AARP in the STATES

SNAPSHOT: Utah Retirement Systems

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▶ Overview

Utah Retirement Systems (URS) administers retirement plans for public employees in Utah, including the Public Employees Noncontributory and Contributory Retirement Systems, the Public Safety, Firefighters, Judges, the Utah Governors and Legislators, the new Tier 2 Retirement Systems, as well as several defined contribution plans, including a 401(k) plan.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts for the retiree's lifetime. DB pension benefits often are a function of an employee's years of service and average salary at the end of one's career. The benefits are generally financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among employees and invested, with investment decisions made by professional asset managers overseen by trustees.

A defined contribution (DC) plan has no guarantee of retirement income; rather employees and employers contribute a percent of salary over a worker's career to an individual's account. While offering employees portability to public employment who leave before retirement and choices of investments, DC plans shift the investment, longevity and inflation risks to employees. Since July 1, 2011, new public employees have a choice between a 401(k) DC plan and a hybrid plan for their retirement benefits.

In the Tier 2 plans, employees choose between a hybrid DB plan with a small 401(k) contribution based on the cost for the DB benefit or a 401(k) account with a level of 10% pay contribution by the employer. In both options the employers cost is caped at 10% of salary. The hybrid plan in Tier 2 features a reduced benefit level, replacing 45% of earnings after 30 years of service instead of 60% under the pre-2011 noncontributory plan. Should the plan need more than the 10% contribution to be adequately funded, employees must make up the difference through payroll deductions.[1] URS has reported that over 82% of new employees selected the DB hybrid plan.[2]

Key Facts

■ The average annual benefit is $17,894 per year, or $1,491 per month.

■ Employers contribute between 14.33% - 18.76% to the fund.

■ Each dollar invested by Utah taxpayers in the pension supported $4.72 in total economic activity in the state.

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Key Public Employees Retirement System Data[3]

The chart below summarizes the key data for Noncontributory Retirement System and the new Tier 2 hybrid plan as of June 30, 2012:

	Noncontributory	Tier 2 Public Employees
Total active employees	82,259	10,356
Total retired, disabled, and survivor beneficiaries	40,456	N/A
Employer contribution rate	16.04% for local division and 18.76% for state and school division	14.33% -16.10 for local division and 16.65% for state and school division. Includes Tier 1 amortization rate.
Employee contribution rate	0%	Now 0%, but could increase based on cost of DB plan
Average annual benefit	$17,894	N/A
Actuarial value of assets*	$17.0 billion	$17.8 million
Funded ratio*	76.1%	99.6%
Unfunded actuarial accrued liability*	$5.4 billion	$72,000
Percent of ARC contributed	100% each year from 2003-2012	100% each year from 2011-2012

* As of December 31, 2012.

The Economic Impact of Utah Pensions[4]

Expenditures made by state and local government retirees receiving payments from the URS defined benefit plan of provide a steady economic stimulus to Utah communities and the state economy. Within the state of Utah, 2012 expenditures stemming from state and local pensions supported:

- 15,296 jobs that paid $621.1 million in wages and salaries
- $2.1 billion in total economic output
- $317.6 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.42 in total economic activity in Utah.

Each dollar "invested" by Utah taxpayers in these plans supported $4.72 in total economic activity in the state.

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[1] For more information, see Olleman, M. and I. Boivie. 2011. *Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers*. Washington, DC: National Institute on Retirement Security.
[2] Newman, R. Dealing With "Underfunding in the Public Sector—Utah Retirement System." Utah Retirement System. 58th U.S. Annual Employee Benefits Conference, San Diego, CA. November 2012. Keynote Address.
[3] All data, unless otherwise noted, as of December 31, 2011.
[4] Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

Utah Retirement Systems By the Numbers

The following provides a snapshot of key data relative to the **Utah Retirement System**s. The system provides retirement benefits public employees in Utah, including public school employees. The noncontributory 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.

$4.72 The total economic activity in Utah for each dollar invested by Utah taxpayers in the retirement system.

$2.1 billion Total economic output in Utah created in 2012 when public sector retirees spent their pension income.

$317.6 million Federal, state and local tax revenues generated by spending of Utah public pension income.

15,296 Jobs created from pension income spending by Utah state and local government retirees.

82,259 Total active members of the noncontributory system.

$20,841 Average annual pension income for a Utah retiree in the noncontributory system.

60 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a teacher hired before 2011 with 30 years of service.

45 Percentage of pre-retirement income replaced by the Tier 2 hybrid plan's DB component for a teacher hired in 2012 and later with 30 years of service.

80 A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

$10,468 The per capita cost of teacher turnover in Utah.

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

$2.3 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either Utah Retirement Systems 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

- The average retirement benefit is $17,894 per year, or $1,491 per month.

- The contributory pension covers 82,259 active school employees and 40,456 retired school employees and beneficiaries.

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

- The pension replaces 60% of pre-retirement income for a teacher hired before 2011 with 30 years of service and the DB component of the tier 2 hybrid plan replaces 45% of pre-retirement income for employees hired before July, 1 2011

- 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 school teachers in 33 states.

All public school teachers in Utah have pension coverage through Utah Retirement Systems.

The contributory system covers 82,259 active employees and 40,456 retirees and beneficiaries. Employers contribute 18.76% of pay to fund the benefit. The average retirement benefit is $17,894 per year, or $1,491 per month.

The contributory pension replaces 60% of pre-retirement income for a teacher hired before 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.

In 2011, the contributory system was replaced with the choice between a "hybrid" DB/DC plan, or a DC-only plan, for all newly hired teachers.

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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.[2] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[3] 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.[4]

Pensions Help Retain Quality Teachers in Utah[5]

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 Utah:
- The cost of turnover in Utah is $10,468 per teacher.
- 220 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $2.3 million in teacher turnover costs in 2003 in school districts across the state. This analysis was not inclusive of hybrid retirement plans, such as cash balance plans.

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.

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[1] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[2] 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.

[3] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[4] Oakley, D, and K. Kenneally. 2013. Pensions and Retirement Security 2013: A Roadmap for Policy Makers. Washington, DC: National Institute on Retirement Security.

[5] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.