AARP in the STATES

SNAPSHOT: Virginia Retirement System

Overview

The Virginia Retirement System (VRS) administers retirement benefits for more than 340,000 public employees and 162,000 retirees and beneficiaries in the state.

A DB pension is a retirement plan that 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 employees and invested, with investment decisions made by professional asset managers overseen by trustees.

A hybrid retirement plan combines the important retention feature of a DB pension, typically with lower benefits, with the portability of an individual defined contribution (DC) account should an employee leave before retirement age. Whether the DC account will add sufficient resources to meet employee's retirement income needs depends on the amount contributed, investment returns and fees charged, withdrawals from the plan and how long the individual lives in retirement, unlike the DB pension formula which provides a replacement of a certain amount of pre-retirement earnings. 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 individual DC accounts.

Key Facts

- Teachers and general employees contribute 5% of salary to the fund.
- Employers contribute 6.33% to the fund on behalf of teachers.
- Each dollar invested by Virginia taxpayers in the pension supported $3.30 in total economic activity in the state.

Beginning in 2014, newly hired teachers and state employees, except for public safety employees, will participate in a new hybrid DB/DC plan instead of the traditional DB plan. The pension portion will provide a 1% multiplier for teachers and state employees, funded by the employer and the employee. The defined contribution component will include mandatory 1% employee and employer contributions, plus the employer will match voluntary contributions of up to 4% f\rom the employee's pay, and with a 100% on the first 1% and 25% match for each additional 0.5% of pay.

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.[1]

Education employees make up about 43% of the active membership in the Virginia Retirement System.

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Key VRS Data[1]

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

	All Employees	Teachers
Total active employees	341,826	146,690
Total retired, disabled, and survivor beneficiaries	162,751	70,392
Employer contribution rate	2.08% for the first nine months and 6.58% for the last quarter (for state employees)	6.33%
Employee contribution rate*	5.0%	
Average annual benefit	$19,647	
Actuarial value of assets	$52.6 billion	
Funded ratio	69.9%	
Unfunded actuarial accrued liability	$22.6 billion	
Percent of ARC paid	100% each year from 2003-2012	

* School divisions and political subdivisions may elect to pick up the 5.00% member contribution on behalf of their employees.

The Economic Impact of Virginia Pensions[2]

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

- 40,838 jobs that paid $2.0 billion in wages and salaries
- $5.8 billion in total economic output
- $927.1 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.18 in total economic activity in Virginia. Each dollar "invested" by Virginia taxpayers in these plans supported $3.30 in total economic activity in the state.

[1] Porell, F. and Oakley, D. 2012. The Pension Factor 2012: The Role of Defined Benefit Pensions in Reducing Elderly Economic Hardship. Washington, DC: National Institute on Retirement Security.

[2] All data, unless otherwise noted, as of June 30, 2012.

[3] Rhee, N. 2014. *Pensionomics 2014: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

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Virginia Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Virginia Retirement System (VRS)**. VRS provides retirement benefits for public employees in Virginia, 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.

$3.30 The total economic activity in Virginia for each dollar invested by Virginia taxpayers in VRS.

$5.8 billion Total economic output in Virginia created in 2012 when public sector retirees spent their pension income.

$927.1 million Federal, state and local tax revenues generated by spending of Virginia public pension income.

40,838 Jobs created from pension income spending by Virginia state and local government retirees.

341,826 Total active members of VRS.

$19,647 Average annual pension income for a VRS retiree.

5.0 Percentage of salary that employees contribute from every paycheck to their pension benefit to share the funding responsibility. Under the new hybrid plan, employees must contribute at least 5 percent of salary, with 1 percent going into their DC account. Nationally, the median employee contribution rate is 5%.

51 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a teacher hired before 2010 with 30 years of service. The new DB component of the hybrid retirement plan will replace 30 percent of pre-retirement income, A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

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

$7.9 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

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

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SNAPSHOT: Pensions for Virginia Teachers

AARP in the STATES

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 5% of salary out of each paycheck to the pension fund.
- The average retirement benefit is 19,647 per year, or $1,637 per month.
- Teachers are paid 14.3% less than comparable private sector workers.
- The pension replaces 51% of pre-retirement income for a teacher hired before 2010 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]

Most public school teachers in Virginia have pension coverage through the Virginia Retirement System (VRS).

VRS covers 146,690 active employees of public educational institutions, and 70,392 retired school employees and beneficiaries. Employees contribute 5% out of each of their paychecks to the pension fund. The average retirement benefit is $19,647 per year, or $1,637 per month. The pension replaces 51% of pre-retirement income for a teacher hired before 2010 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 and most state employees hired after January 1, 2014 will participate in a hybrid DB/DC (defined contribution) plan with the DB component replacing 30 percent of pre-retirement income and getting benefits from contributions made by the employer and employee into a defined contribution account over that same period.

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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 Virginia[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 Virginia:

- The cost of turnover in Virginia is $11,623 per teacher.
- 676 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $7.9 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.