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SNAPSHOT: The Tennessee Consolidated Retirement System

Overview

The Tennessee Consolidated Retirement System (TCRS) was established in 1972 with the consolidation of seven separate retirement systems for public employees. Today, TCRS administers two defined benefit (DB) pension plans, the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), and the Political Subdivisions Pension Plan (PSPP).

A 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. DB pension benefits are a function of an employee's years of service and salary at the end of one's career. To manage costs, DB benefits are financed by a combination of employer and employee contributions under a shared financing model, and the fund grows with investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Key Facts

- Teachers contribute 5% of salary to the fund.
- Employers contribute 9.05% to the fund on behalf of teachers hired before 2014.
- Each dollar invested by Tennessee taxpayers in the pension supported $4.64 in total economic activity in the state.

As the result of legislation enacted in 2013 by the General Assembly, teachers and state employees hired after July 1, 2014 will participate in a new hybrid plan with a lower DB benefit formula, which replaces one percent of salary for each year of service, combined with a defined contribution (DC) account in a 401(k) plan. Employees will contribute 5% of pay to help fund the DB benefit, which is capped at $80,000 per year adjusted for inflation. The total employer cost for both the DB and DC plan is also capped at 9 percent of employee salary. The 401(k) plan contribution by the employer is 5% of salary and employees will automatically contribute 2% of pay to their 401(k) account, but they may opt out of the automatic contribution.

The hybrid plan approach reduces the economic efficiencies found in DB pensions, which enable traditional pensions to provide the same level of benefits at half of the cost of 401(k) accounts. Also, research shows that the rates of poverty for older American households without DB pension income were nine times grater than the rates of poverty among older households with DB pension income in 2010. Teachers make up about 56% of the active membership in the SETHEEPP.

Key Tennessee Data[1]

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

	Teachers*	Total SETHEEP
Total active employees	73,449	132,313
Total retired, disabled, and survivor beneficiaries	41,828	86,725
Employer contribution rate	9.05%	14.91%
Employee contribution rate	5.0% for teachers; 0% for teachers in the Department of Education	0% for state employees; 5.0% for local government employees
Average annual service pension benefit	$35,122	$23,169 (state employees)
Actuarial value of assets**	$30.1 billion	
Funded ratio**	92.08%	
Unfunded actuarial accrued liability**	$2.6 billion	
Percent of ARC paid	100% each year from 2007-2012	

* Does not include higher education employees.
** As of July 1, 2011.

The Economic Impact of Tennessee Pensions[2]

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

- 29,596 jobs that paid $1.4 billion in wages and salaries
- $4.1 billion in total economic output
- $500.8 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.42 in total economic activity in Tennessee. Each dollar "invested" by Tennessee taxpayers in these plans supported $4.64 in total economic activity in the state.

[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.

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Tennessee Consolidated Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Tennessee Consolidated Retirement System (TCRS).** TCRS provides retirement benefits for public employees in Tennessee, including public school employees. 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.

$4.64 The total economic activity in Tennessee for each dollar invested by Tennessee taxpayers in the system.

$4.1billion Total economic output in Tennessee created in 2012 when public sector retirees spent their pension income.

$500.8 million Federal, state and local tax revenues generated by spending of Tennessee public pension income.

29,596 Jobs created from pension income spending by Tennessee state and local government retirees.

210,493 Total active members of TCRS.

$35,122 Average annual pension income for a retired teacher in Tennessee.

5.0 Percentage of salary that newly hired employees contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

45 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.

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

$4.1 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either TCRS or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Tennessee Teachers

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

- Teachers contribute 5% of salary out of each paycheck to the pension fund.
- The average retirement benefit is $35,122 per year, or $2,927 per month.
- The pension covers 73,449 active school employees and 41,828 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 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]

All public school teachers in Tennessee have pension coverage through the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), part of the Tennessee Consolidated Retirement System (TCRS).

SETHEEPP covers 73,449 active employees of public educational institutions, and 41,828 retired school employees and beneficiaries. Employees contribute 5% out of each of their paychecks to the pension fund. The average retirement benefit is $35,122 per year, or $2,927 per month.

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.

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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 Tennessee[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 Tennessee:

- The cost of turnover in Tennessee is $10,898 per teacher.
- 376 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $4.1 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.