

### Overview

The Employees' Retirement System of the State of Hawaii (ERS) administers retirement benefits for more than 65,000 public employees in the state.

ERS has a contributory defined benefit (DB) plan for employees hired before July 1984. Those hired between July 1984 and 2009 had a noncontributory DB plan. On July 1, 2006, a "hybrid" plan became effective for all new employees. Current participants had the choice to elect to move to the new plan or stay in the current plan. For teachers and general employees, the hybrid benefit provides a defined benefit (DB) multiplier of 2% of final pay. Employee contributions earn an annual interest credit of 4.5% per year on employee contributions and accrued interest. This money can be taken if the participant terminates before retirement, but if so, the member forfeits the full retirement benefit. Employees hired since June 30, 2012 have a lower multiplier of 1.75 percent and they must contribute 8 percent of salary into the hybrid plan.

### Key Facts

- Teachers and general employees contribute 8% of salary to the fund.
- Employers contribute 15.5% to the fund on behalf of teachers and general employees.
- Each dollar invested by Hawaii taxpayers in the pension supported \$4.34 in total economic activity in the state.

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.

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.

Education employees make up about 26% of the active membership in ERS.



## ▶ Key ERS Data<sup>1</sup>

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

	All Employees	Teachers
Total active employees	65,599	17,223
Total retired, disabled, and survivor beneficiaries	40,774	10,642
Employer contribution rate*	16.11%	15.50%
Employee contribution rate**	8.0% for general employees; 12.2% for police and fire	8.0%
Average annual service pension benefit	\$25,402	\$30,708
Actuarial value of assets	\$12.2 billion	
Funded ratio	59.2%	
Unfunded actuarial accrued liability	\$8.4 billion	
Percent of ARC paid	13.0% (2000); 4.9% (2001); 100.0% (2002); 100.0% (2003); 100.0% (2004); 100.0% (2005); 100.0% (2006); 95.3% (2007); 95.7% (2008); 109.9% (2009); 102.1% (2010); 91.8% (2011); 83.7% (2012)	

\* For fiscal year 2013. 16.11% contribution rate for all employees is a weighted average.

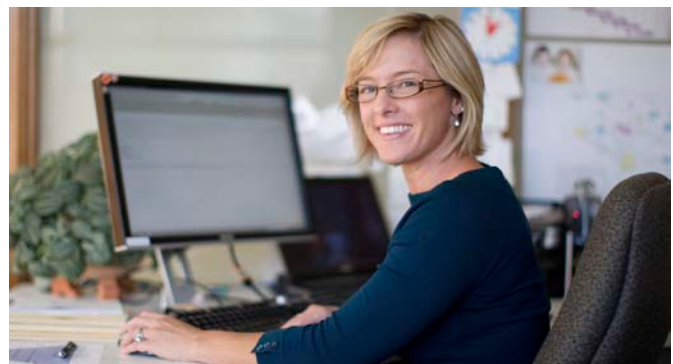
\*\* Employees hired before June 30, 2012 contribute 6.0% of pay to the hybrid plan

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

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

- 13,913 jobs that paid \$640.6 million in wages and salaries
- \$2.0 billion in total economic output
- \$253.6 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.59 in total economic activity in Hawaii. Each dollar “invested” by Hawaii taxpayers in these plans supported \$4.34 in total economic activity in the state.



<sup>1</sup> All data, unless otherwise noted, as of 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 **Employees' Retirement System of the State of Hawaii (ERS)**. ERS provides retirement benefits for public employees in Hawaii, including school employees. The system provides a "hybrid" defined benefit (DB) pension, which offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

**\$4.34** The total economic activity in Hawaii for each dollar invested by Hawaii taxpayers in ERS.

**\$2.0 billion** Total economic output in Hawaii created in 2012 when public sector retirees spent their pension income.

**\$253.6 million** Federal, state and local tax revenues generated by spending of Hawaii public pension income.

**13,913** Jobs created from pension income spending by Hawaii state and local government retirees..

**65,599** Total active members of ERS.

**\$30,708** Average annual pension income for a retired teacher in Hawaii.

**6.0** Percentage of salary that teachers contribute from every paycheck to their pension benefit to share the funding responsibility. Employees hired after June 30, 2013 and covered by the Hybrid plan will contribute 8 percent of salary. Nationally, the median employee contribution rate is 5%.

**60** Percentage of pre-retirement income replaced by the hybrid plan for teacher hired prior to June 30, 2013 with 30 years of service, and new employees hired after that date will replace 52.5 percent of pre-retirement income. A replacement ratio of 80 percent from all income sources is considered adequate for a secure retirement.

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

**\$2.0 million** Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the ERS 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."<sup>1</sup>

### Key Facts

- Employees contribute 8% of salary out of each paycheck to the pension fund.
- The average retirement benefit is \$30,708 per year, or \$2,559 per month.
- ERS covers 17,223 active school employees and 10,642 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The hybrid pension replaces 60% of pre-retirement income for a teacher with 30 years of service who were hired before June 30, 2012
- 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>

Public school teachers in Hawaii have pension coverage through the Employees' Retirement System of the State of Hawaii (ERS). Since 2006, ERS provides a "hybrid" pension plan.

ERS covers 17,223 active employees of public educational institutions, and 10,642 retired school employees and beneficiaries. Teachers contribute 6% out of each of their paychecks to the pension fund. The average retirement benefit is \$30,708 per year, or \$2,559 per month.

The hybrid ERS pension replaces 60% of pre-retirement income for a teacher hired prior to June 30, 2012 with 30 years of service and it is lower for newly hired teachers. 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 Hawaii<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 Hawaii:

- The cost of turnover in Hawaii is \$12,175 per teacher.
- 162 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$2.0 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.