

# AARP IN THE STATES



## SNAPSHOT: Teachers' and State Employees' Retirement System of North Carolina

The Teachers' and State Employees' Retirement System of North Carolina (TSERS) provides benefits to qualified state employees and teachers.

### The Teachers' and State Employees' Pension Works for North Carolina Stakeholders



Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.



Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing educational quality.



Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

### Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New employees contribute 6% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers paid only 13% of the cost of benefits.

72.1%  
Investment  
Earnings



13%  
Employer  
Contributions

14.9%  
Employee  
Contributions

### Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10%



cost savings from pooling longevity risk



11%



cost savings from optimal asset allocation



27%



cost savings due to higher returns and lower fees



48%



total cost savings



## TSERS Key Facts



North Carolina TSERS serves 305,013 active employees and 208,443 retired members and survivor beneficiaries.



New employees contribute 6% to the fund.



Employers contribute 9.2% to the fund for employees.



The average monthly retirement benefit for members is \$1,795.



After a 30-year career, the pension will replace 54.6% of final average salary.

## Historical Funding Experience

North Carolina established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2016 year, the pension had \$101.2 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund becomes financially sound over time.

**North Carolina Paid 96% of Weighted Average Percent of ADC from FY2001-FY2015 for TSERS**



## North Carolina Made Plan Changes to its Plan in Recent Years

Following the global stock market crash in 2008-2009, North Carolina's strong funding policies positioned TSERS as one of the best funded retirement systems in the country. To ensure long-term sustainability, policymakers proactively passed legislation in 2014 that curbed the potential for employees to inflate their benefits, by limiting benefits based on final average salary in excess of \$100,000.

## The Economic Impact of North Carolina Pensions:



**\$6.9 billion**

in economic output generated by retirees' spending from public pensions in North Carolina.



**48,512 jobs**

paying \$2.2 billion in wages supported by retirees spending from public pensions in North Carolina.



**\$1.4 billion**

in federal, state, and local tax revenues generated by retiree benefits and spending in North Carolina.

All data come from North Carolina, Public Plans Data, or the National Institute on Retirement Security.

# AARP IN THE STATES



## BY THE NUMBERS: North Carolina Teachers' and State Employees' Retirement System



The **Teachers' and State Employees' Retirement System of North Carolina** provides a defined benefit (DB) pension for public employees. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees to better serve taxpayers. DB pension payments also support the state's economy.

### Key facts about the plan and its benefits:



**305,013**

Total active members of the Teachers' and State Employees' Retirement System of North Carolina.



**54.6%**

After a 30-year career, the plan will replace 54.6% of an employee's pre-retirement income.



**\$1,795**

Typical pension benefit paid to retired members each month.

### Pensions are a good deal for taxpayers:

Funding of public employee pensions is shared by employees and employers. New employees contribute 6% of pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2014, taxpayers (employer contributions) paid only 13% of the cost of pension benefits.

**72.1%**  
Investment Earnings



**13%**  
Employer Contributions

**14.9%**  
Employee Contributions

### The spending from the pension checks of the 208,443 retired public employees helps support:



**\$6.9 billion**

in economic output in North Carolina.



**48,512 jobs**

paying those workers in North Carolina \$2.2 billion in income.



**\$1.4 billion**

in federal, state, and local tax revenues based on benefits and spending in North Carolina.

### Pension benefits are a good deal for the economy too:

Each dollar "invested" by North Carolina taxpayers (employers) in these plans supported **\$10.63** in total economic activity in the state.



**\$1.00**



**\$10.63**



All data come from North Carolina, Public Plans Data, or the National Institute on Retirement Security.



### Pensions Help Deliver Quality Education in North Carolina

Defined benefit (DB) pensions play a fundamental role in retaining high-quality, experienced teachers in the classroom. These effective, experienced teachers are the most important school-based element that provides quality educational outcomes for our children.

A wide body of academic research on teacher productivity finds that teachers become more effective with experience. These studies demonstrate that experienced teachers have students who achieve at higher levels. In contrast, when experienced, mid-career teachers are replaced by inexperienced teachers, other studies show productivity drops across the school.

DB pensions give schools an effective tool to retain experienced teachers. These benefits provide teachers an incentive to continue delivering quality education to K-12 students.<sup>1</sup> This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college educated workers, widens for more experienced teachers.

There are important policy reasons to continue offering teachers DB pensions. Because pensions help attract and retain workers, North Carolina can keep teachers in the classrooms and empower students to achieve their highest potential.

### Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 17 percent pay gap relative to comparable private sector workers in 2015. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 11 percent. In North Carolina, teachers experience a 35% wage gap when compared to other college graduates in the workforce.<sup>2</sup>



17%  
teacher  
wage gap

offset  
by...



6% teacher  
benefit  
advantage

reduces...



the teacher  
compensation  
gap to 11%

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.



92%

92 percent of Americans say pensions are a good way to recruit and retain qualified teachers.



81%

81 percent of Americans agree that teachers deserve pensions to compensate for lower pay.<sup>3</sup>



# Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better 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.<sup>4</sup>

**6.9%**



Percentage of North Carolina teachers who leave education.

**866**



The number of North Carolina teachers retained each year due to the DB pension.

**\$3.8B to \$8.2B**



The DB system savings in teacher turnover costs in school districts across North Carolina.



## TSERS Key Facts



The Teachers' and State Employees' Retirement System of North Carolina serves 305,013 active employees and 208,443 retired members and survivor beneficiaries.



New employees contribute 6% to the fund.



Employers contribute 9.2% to the fund.



The average monthly retirement benefit for members is \$1,795.



TSERS of North Carolina has \$101.2 billion in actuarial value of assets and \$7.2 billion in unfunded actuarial accrued liability.<sup>5</sup>

## The Economic Impact of North Carolina Pensions

**\$6.9 billion**



in economic output generated by retirees' spending from public pensions in North Carolina.

**48,512 jobs**



paying \$2.2 billion supported by retirees spending from public pensions in North Carolina.

**\$1.4 billion**



in federal, state, and local tax revenues generated by retiree benefits and spending in North Carolina.<sup>6</sup>

<sup>1</sup> Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).

<sup>2</sup> Allegretto, S. A. and Mishel, L. 2016. "The Teacher Pay Gap Is Wider than Ever." Washington, DC. Economic Policy Institute.

<sup>3</sup> Oakley, D. and Kenneally, K. 2017, Pensions and Retirement Security 2017: A Roadmap for Policy Makers. Washington, DC. NIRS.

<sup>4</sup> Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement."

<sup>5</sup> All data, unless otherwise noted, as of fiscal year ended 2016.

<sup>6</sup> Brown, J. 2016. "Pensionomics 2016: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.