees of public educational institutions, and 262,038 retired and disabled school employees and beneficiaries. Employees contribute 8.0% out of each of their paychecks to the pension fund. The average retirement benefit is $39,912 per year, or $3,326 per month.

The CalSTRS pension replaces 60% 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. CalSTRS members do not participate in Social Security.

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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 California[6]

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 California:

- The cost of turnover in California is $14,304 per teacher.
- 1,825 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $26.1 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. 2013. *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.