

The following provides a snapshot of key data relative to the **Teachers' and State Employees' Retirement System of North Carolina**. The fund provides retirement benefits for teachers and state employees in North Carolina. 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.

**\$10.52** The total economic activity created in North Carolina for each dollar invested by North Carolina taxpayers in the pension fund.

**\$8.5 billion** Total economic output in North Carolina created in 2012 created by public sector retirees spending their pension income.

**\$1.2 billion** Federal, state and local tax revenue generated by the spending of North Carolina public pension income.

**58,129** Jobs created from pension income spending by North Carolina state and local government retirees.

**310,627** Total active members of the Teachers' and State Employees' Retirement System.

**\$20,626** Average annual retirement pension income.

**94.0%** Percent of the System's retirement benefits that were funded by the plan on December 31, 2011. A replacement ration of 80% from all income sources is considered adequate for retirement.

**6%** Percentage of salary that teachers and general employees contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

**54.6%** Percentage of pre-retirement income replaced by the defined benefit (DB) plan for teachers or general employees with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

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

**\$10.7 million** Teacher turnover cost savings generated by the retention affect of the defined benefit (DB) pension.

All data come from either the North Carolina Retirement Systems or the National Institute on Retirement Security.



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### Overview

The Teachers' and State Employees' Retirement System of North Carolina is part of the North Carolina Retirement Systems, which administers retirement and benefit plans for more than 850,000 public employees in the state. The Retirement Systems is a division of the Department of State Treasurer, and also administers the Local Governmental Employees' Retirement System, the Consolidated Judicial Retirement System, and the Legislative Retirement System.

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

- Teachers and general employees contribute 6% of salary to the fund.
- In 2012 employers contributed 8.33% to the fund.
- Each dollar invested by North Carolina taxpayers in the pension supported \$10.52 in total economic activity in the state.



## ▶ Key North Carolina Data<sup>1</sup>

The chart below summarizes the key data for the fund, as of December 31, 2011:

|  | All Employees  | Teachers and Other Educators |
|--|----------------|------------------------------|
| Total active employees                             | 310,627        | 196,876                      |
| Total retired, disabled and survivor beneficiaries | 171,786        | 85,223                       |
| Employer contribution rate*                        | 8.33%          | 8.33%                        |
| Employee contribution rate                         | 6.0%           | 6.0%                         |
| Average annual service pension benefit             | \$20,626       |                              |
| Actuarial value of assets                          | \$58.1 billion |                              |
| Funded ratio                                       | 94.0%          |                              |
| Unfunded actuarial accrued liability               | \$3.7 billion  |                              |
| *2012 employer contribution rates                  |                |                              |

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

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

- 58,129 jobs that paid \$2.5 billion in wages and salaries
- \$8.5 billion in total economic output
- \$1.2 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.73 in total economic activity in North Carolina.

Each dollar “invested” by North Carolina taxpayers in these plans supported \$10.52 in total economic activity in the state.



<sup>1</sup> All data, unless otherwise noted, as of December 31, 2011.

<sup>2</sup> Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures*. Washington, DC: 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

- Teachers contribute 6% of salary out of each paycheck to the pension fund.
- The average teacher retirement benefit is \$20,626 per year, or \$1,719 per month.
- The fund covers 196,876 active teachers and educators and 85,223 retired school employees and beneficiaries.
- Public school teachers are paid 14.3% less than comparable private sector workers.
- A teacher's pension replaces 54.6% 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.<sup>2</sup>

Public school teachers in North Carolina have pension coverage through the Teachers' and State Employees' Retirement System of North Carolina. North Carolina public school teachers participate in Social Security.

The fund covers 310,627 active employees, including 196,876 teachers and other educational employees. Teachers contribute 6% out of each of their paycheck to the pension fund. The average service pension benefit is \$20,626 per year, or \$1,719 per month.

The pension replaces 54.6% 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.<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 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.<sup>5</sup>

## ▶ Pensions Help Retain Quality Teachers in North Carolina<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 North Carolina:

- The cost of turnover in North Carolina is \$11,821 per teacher.
- 905 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$10.7 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.



<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> Perlman, B., K. Kenneally, and I. Boivie. 2011. *Pensions and Retirement Security 2011: 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.