

 Overview

The Nebraska State Employees' Retirement System was established in 1964 as a defined contribution retirement plan. In 2003, the state replaced the defined contribution plan with a cash balance pension benefit for all new hires. Today, the system provides a cash balance pension benefit for its 11,956 active employees, and 910 retirees and beneficiaries.

Nebraska conducted a large-scale study of the defined contribution (DC) plan it offered to state and county workers, which showed that the return on employees' investments in their DC accounts averaged 6% during the period from 1983 to 1999 whereas the state traditional DB pension achieved an annual return of 11%. Due to the study, state lawmakers passed a bill abandoning the DC plan and creating a Cash Balance (CB) plan.¹ A cash balance pension is a type of defined benefit (DB) retirement plan that offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life.

Cash balance pension benefits generally involve annual pay credits coupled with an annual interest

credit. In Nebraska these benefits are financed in a shared cost model, employees contribute 4.8% of pay to finance their retirement benefit, and employers match that contribution at 156% of the employee rate. The account balance is credited with an interest credit of either 5.0% or the mid-term IRS rate plus 1.5%, whichever is higher. As typical with DB pensions, contributions are pooled in trust 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 4.8% of salary to fund their benefit.
- Employers contribute 7.49% to the fund.
- Each dollar invested by Nebraska taxpayers in the fund supported \$5.88 in total economic activity in the state.

▶ Key Nebraska Data²

The chart below summarizes the key Nebraska data, as of January 1, 2013:

Total active employees	11,956*
Total retired members and beneficiaries	910
Average annual benefit	\$15,353
Employer contribution rate	7.49%
Employee contribution rate	4.8%
Actuarial value of assets	\$1.0 billion
Funded ratio	93.6%
Unfunded actuarial accrued liability	\$68.5 million
Percent of ARC contributed	100% (2007); 100% (2008); 100% (2009); 100% (2010); 100% (2011); 100% (2012)

* Includes 1,246 active members who transferred from the defined contribution plan.

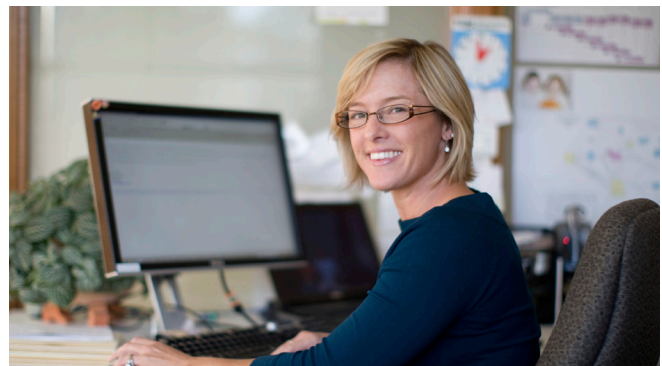
▶ The Economic Impact of Nebraska Pensions³

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

- 10,961 jobs that paid \$481.8 million in wages and salaries
- \$1.7 billion in total economic output
- \$222.7 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.76 in total economic activity in Nebraska.

Each dollar “invested” by Nebraska taxpayers in these plans supported \$5.88 in total economic activity in the state.



¹ Peng, J. *State and Local Pension Fund Management*. 2009. CRC Press. Boca Raton, FL. P.201.

² All data, unless otherwise noted, as of January 1, 2013.

³ 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 **Nebraska State Employees' Retirement System**. The system provides retirement benefits for state employees. The system provides a cash balance pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

\$5.88 The total economic activity in Nebraska for each dollar invested by Nebraska taxpayers in the Nebraska State Employees' Retirement System.

\$1.7 billion Total economic output in Nebraska created in 2012 when public sector retirees spent their pension income.

\$222.7 million Federal, state and local tax revenues generated by spending of Nebraska public pension income.

10,961 Jobs created from pension income spending by Nebraska state and local government retirees.

11,956 Total active members of the Nebraska State Employees' Retirement System.

\$15,353 Average annual pension benefit for a Nebraska retiree.

4.8 Percentage of salary that Nebraska employees contribute from every paycheck to their pension benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

7.49 Percentage of salary that employers contribute to the cash balance benefit.

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

All data come from either the Nebraska State Employees' Retirement System or the National Institute on Retirement Security.



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Overview

The Nebraska School Retirement System was established in 1945. The system provides defined benefit (DB) pension benefits for its 40,314 active public school employees and 19,890 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. In the event that the Savings Annuity, which is based on the accumulated contributions, is larger than the DB formula, then that is the amount of the benefit.

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 9.78% of salary to help finance their retirement benefits.
- Employers contribute 9.88% and the State contributes 2.0% of salary to the fund.
- Each dollar invested by Nebraska taxpayers in the fund supported \$6.49 in total economic activity in the state.



▶ Key Nebraska Teachers' Data²

The chart below summarizes the key School Retirement System data, as of December 2012:

Total active employees	40,314
Total retired members and beneficiaries	19,890
Average annual benefit	\$21,507
Employer contribution rate*	9.88%; state contributes an additional 2.0% of pay
Employee contribution rate**	9.78%
Actuarial value of assets	\$7.7 billion
Funded ratio	77.1%
Unfunded actuarial accrued liability	\$2.28 billion
Percent of ARC contributed	100% (2007); 100% (2008); 100% (2009); 100% (2010); 89% (2011); 88% (2012); 79% (2013)

* Employer rate is 101% of the employee rate. State contribution rate increases to 2.0% in 2014.

** As of September 2012. Prior to that the employee contribution rate was 8.88%.

▶ The Economic Impact of Nebraska Pensions²

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

- 10,961 jobs that paid \$481.8 million in wages and salaries
- \$1.7 billion in total economic output
- \$222.7 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.76 in total economic activity in Nebraska.

Each dollar “invested” by Nebraska taxpayers in these plans supported \$5.88 in total economic activity in the state.



¹ All data, unless otherwise noted, as of December 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 **Nebraska School Retirement System**. The system provides retirement benefits for public school employees in Nebraska. 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.

\$5.88 The total economic activity in Nebraska for each dollar invested by Nebraska taxpayers in the School Retirement System.

\$1.7 billion Total economic output in Nebraska created in 2012 when public sector retirees spent their pension income.

\$222.7 million Federal, state and local tax revenues generated by spending of Nebraska public pension income.e.

10,961 Jobs created from pension income spending by Nebraska state and local government retirees.

40,314 Total active members of the School Retirement System.

\$21,507 Average annual retirement benefit for a retired teacher in Nebraska.

9.78 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 a teacher with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

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

\$1.4 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Nebraska School Retirement System 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."¹

Key Facts

- Employees contribute 9.78% of salary out of each paycheck to the retirement fund.
- The average retirement benefit is \$21,507 per year, or \$1,792 per month.
- SRS covers 40,314 active school employees and 19,890 retired members and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The DB 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

Public school teachers in Nebraska have pension coverage through the Nebraska School Retirement System (SRS).

SRS covers 40,314 active public school employees and 19,890 retirees and beneficiaries. Employees contribute 9.78% out of each of their paychecks to the help fund their retirement benefit. The average retirement benefit is \$21,507 per year, or \$1,792 per month.

The DB 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 83% of Americans indicated that those with pensions are more likely to have a secure retirement, and 81% believe all workers should have access to a pension plan.⁵

Pensions Help Retain Quality Teachers in Nebraska⁶

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 Nebraska:

- The cost of turnover in Nebraska is \$9,970 per teacher.
- 142 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$1.4 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.