

Overview

The Employees' Retirement System of Georgia (ERS) was established in 1949. The system provides a defined benefit (DB) pension for its 63,963 active employees and 42,053 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. DB pension benefits are a function of an employee's years of service and salary at the end of one's career. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund, which then grows with investment earnings. Contributions are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Hybrid plans combine DB pensions, typically with lower retirement benefits, that help retain employees with individual defined contribution (DC) accounts, such as 401(k) accounts, that offer employees portability if they leave before retirement age. A 401(k) account has no income guarantee; instead employees and employers contribute a percent of salary over a worker's career to an account that grows with investment returns. The DB pension cost advantages based on pooling investment and longevity risk across the plan are lost with the DC account where those risk and the risk of inflation are shifted to employees. Whether the 401(k) account will deliver sufficient resources to meet employee's retirement income needs depends on the amount contributed, investment returns and fees charged, withdrawals from the plan and how long the individual lives in retirement.

Since January 1, 2009, 20,200 recently hired state employees in participate in the Georgia State Employees' Pension and Savings Plan (GSEPS). As a "hybrid" plan, with both DB and 401(k) components, GSEPS provides a DB benefit formula that is half of that in the ERS plan—1% of pay, versus 2% of pay for most employees in the ERS plan. The GSEPS has a 401(k) component and automatically enrolls employees with a contribution rate of 1% of their salary, along with a matching 1% contribution from the state. Employees can elect to contribute up to an additional 4% and the state will match 50% of those contributions for maximum 3% employer contribution.

The hybrid plan approach reduces the economic efficiencies found in DB pensions, which enable traditional pensions to provide the same level of benefits at half of the cost of 401(k) accounts. Also, research shows that the rates of poverty for older American households without DB pension income were nine times greater than the rates of poverty among older households with DB pension income in 2010.

Key Facts

- Most employees contribute 1.25% of salary to ERS. Employees in GSEPS contribute 1.25% of pay to the DB plan and 1% to the 401(k) plan.
- Employers contribute 11.63% to the fund.
- Each dollar invested by Georgia taxpayers in ERS supported \$6.76 in total economic activity in the state.

▶ Key Georgia ERS Data¹

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

| | |
|--|---|
| Total active employees | 63,963 |
| Total retired members and beneficiaries | 42,053 |
| Average annual retirement benefit for a new 2012 retiree | \$25,318 |
| Employer contribution rate* | 11.63% |
| Employee contribution rate** | 1.25% |
| Actuarial value of assets | \$11.5 billion |
| Funded ratio | 34.7% |
| Unfunded actuarial accrued liability | \$21.6 billion |
| Percent of ARC contributed | 100% in 2006; 100% in 2007; 100% in 2008; 99.9% in 2009; 100% in 2010; 100% in 2011 |

* The employer contribution rate for the DB benefits only under GSEPS is 7.42%.

** Employees hired before July 1, 1982 contribute 4% of pay up to \$4,200, plus 6% pay over \$4,200, which is treated as an employer “pick up” contribution of 4.75% (included as part of the total 11.63% employer rate).

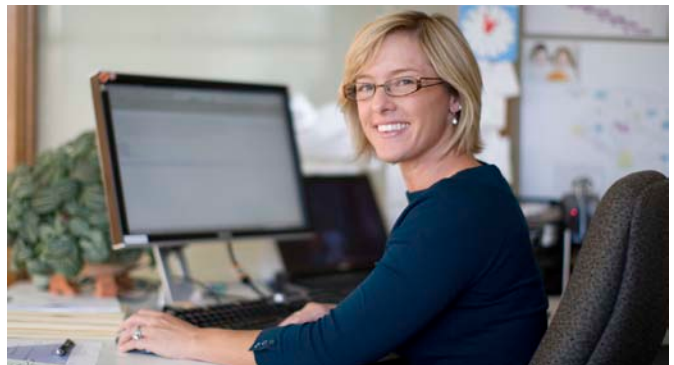
▶ The Economic Impact of Georgia Pensions²

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

- 72,589 jobs that paid \$3.3 billion in wages and salaries
- \$10.4 billion in total economic output
- \$1.2 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.94 in total economic activity in Georgia.

Each dollar “invested” by Georgia taxpayers in these plans supported \$6.76 in total economic activity in the state.



¹ All data, unless otherwise noted, as of June 30, 2012.

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 Georgia (ERSGA)**. ERSGA is a defined benefit retirement plan that provides state employees a modest but stable monthly retirement income based on final earnings and years of service that lasts the remainder of a retiree's life. Since 2009, newly hired employees do not participate in ERSGA, but are members of the **Georgia State Employees' Pension and Savings Plan (GSEPS)**, which is a hybrid retirement plan with some of the income based on participation in a 401(k) account.

\$6.76 The total economic activity in Georgia for each dollar invested by Georgia taxpayers in ERS.

\$10.4 billion Total economic output in Georgia created in 2012 when public sector retirees spent their pension income.

\$1.2 billion Federal, state and local tax revenues generated by spending of Georgia public pension income.

72,589 Jobs created from pension income spending by Georgia state and local government retirees.

63,963 Total active members of ERS.

\$25,318 Average annual pension benefit for an ERSGA member who retired in 2012.

1.25 Percentage of salary that ERS employees contribute from every paycheck 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 an employee hired since 1982 and before 2009 with 30 years of service.

30 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee participating in the new GSEPS with 30 years of service. Additional income may come from the amounts accumulated in a 401(k) but it will vary for each employee.

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

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

Overview

The Teachers Retirement System of Georgia (TRS) was established in 1943. The system provides defined benefit (DB) pension benefits for employees of the state's public school systems, technical colleges, Regional Educational Service Agency units, and all colleges and universities comprising the University System of Georgia (except faculty members electing to participate in the Optional Retirement Plan).

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 are almost always 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 the greatest opportunity to achieve financial security in retirement.

Key Facts

- Employees contribute 6.0% of salary to TRS.
- Employers contribute 11.41% of salary to the fund.
- Each dollar invested by Georgia taxpayers in TRS supported \$6.76 in total economic activity in the state.



▶ Key TRS Data¹

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

| | |
|---|--------------------------------|
| Total active employees | 213,675 |
| Total retired members and beneficiaries | 97,323 |
| Average annual retirement benefit | \$33,684 |
| Employer contribution rate* | 10.28% |
| Employee contribution rate* | 5.53% |
| Actuarial value of assets** | \$55.4 billion |
| Funded ratio** | 84.0% |
| Unfunded actuarial accrued liability** | \$10.6 billion |
| Percent of ARC contributed | 100% every year from 2006-2011 |

* In 2013, contribution rates increased to 6.0% for members and 11.41% for employers.

** As of June 2011.

▶ The Economic Impact of Georgia Pensions²

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

- 72,589 jobs that paid \$3.3 billion in wages and salaries
- \$10.4 billion in total economic output
- \$1.2 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.94 in total economic activity in Georgia. Each dollar “invested” by Georgia taxpayers in these plans supported \$6.76 in total economic activity in the state.



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

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 Georgia (TRS)**. TRS provides retirement benefits for public school employees in Georgia. 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.

\$6.76 The total economic activity in Georgia for each dollar invested by Georgia taxpayers in TRS.

\$10.4 billion Total economic output in Georgia created in 2012 when public sector retirees spent their pension income.

\$1.2 billion Federal, state and local tax revenues generated by spending of Georgia public pension income.

72,589 Jobs created from pension income spending by Georgia state and local government retirees.

213,675 Total active members of TRS.

\$33,683 Average annual pension income for a TRS retiree.

6.0 Percentage of salary that employees contribute from every paycheck 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.

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

\$10.3 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either TRS 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."¹

Key Facts

- Employees contribute 5.53% of salary out of each paycheck to the pension fund.
- The average retirement benefit is \$33,684 per year, or \$2,807 per month.
- TRS covers 213,675 active school employees and 97,323 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The TRS 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.

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

All teachers at Georgia public schools, technical colleges, and colleges and universities comprising the University System of Georgia (except faculty members electing to participate in the Optional Retirement Plan) have pension coverage through the Teachers Retirement System of Georgia (TRS).

TRS covers 213,675 active employees of public educational institutions, and 97,323 retired school employees and beneficiaries. Employees contribute 6.0% out of each of their paychecks to the pension

fund. The average retirement benefit is \$33,684 per year, or \$2,807 per month.

The TRS 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.

▶ 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 Georgia⁶

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 Georgia:

- The cost of turnover in Georgia is \$12,306 per teacher.
- 841 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$10.3 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.