AARP in the STATES

SNAPSHOT: Washington Public Employees' Retirement System

Overview

The Washington Public Employees' Retirement System (PERS) was established in 1947 and serves state employees in Washington state. PERS consists of three plans. Plan 1 is a defined benefit (DB) pension plan for employees hired before 1977. Current employees have a choice between Plan 2, a DB plan, or Plan 3, a hybrid DB/DC plan. The vast majority of employees choose Plan 2, the traditional defined benefit pension plan.[1]

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 under a shared financing model by a combination of employer and employee contributions, and those funds grow with investment earnings. Contributions are pooled among employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Key Facts

- Employees contribute 4.64% - 6.0% of salary to PERS Plan 1 and Plan 2.
- Employers contribute 7.21% to the fund.
- Each dollar invested by Washington taxpayers in PERS supported $7.16 in total economic activity in the state.

A hybrid retirement plan combines a DB pension with an individual defined contribution (DC) account. 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.

The benefit formula under Plan 2 is 2% of final average salary for each year of service while the benefit formula under the DB component of Plan 3 is 1% of final average salary and the benefit provided by the DC component depends on the contribution level and investment experience..

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 the greatest opportunity to achieve financial security in retirement.

Key PERS Data[2]

The chart below summarizes the key PERS Plan 2 and the DB portion of Plan 3 data, as of June 30, 2013:

Total active employees*	143,955
Total retired members and beneficiaries	29,570
Average annual retirement allowance*	$12,975
Employer contribution rate	7.21%
Employee contribution rate	Plan 2: 6.0 % for state employees; 4.64% for local government employees; Plan 3: between 5% to 15% of salary
Actuarial value of assets**	$22.7 billion
Funded ratio**	99.0%
Unfunded actuarial accrued liability**	$127.4 million
Percent of ARC paid*	73% in 2007; 88% in 2008; 119% in 2009; 85% in 2010; 80% in 2011; 94% in 2012; 95% in 2013

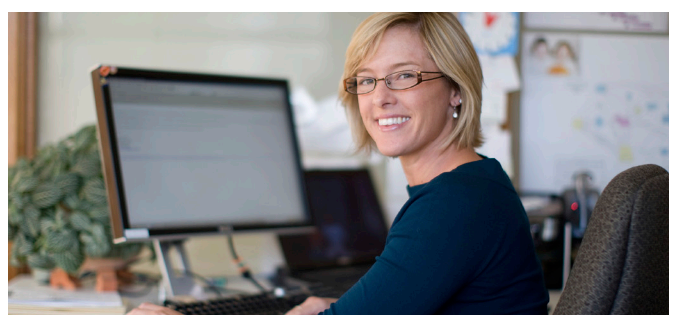
* As of June 30, 2012
** For Plan 2 and the DB portion of Plan 3.

The Economic Impact of Washington Pensions[3]

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

- 32,500 jobs that paid $1.6 billion in wages and salaries
- $5.0 billion in total economic output
- $720.4 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.41 in total economic activity in Washington. Each dollar "invested" by Washington taxpayers in these plans supported $7.16 in total economic activity in the state.



[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] All data, unless otherwise noted, as of June 30, 201.

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

AARP in the STATES

Washington Public Employees' Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Washington Public Employees' Retirement System (PERS)**. PERS provides retirement benefits for state employees. Plan 2 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.

$8.48 The total economic activity in Washington for each dollar invested by Washington taxpayers in PERS.

$4.5 billion Total economic output in Washington created in 2012 when public sector retirees spent their pension income.

$590.4 million Federal, state and local tax revenues generated by spending of Washington public pension income.

30,605 Jobs created from pension income spending by Washington state and local government retirees.

143,955 Total active members of PERS Plan 2.

$13,895 & $8,095
Average annual pension benefit for PERS Plan 2 and Plan 3 retirees, respectfully.

4.64 - 6 Percentage of salary that PERS Plan 2 employees contribute from every paycheck to their pension benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

60 Percentage of pre-retirement income replaced by PERS Plan 2 for an employee with 30 years of service.

30 Percentage of pre-retirement income replaced by the DB component PERS Plan 3 for an employee with 30 years.

80 Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data come from either the Washington State Department of Retirement Systems or the National Institute on Retirement Security.

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AARP in the STATES

SNAPSHOT: Washington Teachers' Retirement System

Overview

The Washington Teachers' Retirement System (TRS) was established in 1938 and serves certificated public school employee working in an instructional, administrative, or supervisory capacity. PERS consists of three plans. Plan 1 is a defined benefit (DB) pension plan for employees hired before 1977. Current employees have a choice between Plan 2, a DB plan, or Plan 3, a hybrid DB/DC plan.

Key Facts

- Employees contribute 4.69% - 6.0% of salary to TRS.
- Employers contribute 8.21% of salary to the fund.
- Each dollar invested by Washington taxpayers in TRS supported $7.16 in total economic activity 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 under a shared financing model by a combination of employer and employee contributions, and those funds grow with investment earnings. Contributions are pooled among employees and invested, with investment decisions made by professional asset managers overseen by trustees.

A hybrid retirement plan combines a DB pension with an individual defined contribution (DC) account. 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.

The benefit formula under Plan 2 is 2% of final average salary for each year of service while the benefit formula under the DB component of Plan 3 is 1% of final average salary and the benefit provided by its DC component depends on the member's contribution level and investment experience.

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 the greatest opportunity to achieve financial security in retirement.

Key TRS Data[1]

The chart below summarizes the key TRS Plan 2 and Plan 3 data, as of June 30, 2012:

Total active employees	62,338
Total retired members and beneficiaries	6,864
Average annual retirement income*	Plan 2: $18,197 and Plan 3: $10,040
Employer contribution rate	8.21%
Employee contribution rate	Plan 2: 6.0 % for state employees; 4.69% for local employees; Plan 3: between 5% and 15%
Actuarial value of assets*	$7.8 billion
Funded ratio*	104%
Unfunded actuarial accrued liability*	$279.7 million surplus
Percent of ARC paid*	61% in 2007; 52% in 2008; 86% in 2009; 75% in 2010; 72% in 2011; 92% in 2012; 99% in 2013

* As of June 30, 2012.

The Economic Impact of Washington Pensions[2]

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

- 32,500 jobs that paid $1.6 billion in wages and salaries
- $5.0 billion in total economic output
- $720.4 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.41 in total economic activity in Washington. Each dollar "invested" by Washington taxpayers in these plans supported $7.16 in total economic activity in the state.

[1] All data, unless otherwise noted, as of fiscal year ended June 30, 2012.

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

AARP in the STATES

Washington Teachers' Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Washington Teachers' Retirement System (TRS).** TRS provides retirement benefits for certificated public school employees in Washington. Plan 2 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

$8.48 The total economic activity in Washington for each dollar invested by Washington taxpayers in TRS.

$4.5 billion Total economic output in Washington created in 2012 when public sector retirees spent their pension income.

$590.4 million Federal, state and local tax revenues generated by spending of Washington public pension income.

30,605 Jobs created from pension income spending by Washington state and local government retirees.

63,338 Total active members of TRS Plan 2 and Plan 3.

$18,197 & $10,040 Average annual pension income for TRS Plan 2 and Plan 3 retirees, respectfully.

4.69 - 6 Percentage of salary that teachers contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

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

30 Percentage of pre-retirement income replaced by the DB component PERS Plan 3 for an employee with 30 years. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

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

$4.8 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Washington State Department of Retirement Systems or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Washington 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

- Employees contribute 4.64% - 6.0% of salary out of each paycheck to the pension fund.
- The average retirement benefit is $18,197 per year, or $1,516 per month.
- Plan 2 covers 10,849 active school employees and 3,060 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The Plan 2 pension replaces 60% 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]

Certificated public school teachers in Washington have pension coverage through the Washington Teachers' Retirement System (TRS). PERS consists of three plans. Plan 1 is a defined benefit (DB) pension plan for employees hired before 1977. Current employees have a choice between Plan 2, a DB plan, or Plan 3, a hybrid DB/DC plan.

TRS Plan 2 covers 10,285 active employees of public educational institutions, and 2,657 retired school employees and beneficiaries. Employees contribute 4.64% - 6.0% out of each of their paychecks to the pension fund. The average retirement benefit is $18,197 per year, or $1,516 per month.

The Plan 2 pension replaces 60% 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.[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 Washington[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 Washington:

- The cost of turnover in Washington is $12,313 per teacher.
- 392 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $4.8 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.