Overview

The Maryland State Retirement and Pension System administers retirement, disability, and death benefits to state and local government employees, teachers, law enforcement officers, legislators, judges, and correctional personnel. Included in the System is the Teachers' Retirement System, which was established in 1927, and provides retirement benefits for teachers in the state of Maryland.

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.

Education employees make up about 54% of the active membership in the Maryland State Retirement and Pension System.

Key Facts

- Teachers and general employees contribute 7.0% of salary to the fund.

- Employers contribute 15.45% to the fund on behalf of teachers.

- Each dollar invested by Maryland taxpayers in the pension supported $5.40 in total economic activity in the state.

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▶ Key Maryland Data[1]

The chart below summarizes the key data for the Maryland State Retirement and Pension System, as of June 30, 2012:

	Maryland Retirement and Pension System Total	Teachers Retirement and Pension Systems
Total active employees	192,994	103,694
Total retirees and beneficiaries	132,493	63,699
Employer contribution rate	13.40%*	15.45%
Employee contribution rate	6.0%*	7.0%**
Average annual retirement allowance	$21,227	$19,212**
Actuarial value of assets	$37.3 billion	$22.5 billion
Funded ratio	64.4%	65.8%
Unfunded actuarial accrued liability	$20.6 billion	$11.7 billion
Percent of ARC contributed	77% (2012); 74% (2011) ; 86% (2010); 84% (2009); 89% (2008)	

* Contribution rate for members of the Employees' Pension System.
** Teachers' Pension System only. (The Teachers' Retirement System was closed to new participants in 1980.)

▶ The Economic Impact of Maryland Pensions[2]

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

- 41,933 jobs that paid $2.1 billion in wages and salaries
- $6.1 billion in total economic output
- $890.3 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.64 in total economic activity in Maryland.

Each dollar "invested" by Maryland taxpayers in these plans supported $5.40 in total economic activity in the state.

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[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 **Maryland State Retirement and Pension System**. The System provides retirement benefits for public school employees in Maryland. The Teachers' Pension 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.

$5.40 The total economic activity in Maryland for each dollar invested by Maryland taxpayers in the Maryland State Retirement and Pension System.

$6.1 billion Total economic output in Maryland created in 2009 when public sector retirees spent their pension income.

$890.3 million Federal, state and local tax revenues generated by spending of Maryland public pension income.

41,933 Jobs created from pension income spending by Maryland state and local government retirees.

192,994 Total active members of the Maryland State Retirement and Pension System.

19,212 Average annual pension income for retired teacher with a benefit from the Teachers' Pension System.

7.0 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%.

45% of pre-retirement income replaced by the defined benefit (DB) plan for a teacher hired since 2011 with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

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

$5.7 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Maryland State Retirement and Pension System 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 7% of salary out of each paycheck to the pension fund.

- The average teacher retirement benefit is $19,212 per year, or $1,601 per month.

- The system covers 103,694 active school employees and 63,699 retired school employees and beneficiaries.

- Teachers are paid 14.3% less than comparable private sector workers.

- The pension replaces 45% of pre-retirement income for a teacher hired since July 2011 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]

Since 1980, public school teachers in Maryland have had pension coverage through the Teachers' Pension System, a part of the Maryland State Retirement and Pension System.

The Teachers' Pension System covers 103,694 active employees of public educational institutions, and 63,699 retired school employees and beneficiaries. Employees contribute 7% out of each of their paychecks to the pension fund. The average teacher retirement benefit is $19,212 per year, or $1,601 per month.

The Teachers' Pension System benefit replaces 45% of pre-retirement income for a teacher hired since July 2011 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 Maryland[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 Maryland
- The cost of turnover in Maryland is $13,216 per teacher.
- 428 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $5.7 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.