

### Overview

The Oregon Public Employees Retirement System administers retirement and benefit plans for nearly 331,000 active and former public employees serving the people of Oregon by administering public employee benefit trusts to pay the right person the right benefit at the right time.

Employees covered under the Oregon Public Service Retirement Plan (OPSRP) receive benefits when they retire from both a defined benefit (DB) pension and a defined contribution (DC) plan, called the Individual Account Program (IAP). This combined approach is referred to as a “hybrid” retirement plan. Employees hired before August 29, 2003 are covered in an OPERS benefit tier and OPERS calculates their benefits under either a Full Formula or a Money Match. This group also participates in the IAP.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income to retirees for as long as they live. DB pension benefits are a function of years of service and salary at the end of an employee’s career. OPSRP pension benefits are financed by employer contributions and earnings on the plan assets as professional asset managers make investment decisions overseen by trustees.

Public retirement systems typically involve a shared financing model, with employees contributing to the plan. Each OPSRP covered employee contributes 6 percent of salary into a IAP account, which earns investment returns adjusted for expenses that are similar to the DB pension earnings. IAP accounts provide additional lifetime income or can be withdrawn in a lump sum or as a series of payments.

### Key Facts

- The average annual benefit is \$28,152.
- Each dollar paid out in pension benefits supports \$1.42 in total economic activity in Oregon
- Each dollar invested by Oregon taxpayers in the pension supported \$5.42 in total economic activity in the state.



## ▶ Key Oregon Data<sup>1</sup>

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

	State and Local Government	School Districts
Total active employees*	102,609	67,172
Total retired members and beneficiaries*	119,346	
Average annual benefit*	\$28,152	
Employer contribution rate	15.05%	18.81%
Actuarial value of assets	\$25.7 billion	\$19.7 billion
Funded ratio*	82.5%	82%
Unfunded actuarial accrued liability	\$5.4 billion	\$4.3 billion
Combined actuarial value of assets	\$50.2 billion	
Combined funded ratio**	82%	
Combined unfunded actuarial accrued liability	\$11.0 billion	

\* As of June 30, 2012. Number of "state and local government" employees reflects both state agencies and political subdivisions

\*\* Funded ratio reflects side accounts.

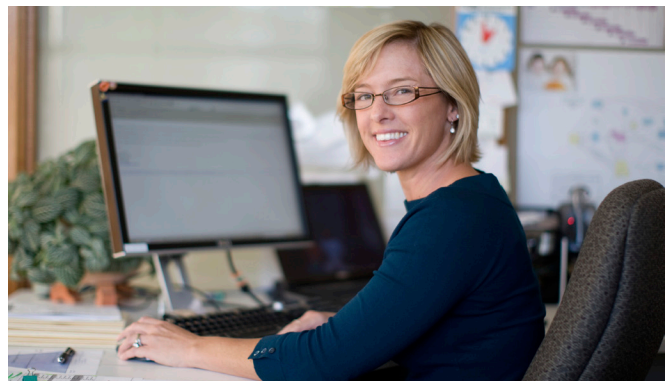
## ▶ The Economic Impact of Oregon Pensions<sup>2</sup>

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

- 40,316 jobs that paid \$1.7 billion in wages and salaries
- \$5.4 billion in total economic output
- \$596.2 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported \$1.55 in total economic activity in Oregon.

Each dollar "invested" by Oregon taxpayers in these plans supported \$5.42 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.

The following provides a snapshot of key data relative to the **Oregon Public Employees Retirement System**. The fund provides retirement benefits for teachers, local government, and state employees in Oregon. The system provides a retirement plan that typically offers a modest but stable monthly retirement income to retirees for as long as they live. Employees hired after August 29, 2003 have benefits provided in the Oregon Public Service Retirement Plan (OPSRP) from both defined benefit (DB) and defined contribution (DC) plans. Historically, DB plan benefits paid to retirees were either formula based or member account based (Money Match), whichever benefit calculation was greater.

**\$5.42** The total economic activity in Oregon for each dollar invested by Oregon taxpayers in the pension fund.

**\$5.4 billion** Total economic output in Oregon created in 2012 when public sector retirees spent their pension income.

**\$596.2 million** Federal, state and local tax revenues generated by spending of Oregon public pension income.

**40,316** Jobs created from pension income spending by Oregon state and local government retirees.

**169,781** Total active members of the Oregon Public Employees Retirement System.

**\$28,152** Average annual pension benefit for a retiree in the Oregon Public Employees Retirement System.

**45%** Percentage of pre-retirement income replaced by the defined benefit (DB) plan for teachers or general service employees with 30 years of service. An additional 15-20 percentage of pre-retirement income may be replaced by the amounts accumulated in Individual Account Program accounts.

**80%** The replacement ratio from all income sources that is considered adequate for a secure retirement.

**\$19.4 million** Total annual cost of teacher turnover in Oregon.

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

**6%** Percentage of salary that Tier One, Tier Two, and OPSRP employees must contribute from every paycheck to an Independent Account Plan.

**\$2.5 million** Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data comes from either Oregon Public Employees 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."<sup>1</sup>

### Key Facts

- The average retirement benefit is \$28,152 per year, or \$2,346 per month.
- The fund covers 169,781 active employees and 119,346 retirees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The pension replaces 45% 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.
- 193 teachers are retained each year due to the defined benefit (DB) plan.

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 Oregon have pension coverage through the Oregon Public Employees Retirement System. Retirement benefits for teachers hired since August 29, 2003 come from the DB pension and defined contribution (DC) plan that make up the Oregon Public Service Retirement Plan (OPSRP). Historically, DB plan benefits paid to retired teachers were either formula

based or member account based (Money Match), whichever benefit calculation was greater.

The fund covers 169,781 active employees, including 67,172 school employees, and 119,346 retirees and beneficiaries. The average annual pension benefit is \$28,152 per year, or \$2,346 per month.

A OPSRP pension replaces 45% of pre-retirement income for a teacher with 30 years of service. Amounts accumulated from employee contributions to accounts in OPSRP's Individual Account Program may replace an additional 15-20 percent of pre-retirement income. 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 Oregon<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 Oregon:

- The cost of turnover in Oregon is \$12,700 per teacher.
- 193 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved \$2.5 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.